

Understanding Cost Accounting Standards (CAS) And How They Affect Research Administration

Presented by:

Liz Thornberry Moore, J.D. and

Tracey Lemming, CPA

Post-Award Financial Analysts

Office of Sponsored Research

What are CAS?

- A series of federal guidelines that provide guidance on costing practices for educational institutions in the administration of financial management of sponsored awards.
- Appendix A of the Office of Management and Budget (OMB) Circular A-21, The Cost Principles for Institutions of Higher Education
- http://www.whitehouse.gov/omb/circulars_a021_2004
- <http://research.unc.edu/offices/sponsored-research/policies-procedures/section-500/policy-16/>

A-21, CAS Appendix A, CAS 9905

Relating to Educational Institutions

- 501 – Consistency in estimating, accumulating, and reporting costs
- 502 – Consistency in allocating costs incurred for the same purpose
- 505 – Accounting for unallowable costs
- 506 – Consistency in using the same cost accounting period

Why are CAS important to you?

- UNC is subject to these guidelines
- Research administrator's and investigator' responsibilities
 - Ensure that UNC uses funds prudently and costs incurred directly benefit the project they are charged to
 - Ensure good fiscal management

What funds are affected?

- Federal awards
- Federal flow-through awards
- Awards that terms and conditions reference OMB Circular A-21
- Funds being used as cost sharing on a CAS covered project

What are potential risks if CAS are not followed?

- Disallowed costs
- Time wasted
- Increased audit scrutiny
- Potential loss of future funding
- Increased stress
- Audit findings

Basic Principles

- Allowable
- Allocable
- Reasonable
- Consistent
- Direct costs
- Indirect costs

Allowable Costs

- “Costs are allowable if they conform to any limitation or exclusion set forth in these principles or sponsored agreements, given consistent treatment, and conforms to any limitations or exclusions set forth in the sponsored agreement.” (*OMB Circular A-21, Section C.2.d*)

Factors to determine if costs are allowable:

- Reasonable and necessary
- Allocable to sponsored agreements
- Given consistent treatment appropriate to the specific circumstances at hand
- In conformity to any limitations or exclusions set forth in the sponsored agreement as to types or amounts of cost items

Allowable v. Unallowable

ALLOWABLE	UNALLOWABLE
Salary & Benefits	Alcohol
Postage	Computers*
Consultants	Entertainment
Equipment	Honoraria
	Promotional Items

Allocable Costs

- “A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship.” (*OMB Circular A-21, Section C.4.a*)

Allocable Costs

- Should directly benefit project
- Proportional to the relative benefit received by the project
- OSR is developing new cost allocation guidelines that will be available on the OSR website shortly

Allocation Methodologies

- **Proportional benefit**

- If a cost benefits *two or more projects* or activities in proportions that can be determined and documented appropriately, the cost should be allocated to the projects.
 - Example: *A PI has two awards which require the purchase of mice to conduct experiments. The specific aims of for one away indicate that 150 mice are needed to conduct research, and the specific aims of the second award require 50 mice to conduct the research. The PI orders 200 mice and allocates the cost of the mice 75%/25% between the awards.*

Allocation Methodologies, cont.

- **Interrelationship benefit**

- If a cost benefits two or more projects or activities in proportions that cannot be easily determined due to the interrelationship of the work involved, then the cost may be allocated to the benefiting projects on any reasonable basis.
- KEY: The basis for allocating a cost should logically relate to the type of expense incurred.
 - Example: *Pipettes purchased for use in a lab is needed for the technicians working concurrently on three research projects. A reasonable method of allocating the cost of the pipettes could be based on the number of experiments performed.*

Do's and Don'ts of Allocation

- DO retain the supporting documentation in the department so it's available for review and audit
- DO review allocation methodologies periodically to ensure they are reasonable
- DO identify the allocation method that will be used in advance of purchasing or at the time of ordering goods/services whenever possible
- DON'T rotate expenses among sponsored programs
- DON'T allocate based on availability of funds
- DON'T allocate based on award budgets

Reasonable

- “A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.” (*OMB Circular A-21, Section C.3*)

Reasonable

- Prudent person
- Necessary for the performance of the project
- Due diligence
- Consistent with the established institutional policies and practices

