

MEMORANDUM

Date: October 23, 2006
TO: Business Managers
FROM: Diane Veros, Director
Research Administration & Finance
RE: **Unallowable Costs to Sponsored Agreements**

Unallowable Costs are costs that cannot be included in the direct costs of sponsored agreements or in the Institute's indirect cost rate according to OMB Circular A-21. (Many of these costs are generally allowed by Rensselaer.) Proper classification of these costs will preclude Rensselaer from incurring future liability for inappropriate charges to sponsored research and provides a means to exclude these costs from our indirect cost base.

This memo is a revision of the 1999 memo reiterating our original policy and reminding everyone of the importance of compliance in this area. **Please make sure that you refer to the most recent account code charts as well as retain this memo in your file for reference. A copy of this memo is also located on our website at:**
<http://www.rpi.edu/dept/finance/docs/research/UnallowableNonReimbursableExpenses.pdf>

GUIDELINES FOR Unallowable Costs

The only accounts that can be used for unallowable expenses are as follows:

010	Unallowable Supplies
031	Unallowable Food Service (formerly "Food Service Marriott")
093	Unallowable Services
125	Unallowable Travel

Unallowable costs must not be charged to any sponsored program fund (i.e. those beginning with A, B or F) with the exception of food service charges that have been expressly permitted by the sponsor.

Exhibit A – A-21 Unallowable Costs

Exhibit B – Examples of Business/Entertainment Costs

Exhibit C – NSF Policy on Allowability of Meeting/Conference Costs

The following table indicates some typical unallowable expenses with the account code which should be used to record the charge. Rensselaer's internal policies may allow these expenditures, however, a Sponsored Agreement can not be charged. The following account codes must be used regardless of the fund being charged.

<u>Unallowable Costs To Sponsored Agreements</u>	<u>Account</u>
Flowers	010
Institute Parking permits	010
Parking fees for special events	010
Parking fines	010
Fines and penalties	010
Alcohol – events, local	119
Sport and concert tickets	010
Holiday decorations	010
Faculty/staff recognition (except annual Institute-wide Dinner)	010
Gifts for visiting officials	010
Commencement related costs in departments (lunches, dinners)	010
Donations of any type	010
Internal Marriott catering services	031
External catering services	031
Memberships: social or country clubs, community organizations	093
Tuxedo rentals	093
Unallowable Travel Expenses such as:	
Alcohol	125
Administrative foreign travel	125
Travel costs associated with alumni or donors	125
First class travel	125
Charter travel, if the costs are higher than commercial travel	125
Trips to athletic events	125
Non-refundable airline tickets (cancelled trips)	125

Changes to food service accounts:

Please note that account 031 is titled “Unallowable Food Service” and 032 is now titled “Sponsored Research Meals”. **All food service charges or local meals**, whether internal (Sodexo) or external, **should be charged to 031**. Research Administration will charge only those expenses that have been expressly permitted by the sponsor to 032 via an FTR. If there is sponsor approval for a catering expense, the procedure below must be followed.

Procedure for sponsor approved catering charges:

1. Charge catering to a non-sponsored program fund (e.g. department, gift, etc.) using 031 “Unallowable Food Service” [Note: Sodexo staff will not accept charges to As, Bs, or Fs].
2. Obtain written permission (email is fine) from the sponsor allowing the charge
3. Submit sponsor permission with a Financial Transaction Request (FTR) form to Research Administration asking that the charge be moved to the sponsored program fund (using 032 “Sponsored Research Meals”).

Your continued cooperation in the accurate implementation of this policy is appreciated. Please contact me at extension 6154 if you have any questions regarding unallowable charges.

Exhibit A - Unallowable Cost Categories from A-21 (in alphabetical order)

Advertising (J.1.)

The only **allowable advertising** costs are:

- Recruitment of personnel.
- Procurement of goods and services.
- Disposal of scrap or surplus materials.
- Those specifically required by a sponsored agreement.

Alcoholic beverages (J.2.)

Alcoholic beverages are unallowable, including beer, wine, and mixed alcoholic drinks. **However**, alcohol can be directly charged to a few sponsored projects if the nature of the research specifically requires the purchase and use of alcohol, and the sponsor explicitly approves the cost.

Alumni activities (J.3.)

Costs incurred for, or in support of, alumni/alumnae activities and similar services are unallowable.

Bad debt expense (J.4.)

Any losses, whether actual or estimated, arising from uncollectible accounts, and any related collection and legal costs are unallowable.

Commencement and convocation costs (J.6.)

Costs incurred for commencement and convocations are unallowable.

