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Cost Accounting Standards (CAS)

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Cost Accounting Standards

They were born out of frustration - out of the Government's smoldering irritation in dealing with contractors' differing accounting practices and high-dollar claims for price increases.

Four standards and disclosure statements are the components of CAS. The standards apply to all grants, contracts and cooperative agreements.

The disclosure statement requirement applies to all institutions receiving $25 million per year.
Cost Accounting Standards

- Issued by Cost Accounting Standards Board (CASB)

- Standards applicable to universities are included in OMB Circular A-21

- What is OMB? What standards apply? What’s a circular? A-21?
Cost Accounting Standards (CAS)
There are 20 in all but only 4 apply to Universities!

- 501 - Consistency in Estimating, Accumulating and Reporting Costs

An educational institution's practices used in estimating costs shall be consistent with the educational institution's cost accounting practices used to accumulate and report costs. Applies to costs charged as well as cost sharing.
Cost Accounting Standards (CAS) There are 20 in all but only 4 apply to Universities!

- 501 - Consistency in Estimating, Accumulating and Reporting Costs
- 502 - Consistency in Allocating Costs Incurred for the Same Purpose

All costs incurred for the same purpose, in like circumstances, are either direct costs or Facilities & administrative costs.
Cost Accounting Standards (CAS)
There are 20 in all but only 4 apply to Universities!

- 501 - Consistency in Estimating, Accumulating and Reporting Costs
- 502 - Consistency in Allocating Costs Incurred for the Same Purpose
- 505 - Accounting for Unallowable Costs

Unallowable costs shall be identified and excluded from any billing, claim, application, or proposal applicable to a Sponsored Agreement.
Cost Accounting Standards (CAS)
There are 20 in all but only 4 apply to Universities!

- 501 - Consistency in Estimating, Accumulating and Reporting Costs
- 502 - Consistency in Allocating Costs Incurred for the Same Purpose
- 505 - Accounting for Unallowable Costs
- 506 - Cost Accounting Period

Educational institutions shall use their fiscal year as their cost accounting period
Cost Accounting Standards (CAS)
There are 20 in all but only 4 apply to Universities!

• 501 - Consistency in Estimating, Accumulating and Reporting Costs
• 502 - Consistency in Allocating Costs Incurred for the Same Purpose
• 505 - Accounting for Unallowable Costs
• 506 - Cost Accounting Period

We’ll focus our attention on 501 and 502!
What's a Circular?

A set of instructions, rules or policies that apply to all federal agencies uniformly!
Applicable OMB Circulars

- **A-21** Establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions

- **A-110** Uniform administrative requirements for grants and agreements with institutions of higher education, hospitals and other non-profit institutions

- **A-133** Audit standards for states, local governments and non-profit organizations
Other Applicable Federal Regulations

- Individual sponsor regulations - policy manuals
- Federal Acquisition Regulation (FAR)
- Good News! Today we will focus only on the Cost Accounting standards in A-21
Quick Definitions: Details to Follow

**Allocable Costs**: A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefit received or some other equitable relationship.  Usually the PI’s call!

**Allowable Costs**: A cost is allowable to a particular cost objective if it is consistent with the definitions contained in A-21 and is not specifically excluded by statute.

Usually an Administrator’s call!
A-21 Cost Principles: Definitions

**Direct Cost** - any cost which is identified specifically with a particular sponsored agreement or other institutional function.

**Facilities and Administrative (F&A) Costs** - costs incurred for common or joint objectives that cannot be readily or specifically identified with a particular sponsored project or other institutional function.

**Composition of Total Costs** - the total cost of a sponsored agreement is comprised of the allowable direct costs incident to its performance, plus the allocable portion of the allowable F&A costs of the institution.
A-21 Requirement!

University accounting systems must allow for the assignment of costs to various institutional functions consistent with A-21 definitions and separately track expenses that are unallowable for federal funds.

CAS 505 - Accounting for Unallowable Costs
A-21 Requirement!

University accounting systems must allow for the assignment of costs to various institutional functions consistent with A-21 definitions and separately track expenses that are unallowable for federal funding.

