

**THE  
UNIVERSITY OF MICHIGAN  
  
POLICY ON  
  
INDIRECT COST RECOVERY  
EXCLUDED (ICRX)  
EXPENDITURES**

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# Table of Contents

	Page
Purpose .....	2
Policy.....	2
Glossary.....	4
Compliance and Responsibility .....	5
Federal Regulation – OMB Circular A-21 (II CFR Section 220) .....	7
Identifying Indirect Cost Recovery Excluded Expenditures .....	8
Flagging Indirect Cost Recovery Excluded Expenditures .....	9
Practices and Examples	
1. Advertising .....	10
2. Alcoholic beverages .....	11
3. Alumni activities.....	12
4. Bad debts.....	12
5. Commencement .....	13
6. Employee morale, health and welfare .....	13
7. Entertainment .....	14
8. Fund raising .....	15
9. Hosting .....	16
10. Lobbying .....	18
11. Meals and travel .....	19
12. Meetings and conferences .....	21
13. Memberships .....	21
14. Public relations .....	22
15. Recruiting .....	22
16. Selling and marketing.....	23
17. Student extracurricular costs.....	23
Resources .....	24

## Appendix A – Table of Charging University Expenditures to Funds

## PURPOSE

To provide you with the information necessary to comply with the University of Michigan's policy on **indirect cost recovery excluded (ICRX) expenditures** regarding A-21 (II CFR Section 220) compliance. To improve your understanding of the importance of tracking salary and non-salary ICRX expenditures. To teach you how to recognize and flag ICRX expenditures in the University's accounting system. And finally, to give you examples of how to apply the policy.

## POLICY

Flag all indirect cost recovery excluded (ICRX) expenditures at the University of Michigan with the appropriate Class (formerly known as SUBCLASS) ending in "X." This document establishes practices to recognize, charge, and flag ICRX salary and non-salary expenditures to comply with this policy.

This policy applies to these Funds:

<u>Fund Number</u>	<u>Fund Description</u>
10000	General
20000	Federal Sponsor
25000	Non-Federal Sponsor
30000	Expendable Restricted Gifts
40000	Designated
50000-59999	Auxiliaries

**CAUTIONS: Individual departmental policies and procedures may be stricter than those of the University.**

### **Sponsored Funds (20000 & 25000)**

- Do not charge ICRX expenditures to Funds 20000 and 25000 (sponsored awards). When an ICRX expense is included in the budget of a sponsored award the expense becomes a *'sponsored allowable cost'* and does not require an "X" Class (formerly known as SUBCLASS).
- Do not confuse *Indirect Cost Recovery Excluded expenditures* with *Restricted Expenses on Federal Projects*. Please refer to the following web site for the University's policy on *Restricted Expenses on Federal Projects*:

<http://www.finance.umich.edu/finops/programs>

## **POLICY, continued**

### **General Fund (10000)**

- Use caution when using General Funds for indirect cost recovery excluded (ICRX) expenditures.
- Whenever possible, use discretionary funds for ICRX expenditures.
- It is important to remember that the primary sources of revenue to the General Fund are State Appropriation and Tuition.

### **Auxiliary Activities (50000 – 59999)**

- It is in violation of A-21 regulations to include ICRX expenditures in the recharge rates of recharge functions of the University.
- Recharge activities are typically reflected in the Auxiliary Activity Funds. Recharge rates are established based on operating expenditures of the recharge operation. If ICRX expenditures were charged to recharge activities, the ICRX expenses would become a direct expense on the sponsored awards through the recharge process.

## GLOSSARY

These definitions are specific to this document.

### **A-21 Unallowable Costs**

See *'Restricted Expenses on Federal Projects.'*

### **Class (Subclass)**

A chartfield in the University of Michigan accounting structure that describes an activity supporting the University's mission. **Formerly known as Subclass.** Examples: instruction, research, departmental administration, and student services.

### **Facilities and Administrative Costs**

A-21 term for "Indirect Cost." The costs of resources provided by the University for sponsored awards. Examples of indirect costs are; utilities, asset depreciation, libraries, central administration, sponsored project administration, and departmental administration.

### **Facilities and Administrative (F&A) Proposal**

Proposal prepared according to OMB Circular A-21 regulations and submitted to the federal government to determine the University's facilities and administrative rates.

### **Federal Government Office of Management and Budget Circular A-21**

Federal regulation for charging expenses to sponsored awards and preparing the facilities and administrative proposal. Dictates proper classification of all University expenditures.

