Policy Summary:

Policy on Allowable/Unallowable Purchases

POLICY
As a recipient of Federal awards, Jackson College is responsible for ensuring that costs charged to Federal grants are allowable, allocable, and reasonable in accordance with the rules and regulations as set forth by Federal agencies and College policy. To receive federal funding, the Uniform Guidance requires that institutions maintain a system of internal controls that provide reasonable assurance that charges to federally sponsored projects are accurate, allowable, and properly allocated. Jackson College’s unallowable purchases policy is to ensure compliance with financial regulations and guidelines by identifying and preventing the purchase of unallowable items.

Common Unallowable Costs 2 CFR 200 Subpart E – Cost Principles, and 420-475. Unallowable costs refer to goods or services not permitted under financial regulations, grant guidelines, or organizational policies. Examples of unallowable items include but are not limited to:

Below is a partial list of specific costs that have been identified as unallowable:

1. Advertising and public relations (Some types of advertising, such as recruitment of students, may be allowable if the cost is either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.)
2. Alcoholic beverages
3. Bad debts
4. Commencement costs
5. Contributions and donations
6. Entertainment (Except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency).
7. Fines and penalties
8. Fundraising
9. Goods or services for personal use
10. Lobbying
This list is not all-inclusive and for further details regarding the Federal requirements, please review the Uniform Guidance, General Provisions for Selected Items of Cost 2 CFR 200 Subpart E – Cost Principles, and 420-475.

**Allocable Costs (§ 200.405):** To determine whether costs are allocable to the Federal award, the standard is met if the cost:

(a) Is incurred specifically for the Federal award. This standard is met if the cost:
   (1) Is incurred specifically for the Federal award; (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award.

(b) All activities which benefit from the non-Federal entity's indirect cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to a particular Federal award may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

(d) Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required.

**Reasonable Costs (§ 200.404):** The following factors should be considered to determine if a cost is reasonable:

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
(b) The restraints or requirements imposed by such factors as: sound business practices; arm’s length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
(c) Market prices for comparable goods or services for the geographic area.
(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award’s cost.

**Allowable Costs (§ 200.403):** Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:
(a) Be necessary and reasonable for the performance of the Federal award and be allocable under these principles.
(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
(d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
(e) Be determined in accordance with generally accepted accounting principles (GAAP).
(f) Not be included as a cost or used to meet cost sharing or matching requirements of any other Federally-financed program in either the current or a prior period.
(g) Cost must be incurred during the approved budget period. The Federal sponsor is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to § 200.308(e)(3).

**Prior Written Approval (§ 200.407).** Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the project lead should seek the prior written approval of the Federal sponsor in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required.

**Identification of Unallowable Costs**
All employees responsible for making purchases must be familiar with the list of unallowable costs provided by the organization. This list will include items that are explicitly prohibited from being purchased using grant or organizational funds.

If an employee identifies a need to purchase an item that is deemed unallowable according to the organization's policies:

(a) The employee must inform their immediate supervisor or the designated authority responsible for procurement.  
(b) The supervisor will review the request and assess whether there are alternative solutions or exceptions that warrant the purchase.  
(c) If an exception is granted, proper documentation and justification must be provided and approved by the appropriate authority.  
(d) If no exception is granted, the purchase request will be denied, and the employee will be advised to seek alternative solutions.

**Record Retention for Federal Grants:** As a prime recipient of grant funding from Federal agencies, the college and its subrecipients must follow Federal guidelines on record retention, which require that financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award (including documentation from any subrecipients) must be retained for a specific period of time per 2 CFR 200.334. That required period is three years, either from the date of submission of the final expenditure report to the Federal awarding agency or, for Federal awards that are renewed quarterly or annually, from the date of submission of the quarterly or annual financial report, respectively. For subrecipients, the three-year period begins on the date of submission of its final financial report to the pass-through entity.

Jackson College adheres to the Federal rules pertaining to retention requirements for grant agreements. As a general rule, all grant files must be retained for a period of at least three years. More specifically, Federal rule 2 CFR 200.333 states the following with respect to record retention:

Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient. Federal awarding agencies and pass-through entities must not impose any other record retention requirements upon non-Federal entities. The only exceptions are the following:

1. If any litigation, claim, or audit is started before the expiration of the 3-year period, the records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken.
2. When the non-Federal entity is notified in writing by the Federal awarding agency, cognizant agency for audit, oversight agency for audit, cognizant agency for indirect costs, or passthrough entity to extend the retention period.
3. Records for real property and equipment acquired with Federal funds must be retained for three years after final disposition.
4. When records are transferred to, or maintained by the Federal awarding agency or passthrough entity, the 3-year retention requirement is not applicable to the non-Federal entity.
5. Records for program income transactions after the period of performance. In some cases, recipients must report program income after the period of performance. Where there is such a requirement, the retention period for the records pertaining to the earning of the program income starts from the end of the non-Federal entity's fiscal year in which the program income is earned.
6. Indirect cost rate proposals and cost allocations plans. This paragraph applies to the following types of documents and their supporting records: indirect cost rate computations or proposals, cost allocation plans, and any similar accounting computations of the rate at which a particular group of costs is chargeable (such as computer usage chargeback rates or composite fringe benefit rates).
   a. If submitted for negotiation. If the proposal, plan, or other computation is required to be submitted to the Federal government (or to the pass-through entity) to form the basis for negotiation of the rate, then the 3-year retention period for its supporting records starts from the date of such submission.
   b. If not submitted for negotiation. If the proposal, plan, or other computation is not required to be submitted to the Federal government (or to the pass-through entity) for negotiation purposes, then the 3-year retention period for the proposal, plan, or computation and its supporting records starts from the end of the fiscal year (or other accounting period) covered by the proposal, plan, or other computation.

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