

# Guide to Allowable and Non-Allowable Costs

Grantees must use grant funds in compliance with signed assurances, approved grant proposals, and federal and state regulations. All expenses must be reasonable, necessary, allocable, and allowable. Additionally, funds are subject to the "Supplement, Not Supplant" provision, ensuring grant dollars enhance rather than replace existing funding.

## Why Compliance Matters

It is important to remember *there is no free money*. All grants come with strings attached, in the form of rules and regulations. Compliance with grant regulations is non-negotiable. Key reasons include:

1. Legal Accountability: When Palomar College applies for funding, it attests to compliance under penalty of law.
2. Financial Repercussions: Non-compliance may result in penalties, including repayment of funds.
3. Impact on Future Opportunities: Violations can affect the institution's risk rating and future funding.
4. Legal Risks: Non-compliance could be categorized as fraud, waste, or abuse, leading to severe penalties.

The Code of Federal Regulations (CFR) is a comprehensive collection of enforceable rules and regulations issued by executive agencies and departments of the federal government. 2 CFR contains specific regulations for grants and agreements, providing the legal framework for their administration.

A clear understanding of allowable and non-allowable costs is critical for maintaining compliance with the CFR, the California Code of Regulations (CCR), and Palomar College's Board Policies and Administrative Procedures (APs). This guide provides a general overview of allowable costs, but when making decisions, it is essential to consult the most restrictive authoritative sources. Fiscal Services ensures that all fiscal controls are in place for grant administration (*AP 3280 Grants*) and reviews all expenditures to ensure they are allowable, allocable, and reasonable, in accordance with 2 CFR 200 Subpart E and institutional policies (e.g., *AP 6300 Fiscal Management*, *AP6301 Procedures for Federal Grant Funds*).

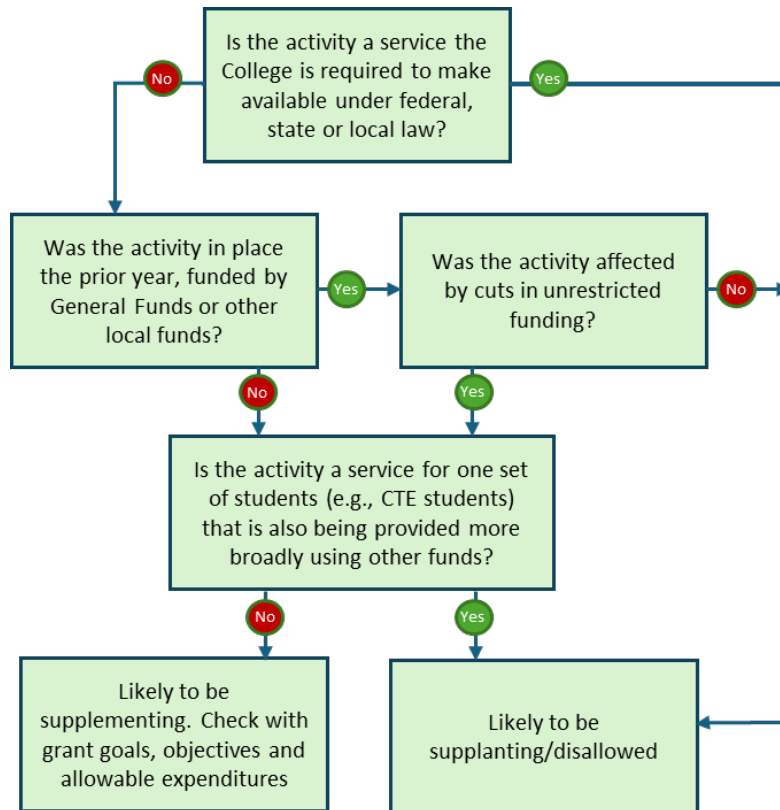
## Allowable Costs: Key Criteria

Per Title 2 of the Code of Federal Regulations (2 CFR 200), costs are allowable if they meet the following criteria (See *Figure 1. Decision tree for Determining Supplanting Versus Supplementing*):

1. Supplement, Not Supplant: Costs must support new activities or expand current ones, not replace existing funding.  
Example: A grant funds the addition of an online training module that would not otherwise exist.
2. Necessary: Costs must be essential to achieving project objectives.