### **Indirect Cost Recovery Excluded (ICRX) Expenditure**

A cost that cannot be charged (directly or indirectly) to sponsored awards, and **must be specifically identified for the Facilities and Administrative Proposal.** However, an ICRX cost may be a legitimate University cost.

### **Restricted Expenses on Federal Projects**

Certain expenses required by A-21 (II CFR Section 220) to be reviewed for a "direct benefit" to a federal project, specifically: clerical and administrative salaries, supplies (consumable and office supplies), postage, telephone line charges, local calls, memberships and dues, journals and other subscriptions, books, and hosting and food expenses. These expenditures are sometimes referred to as "A-21 Unallowable Costs."

### **Sponsored Allowable Cost**

A cost specifically identified in the budget of a sponsor award or permitted based on sponsor regulations.

## COMPLIANCE and RESPONSIBILITY

### Understanding the importance of complying with this policy at the University of Michigan

External sponsors are critical to the vitality of the University's missions of instruction, research, and public service. Sponsors such as the federal government, state government, foundations, and corporations provide direct costs for the University's missions. Sponsors also reimburse the University for a portion of facilities and administrative costs (indirect costs).

Indirect costs are real costs to the University. Examples of indirect costs are:

- Utilities
- Depreciation
- Building maintenance
- Departmental administration
- General office supplies
- Central administration
- Libraries

The federal Office of Management and Budget issued Circular A-21, *Cost Principles for Educational Institutions* (II CFR Section 220), to regulate cost accounting practices at educational institutions, and the University must comply with these regulations.

A-21 (II CFR Section 220) includes the rules for computing the University's Facilities and Administrative rates that are calculated by the Cost Reimbursement Office staff.

A-21 (II CFR Section 220) defines certain expenditures as indirect cost recovery excluded (ICRX). Some ICRX expenditures are "necessary costs of doing business." However, ICRX expenditures must be segregated in the facilities and administrative rate calculations. For this reason, the Cost Reimbursement Office must be able to tell which expenditures are indirect cost recovery excluded.

This is where you come in: you must flag all indirect cost recovery excluded (ICRX) expenditures. The Cost Reimbursement Office can easily isolate flagged expenditures -- resulting in the University's compliance with A-21 (II CFR Section 220) for ICRX expenditures.

This document describes how to recognize and flag indirect cost recovery excluded (ICRX) expenditures as described in this document.

## COMPLIANCE and RESPONSIBILITY, continued

### Why must you comply with this policy?

Federal regulations require the University to identify indirect cost recovery excluded (ICRX) expenditures. At the University of Michigan, ICRX expenditures are identified by your use of the appropriate Class (formerly known as SUBCLASS) ending in "X."

When you flag indirect cost recovery excluded expenditures as required by this policy:

1. The Cost Reimbursement Office can identify ICRX expenditures because the transactions will have Classes that end in "X."
2. The University is in compliance with A-21 (II CFR Section 220) regulations when you assign the appropriate Class ending in "X" to transactions

### Unit Responsibility

If you have authority to use University funds, you must understand this policy and its application. The University's *Standard Practice Guide* addresses fiscal responsibility:

The standards for fiscal responsibility are outlined in section 500.01 of the University's *Standard Practice Guide*. However, merely complying with these written policies and procedures is not enough. The Principal Investigator (PI) (or Department Manager\*) is the individual with the ultimate responsibility for the administrative and programmatic aspects of the project. These responsibilities include ensuring funds are spent in accordance with University and sponsor guidelines. As such, the PI must exercise reasonable care and judgment in the performance of fiscal duties. In addition to University guidelines and procedures the PI must also adhere to the specific sponsor guidelines of projects supported by the Federal government, other government entities, industry, foundations, and the like.

\* The Department Manager is responsible when there is no Project Director for a chartfield combination.

### Financial Operations, Cost Reimbursement Office Responsibility

1. Prepare the facilities and administrative cost proposal and analysis. We treat ICRX expenditures as A-21 (II CFR Section 220) dictates.
2. Provide training and advice to the University community on ICRX expenditures, cost accounting standards, and proper use of Class.
3. Review transactions for compliance and consistency of University policies and A-21 (II CFR Section 220).

## FEDERAL REGULATION

### OMB Circular A-21 (II CFR Section 220)

The federal government Office of Management and Budget issued Circular A-21 (II CFR Section 220), *Cost Principles for Educational Institutions*. This Document sets cost practices for educational institutions that receive \$25 million or more of federally sponsored awards.

