



# **Fundamentals: Introduction to Unallowable Costs at MIT**

Presented by  
The Office of Sponsored Programs  
&  
The Office of the Vice President for Finance

## Topics

- Costs at MIT
  - Reimbursable
  - Allowable/Unallowable
- Identifying financial transactions
- Unallowable Activities
- Unallowable GL Accounts
- People to contact

## What do we mean when we say “Is it Allowable or Unallowable?”

- What are the general definitions of “allowable” and “unallowable?”
  - Allowable: permitted, acceptable
  - Unallowable: not permitted, unacceptable
- What do those words mean at MIT?
  - Is the expense allowed on a **sponsored research project**? Will the sponsor pay for this expense?

## MIT's Dual Mission



### Education

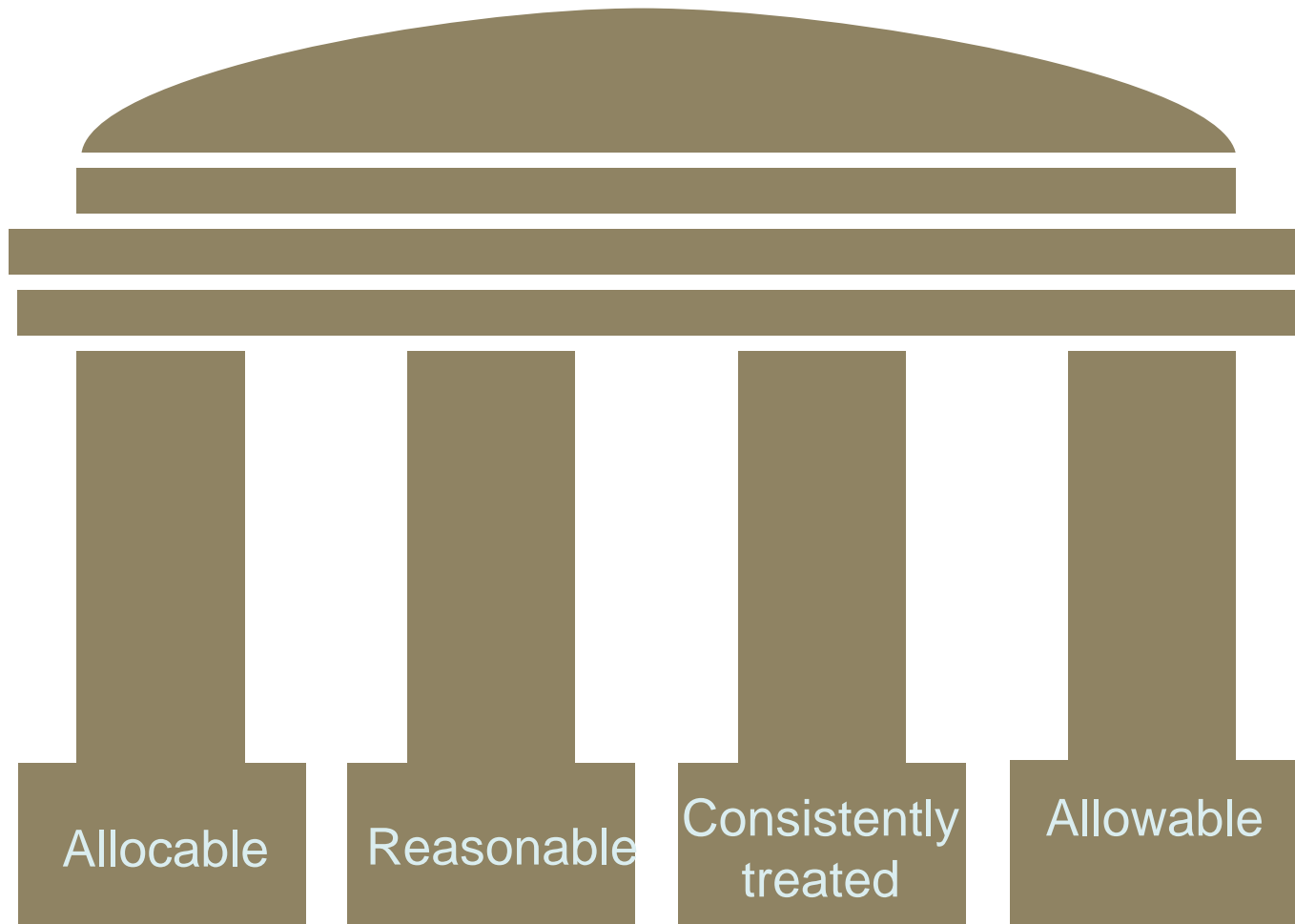
- Spending is guided by **MIT Policies and Procedures**
- Expenses for this purpose are categorized as **“reimbursable”**