Contingency provisions (J.9.)

Any contingency reserve or similar provision made for events, the occurrence of which cannot be foretold with certainty is unallowable.

Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements (J.11.)

Generally, these costs are unallowable. The only exception is when the Federal government specifically authorizes the condition causing the action.

Donations or contributions (J.13.)

All donations and contributions made by the University, regardless of the recipient are unallowable.

Entertainment (J.15.)

Costs of activities where the primary purpose is amusement, diversion (such as tickets to shows or sports events), and social activities, and any associated costs, such as transportation, meals, etc. are unallowable.

Fines and penalties (J.18)

Costs resulting from violations of, or failure of the institution to comply with Federal, State, and local or foreign laws and regulations are unallowable. The **only exception** is when the Federal government authorizes, in advance, such payments.

Fund raising (J.22.)

Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable. This includes salary, printing, room charge, travel, meal, and supply costs of fund raising.

Goods or services for personal use (J.19.), including housing and personal living expenses (J.20)

All costs for goods or services for personal use by the University's employees, including housing expenses (e.g. depreciation, rent, maintenance, utilities, furnishings, etc.), housing allowances, and personal living expenses for University officers, are unallowable.

Insurance against defects (J.21.f.) and medical liability (malpractice) insurance (J.21.g.)

- Costs for insurance against defects, including the costs of insurance or any other costs incurred to correct defects in the University's materials or workmanship, are unallowable.
- If research involves human subjects, medical liability or malpractice insurance costs can **only be directly charged** to sponsored projects, according to the risk of the population covered.
- Other insurance costs are allowable.

Interest (J.22.)

The only **allowable interest** costs are those paid to an external party if associated with the following assets:

- Buildings acquired or completed on or after July 1, 1982.
- Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982.

Investment management (J.22.)

The only **allowable investment management** expenses are those incurred for the physical custody and control of monies and securities. Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.

Lobbying (J.17. and J.24.)

In general, lobbying costs are unallowable, including the following:

- Improperly influence (influence on any basis other than the merits of the matter) an employee or officer of the Executive branch of the Federal government to give consideration or to act regarding a sponsored agreement or regulatory matter.
- Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity.
- Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections.
- Any attempt to influence the:
 - Introduction of Federal or State legislation.
 - Enactment or modification of any pending Federal or State legislation by preparing, distributing, or using publicity or propaganda, or by urging members of the general public, or any segment thereof, to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign.
- Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying. Legislative liaison activities include:
 - Attendance at legislative sessions or committee hearings.
 - Gathering information regarding legislation.
 - Analyzing the effect of legislation.

A **few lobbying costs are allowable** if specifically related to the performance of a sponsored agreement.

- Technical and factual presentations on topics directly related to the performance of a grant, contract, or other agreement.
- Activities to influence State legislation in order to directly reduce the cost, or to avoid material impairment of the institution's authority to perform the grant, contract, or other agreement.

Losses on other sponsored agreements or contracts (J.25.)

Any excess of costs over income under any other sponsored agreement or contract of any nature is unallowable. This includes, but is not limited to, the University's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for F&A costs.

Memberships, subscriptions and professional activity costs (J.28.)

Note: Membership and subscription costs must not be directly charged to sponsored agreements, unless unlike circumstances exist. Membership in any civic or community organization, or in any country, social or dining club is unallowable. The only allowable membership costs are for a membership in business, technical or professional organizations.

- The only **allowable subscription** costs are for subscriptions to business, professional, and technical periodicals.
- Costs of meetings and conferences are **only allowable** when the primary purpose is the dissemination of technical information. This includes the costs of meals, transportation, rental of facilities, etc.

Preagreement costs (J.31.)

Unless approved by the sponsoring agency, costs incurred prior to the effective date of the sponsored agreement, whether or not they would have been allowable there under if incurred after such a date, are unallowable.

Public relations (J.1.)

The only **allowable public relations** costs are those for the cost of:

- Public relations specifically required by a sponsored agreement.
- Conducting general liaison with news media to keep the public informed on matters of public concern, such as notices of financial matters, contract/grant awards, etc.
- Communicating with public and press pertaining to specific activities or accomplishments resulting from the performance of sponsored agreements.

Selling and marketing (J.42.)

Costs of selling and marketing any services or products of the institution are unallowable, unless included in allowable advertising costs above (J.1.). Expenditures for the publication and distribution of student admissions information are included in this category (not allowable). **However, recharge centers can** create and distribute materials to inform internal or University users about the services and/or products they provide.

Student activity costs (J.45.)

