Cost Accounting Standards
Presenters

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Assumptions

- Familiarity with circular A-21
- PI or Research Administrator
- Basic understanding of spending on contract or grant awards
- Hand out of CAS
- Terms & Conditions trump guidelines
Agenda

• Define CAS
• Why we care
• Basic tenets
• Direct vs. Indirect costs
• Frequent misconceptions
• Keys to success
Cost Accounting Standards

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 Costs Accounting Period
Applicability

Federal Agency > University > Sub-recipient

Define CAS > Why we care > Tenets > Direct v. Indirect > Misconceptions > Keys to success
Why should we care?
Why do VPFin and RO care??

- Risk
- Audit
- Controls
- Roles & responsibilities
Non-compliance can also result in:

- Disallowed costs = unbudgeted expense to UD
- Less leverage in F&A negotiations
- Published audit findings
  - Other adverse publicity
  - Loss of credibility
- Loss of delegated authority
- More detailed scrutiny by auditors
- Loss of future funding opportunities
6 Basic Tenets

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

TRIFECTA
Define CAS > Why we care > Tenets > Direct v. Indirect > Misconceptions > Keys to success
Allowable

- Budgeted/proposed/approved
- T&C’s do not disallow

**Definition** – “Costs are allowable if they conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items”. (OMB Circular A-21, Sec. C.2.d.)
Reasonable

• Prudent person test
• Necessary for the performance of the project
• Consistent with established institutions practices
Is the Cost Reasonable?

Definition - “A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect 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, Sec. C.3.)
Is the Cost Reasonable?

Considerations:

- Generally recognized as necessary for operation of institution or performance of sponsored agreement.
- Arm’s length bargaining, restrictions imposed by federal/state laws and regulations or agreement terms and conditions.
- Cost is consistent with institutional policies.
Allocable

- Benefits the project
- Cost of one project may not be shifted to another
- Proportional to the relative benefit received by project
Is the Cost Allocable?

Definition - “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 relative benefits received or other equitable relationship.”

(OMB Circular A-21, Sec. C.4.)
Allocable Considerations (cont):

- Allocated costs *may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns*…to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.  (OMB Circular A-21 Sec. C.4.b)

- Costs allocable to activities sponsored by industry, foreign governments or other sponsors *may not be shifted to federally sponsored agreements*.  (OMB Circular A-21 Sec. C.4.c)
Consistent

- Treat feds like all others
- Must apply the **tenets** consistently across grants and contracts
Direct v. Indirect

- Don’t charge twice for same cost
Direct Costs

• Costs that can be identified specifically with a particular sponsored project, instructional activity…or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

• Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution.

(OMB Circular A-21 Sec. D1)
Indirect Costs

- Costs that are incurred for common and joint objectives and therefore cannot be identified readily and specifically with a particular sponsored activity, instructional activity, or other institutional activity.

(OMB Circular A-21 Sec. E1)
Indirect Costs

- Indirect cost rate (reimbursement %) negotiated with federal government (through ONR)
- Examples of cost categories included in indirect cost rate:
  - Depreciation and use allowances
  - Operation and maintenance expenses
  - General administration and general expenses
  - Departmental administration expenses
  - Sponsored projects administration
  - Library expenses
Practical Examples

• Direct costs
  – PI, RA and technician salaries, wages, fringe benefits
  – Technical and scientific equipment
  – Laboratory chemicals, gasses, supplies
  – Long distance telephone charges

• Indirect costs
  – Administrative and clerical salaries, wages, fringe benefits
  – Computer software and hardware ***
  – Office supplies
  – Basic telephone charges (line charges)

*** May be charged as direct costs if “predominant usage is tied to the specified objectives of the award”
Treating Indirect Costs as Direct Costs: Unlike Circumstances

Definition: “Generally exists when a sponsored project or activity, due to its size and nature, requires administrative or clerical services, supplies, postage, and/or telecommunication costs that are well beyond the core of departmental support routinely provided for departmental activities.”
Unacceptable Costing Practices under CAS 502

- Rotation of charges among projects
- Charging projects with largest remaining balance
- Charging budgeted amount instead of actual
- Charging projects before cost incurred
- Misrepresenting a cost (ex: coding copier paper as “lab supplies”)
- Charging costs that are part of normal Facilities & Administrative (Indirect) expenses
- Charging a project nearing completion without regard to appropriateness of expenses.

Define CAS > Why we care > Tenets > Direct v. Indirect > Misconceptions > Keys to success
Budgeted = ALLOWABLE (false!)

Program officer approved, therefore allowed (audit may disagree)

Unlike circumstance approved therefore allocable (still must justify)

Approved once = approved ALWAYS (false!)

Define CAS > Why we care > Tenets > Direct v. Indirect > Misconceptions > Keys to success
EFFECTIVE MONITORING

- Frequent & regular (MONTHLY)
- Communicate with Research Office
- Quick action/ follow up
- User-friendly consistent reporting
Monitor with regularity and frequency—monthly

- Frequent & regular monitoring
- User-friendly and consistent reporting
- Quick action/follow up
- Communicate with Research Office

EFFECTIVE MONITORING:

- Define CAS
  - Why we care
  - Tenets
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• Provide consistent data/report for ease and familiarity
• PI monitor using a user-friendly tool
• Keep shadow systems to a minimum
• Challenge issues appropriately

• Suitable documentation is necessary—do you have the authorized review?
• Take action quickly –don’t delay— it makes more work!
• Follow up, follow up, follow up!!!
Questions?