### Research

- (both federal and non-federal)
- Spending is guided by federal policy in **OMB A-21** and by agreement between MIT and a research sponsor
- Expenses for this purpose are categorized as **“allowable”**

## Four Principles of OMB A-21



## Education

- Rules and regulations governing spending derives from MIT's Policies and Procedures
  - Expense is for the betterment of education at MIT
  - Expense must be made in a prudent manner
- Expense reimbursement for education is broad, including such items as food and beverages at a meeting, flying business class, a holiday party
- We say these expenses are “reimbursable”

## Federally sponsored research

- Rules and regulations for spending money derive from **OMB's Circular A-21** which provides “specific guidelines for determining costs applicable to research”
- Section J1 to J54 provides principles to be applied when determining the **allowability** of certain costs

## Sponsored research with non-federal sponsors

- Rules and regulations for spending money derives from both **OMB's Circular A-21** and **MIT Policy and Procedures**
  - Basic principles of OMB A-21 still apply.
  - Expense reimbursement for industry research is often broader than for federally sponsored research
- **We say these expenses are “allowable” per the contract with the sponsor which takes precedent over A-21**



## Spending money!

- Most departments conduct both education and research and therefore spend money in both of MIT's businesses.
- Often, money is spent on goods or services that serve both education and research.
- Everyone who initiates and/or approves financial transactions at MIT needs to be able to accurately identify **what** was purchased and **why** – its purpose.

## How do we do this?

## Why & What

- The two parts to every expense:
  - Cost Object (account) will identify the activity or purpose: **why**
  - General Ledger account (GL) will identify **what** was purchased
  
- Let's talk about the **why**, the cost objects

## Purpose/Activity: “Why”

- An activity at MIT is identified in our accounting system as a **Cost Object (account)**
- Examples of activities at MIT that are identified using a cost object
  - 2011 Commencement
  - MIT Press Journals Division
  - Department of Biology Headquarters
  - MIT Audit Division
  - NSF Fellowship
  - Hewlett Packard Sponsored Research Contract
  - NIH RO1 Grant

## Purpose/Activity, cont'd

- Cost objects tell us if an activity is an education activity, a research activity, both an education and research activity, or another Institute activity
- OMB A-21 tells us that all education activities are unallowable, including
  - Alumni Activities
  - Student Recruitment
  - Commencement
  - Student Services
- We isolate education activities using cost objects

## Purpose/Activity, cont'd

- OMB also A-21 tells us that certain other Institute activities which are neither education nor research are also unallowable, including
  - Fund raising, often called resource development
  - Entertainment, such as MIT's 150th anniversary
  - Investments, MITIMCO
  - Housing and living expenses for MIT's officers
  - Lobbying, any effort to influence members of a legislature to vote according to MIT's interests
- We isolate other MIT activities using cost objects

## What was the expense

- An expense at MIT is identified in our accounting system with a GL Account
- Many expenses at MIT are identified with a GL account that is both reimbursable and allowable
  - 420050-Domestic Travel
  - 420226-Materials and Services
  - 420258-Office Supplies
  - 420338-Service Contracts
  - 421827-Minor Equipment

## What was the expense, cont'd

- But some expenses at MIT are identified with a GL account that is reimbursable but is not allowable
- No matter the activity, whether education, research or other purposes, it is vital to use the correct G/L account
- The Vice President for Finance Office is going to tell you about those special GLs and their impact on MIT's accounting
  - John Larkin, Accounts Payable
  - Kara Sechrist, Travel
  - Pam Schickling, Sponsored Accounting

## GLs that are Reimbursable but Unallowable

- 421000 - Meetings Food and Beverages
- 421205 - Alcoholic Beverages
- 420318 - Recreation Related Expense
- 420166 - Entertainment
- 420302 - Promotional Items and Memorabilia
- 420304 - Public Relations
- 420306 - Publicity
- 420319/420321 Prizes and Awards
- 421584 - Membership and Dues-Social
- 420254 - Non-Reimbursable Expense



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# Equipment and Allowability

## Capital/Minor

- Depends on the contract/grant's terms and conditions
- Common clauses:
  - All equipment purchases require prior approval
  - Budgeted equipment may be purchased

## Fabricated Equipment

- Integral components of fab are allowable
- Some third party costs (i.e. machine shop) are allowable if 100% dedicated to fab
- Unallowable: Salaries, food, travel, lab supplies, anything not directly related to the fab

## Unallowable Travel

- GL420080 - Domestic Travel Unallowable
- GL420090 - Foreign Travel Unallowable

*These G/L accounts are for travel costs which are reimbursable under MIT's Travel Policy but which are not recoverable from the Federal government.*