CAS 505 - Accounting for Unallowable Costs
A-21: Major Institutional Functions

1. Instruction
2. Organized Research
3. Other Sponsored Activities
4. Other Institutional Activities
A-21: Major Institutional Functions

1. Instruction - all teaching/training activities
   - Institution Funded
   - Sponsored Instruction/Training
   - Departmental Research (No separate budget)

2. Organized Research - all R&D activities that are budgeted and accounted for separately
   - Sponsored Research
   - University Research
A-21: Major Institutional Functions

3. Other Sponsored Activities
   • Health Service
   • Community Service

4. Other Institutional Activities
   • Residence and Dining Halls
   • Hospitals
   • Athletics
   • Book Stores
   • Museums
A-21: Major Institutional Functions

1. Instruction
2. Organized Research
3. Other Sponsored Activities
4. Other Institutional Activities

University accounting systems must allow each cost incurred by the institution to be assigned to one or more function in reasonable/realistic proportion to the benefits provided or some other equitable relationship.
# Account Numbers

<table>
<thead>
<tr>
<th>Ledger</th>
<th>Account</th>
<th>Budget</th>
<th>Fund Source</th>
<th>Purpose</th>
<th>Function</th>
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<td>12345</td>
<td>0</td>
<td>110</td>
<td>3276</td>
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Department
A-21 Cost Principles

Total Institutional Costs

1. Instruction
2. Organized Research Activities
3. Other Sponsored Activities
4. Other Institutional Activities

Allowable* Unallowable*

Direct Costs

Indirect Costs (F&A)

CAS 502 - Consistency in Allocating Costs Incurred for the Same Purpose

* For Federal Participation
A-21 Cost Principles

Tests of Allowability: in order to be allowable as either a **direct** or **indirect** cost, a cost occur during the period of the award and it must be:

- Reasonable
**Reasonable**: a cost may be considered reasonable if its nature and amount reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made.

- Generally recognized as necessary
- "Arm's-length" bargaining
- Acted with due prudence
- Consistent with institutional policies applicable to all of the institution’s work
A-21 Cost Principles

Tests of Allowability: in order to be allowable as either a direct or indirect cost, a cost occur during the period of the award and it must be:

- Reasonable
- Allocable under A-21 principles/methods
A-21 Tests of Allowability

**Allocable**: a cost may be considered to be allocable to a particular project if it:

- is incurred *solely* to advance work under the sponsored agreement  
  or

- it benefits *both* the sponsored agreement and other work of the institution, in *proportions* that can be approximated using *reasonable methods*  
  or

- it is necessary to the *overall operation* of the institution and consistent with A-21 is deemed *assignable in part* to the sponsored agreement.
Warning!

“Any cost allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement or for other reasons of convenience.”

Section C.4.b.
Warning!

“Any cost allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement or for other reasons of convenience.”

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Section C.4.b.
A-21 Cost Principles

Tests of Allowability: in order to be allowable as either a direct or indirect cost, a cost must occur during the period of the award and it must be:

- Reasonable
- Allocable under A-21 principles/methods
- Treated consistently
Consistent Treatment in estimating, accumulating and reporting costs

The format and definitions used in the proposal budget should be consistent with that used in both the institution’s accounting system and on financial reports submitted to the agency.

CAS 501 - Consistency in Estimating, Accumulating and Reporting Costs
Consistent Treatment in estimating, accumulating and reporting costs

- Example
  - Agency wants hourly wages in personnel budget
  - UNC effort reporting system is based upon percentage effort
  - Possible solution: “Hourly wage figures are estimates only, UNC can only certify effort on a percentage effort basis.”
Consistent Treatment in allocating costs incurred for the same purpose

All costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A costs only

CAS 502 - Consistency in Allocating Costs Incurred for the Same Purpose
Consistent Treatment in allocating costs incurred for the same purpose

Example 1: Office supplies, postage, local telephone costs and memberships shall normally be treated as F&A costs

Possible Exception: Survey research projects that use the mail to send surveys
Consistent Treatment in allocating costs incurred for the same purpose