Consistent

- “Practices used in estimating costs in pricing a proposal shall be consistent with educational institutions cost accounting practices used in accumulating and reporting costs...All costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A costs only.” (*OMB Circular A-21, Sec. C.10 & C.11*)

Consistent

- Treat federal funds like all other funds
- Must apply the cost principles consistently across all grants and contracts
- Treat expenses in the same manner (direct or indirect) when used in like circumstances

Direct v. Indirect

Direct Costs

- “When an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same circumstances shall be treated as direct costs of all activities of the institution.” (*OMB circular A-21, section D*)
- These are costs that can be *identified specifically with a particular sponsored project.*

Examples of direct costs

- Salaries, wages, and fringe benefits
- Laboratory supplies
- Travel costs
- Consultant/subcontract costs

Indirect costs

- “Costs that are incurred for common and joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity, or other institutional activity.” (*OMB Circular A-21, section E*)

Indirect costs examples

- Operation and maintenance expenses
- General and administrative expenses

Direct v. Indirect costs

Type of Cost	Direct	Indirect
Salaries & Wages	√	√
Postage	√	√
Equipment	√	√
Computers	√	√
Printing/Copying	√	√
Proposal Preparation		√
Supplies & Materials	√	√
Utility Costs		√
Internet Access		√
Memberships to Technical & Professional Organizations		√

Unlike Circumstances Conditions: (all must be met)

1. Have extraordinary need for the item or service that is beyond the level of services normally provided by departmental administration
2. The cost can be identified to the scope of work conducted under the project and is appropriately documented
3. The cost specified is in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal
4. The sponsoring agency accepts (i.e. does not specifically disapprove) the cost as part of the project's direct cost budget

Unlike Circumstances

- The circumstances where costs would normally be charged as indirect costs, but can be charged as direct costs IF it meets specific criteria.

Examples of Unlike Circumstances

- Computers
 - Must complete computer justification form
- <http://research.unc.edu/offices/sponsored-research/policies-procedures/section-500/policy-17/>
- Certain administrative costs for complex projects

Cost Transfers

- What to do when you cannot allocate cost to the benefited sponsored award at the time the goods or services are purchased?
 - Charge to a non-sponsored award
 - Do not charge all to sponsored award and then move off
 - If you have to move the charge off, you will have to complete a cost transfer.
 - <http://research.unc.edu/offices/sponsored-research/policies-procedures/section-500/policy-20/>

Unacceptable Cost Practices

- Rotation of charges among projects
- Charging projects with the largest remaining balance
- Charging budgeted amounts instead of actual
- Charging projects before the cost is incurred
- Misrepresenting the cost
- Charging costs that are part of normal F&A costs
- Charging the project nearing completion without appropriateness of expense

Award requirements

- All awards, including those not covered under CAS, are subject to sponsor specific requirements listed in the award and to University guidelines.

How can CAS guidelines help you?

- Provide guidance for treatment of costs such as:
 - Allowability
 - Allocability
 - Reasonableness
 - Consistency
 - Direct cost
 - Indirect cost

Case Study 1

You are asked by a PI to stop at an office supply store on your way to work and pick up a few items. The PI also asked you to get some donuts for a lab meeting that morning. When you arrive at work, the PI tells you that all of the items should be charged to the grant.



Should they be?



Case Study 1, *cont.*

- If the supplies are not specifically allocable to the grant, they are considered general office supplies and should not be charged as a direct cost to the grant account.
- Entertainment costs, such as food, are unallowable.

More about Meals



- Meals are allowable when
 - (1) they are provided by a conference grant (for scientific meetings supported by the conference grant);
 - (2) they are provided to subjects or patients under study provided that such charges are not duplicated in participant's per diem or subsistence allowances, if any; and
 - (3) such costs are specifically approved as part of the project activity in the NGA
- Food purchased for recurring business meetings, such as staff meetings, are **not** considered allowable costs on sponsored research awards

Case Study 2

Dr. Miller purchases a much needed piece of specialized equipment for her research on hypertension. When preparing the purchase request, she realizes that the only account with enough money is her grant for research on sleep disorders. Because both grants are funded by NIH, she charges the equipment to the sleep disorder grant.



Is this appropriate?

