

## Allowable vs. Unallowable Costs Guide Sheet

### Grant Financial Management Requirement

Basic financial management cost principles define any charges incurred by the federal grant as either allowable or unallowable. **Allowable** costs are charges incurred by a program that can be covered with your Office of Justice Programs (OJP) grant. **Unallowable** costs are charges incurred by a program that cannot be covered or reimbursed by your OJP grant.

### Important Information to Know

#### Allowable costs

**Allowable costs** (for all non-federal entities, other than for-profit entities and hospitals) are those costs consistent with the principles set out in [2 CFR 200, Subpart E](#), and those permitted by the grant program's authorizing legislation. The fact that a cost requested in a budget is awarded, does not ensure a determination of allowability. The organization is responsible for consistently presenting costs.

To be allowable (see [2 CFR 200.403](#)) under federal awards, costs must be reasonable, allocable, and necessary to the project, and they must also comply with the funding statute and agency requirements. To meet federal standards for allowability, a cost charged to an award must be:

- ➔ Allocable to the award under the provisions of the applicable cost principles.
- ➔ Necessary and reasonable for proper and efficient performance and administration of the grant or cooperative agreement.
- ➔ Treated consistently as a direct or indirect cost.
- ➔ Determined in accordance with the Generally Accepted Accounting Principles, except as otherwise stipulated in the applicable cost principles.

- ➔ Net of all applicable credits.
- ➔ Not included as cost or used to meet the cost-sharing or matching requirements of another federal award, unless specifically permitted by federal law or regulation.
- ➔ Adequately documented.
- ➔ Authorized or not prohibited under state or local laws and regulations.
- ➔ In conformance with limits or exclusions on types or amounts of costs, as set forth in the applicable cost principles, federal laws, award terms and conditions, or other governing regulations.
- ➔ Consistent with the recipient's policies, regulations, and procedures that apply to both federal awards and other activities of the recipient.

For more information about specific factors that affect whether costs are allowable, refer to [2 CFR 200, Subpart E](#), including the list of specific items of cost in 2 CFR 200.420 through 2 CFR 200.475.

#### Unallowable costs

There are other costs, categorized as unallowable costs, that will not be reimbursed. If a cost cannot meet the criteria of reasonableness, allowability, allocability, and consistency, it is **unallowable**. Non-federal entities must not use award or match funding for unallowable costs. Also, any costs considered inappropriate by the awarding agency are within the category of unallowable costs. See 2 CFR 200.31 (disallowed costs), which states, "Disallowed costs means those charges to a Federal award that the Federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the Federal award."

Standard unallowable costs are identified in [2 CFR 200, Subpart E—Cost Principles](#). (For-profit entities and hospitals follow different cost principles, see [FAR 31.2](#) and [2 CFR 200—Appendix IX](#), respectively). Specific items of unallowable costs that may be of particular relevance for programs funded by the Department of Justice (DOJ) are highlighted in the tables below.

## How This Applies to Your Grant

It is important that each OJP grantee applies the allowable cost test when deciding on spending grant funds. Per [2 CFR 200.410](#), “Payments made for costs determined to be unallowable by either the Federal awarding agency, cognizant agency for indirect costs, or pass-through entity, either as direct or indirect costs, must be refunded (including interest) to the Federal Government in accordance with instructions from the Federal agency that determined the costs are unallowable unless Federal statute or regulation directs otherwise.”

The following tables show broad categories of allowable and unallowable costs and then specific examples of allowable and unallowable costs.

**Table One. Categories of Allowable and Unallowable Costs**

Allowable	Unallowable
→ Audit services	→ Advertising
→ Budgeting costs	→ Alcoholic beverages
→ Communications	→ Bad debt
→ Conference grant costs	→ Certain travel costs (e.g., flying first class)
→ Consulting services	→ Entertainment costs
→ Equipment and other	→ Fines and penalties
→ Maintenance and repair costs	→ Fundraising costs
→ Meals	→ Interest
	→ Lobbying costs

**Table Two. Specific Examples of Allowable and Unallowable Costs**

Item of Cost	Allowable	Unallowable
Uniforms for research lab security guards	✓	
Cost of an employee personal assistance program to provide mental health, alcohol, and drug counseling and referral services	✓	
Royalties paid by the corporation to a university for use of a machine patented by the university under a federal award		✓
Costs associated with a canned food drive to assist flood victims	✓	
Handbook outlining procedures for employee grievance actions	✓	
Beer and wine purchased for “Employee Networking Night”		✓
Fees paid to hire a lawyer to persuade DOJ to award a grant to the company		✓
Employee training in the updated version of a state agency’s word processing software	✓	
Expenses for an organization-wide picnic		✓
Fees to a collection agency to recover equipment loaned to a subrecipient; equipment was not recovered		✓

## Best practices for avoiding unallowable costs

- ➔ Implement an adequate and comprehensive compliant accounting system (see [2 CFR 200, Subpart E—Cost Principles](#)) that has the ability to track allowable and unallowable costs as they are entered into the system.
- ➔ Develop formal written policies and procedures for your entire organization that describe and differentiate allowable and unallowable costs.
- ➔ Invest the time and money that it takes to train key personnel on these policies and procedures, and make sure employees know what to look for when identifying unallowable costs.
- ➔ Test the policies and procedures periodically to ensure they are operating effectively. This can be done via internal audits and reviews or a voluntary external audit.
- ➔ Review and revise your policies and procedures, as needed, to make sure they are in compliance with any changes that occur in the regulations.

For further guidance on whether a cost is allowable or unallowable, please refer to [2 CFR 200, Subpart E; OMB Circulars A-21](#); agency rules/guidelines; program specific guidelines; award agreement/document; special conditions; institutional policy; or consult with your fiscal monitor.

## Resources

U.S. Department of Justice. (2017). DOJ Grants Financial Guide. <https://www.ojp.gov/DOJFinancialGuide>

Government Publishing Office. (n.d.). *Electronic code of federal regulations—2 CFR 200, subpart E.* <https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1.5&rgn=div6>

OJP TFSC offers resources on a variety of grants financial management topics, which can be found on our website at <https://www.ojp.gov/tfsc/resources>

## About the OJP Territories Financial Support Center

**The Office of Justice Programs Territories Financial Support Center** (OJP TFSC) offers free resources, training, and technical assistance for grantees in the U.S. territories. OJP TFSC services focus on building financial management capacity and can be accessed by emailing [OJPTFSC@usdoj.gov](mailto:OJPTFSC@usdoj.gov) via our Virtual Support Center.



*This product was prepared under contract/call order number GS-00F-010CA/15PCFD20F00000200 awarded by the Office of Justice Programs, U.S. Department of Justice and does not constitute financial or other professional advice. The opinions, findings, and conclusions expressed in this product are those of OJP TFSC and do not represent the official position or policies of the U.S. Department of Justice.*