Guidelines for Expenditures with 803 Funds;

Federal Contracts, Grants & Cooperative Agreements

The spending of any funds awarded by the federal government to SAO is governed by 2 CFR 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”, or “UG”). This applies whether the awards are made directly to SAO (as prime Recipient/Contractor) by a Federal awarding agency or via a subaward/subcontract to SAO from any other entity using federal funds. The Uniform Guidance can be accessed here:

<https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1>

In order for costs to be charged to federal awards, the expense must meet four general principles; the expense must be (1) allowable, (2) allocable, (3) reasonable, and (4) consistently charged as either a direct cost or indirect cost.

1. Allowable: A cost is allowable when it serves a SAO business purpose, is permissible under Smithsonian policy and federal regulations, and is permissible under the terms and conditions of the specific award being charged. Other factors affecting the allowability of cost under UG are set forth in 2 CFR §200.403.
2. Allocable: A cost is allocable to a particular federal award if the goods or services involved are chargeable or assignable to that federal award in accordance with relative benefits received. The standards to be met for allocability under UG are set forth in 2 CFR §200.405.
3. Reasonable: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Those factors that should be considered in determining reasonableness of a given costs under UG are set forth in 2 CFR §200.404.
4. Consistent: A cost is consistentwhen like expenses are treated in the same manner in like circumstances. For sponsored projects, consistency means that sponsors pay for costs either as a direct charge or as an indirect cost, but not both directly and indirectly. Institution policies are established that, if followed, ensure consistency with the principles for consistency as set forth in the UG, 2 CFR §200.403(c).

Unallowable Costs

Costs reimbursed by the federal government are specifically unallowable under two general conditions:

**The *activity* is unallowable –** the function is prohibited for reimbursement by federal regulation; or
**The *transaction* is unallowable –** the expenditure itself is for an item that is prohibited under the cost principles of the Uniform Guidance (UG), even if it is otherwise allowable with other Smithsonian funds.

Unallowable costs may also be identified in the specific terms and conditions of a sponsored project. These can be more specific than those outlined in the UG. For example, if a specific award indicates that international travel costs cannot be charged to a particular project, then those costs may not be charged to that project, even though they may be allowed under the UG. The award terms take precedence in such situations.

Payments made for costs determined to be unallowable by either the Federal awarding agency, cognizant agency for indirect costs, or pass-through entity (i.e. prime recipient where SAO is a subrecipient), 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. In order to minimize the occurrence of any unallowable costs being incurred against federal awards, all planned expenditures (requisitions, travel authorizations, petty cash transactions) are reviewed by and must be approved by SAO Financial Management prior to the expense being incurred and charged against a federal award.

**Unallowable Activities** include:

* Organized fundraising
* Lobbying
* General public relations
* Managing investments solely to enhance income
* Prosecuting claims against the federal government
* Defending or prosecuting certain criminal, civil, or administrative proceedings
* Selling or marketing of goods and services

Common **Unallowable Transactions** include:

* Advertising (only certain types are allowable) \*
* Alcoholic beverages
* Contributions and donations to other parties, including cash, property and services
* Entertainment
* Fines and penalties for violations of laws and regulations
* Fundraising costs
* Goods or services for the personal use of employees
* Lobbying costs
* Memorabilia or promotional materials
* Certain relocation costs \*
* Recruitment costs that are lavish or go beyond the standards of our established recruiting program
* Certain travel costs, such as first-class travel \*
* Interest payments, except certain interest specifically coded as paid to outside parties and authorized by the Office of Finance
* Membership in civic, community, and social organizations or in dining and country clubs

\* Certain types of these costs are allowable and some are unallowable. For specific items of cost within these general categories, the Uniform Guidance will describe under which circumstances an expense might be considered allowable vs. unallowable.

These are the guidelines for expenditures with 803-type funds only. Smithsonian Directive SD-323 Use of Funds, and the accompanying Use of Funds Handbook, covers the expenditures using all other funds. The guidelines for unallowable vs. unallowable for all other (not 803 fund) funds are set forth within those resources.

Any questions about rules for expenditures of any type of Smithsonian funds should be addressed to the SAO Financial Management Department.