Q & A (Cost Accounting Standards and OMB Circular A-21)

1. What are Cost Accounting Standards (CAS)? Who created them? Why?

CAS was created as an act of Congress to tighten the rules on allowability, allocation, and reporting of costs on government grants and contracts. CAS originally applied to defense contractors in 1970, but did not apply to institutions of higher education until 1996. Many believe that CAS was created as a result of major audit findings at several universities.

Effective May 8, 1996, the Office of Management and Budget (OMB) revised Circular A-21 to incorporate four Cost Accounting Standards applicable to educational institutions. The Cost Accounting Standards Board (CASB) issued these on November 8, 1994, and the A-21 revision extended the standards to all sponsored agreements.

The Circular is available at http://www.whitehouse.gov/OMB/circulars/a021/a021.html

There are four parts of CAS that apply to educational institutions:

Definition of the four cost accounting standards:

501 Consistency in Estimating, Accumulating and Reporting Costs by Educational Institutions

Fundamental Requirement - An educational institution's practices used in estimating costs in pricing a proposal shall be consistent with their cost accounting practices used in accumulating and reporting costs.

502 Consistency in Allocating Costs Incurred for the Same Purpose by Educational Institutions

Fundamental Requirement - All costs incurred for the same purpose, in like circumstances, are either direct costs only or Facilities and Administration (F&A) costs only with respect to final cost objectives.

505 Accounting for Unallowable Costs

Fundamental Requirement - Costs expressly unallowable or mutually agreed to be unallowable shall be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement.
506 Consistency in Using the Same Accounting Period for Purposes of Estimating Accumulating and Reporting Costs

Educational institutions shall use their fiscal year as their cost accounting period.

Cost Accounting Standards require consistent treatment of costs in “like circumstances.” Consequently “unlike circumstances” must be demonstrated/justified if a cost will be budgeted, charged, and reported inconsistently.

By definition, “unlike circumstances” exist when costs are:

- above the normal level of services or items required for a project.
- for technical expertise or items not otherwise needed by the department.

See Appendix A to Federal Circular A-21 for further clarification of the requirements of these standards.

2. What is a Disclosure Statement?

A disclosure statement (DS-2) is a comprehensive description of an organization's cost accounting practices and includes direct costs, indirect costs (F&A), depreciation and use allowance, leave costs and applicable credits, deferred compensation/insurance costs and central systems and group expenses. Disclosure statements are required of universities with grants and contracts that total more than $25 million.

The University of Oregon’s most recent DS-2 was certified effective July 31, 2007 and was subsequently audited by the Defense Contract Audit Agency (DCAA). As part of this process, the university certifies that it has properly disclosed its cost accounting practices.

Note: F&A and Indirect Cost will be used interchangeable throughout this document.

3. What is a Direct Cost versus an F&A cost?

**Direct Costs:** General. Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs. 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, Revised 05/10/04, Section D.1.)

**F&A:** General. F&A costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.

(OMB Circular A-21, Revised 05/10/04, Section E.1.)
F&A costs are broad categories of costs. "Facilities" is defined as depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses, and library expenses. "Administration" is defined as general administration and general expenses, departmental administration, sponsored projects administration, student administration and services, and all other types of expenditures not listed specifically under one of the subcategories of Facilities (including cross allocations from other pools).
(OMB Circular A-21, Revised 05/10/04, Section F.1.)

**Charging Costs Normally Classified as Indirect to Sponsored Projects**

A-21 does not strictly prohibit costs identified as indirect from being charged directly to a sponsored agreement. However, certain criteria must be met:

**Allowable**: Under the agreement, regulations and public laws

**Reasonable**: A prudent person would have purchased this item and paid this price

**Allocatable**: They can be assigned to the activity on some reasonable basis

**Consistently Treated**: Like costs must be treated the same in like circumstances, as either direct or F&A costs

If a cost cannot meet the above criteria, it is NOT ALLOWABLE.