OMB Circular A-21 (II CFR Section 220), Section J, discusses treatment of certain costs for educational institutions. This document explains how you must handle these costs at the University of Michigan.

A-21 (II CFR Section 220) is available at this web site:

[http://www.access.gpo.gov/nara/cfr/waisidx\\_10/2cfr220\\_10.html](http://www.access.gpo.gov/nara/cfr/waisidx_10/2cfr220_10.html)

### Who enforces A-21?

The federal government enforces A-21 (II CFR Section 220) at the University of Michigan in three ways:

1. The University must submit a disclosure statement to the federal government that details the University's policies and practices for complying with A-21 (II CFR Section 220).
2. Every federally sponsored award is subject to audit by its funding agency.
3. The Facilities and Administrative Cost Proposal and supporting documentation is audited by the Department of Health and Human Services, Division of Cost Allocation.

### What are the penalties for failure to comply with A-21 (II CFR Section 220)?

The University is subject to the following penalties for failure to comply with A-21 (II CFR Section 220):

1. Loss of facilities and administrative (indirect) cost reimbursement from sponsoring agencies. The University of Michigan recovers over \$100 million annually in facilities and administrative costs.
2. Reduction of facilities and administrative rates.
3. Fines, interest, and penalties.

**IDENTIFYING INDIRECT COST RECOVERY EXCLUDED EXPENDITURES and ACTIVITIES**

<p><b>INDIRECT COST RECOVERY EXCLUDED ACTIVITIES</b></p> <p>Expenditures for these activities are ALWAYS ICRX</p>	<ul style="list-style-type: none"> <li>• Alumni Activities</li> <li>• Commencement</li> <li>• Entertainment</li> <li>• Fund raising</li> <li>• Lobbying</li> <li>• Public relations</li> <li>• Student extracurricular activities</li> </ul>
<p><b>INDIRECT COST RECOVERY EXCLUDED EXPENDITURES</b></p> <p>These expenditures are ALWAYS ICRX</p>	<ul style="list-style-type: none"> <li>• Alcoholic beverages</li> <li>• Bad debts</li> </ul>
<p><b>SOMETIMES INDIRECT COST RECOVERY EXCLUDED EXPENDITURES</b></p> <p>Review practices for these expenditures to determine the appropriate Class. Depending on the purpose of the expense, it may be ICRX.</p>	<ul style="list-style-type: none"> <li>• Advertising</li> <li>• Hosting</li> <li>• Meals and travel</li> <li>• Meetings and conferences</li> <li>• Memberships</li> <li>• Recruiting</li> <li>• Selling and marketing</li> </ul>

## **FLAGGING INDIRECT COST RECOVERY EXCLUDED (ICRX) EXPENDITURES**

1. Determine the appropriate Class – refer to the document titled “Class Definitions,” for definitions. Available on the Financial Operations website:  
<http://www.finance.umich.edu/finops/accounting/chartfields/classoverview>
2. Replace the final digit of the appropriate Class with an “X.”
3. CAUTION: Never assign an ICRX expense to a sponsored award, Funds 20000 and 25000.
4. Flag salary expenses for an individual only if he or she spends five percent or more of his or her time during a fiscal year on an ICRX activity.
5. Examples of appropriate use of Class ending in an “X”:
  - Entertainment that supports instruction in an academic unit is an ICRX expense and must be classified with Class 1100X – Instruction-ICRX.
  - A professor takes his research assistants out for dinner as a good will gesture. The hosting expenditure was approved in advance. Expenditures for employee health and morale are ICRX. The transaction must be flagged with an “X” Class, and might be classified as 2100X – Departmental Research-ICRX.
  - A staff member spends 25% of his time maintaining an alumni database, and preparing and distributing an annual departmental newsletter for alumni and others. Alumni activity typically generates fund raising revenue. Fund raising and alumni activities are always ICRX. Academic units should also use 4600X for Alumni, development or fundraising expenditures. Therefore, 25% of the staff member’s appointment must be charged to Class 4600X – Academic Administration-ICRX.

# PRACTICES and EXAMPLES

## 1. Advertising

### Rule

Flag advertising costs associated with indirect cost recovery excluded (ICRX) activities, such as:

- Alumni activities
- Commencement
- Entertainment
- Fund raising
- Lobbying
- Public relations
- Student extracurricular activities

Examples of advertising media:

- Direct mailings
- Displays
- Exhibits
- Magazines
- Memorabilia
- Newspapers
- Promotional items
- Souvenirs
- Radio
- Television

### Exception

Do not flag costs to:

- Recruit faculty and staff, see Recruiting, p. 23.
- Acquire goods and services for sponsored awards.
- Dispose of scrap or surplus materials created by work on sponsored awards.