Unless specifically allowed for in the sponsored agreement, costs incurred for intramural activities, student publications, student clubs, and other student activities are unallowable.

Travel costs (J.48.)

Airfare costs in excess of the lowest available commercial discount airfare, Federal Government contract airfare (where authorized and available), or customary standard (coach or equivalent) airfare, are unallowable except when such accommodations would: require circuitous routing; require travel during unreasonable hours; excessively prolong travel; greatly increase the duration of

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the flight; result in increased costs that would offset transportation savings; or offer accommodations not reasonably adequate for the medical needs of the traveler.

EXHIBIT B – EXAMPLES OF UNALLOWABLE VS. ALLOWABLE BUSINESS/ENTERTAINMENT COSTS

A common area of misunderstanding is in the area of business function (allowable) vs. entertainment expenses (unallowable). Below you will find examples to clarify this matter for the university community. If there are any questions concerning the allowability of a cost, please contact Research Administration & Finance.

Unallowable Entertainment

1. An invited speaker is in town to present a seminar. While here, you take him to dinner and a sporting event to show your appreciation.

The cost of dinner and the tickets are considered entertainment and charged to account code 010.

2. 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.

The cost of catering is considered entertainment and charged to account code 031.

The above costs are for "amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities)" and therefore are examples of unallowable entertainment costs. These costs must be identified in the accounting system as unallowable.

Allowable Business Function

Meeting and conference costs are generally only allowable if identified in the proposal scope of work and budget.

1. An invited speaker is on campus to present a research seminar from 12:00- 1:00pm. You have a luncheon following his seminar, so that attendees can have the opportunity to meet and talk to the lecturer more closely about his research.
2. You are recruiting a new post-doc and decide to perform the interview over lunch, you pick up the tab.

The costs of both luncheons are allowable expenses and should be classified as a business function. They are considered an extension of business and should be coded as 114 – Business Meals. RA&F will require documentation as to how the expense relates to the sponsored project prior to billing a sponsor for these costs. If no documentation is provided or if the documentation is considered insufficient, RA&F reserves the right to move the expense to a non-sponsored fund.

EXHIBIT C
National Science Foundation Grant Policy Manual
July 2005

Chapter VI - Allowability of Costs

625 Meetings and Conferences

The points below summarize the allowability of various items of cost associated with conferences, symposia, workshops or other meetings supported by an NSF grant. Any costs charged to an NSF grant also need to be reasonable and directly allocable to the supported activity. Meeting and conference costs identified below, are only allowable if such costs are specifically and clearly identified in the proposed scope of work and budget, as modified and approved by NSF. NSF funds are not otherwise to be spent for meals or coffee breaks for intramural meetings of an organization or any of its components, including, but not limited to, laboratories, departments and centers.

- a. Conference Facilities. Rental of facilities and necessary equipment is allowable. (See GPM 623, "Rental or Lease of Facilities or Special Purpose Equipment.")
- b. Supplies. Purchase of expendable materials and supplies necessary for the meeting is allowable.
- c. Conference Services. Costs of translation services and of recording and transcribing the proceedings are allowable.
- d. Publication Costs. Costs of publishing the proceedings are allowable if approved in the grant.
- e. Salaries. Salaries of professional personnel, editorial and clerical assistants and other staff members are allowable in accordance with GPM 611, "Salaries, Wages and Fringe Benefits," in proportion to the time or effort devoted to the preparation and conduct of the conference and summarizing its results.
- f. Consultant Services and Speaker Fees. Reasonable fees and travel allowances and per diem (or meals provided in lieu of per diem) are allowable as prescribed in GPM 614, "Travel Costs," and GPM 616, "Consultant Services."
- g. Meals and Coffee Breaks. When certain meals are an integral and necessary part of a conference (e.g., working meals where business is transacted), grant funds may be used for such meals. Grant funds may also be used for furnishing a reasonable amount of hot beverages or soft drinks to conference participants and attendees during periodic coffee breaks.
- h. Participant Support Costs. Participant support costs allowable as prescribed in GPM 618, "Participant Support Costs." (See also GPM 633.2, "Exceptions to Basic Policy.")
- i. Entertainment. Costs of entertainment, amusement, diversion and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities) are unallowable. Expenses of awardee employees who are not on travel status, serving as hosts, or otherwise participating at meals that are primarily social occasions are not allowable. Costs of employees on travel status are limited to those allowed under the governing cost principles for travel expenses (see GPM 614, "Travel Costs").
- j. Alcoholic Beverages. No federal funds may be spent on alcoholic beverages.