“The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. 'Major project' is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.

“Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.”

(OMB Circular A-21, Revised 05/10/04, Section F.b.(2) & (3).)

“The fact that a cost requested in a budget is awarded, as requested, does not ensure a determination of allowability. The organization is responsible for presenting costs consistently and must not include costs associated with their F&A rate as direct costs.”

(Reference NIH Grants Policy Statement, Revised 03/01, General – Part 3 of 7 "The Cost Principles")
4. When should a budget justification statement be prepared to justify administrative costs?

Additional justification language must be included if any of the following costs are budgeted within the following cost categories and the statement must be included in the “Budget Justification” section of the proposal:

1. Administrative and Clerical Salaries
2. Office Supplies (including computers)
3. Print/Photo Supplies
4. Food Products
5. Non-capitalized Equipment
6. Postage
7. Advertising
8. Dues, Fees, and Taxes
9. Computer/Software Services

Sponsor approval of a budget does not in and of itself constitute approval of the specific line items. The sponsor assumes you have complied with A-21, the institution’s Cost Accounting Disclosure Statement, the institution’s F&A cost proposal assumptions, and any other regulations cited. A cost that may be allowable at one institution as a direct charge may not be allowable at another institution because of the differences in the Disclosure Statement and the F&A cost proposal. There would be no way for any sponsor to make a determination of allowability because of these variables; therefore, it is ORSA’s responsibility based on A-21, CAS, and DS-2 guidelines to determine allowability. It is these requirements that also form the basis for audits conducted on any sponsored project.

5. Are there tips on writing justifications?

Yes, there are several tips that may assist you when writing justifications. The most important thing to remember is to tie the justification to the scope of work. Discuss the objective of the project and explain how the purchase is necessary to achieve the goals of the grant or contract. Additional tips include:

- Write so that the auditor will understand; stay away from technical jargon
- If the grant or contract requires workshops or training seminars, put this in your justification. Often the requirement for workshops or seminars helps justify office supplies and other expenses that are dedicated solely to the project and that exceed normal operating purchases for the department.
- If foreign countries are involved with the research, mention this in the justification. When required to do business in a foreign country, we often encounter requirements of an unlike nature such as import/export fees, licenses, and permits.
• When trying to charge repair and maintenance of equipment as a direct charge, the equipment must be dedicated to the project.
• If it is a deliverable, state this in justification
• If work takes place in a remote location, include this in justification

6. Can ORSA provide a “template” I can use?

No. There is not a “one size fits all” budget justification statement. Each request is reviewed on a case-by-case basis considering the specific facts and circumstances of the project objectives and a determination is made based on A-21 guidelines for allowability. (See #5—Tips on writing justifications).

7. What is General Purpose Equipment?

General purpose equipment refers to items that are considered to be typical office items and ALWAYS require a justification to charge as a direct cost. A partial list of general purpose equipment is:

• PCs, printers
• office equipment (typewriter, etc)
• office furnishings
• air conditioning equipment
• reproduction and printing equipment
• photo supplies
• color scanners
• copy machines
• safety clothes and shoes

General purpose equipment is generally viewed as equipment that can be used by everyone – not just for research. PCs are the most frequently used item in research from this list. The justification must show an unlike circumstance associated with the research such as a PC with specific processing speed is required for calculations needed for the research, or perhaps the PC is required to connect to a scientific piece of equipment.

One of the most frequent justifications heard from researchers is "but the government agency said it is ok..."
Note: You must remember that the burden of implementing and following CAS has been placed on the institution of education - NOT on the sponsor. If there are audit findings, the university will be the one forced to refund the questionable costs to the sponsor and pay any fines associated with the audit finding.

8. When can clerical support be charged as a direct cost?

Clerical support may be appropriate as a direct charge if:

- the project is a large complex program
- making travel/meeting arrangements for large number of participants is involved
- a principal focus is preparation and production of manuals and large reports
- the project is geographically inaccessible (vessels), remote research field sites
- the work requires project-specific manuals, workbooks, etc.
- investigator coordination and communications across a number of sites is needed
- the project involves extensive data accumulation, analysis and entry, surveying, etc.