Example: Purchasing specialist laboratory equipment to support a new grant-funded course.

Figure 1. Decision tree for Determining Supplanting Versus Supplementing



Reasonable: Costs should align with what a prudent person would pay under similar circumstances.

Example: Acquiring office supplies at standard market rates.

3. Allocable: Expenses must directly benefit the project in proportion to the charge.  
Example: Charging 50% of an employee's salary to the grant if 50% of their time is dedicated to grant-related activities.

### Examples of Allowable Costs

- Personnel: Salaries, wages, and benefits for employees directly contributing to the grant.  
Example: Hiring a project coordinator to manage activities related to grant objectives.
- Supplies: Essential items for project implementation, including educational kits and minor equipment.  
Example: Purchasing STEM educational tools for students.

- **Travel:** Costs for attending grant-related events, adhering to institutional and federal guidelines.  
Example: A faculty member traveling to present grant-supported research.
- **Professional Services:** Fees for consultants or external experts critical to project success.  
Example: Hiring an evaluator for assessing program outcomes.
- **Equipment:** Large purchases required for grant activities, compliant with 2 CFR 200.439.  
Example: Purchasing an electro-mechanical training system for a new workforce development project.

### **Non-Allowable Costs**

Certain expenses are ineligible for reimbursement under federal grants. These include:

1. **Advertising:** General promotional costs unrelated to the grant project (2 CFR 200.421).  
Non-Allowable Example: A newspaper ad promoting institutional programs.
2. **Alcohol:** Costs for alcoholic beverages are strictly prohibited (2 CFR 200.423).
3. **Fundraising:** Activities aimed at raising funds are not eligible (2 CFR 200.442).  
Non-Allowable Example: Organizing a fundraising gala.
4. **Entertainment:** Costs for amusement or social activities are unallowable (2 CFR 200.438).  
Non-Allowable Example: Hosting a department party to boost morale.
5. **Lobbying:** Expenses related to influencing legislation or political activities are prohibited (2 CFR 200.450).
6. **Personal Use Items:** Purchases not directly tied to the grant, such as personal laptops, are unallowable (2 CFR 200.445).

### **Distinguishing Business vs. Entertainment Expenses**

A common area of confusion arises between business function expenses (allowable) and entertainment expenses (unallowable). Understanding the distinction between business and entertainment expenses is critical:

Unallowable Entertainment Expenses:

- An invited speaker is in town to present at a seminar. While here, you take them to dinner and a sporting event to show your appreciation.
- It is the end of the fiscal year, and you have survived another one. You decide to have a year-end party for your department to lift morale. Catering delivers a luncheon in the conference room and everyone in the department gets together to socialize and unwind.

These costs fall under "amusement, diversion, and social activities," which are considered unallowable under 2 CFR 200.438.

#### Allowable Business Expenses:

- Hosting a seminar luncheon to discuss grant-related topics
- Providing a working lunch during a project meeting over a meal period (*BP6925 Expenditures for Meetings, Events, and Activities*) where project-related business is the primary focus.

These costs are allowable expenses as they directly relate to a business purpose and supports the project objectives. Best practice is to create an agenda and use a sign-in sheet as supporting documentation for expenses related to the event. Alcohol costs, however, remain unallowable and the payment for meals per person should not exceed the published daily subsistence rate.

#### **Final Thoughts on Allowable Costs**

Effective grant management requires all expenses to be reasonable, necessary, and allocable. If unsure, consult Fiscal Services and document any approvals in writing. Document all expenses thoroughly to ensure compliance and audit readiness.

#### Reference Materials:

- Code of Federal Regulations (2 CFR 200): Uniform administrative requirements for federal awards.
- ED Guidance for Grantees: U.S. Department of Education. <https://www.ed.gov/grants-and-programs/manage-your-grant/ed-memoranda-guidance-for-grantees-us-department-of-education>
- AP 6300 Fiscal Management
- AP6301 Procedures for Federal Grant Funds
- AP 3280 Grants