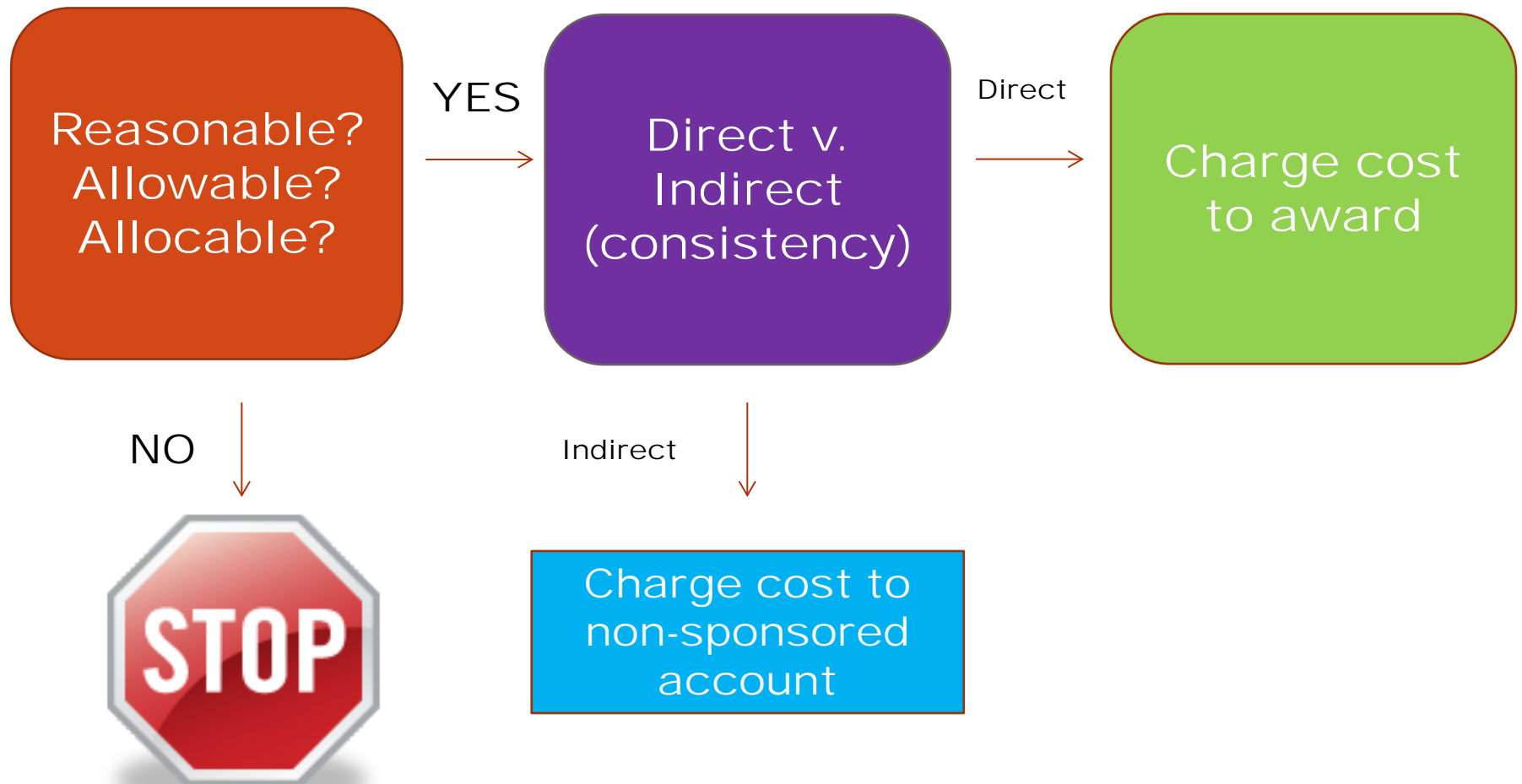


Case Study 2, *cont.*

- Cannot charge the grant strictly based on availability of funds
- Must demonstrate benefit to the award being charged and must allocate appropriately if it benefits multiple projects

In Summary

- Can I charge this cost to an award?



Contact Information

- Liz Thornberry Moore, J.D.
 - 919.962.4682
 - lizthorn@email.unc.edu
- Tracey Lemming, CPA
 - 919.962.2782
 - tlemming@email.unc.edu

Questions???