#### **Example 1.a**

A research institute is celebrating its 75th anniversary. Management wants to give memorial paperweights to faculty, staff, and students.

#### **Do the paperweight costs require an X Class?**

Yes. The paperweights are public relations items and are ICRX.

#### **Example 1.b**

The Institute for E-Commerce Research received funding for an Organized Research Project/Grant (P/G). The P/G budget includes funding to produce a brochure. The brochure describes the institute's lab equipment, research facilities, and exceptional strengths in e-commerce research. The institute will distribute the brochure at a research symposium when the project ends. The brochure will also be distributed to potential sponsors and many other individuals and organizations.

#### **Do the brochure costs require an X Class?**

No. The brochure costs were specifically budgeted in a sponsored award. Charging the brochure costs to the sponsored award is correct.

## 1. Advertising, continued

### **Example 1.c**

The Department of Graphology ordered pens with the University logo to be used for normal business operations. The pens are a stock item available from University Stores.

#### **Do the pens require an X Class?**

No. The University logo is moot in determining whether the pens require an X Class. Use the appropriate Departmental Administration Class.

### **Example 1.d**

The Geography Department ordered pens with the University logo for a student recruiting fair. The pens are a standard item available from University Stores.

#### **Do the wandering pens require an X Class?**

No. Student recruitment is an allowable activity. The appropriate Class for the pens is 55000, Student Admissions.

### **Example 1.e**

The Business School is having a homecoming reunion for alumni. Alumni will receive a mug at the sign-in table.

#### **Do the mugs require an X Class?**

Yes. The mugs related to an alumni event, which is an ICRX activity.

## 2. Alcoholic beverages

### **Rule**

Flag all costs of alcoholic beverages.

### **Related University Policy, SPG 507.10-1, Travel and Business Hosting Expense Policies and Procedures for Concur Users**

### **Helpful Hint**

A University traveler or host should ask for an itemized receipt.

### **Example 2**

A Department Chair asks Professor Clark to take a distinguished visitor to dinner. The Chair tells Professor Clark to charge the dinner to the department.

Professor Clark gives one credit card receipt to the departmental secretary for reimbursement. The professor tells the secretary that he and his guest drank wine at dinner, but he does not remember what the wine cost.

#### **How should the secretary handle the wine cost?**

Flag the entire meal cost with the appropriate X Class.

The secretary cannot separate the wine cost from the other meal costs.

### 3. Alumni Activities

#### Rule

Flag costs of alumni activities.

#### Exception

Do not flag the cost of monitoring alumni of Public Health Service Training Grants. Public Health Service Grants require tracking the program's alumni. Because these grants are sponsored awards, costs of tracking the program's alumni do not require an X Class.

#### Example 3.a

Your department sends a newsletter to alumni and others.

#### Do the newsletter costs require an X Class?

Yes. The newsletter costs are ICRX because they are an alumni activity.

#### Example 3.b

A departmental administrator spends half of her time for general departmental support. She spends the other half of her time on the department's alumni newsletter.

#### What funding line or lines does the administrator need on her appointment document? What Class(es) are appropriate and why?

#### What funding lines?

The administrator needs two funding lines: one for general departmental support and one for the newsletter activity. General departmental support requires a Departmental Administration Class. The newsletter activity is an ICRX activity, so this funding line requires the same Class ending in X.

#### Why?

A-21 requires the University to classify salaries of administrators and clerical staff as Departmental Administration. In this case, the administrator's general department support belongs in a Departmental Administration Class.

A-21 also requires the University to identify effort on ICRX activities. The University chose to identify ICRX expenditures with the appropriate Class ending in X.

### 4. Bad Debts

#### Rule

Flag actual or estimated losses from uncollectible accounts and other claims, including related collection and legal costs.

## 5. Commencement

### Rule

Flag all costs of convocations and commencement ceremonies.

## 6. Employee morale, health and welfare

### Rule

Flag costs for the improvement of employer-employee relations, employee morale, employee performance and working conditions WHEN the program is NOT offered to ALL employees of the University on an equitable basis. Examples:

- Retirement events
- Employee recognition

### Exception

Do not flag costs of University Service Awards and University-wide workplace recognition Awards.

#### Example 6.a

An academic department holds a retirement reception for a retiring faculty member.