Example 2: Administrative and clerical staff salaries should normally be treated as F&A costs

Possible Exception: “Major Projects” such as General Clinical Research Centers, Primate Centers, Program Projects, NSF STCs and projects that involve many investigators at a number of institutions
A-21 Cost Principles

Tests of Allowability: in order to be allowable as either a direct or indirect cost, a cost occurs during the period of the award and it must be:

- Reasonable
- Allocable under A-21 principles/methods
- Treated consistently
- Conform to limitation/exclusions under A-21 and specific exclusions under sponsored agreements
A-21 Limitation/Exclusions

Section J provides specific guidance to assist in determining the potential allowability of 54 specific expense categories. Some are allowable under certain circumstances, others (including those listed below) are always unallowable.

- Alcoholic beverages
- Alumni Expenses
- Bad debts
- Commencement costs
- Lobbying costs
- Fines and penalties
- Goods/services for personal use
- Losses on other sponsored agreements/contracts
Limitation/Exclusions Applicable to Specific Sponsored Agreements

Sponsored agreements may be subject to statutory limits on allowance of costs (e.g., some grants are for equipment only, therefore personnel costs are unallowable; others may limit the F&A %)
A-21 Cost Principles

Total Institutional Costs

1. Instruction
2. Organized Research
3. Other Sponsored Activities
4. Other Institutional Activities

Allowable*
- Reasonable
- Allocable
- Consistent
- Not excluded

Unallowable*
- Don’t meet A-21 test
- Specifically not allowable in Section J
- Specifically not allowable in award

Direct Costs
- Specific to project

Indirect Costs (F&A)
- Common objective
- Not Specific to project

* For Federal Participation
Facilities and Administrative Costs

“Costs incurred for common or joint objectives and therefore cannot be identified readily or specifically with a particular sponsored project or other institutional function.”

- **Facility Costs**
  - Building depreciation or use allowances
  - Interest on debt associated with certain buildings and capitalized equipment (> $10K per unit)
  - Equipment (> $5K per unit) depreciation
  - Operations and maintenance
  - Library
Facilities and Administrative Costs

Administrative Costs (capped at 26% - can take 24% fixed allowance)

- General Administration (Chancellor, University-wide Business Offices, General Counsel, Central IT Services)
- Departmental Administration (Academic Deans, Accounting, Clerical and other Administrative Salaries)
- Sponsored Projects Administration (University-wide)
- Student Administration and Services (Deans of Students, Admissions, Registrar, Student Advisors, Health Clinic)
<table>
<thead>
<tr>
<th>Cost Item</th>
<th>Direct</th>
<th>Indirect</th>
<th>Unallowable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary of PI and 2 grad. students</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appropriate fringe benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corner office for PI and &quot;tiny cubicles&quot; for grad. students</td>
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<tr>
<td>Flowers sent to your program officer's secretary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone connected to campus PBX</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition costs for grad. students</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Consultant to work on project</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Lunch to celebrate getting new award</td>
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<td></td>
<td></td>
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<tr>
<td>PI effort spent writing proposals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity to run your computer lab</td>
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</tbody>
</table>
Case Study:

Joseph Green, who is in charge of departmental purchases, is puzzled by a purchase order submitted by Daniel Terry a post-doc in the Oldham lab. The chemical is the same one that Terry has been purchasing every couple months on his NIH post-doc grant, but this time the form indicates that the purchase should be charged to Prof. Oldham's NSF grant account. Green gives Terry a call to check. "Yes, that's correct," Terry says when Green explains the situation. "I'm getting low on funds in my account, so Dr. Oldham told me to start putting my supplies on his NSF account. There should be plenty of money there." When Green explains that he can't approve charging supplies for one project to an unrelated project because that would be against university and federal policy, Terry becomes agitated. "Look," he says, "just do as I've asked, OK? I'm already in trouble with Oldham. He says I'm bothering him too much about little things. Just this morning he was going on about how I need to make decisions on my own and be more independent. I need him to write me a good recommendation letter for a job I'm looking at. How is it going to look if you bother him about my purchase order?"