



New Jersey Institute of Technology University Policies and Procedures	Number 12-06 Date of Issue: October 12, 2011
<i>Subject:</i> GRANTS AND CONTRACTS - UNALLOWABLE COSTS	

A. OVERVIEW

Unallowable Costs are those that cannot be claimed as direct or indirect costs of federally sponsored projects in accordance with the provisions of Office of Management and Budget (OMB) Circular A-21.

It is important that all costs that are unallowable be classified as such. Proper coding of unallowable costs is necessary to ensure that only those expenses which are allowable are included in the F&A cost proposal.

The University applies the same provisions to direct and indirect costs of all sponsored projects regardless of funding source.

B. PURPOSE

The purpose of this policy is to establish uniform procedures for identifying unallowable costs in accordance with OMB Circular A-21 and New Jersey Institute of Technology policies and procedures.

C. DEFINITIONS

OMB Circular A-21	Principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. http://www.whitehouse.gov/OMB/circulars_a021_2004/
Allocable	A cost is allocable to a project if the goods or services involved are chargeable or assignable to such project in accordance with the relative benefits received by the project.
Allowable	A cost is allowable to a project if it: (1) is reasonable, (2) is allocable to the specific project, (3) is treated consistently in like circumstances, and (4) conforms to any limitations set forth in the sponsored agreement.

Consistently Treated	A cost is consistently treated if the University's practices used in estimating costs for a proposal are consistent with cost accounting practices used by the University. All costs incurred for the same purpose, in like circumstances, are either direct costs or Facilities and Administrative (F&A) costs only.
Direct Cost	A cost that can be identified specifically with a particular sponsored project.
F&A	Facilities and Administrative (F&A) Costs (Indirect Costs) are costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other University activity.
GCA	Grant and Contract Accounting Department
PI	Principal Investigator
Reasonable	A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amounts involved therefor, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.
SRA	Sponsored Research Administration

D. UNALLOWABLE COSTS

OMB Circular A-21 establishes the principles for determining costs applicable to grants, contracts and other agreements with educational institutions. The principles are designed to provide that the Federal Government bear its fair share of the total project cost, determined in accordance with generally accepted accounting principles, except where restricted or prohibited by law.

1. The basic considerations for determining the allowability of costs are that they must be:
 - Reasonable
 - Allocable,
 - Consistently Treated, and
 - In conformity with award limitations.

If the cost of any activity or expense cannot meet the above criteria, it is not eligible for inclusion in the F&A cost proposal regardless of its purpose.

Any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements to clear an overdraft or for other reasons of convenience.

2. Explicitly Unallowable Costs on Federal Agreements

OMB Circular A-21 identifies specific categories of costs that cannot be charged, directly or indirectly, to federally sponsored agreements. Following is a partial listing of those unallowable costs that are most likely to impact University operations.

- **Advertising and Public Relations Costs**
Costs of advertising media, public relations, and corollary administrative costs are unallowable, unless directly related to the performance of a sponsored project. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like. Public relations includes community relations and means those activities dedicated to maintaining the image of the University or maintaining or promoting understanding and favorable relations with the community or public at large or any segment of the public.
- **Alcoholic Beverages**
Costs of alcoholic beverages are unallowable.
- **Alumni Activities**
Costs incurred for, or in support of, alumni activities and similar services are unallowable.
- **Bad Debts**
Any losses, whether actual or estimated, arising from uncollectible accounts and other claims, related collections costs, and related legal costs, are unallowable.
- **Commencement and Convocation Costs**
All costs related to commencements and convocations are unallowable.
- **Contingency Provisions**
Contributions to a contingency reserve or any similar provision made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are unallowable.
- **Donations and Contributions**
Donations and contributions, including cash, property, and services, made by the University, regardless of the recipient, are unallowable.
- **Entertainment**
Costs of entertainment, including 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.

- **Fines and Penalties**
Costs resulting from violations of or failure of the University to comply with, Federal, State, and local or foreign laws and regulations are unallowable.
- **Fund Raising**
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.
- **Goods or Services for Personal Use**
Costs of goods or services for personal use of the University's employees are unallowable.
- **Lobbying**
Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, legislation, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activity, are unallowable.
- **Losses on Other Sponsored Agreements or Contracts**
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 contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for F&A costs.
- **Memberships**
Costs of membership in any civic or community organization or country club or social or dining club or organization are unallowable.
- **Pre-Award Costs**
Costs incurred prior to the effective date of the sponsored project are unallowable unless approved by the awarding agency.
- **Selling and Marketing**
Costs of selling and marketing any products or services of the University are unallowable.
- **Student Activity Costs**
Costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable, unless specifically provided for in the sponsored agreement.

3. Unallowable Directly Associated Costs

Costs that are directly associated with the unallowable costs are also unallowable. A directly associated cost is defined as any cost which is generated solely as a result of the incidence of another cost, and which would not have been incurred had the other cost not been incurred. An example of a cost that is directly associated with an unallowable cost is the cost of airfare to go to another city for the purpose of entertaining business associates or for fundraising. Since entertainment and fundraising costs are expressly unallowable under OMB Circular A-21, and the airfare would not have been incurred had the unallowable costs not been incurred, the airfare is an unallowable directly associated cost.

E. PROCEDURES

The PI, project personnel, and departmental administrative support staff are responsible for ensuring that:

- Unallowable items noted above are excluded from the calculation and preparation of budget data contained in proposals submitted to Federal agencies
- After the receipt of a Federal award, expenses in the unallowable cost categories are not charged to the related sponsored or cost sharing projects
- The award notice / sponsored agreement is reviewed to determine if other cost items are restricted by the sponsor (such cost items may be charged to the appropriate Non-Federal and /or departmental projects as allowed under University and sponsor policies)
- Goods and services are directly related to the project scope
- Charges have been incurred within the project time period
- Charges have been incurred in accordance with University policies
- Charges have been incurred in accordance with the terms and conditions of the sponsored agreement
- Funds are available for budgeted project expenditures

GCA has full authority to request more information or to reject the recording of a cost to a grant fund if there is inadequate evidence to support the allowability of the cost. In this case, the cost must be recorded to a departmental or University fund.

Review:

Holly C. Sten 10/17/11
General Counsel Date

[Signature] 10/18/11
President Date

Approval:

Sherrice Johnson 10/17/11
Vice President for Human Resources Date

[Signature] 10/17/11
Senior Vice President for Administration and Treasurer Date

Tom Galle 10/19/11
Provost and Senior Vice President For Academic Affairs Date

[Signature] 10/18/11
Senior Vice President for Research and Development Date