*Examples would be spousal travel and airfare in excess of the lowest available commercial discount airfare.*

## Unallowable Travel Expenses, cont'd

- Airfare in excess of the lowest available discount airfare
- Foreign flag carriers
- Code share flights when the designator code is a foreign carrier
- Spousal travel when the spouse is not formally representing MIT
- Alcohol
- Prospective student visits
- Fundraising
- Resource development
- Entertainment
- Gifts
- Approved travel exceptions, out of policy - extenuating circumstances

## Recorded Project Overrun

- Recorded Project Overrun (420314)

*This G/L account is used to remove an overrun on a sponsored program in accordance with Institute policy. Project overruns may be recorded to selected general accounts (cost centers) or fund accounts (internal orders) using this G/L account on both sides of a journal voucher transaction.*

*It is **unallowable** to transfer an overrun on one project to a different sponsored research project.*

## Impact of Unallowable Costs on Sponsored Accounting

- Billings: Cost Reimbursable & Letter of Credit
  - Not billed to sponsor but remains on account
- Journal document approvals
  - Routed to Allowables for approval → majority rejected
  - If approved routed to WBS for approval
- Removal/reclassification of unallowable charges
  - Implement monthly/quarterly review
- Audits and Final Reporting
  - Closeout of WBS accounts and submission of final financial reports to sponsors significantly delayed

## More Unallowable GLs

- Unallowable Salaries (400812)
  - *Use of this G/L account applies to directly associated staff time in an unallowable event, that time being measured over the course of the year. If the staff time is 25% or greater in an unallowable activity, then this G/L account must be used for that person's effort. You should contact the Payroll Office before using this G/L.*
- Student Related Costs
  - Scholarship Allowance (420342)
  - Scholarship (422305)
  - Undergraduate Student Fees (422320)
- Bad Debts (421552)

## Directly Associated Costs

- A cost which is “directly associated” with an unallowable cost is also unallowable.
  - Examples of Directly Associated Costs:
    - 1) A department conducts a meeting which is largely a social gathering. Alcohol and food served at the meeting are unallowable costs. The cost of stationery, postage or other costs related to the unallowable nature of the meeting should also be coded as unallowable. In this case, GL420166-Entertainment.
    - 2) A Department Head attends the department holiday gathering which is held in the City of Boston. The Department Head takes a cab to the event. The cab fare should also be coded as unallowable. In this case, GL420318-Recreation Related Expense.

## Exercise – Is it Reimbursable? – Is it Allowable?

- Membership to the American Association for the Advancement of Science (AAAS)--Membership & Dues GL421586
- Flower arrangement for Gray House foyer
- \$100 gift certificates given as awards within the department--Prizes and Awards GL420319
- Maintenance/service contract for copier--Services Contracts GL420338
- Dry cleaning for Dean's convocation attire
- Fall welcome lunch for freshman students
- Lab orders coffee mugs with lab name and logo to commemorate its 25th anniversary--Promotion & Memorabilia GL420302
- MIT Faculty member purchases a MIT athletic membership
- Sponsor approved laptop--Minor Equipment GL421827



## Items of Particular Interest

- MIT Memorabilia
- Personal Expenses
- Prizes & Awards
- Flowers/Floral Arrangements
- Catering/Food
- Contributions/Donations
- Non-Administrative Costs in HQ Accounts

## What Do You Need to Do ?

- Be aware of OMB Circular A-21 rules
- Code transactions with correct Cost Object and G/L account
- Review accounting statements for errors
- Ask for help when you're not sure

## Who to contact for help

<u>Area</u>	<u>Contact</u>	<u>Email</u>	<u>Phone</u>
Accounts Payable	John Larkin	jlarkin@mit.edu	3-2729
Journal Vouchers	Yan Jiang	Journal-vouchers@mit.edu	3-2764
Payroll	Doug Le Vie Payroll Service Center	dougl@mit.edu payroll@mit.edu	2-2329 3-4255
Property	Jo-Anne Chute John Erkkila	jchute@mit.edu jerkkila@mit.edu	8-8448 3-0818
Sponsored Accounting	Pam Schickling Tim Vacha Dale Twomey	pamelas@mit.edu vacha@mit.edu dalet@mit.edu	3-7399 8-8483 3-2496
Travel	Kara Sechrist Ellen Sico	sechrist@mit.edu esico@mit.edu	4-5289 3-3547
Sourcing and Procurement	Ann Julian David Petricone	amjulian@mit.edu petricon@mit.edu	3-8350 3-8393
Cost Analysis	John Donahue Sarah Brady	jpd@mit.edu sbrady@mit.edu	8-7950 2-3297

# QUESTIONS