#### Do the reception costs require an X Class?

Yes. Flag the expenses with the appropriate X Class because the retirement reception is at the unit level and not offered to all employees of the University equally.

#### Example 6.b

The University's Benefits Office has an annual employee recognition program, U MATTER. All employees are eligible to receive a monetary award.

#### Do the costs of running the U MATTER program and monetary awards require an X Class?

No. All employees are eligible for the U MATTER award.

#### Example 6.c

The dean purchased flowers on his P-Card for a staff member who is in the hospital.

#### Do the flower costs require an X Class?

Yes. The flowers are an ICRX employee morale cost and require an X Class. Not all departments at the University would pay for the flowers with University funds.

## 7. Entertainment

### Rule

Flag costs of entertainment, including amusement, diversion, and social activities. Examples:

- Tickets to shows
- Tickets to sports events
- Unit-level holiday and birthday celebrations

### Related University Policy, SPG 507.10-1, Travel and Business Hosting Expense Policies and Procedures for Concur Users

#### Example 7.a

An academic department receives a grant from the Taylor Foundation for an international research symposium. The grant includes amounts for food, wine, and musical entertainment.

#### Do the reception costs require an X Class?

No. The Taylor Foundation Grant includes funding for the reception costs. Charge the reception costs to the sponsored award.

#### Example 7.b

The Vice President and Chief Executive Officer rents a hospitality suite from Swank Hotels on football Saturdays.

#### Does the rental cost for the hospitality suite require an X Class?

Yes. The hospitality suite is an ICRX expenditure because it is related to entertainment.

#### Example 7.c

An academic department holds a holiday reception for faculty, staff, and students. The department has approval from the dean to hold the holiday reception.

#### Do the reception costs require an X Class?

Yes. Flag the expenses with the appropriate X Class because the holiday reception is an entertainment expense and is at the unit level.

## 8. Fund raising

### Rule

Flag all costs of fund raising, including:

- Endowment drives
- Financial/capital campaigns
- Solicitation of gifts and bequests

### Exception

Do not flag costs of soliciting research grants and contracts.

#### **Example 8.a**

Professor Scott makes several trips to the Datatech Company in California. The purpose of the trips is to solicit funds to support her research activities. Datatech agrees to Professor's Scott request. Professor Scott must provide Datatech with a report on her research findings.

**Do Professor Scott's salaries and wages and travel costs for soliciting research funding require Class ending in X?**

No. Costs of soliciting research grants do not require an X Class.

#### **Example 8.b**

Professor Scott makes several trips to the Datatech Company in California. The purpose of the trips is to solicit unrestricted funds for discretionary research. Datatech agrees to Professor's Scott request.

**Do Professor Scott's salaries and wages for soliciting gifts require Class ending in X?**

Yes. The 'unrestricted funds' are a gift. The costs of soliciting gifts are fund raising, which is an ICRX activity. The key word is *discretionary* research.

## 9. Hosting

### Rule

Flag hosting costs associated with indirect cost recovery excluded (ICRX) activities, such as:

- Alumni activities
- Commencement
- Entertainment
- Fund raising
- Lobbying
- Public relations
- Student extracurricular activities

### Related University Policy, SPG 507.10-1, Travel and Business Hosting Expense Policies and Procedures for Concur Users

### Exception

Do not flag costs of light refreshments at University meetings (e.g., coffee and cookies or doughnuts).

#### Example 9.a

Your department is hosting Professor Lopez as poet-in-residence for a semester. The department Chair and spouse take Professor Lopez and spouse to dinner at Escoffier and to the theater. They drink two bottles of wine while waiting for their table.

**What is the correct way to handle the dinner and theater costs?**

#### Example 9.a.i

Costs of the meal, theater, and alcohol for Professors Nobel and Lopez are budgeted in a sponsored award.

Expenses budgeted for Professors Nobel and Lopez were budgeted on a sponsored award. Charge the costs to the sponsored award and do not flag them. The expenses for the spouses are not allowable on the sponsored award. Use departmental discretionary funds as follows:

Meal costs: Flag all the meal costs because they fail the test of reasonableness.

Theater costs: Flag theater costs with the appropriate X Class because the theater costs entertainment.

Wine costs: Flag all costs of alcoholic beverages with the appropriate X Class.

## 9. Hosting, continued

### **Example 9a.ii**

None of the costs were budgeted in a sponsored award

Meal costs:

Flag all the meal costs because they fail the test of reasonableness.

