

**EXHIBIT II**  
**ALLOWABLE COSTS**



SLAC Purchasing  
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# THE OBJECTIVE

*The purpose of this presentation is to heighten employee awareness of allowable & unallowable costs and to ensure that all purchasing employees have the ability to recognize the differences between the two.*



# Allowable vs. Unallowable Costs

- Allowability is the determination that a cost can be properly charged to the DOE/Stanford University Prime Contract.
- Costs that will not serve to benefit the facility as a whole are deemed unallowable and **CANNOT** be charged to the Prime Contract.
- Costs that are expressly unallowable or mutually agreed to be unallowable **CANNOT** be charged to the Prime contract.
- The DOE has authority to audit all contracts. If an unallowable cost is discovered,

**TROUBLE WILL ENSUE!**



# The FAR\* Definition

**FAR 31.201** The factors to be considered in determining whether a cost is allowable include the following:

- REASONABLENESS
- ALLOCABILITY
- COST ACCOUNTING STANDARDS OR GENERALLY ACCEPTED ACCOUNTING STANDARDS
- TERMS OF CONTRACT
  - ANY LIMITATIONS SET FORTH

\*Federal Acquisition Regulation



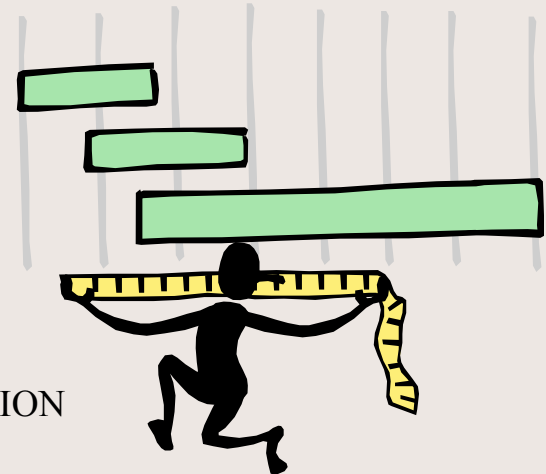
# The Prime Contract Definition

## **ARTICLE 90 (DEAR\* 970.5204-13)**

*“Allowability and reasonableness shall be determined based on FAR 31.201, Cost Accounting Standards or generally accepted accounting principles and standards, and recognition of all exclusions and limitations set forth.”*

*Allowable costs shall not include the cost of any item described as unallowable.”*

\*DEPARTMENT OF ENERGY ACQUISITION REGULATION



# The Prime Contract says...

THE FOLLOWING ARE STRICTLY UNALLOWABLE COSTS:

- ✓ **BAD DEBTS**
- ✓ **CONTRIBUTIONS & DONATIONS**
- ✓ **COST OF ALCOHOLIC BEVERAGES**
- ✓ **ENTERTAINMENT COSTS**
- ✓ **EXECUTIVE LOBBYING COSTS**
- ✓ **GOODWILL**
- ✓ **INTEREST & OTHER FINANCIAL COSTS**
- ✓ **LOSSES ON OTHER CONTRACTS**



# More Specifically...



## Unallowable Costs such as:

- ❑ (1) Advertising and public relations costs designed to promote the Contractor, the Laboratory, or their products, including the cost of promotional items and memorabilia such as models, gifts, and souvenirs, and the cost of memberships in civic and community organizations; except those advertising and public relations costs
- ❑ (11) Entertainment, including costs of amusement, diversion, social activities; and directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities; costs of membership in any social, dining or country club or organization, except costs for such recreational activities for on-site employees, as may be approved by the Contracting Officer or provided for elsewhere in the contract.
- ❑ (19) Memberships in trade, business, and professional organizations, except as approved by the Contracting Officer.

**are strictly prohibited !**



# What costs have we seen?





# The First Line of Defense

## ❖ BUYERS:

-If you are assigned a requisition for a questionable purchase, check with the Purchasing Officer or the Chief Financial Officer (Mimi Chang).

-There may be times when a requisition is for an item that clearly is an unallowable cost. In this situation, a purchase order may be created, but it ***MUST*** be paid for by Stanford University funds. The purchase requisition should have the Stanford account number designated in the “comments” section of the requisition.



# WARNING! BE ON ALERT!

## BUYERS:

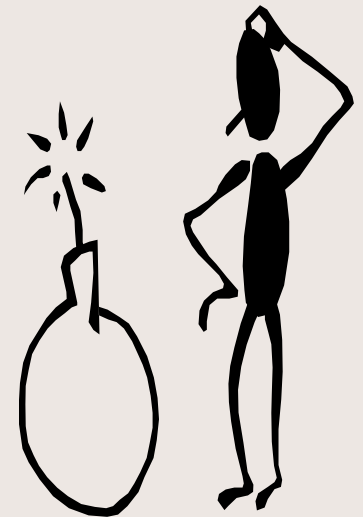
- ✓ CHECK PURCHASE REQUISITIONS

## PURCHASING-ACCOUNTS PAYABLE:

- ✓ CHECK INVOICES AGAINST THE PO & PURCHASE REQUISITION

## ACCOUNTING-ACCOUNTS PAYABLE:

- ✓ CHECK INVOICES AGAINST THE PO & PURCHASE REQUISITION



# What if...

...you receive a requisition for a souvenir for the office holiday party.

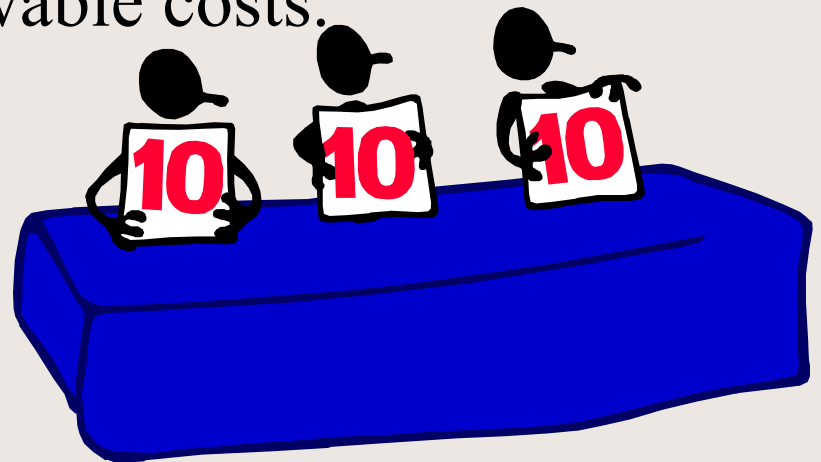
...SSRL wants to purchase promotional pencils with their logo to pass out to all of the collaborators.

## What would you do?

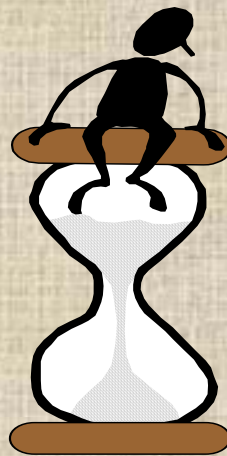


# And in conclusion...

- Watch out for those UNALLOWABLE costs!
- If in doubt, ask the Purchasing Officer or the Chief Financial Officer for verification.
- Verify against the handout (prime contract) for allowable and unallowable costs.



Thank you for  
your time!



By Kimberly Swanson, Summer Student