



Quality Assurance Work Instruction

CP-00-3000-10

Approved:

Date: 25 May 2004

Title: Unallowable Costs

Rev
NC

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1.0 POLICY/PURPOSE

It is Santa Barbara Applied Research, Inc. (SBAR) policy to ensure that all unallowable costs defined by the Federal Acquisition Regulation (FAR) are identified and recorded in accordance with FAR and Generally Accepted Accounting Principles (GAAP).

2.0 SCOPE

This operating procedure applies to all SBAR Divisions and Operating Units providing products or services to the Federal Government.

3.0 REFERENCES AND DEFINITIONS

3.1 References

Federal Acquisition Regulations - FAR 31.001 Unallowable Costs

3.2 Definitions

Unallowable Costs: Any cost which, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract to which it is allocable.

4.0 RESPONSIBILITIES

4.1 Division President

The responsible Division President shall review and approve all disallowed costs and ensure that these costs are properly recorded and accounted for in accordance with the FAR.

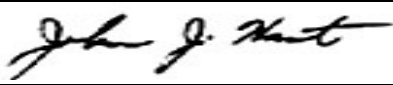
4.2 Functional Area Managers (FAM)

- Senior supervisory personnel responsible for oversight for coding shall be familiar with the unallowable cost provisions of the FAR and ensure that unallowable costs that are identified are properly coded as such.



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4.3 Accounting Manager

The Accounting Manager is responsible for the review and audit of costs for allowability in conjunction with other control activities performed through the Accounts Payable function, and the Cost Accounting function.

5.0 REQUIREMENTS/PROCEDURES

5.1 Accounting of Unallowable Costs

The accounting department is responsible for maintaining the chart of accounts that contains account numbers for all unallowable costs and ensuring that such costs are not included in requests for reimbursements or in indirect rate submissions.

Unallowable costs will not be included in target rates used for proposals and interim billing on cost reimbursement contracts. Unallowable costs will be excluded from final expense rate proposals for completed fiscal years.

5.2 Specific Examples of Unallowable Costs

Costs expressly unallowable or mutually agreed to be unallowable are identified in separate records (accounts) and excluded from a billing, claim, or grant applicable to a contract with the contracting agency. The following descriptions are examples of unallowable costs that are most likely to occur:

- Entertainment Costs: which include the cost of Christmas party, amusement, diversion, social activities, meals unrelated to travel, alcoholic beverages, social clubs.
- Interest Expense and Late Fees:
- Financing Activities: activities related to the pursuit of equity financing.
- Contributions and donations
- Fines and penalties
- Travel Costs: first-class air travel in excess of maximum per diem rates.
- Selling Costs: selling activity to include advertising, direct selling, and those activities not required or authorized by government contracts.



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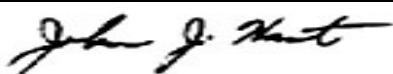
- Gains or losses on disposition of capital assets other than depreciable assets
- Cost of idle facilities except in limited circumstances
- Insurance: Retroactive or backdated insurance. Costs related to officer life and D&O insurance policies.
- Public Relations: corporate image enhancement.
- Legal fees defending fraud and litigating appeals against the U.S. Government
- Long-term leases of property and equipment and leases from related parties limited to cost reimbursement of the cost of ownership
- Losses on contracts
- Organization costs
- Social club memberships
- Professional service costs to prosecute claims against the U.S. and certain taxes
- Costs of company vehicles that are not supported by vehicle use logs or other supporting data.

The above unallowable cost categories are only a representation of unallowable costs. Any cost that is in question is referenced in FAR Section 31.205 to determine allowability.



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