Theater Costs:

Flag theater costs for the Chair and the two spouses with the appropriate X Class because the theater costs are entertainment.

Wine:

Flag all costs of alcoholic beverages with the appropriate X Class.

### **Example 9.b**

Your department Chair asks Assistant Professor Cross to have dinner with a potential faculty member.

**Do the dinner costs require an X Class?**

No. Faculty recruitment is an allowable cost.

Reminder: Alcoholic beverages are always ICRX and require an X Class.

## 10. Lobbying

### Rule

Flag all lobbying costs.

Detailed definition of lobbying:

- Attempts to influence any member of Congress or the federal Executive Branch on a bill or report that would direct the funding of or indicate intent to fund a particular program, project, or activity.
- 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:
  - a. the introduction of Federal or State legislation,
  - b. the enactment or modification of any pending Federal or State legislation through communication with any member or employee of the Congress or State legislature, including efforts to influence State or local officials to engage in similar lobbying activity,
  - c. any government official or employee in connection with a decision to sign or veto enrolled legislation.
- Any attempt to influence the 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.

### Exception

Grant administration is not lobbying.

Do not flag costs to provide information requested by a congressional committee or funding agency.

#### **Example 10**

Your department arranges for legislative aides who work for a Senator to visit the department's research program. The purpose of the invitation is to provide information that will convince the Senator to support funding for the department's research.

#### **Do the costs of the aides' visit require an X Class?**

Yes. The costs require an X Class because the purpose of the visit is lobbying, which is an ICRX activity.

## 11. Meals and travel

### Rule

Flag meals and travel expenses associated with ICRX activities, such as:

- Alumni activities
- Commencement
- Entertainment
- Fund raising
- Lobbying
- Public relations
- Student extracurricular activities

### Related University Policy, SPG 507.10-1, Travel and Business Hosting Expense Policies and Procedures for Concur Users

### Exception

Do not flag meals and travel of visiting scholars.

#### **Example 11.a**

Professor Green takes his three graduate students to lunch each week for a limited time period of two months. The meetings are held during lunch because of schedule conflicts. The purpose of the meeting is to discuss research issues and the status of each student's research project. A typical lunch consists of sandwiches, fruit, and a beverage. Professor Green wants to charge the lunch costs to his research incentive funds.

- 1) Are the lunch costs legitimate University expenses?**
- 2) Can Professor Green charge the lunch costs to his research incentive funds?**
- 3) Do the lunch costs require an X Class?**

- 1) Expenses are legitimate University expenses if they are reasonable, necessary, and support University business.

The lunch costs are legitimate University expenses because the food provided is modest, the only time the meeting can be held is lunchtime, and the purpose is to discuss University research.

- 2) Yes. The expenses are an appropriate charge to research incentive funds.
- 3) No. The lunch costs do not require an X Class.

## 11. Meals and travel, continued

### **Example 11.b**

Two professors drive from Ann Arbor to UM-Flint for a 10 o'clock meeting with colleagues. They discuss submitting a research proposal to the National Science Foundation. The meeting ends at 11:30 and the professors return to Ann Arbor, stopping for lunch.

- 1) Are the trip costs legitimate University expenses?**
- 2) Do the trip costs require an X Class?**

- 1) The costs of the trip are mileage and lunch.

The professors were not on travel status as defined by the Internal Revenue Service.

The professor who drove can be reimbursed for the mileage, because the vehicle costs are legitimate University expenses.

The lunch costs are not legitimate University expenses because the meeting ended before lunch and the professors were not on travel status.

- 2) No. The mileage does not require an X Class. The mileage is a legitimate University expense.

### **Example 11.c**

Two professors drive from Ann Arbor to Flint for a 10 o'clock meeting with colleagues at UM-Flint. They discuss submitting a research proposal to the National Science Foundation. The meeting continues through the noon hour and a modest lunch is ordered and delivered. The meeting ends at 2:00.

- 1) Are the trip costs legitimate University expenses?**
- 2) Do the trip costs require an X Class?**

- 1) The costs of the trip are mileage and lunch.

The costs are legitimate University expenditures because the professors conducted University business. The decision to continue the meeting through lunch was reasonable and the lunch expense was reasonable.

- 2) No. The trip costs do not require an X Class.

## 12. Meetings and conferences

### Rule

Flag costs of meetings and conferences associated with ICRX activities, such as:

- Alumni activities
- Commencement
- Fund raising
- Lobbying
- Public relations

#### **Example 12**

A department holds an annual off-site retreat to give students a chance to present their research to the faculty and to each other.

