Policy and Procedure
Use of Object Code 8450 - Expenses Ineligible for Federal Reimbursement

Local units must charge expenses that are ineligible for federal reimbursement to the 8450 expense object code series (8450 through 8459 - previously expense class 46) "Expenses Ineligible for Federal Reimbursement".

See Appendix A for a list of common expenses that must be charged to the 8450 object code series (this list is not inclusive of all costs that should be charged to those object codes).

Note: Object codes 8450 - 8459 may not be used in connection with federal grants and contracts.

Problem Statement
Federal cost accounting standards require the University to properly classify and account for expenses. These standards apply to all Harvard funds (sponsored and non-sponsored) and identify categories of expenses that are ineligible for federal reimbursement. The University has established cost accounting policies to ensure compliance with these standards.

Risk
The University could lose substantial amounts of federal support if not in compliance with federal cost accounting standards relating to reimbursable expenses.

Background
The purpose of this paper is to reinforce existing University policy regarding accounting for expenses that are ineligible for federal reimbursement. This paper also serves to update the new expense object code series that must be used to account for these expenses.

Under federal regulations, the University is able to recover direct and certain indirect costs on federal grants and contracts. Indirect costs are recovered based on a percentage of direct costs. Indirect cost rates are calculated by the University, subject to negotiation with the Department of Health and Human Services, the University's cognizant agency. The federal government has developed standards by which the University must comply in developing its indirect cost rates. These standards are set forth in OMB Circular A-21 (A-21). Under A-21, certain expenses must be excluded from the University's indirect cost rate calculation. Accordingly, the University's accounting system must segregate these expenses and eliminate them from our indirect cost
Defining the Eligibility of Expenses for Federal Reimbursement

**Definitions**

**Direct costs** can be identified with a particular sponsored project, instructional activity or another institutional activity with a high degree of accuracy (e.g., Principal Investigator's salary, laboratory supplies and scientific equipment).

**Indirect costs** are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity or other institutional activity (e.g., administration, heat, light, power and libraries).

Common Expenses Ineligible for Federal Reimbursement - Appendix A

The following are common expenses that are ineligible for federal reimbursement and should be charged to the object code 8450 series (previously class 46). Note: See also University-wide Business Expenses Policy Personal and Unallowable Expenses (http://vpf-web.harvard.edu/documents/UnallowableExp.html) for other expenses that must be charged to object code 8450 series if approved for payment by the tub's Financial Dean's (or equivalent) office.

- Air travel differentials (first/business class vs. coach rate)
- Alumni activities
- Antiques
- Art, fine or original (purchase or rental)
- Bad debts
- Business related entertainment
- Charitable contributions
- Decorative objects for private offices
- Employee celebratory events (e.g., department-wide luncheon, dinner or party to mark achievement of major department goal or to mark the end of the academic or fiscal year)
- Flowers
- Fines and penalties
- Fundraising or commencement expenses other than those labeled as such in the General Ledger (e.g. Dean's Office)
- Gifts and awards (both monetary and non-monetary) to Harvard employees
- Gifts to non-Harvard employees
- Institutional advertising and promotion, including printed materials
- Limousines
- Liquor, including liquor purchased with a meal
- Lobbying, including memberships in lobbying organizations
- Memberships in social clubs and social organizations
- Speaker's fees or honoraria if paid to individuals without recognized technical/scholarly expertise
Note: Meetings and conferences whose primary purpose is the exchange or dissemination of technical, scholarly, or organizational information are allowable and should be charged to the appropriate object code.

Questions regarding the proper accounting for expenditures should be directed to the Associate Director for Cost Analysis and Compliance in OSR.

Source: ACTTS/FAD