#### **Do the meal costs at the retreat require an X Class?**

No. The primary purpose of the retreat is University business: to distribute technical information.

## 13. Memberships

### Rule

Flag costs of membership in any **civic or community organization**.

### Exception

Do not flag the costs of:

- Memberships in business, technical, and professional organizations
- A subscription that is bundled with membership in a professional organization

#### **Example 13**

Professor Richards needs to access a private library to gather data for her Organized Research project. The library belongs to the Springfield Preservation Society. Access to the library is limited to members. Professor Richards pays dues from the Designated Fund to become a member of the society.

#### **Does the payment for society dues require an X Class?**

No. The membership dues do not require an X Class. The society's library was the sole source of the data the professor needed to conduct Organized Research. The only way to access the data is to become a member of the society.

## 14. Public relations

### Rule

Flag costs of public relations and community relations.

- Public relations activities maintain or promote understanding and favorable relations with the community, the public, or any segment of the public.
- Public relations activities also maintain or promote the University's image.

### Exception

Do not flag these public relations costs:

- Costs specifically required by sponsored agreements.
- Costs to notify the public or press about specific activities or accomplishments that result from sponsored agreements.
- Costs to inform news media and public relations staff of the government about matters of public concern, financial matters, notices of contract or grant awards, and similar general liaison.

## 15. Recruiting expenses for Faculty and Staff: Advertising or Perks

### Rule

Flag costs of help wanted advertising that:

- Fail the test of reasonableness.
- Use colors or is excessive in size in newspapers or magazines.
- Include advertising material for purposes other than recruiting.

Flag costs of perks to attract faculty or staff from other institutions.

### Exception

Do not flag reasonable costs to recruit:

- Faculty and staff
- Graduate Student Research Assistants Students
- Students

Reasonable recruiting expenses include:

- Costs to maintain an employment office
- New employee relocation costs
- Travel costs of applicants to come for interviews
- Travel costs of employees to recruit personnel

#### **Example 15**

A department prints a brochure every year to profile faculty research. The brochure is a tri-fold using color. The department uses the brochure primarily to recruit graduate students and also to recruit faculty. All graduate students are graduate research assistants and are paid from Organized Research projects or research training grants.

#### **Do the brochure costs require an X Class?**

No. A brochure is a reasonable recruiting tool for prospective students and faculty. The use of color is not a factor because using color in a brochure is reasonable.

## 16. Selling and marketing

### Rule

Flag costs of selling and marketing products or special services.

### Related University Policy, SPG 601.03-0, Ownership and Use of Computer Software

### Exception

Do not flag costs to:

- File a patent application if the government will hold title to the patent
- Prepare research proposals
- Recruit faculty, staff, or students

#### **Example 16**

A faculty member discovers a new compound that stimulates hair growth. The discovery was made under an Organized Research project. The sponsor has no claim or interest in a patent or in selling the new compound. The faculty member applies for a patent through the Technology Management Office (TMO). TMO also looks for a company to market the product.

**1) Do the costs of applying for a patent require an X Class?**

**2) Do the costs of looking for a company to market the product require an X Class?**

1) Yes. The sponsor has no claim on patents for discoveries that occur under the sponsored award. Costs of the patent application are ICRX expenditures.

2) Yes. Marketing expenditures are ICRX.

## 17. Student extracurricular costs

### Rule

Flag costs for student extracurricular activities such as intramural sports, student publications, and student clubs.

### Exception

Do not flag costs of Student Administration and Services, such as:

- Academic or personal counseling
- Admissions
- Financial aid
- Registrar

## RESOURCES

### Financial Operations, Cost Reimbursement Office

<u>Name</u>	<u>Job Title</u>	<u>Phone Number</u>	<u>e-mail address</u>
Open	Associate Director		
Dan Horal	Sr. Cost Accountant	(734) 647-3843	horal@umich.edu
Mary Gauthier	Sr. Cost Accountant	(734) 763-0522	madamsmsg@umich.edu

### Other University Resources

<u>Department</u>	<u>Phone Number</u>
Sponsored Programs	(734) 764-8204
Controller's Office	(734) 764-7214
Travel & Expense Reimbursement	(734) 764-8212, option 2
P-Card	(734) 764-8212, option 2
Procurement	(734) 764-8212

### Internet Resources

<u>Resource</u>	<u>Site Address</u>
Cost Reimbursement Office	<a href="http://www.finance.umich.edu/finops/reporting/contact/OCR">http://www.finance.umich.edu/finops/reporting/contact/OCR</a>
A-21 (II CFR Section 220)	<a href="http://www.access.gpo.gov/nara/cfr/waisidx_10/2cfr220_10.html">http://www.access.gpo.gov/nara/cfr/waisidx_10/2cfr220_10.html</a>
Procedures to Account for Certain Restricted Expenses on Federal Projects	<a href="http://www.finance.umich.edu/finops/programs">http://www.finance.umich.edu/finops/programs</a>
Financial Operations	<a href="http://www.finance.umich.edu/finops">http://www.finance.umich.edu/finops</a>
Office of Research & Sponsored Projects (formerly DRDA)	<a href="http://orsp.umich.edu/">http://orsp.umich.edu/</a>
Travel & Expense Reimbursement	<a href="http://www.finance.umich.edu/procurement/travelexpense">http://www.finance.umich.edu/procurement/travelexpense</a>
Standard Practice Guide	<a href="http://spg.umich.edu/">http://spg.umich.edu/</a>

# APPENDIX A

## Charging Expenditures to Funds

Page Number	Expenditure Types:	Funding Sources				
		Designated	General	Expendable Gifts	Auxiliary Recharge	Sponsored Funds
Fund Numbers:		40000	10000	30000	50000 - 59000	20000 - 25000
10	Advertising - Staff Recruiting	YES	YES	Maybe	YES	NO
10	Advertising - Student Recruiting	YES	YES	Maybe	NO	NO
10	Advertising - all other	YES / X	YES / X	Maybe / X	NO	NO
11	Alcoholic Beverages	YES / X	NO	Maybe / X	NO	NO
12	Alumni Activities	YES / X	YES / X	Maybe / X	NO	NO
12	Bad Debts	YES / X	YES / X	Maybe / X	NO	NO
13	Commencement / Convocation	YES / X	YES / X	Maybe / X	NO	NO
13	Employee morale, health and welfare	YES / X	YES / X (1)	Maybe / X	NO	NO
14	Entertainment	YES / X	YES / X (1)	Maybe / X	NO	NO
13	Flowers	YES / X	YES / X (1)	Maybe / X	NO	NO
15	Fund raising	YES / X	YES / X	Maybe / X	NO	NO
16	Hosting - Alumni, entertainment, fundraising, lobbying or public relations	YES / X	YES / X	Maybe / X	NO	NO
16	Hosting - All other activities	YES	YES	Maybe	YES	NO
18	Lobbying	YES / X	YES / X	Maybe / X	NO	NO
19	Meals and Travel - Alumni, entertainment, fundraising, lobbying or public relations	YES / X	YES / X	Maybe / X	NO	NO
19	Meals and Travel - All other activities	YES	YES	Maybe	YES	NO
21	Meetings and Conferences - Alumni, entertainment, fundraising, lobbying or public relations	YES / X	YES / X	Maybe / X	NO	NO
21	Meetings and Conferences - All other activities	YES	YES	Maybe	YES	NO
21	Memberships-Civic/Community Organizations	YES / X	YES / X	Maybe / X	NO	NO
21	Memberships-Business, technical and professional organizations acceptable under University policy	YES	YES	Maybe	YES	NO
10	Promotional Items	YES / X	YES / X	Maybe / X	NO	NO
22	Public relations	YES / X	YES / X	Maybe / X	NO	NO
22	Recruiting - Student	YES	YES	Maybe	NO	NO
22	Recruiting - Prudent costs for Faculty and Staff	YES	YES	Maybe	YES	NO
22	Recruiting - Faculty & Staff: If use color, large in size or for other purpose in publications	YES / X	YES / X	Maybe / X	NO	NO
23	Selling and marketing	YES / X	YES / X	Maybe / X	NO	NO
23	Student extracurricular activities	YES / X	YES / X	Maybe / X	NO	NO

**CAUTION: It is important to understand the practices section for exceptions.**

- Legend:**
- NO Expense cannot be charged to these funds, unless specifically approved by the sponsor.
  - YES Expense can be charged to these funds and does not need to be flagged.
  - YES / X Expense can be charged to these funds, but MUST be flagged with an ICRX Class.
  - Maybe Expense may be charged to these funds ONLY if within the guidelines specified by the donor. Does not need to be flagged.
  - Maybe / X Expense may be charged to these funds ONLY if within the guidelines specified by the donor. MUST be flagged with an ICRX Class.
- (1) Use General Funds only if no discretionary funding source is available.