Following are examples of justifications for clerical support that have been approved as showing unlike circumstances:

1. Needed to cover salary for a person to maintain records of 25 students, coordinate schedules related to training seminars, and to make travel arrangements for internships and meetings (i.e., research intensive grant which is heavy in student activity and involvement).

2. Administrative duties involve preparing and maintaining inventories, overseeing housing and room reservations for visiting observers exterior to the faculty and acting as contact person for persons visiting the observatory as well as inquiries (i.e., a collaborative grant involving extensive planning and coordination between several off-site locations).

9. When can office supplies be charged as a direct charge?

Office supplies may be appropriate as a direct cost if the work takes place at a remote site and if the scope of work requires an excessive amount of office supplies for tasks unique to the project. Projects that require extensive workshops or training seminars frequently need excessive office supplies to develop handouts for the participants.

Following are several examples of justifications for office supplies that have been approved as showing unlike circumstances:

- This program is set up for the development of a teacher preparation throughout the state. It is a stand-alone office and requires excessive supplies for mailings, brochures, reports, etc. All supplies are used for this project exclusively.
• Excessive office supplies are needed due to agency requirement of daily, quarterly, semi-annual, and annual reports. Upon request, the agency may request a copy of the Standard Operating Procedure Manual be sent to other agencies to demonstrate the sampling techniques and methods which are being utilized in sampling water samples.

• Supplies are used for a number of projects related specifically to this grant - developing and printing packets of materials distributed to participants in workshops; materials for website development, and maintaining various software tools and databases associated with project.

• This program is to promote AIDS awareness on campus. Requires an unusually large amount of supplies to prepare brochures and educational training materials for workshops.

10. When can print/photo supplies be charged as a direct cost?

Print and photo supplies may be appropriate as a direct cost when the scope of work requires excessive print or photo supplies or unlike circumstances exist. An example of a justification that has been approved as showing an unlike circumstance is:

• Printing and photo supplies are necessary in the transmission and dissemination of flight progress and results. This is a collaborative effort and information is shared with members from other countries.

11. When can food products be approved as direct costs?

Food products may be appropriate as direct costs when the scope of work requires all-day or half-day workshops or training seminars. The food must be included in the award and the budget. Examples of justifications that have been approved as showing an unlike circumstance are:

• As part of the Health Career Awareness program, we plan and sponsor several all-day events for middle school and high school students. We house and feed the students, sponsors, and presenters.

• Food products are required for recruiting and workshop activities for students visiting from tribal community colleges.

12. When can non-capitalized equipment be charged as a direct cost?

Non-capitalized equipment may be appropriate as a direct cost when it is under $5,000 and can be tied to the scope of work as an unlike circumstance. An example of a justification that has been approved as showing an unlike circumstance is:

• In order to build the electronic prototype system listed in the scope of work as a deliverable, various small electronic parts will need to be purchased.
13. When can postage be charged as a direct cost?

Postage may be appropriate as a direct cost when it is excessive, involves requirements to mail to foreign countries, and can be tied to scope of work as an unlike circumstance. An example of a justification that has been approved as showing an unlike circumstance is:

- Excessive postage is required due to project requirement that classified packages be mailed monthly to collaborators located in several states. Document may contain 100 or more pages.

14. When can advertising be charged as a direct cost?

Advertising may be appropriate as a direct cost when it is advertising directly related to the project goals and when it is included in the scope of work. Advertising for employee recruitment is not normally an allowable direct charge, but there are instances where it can be approved as you will see in the last justification below. Examples of justifications that have been approved as showing an unlike circumstance are:

- Advertising for publication of test dates, program outreach and operations, scheduling of courses, public notification (Adult Basic Education).
- Advertising costs are required for audience research and to gain new TV station supporters.
- This project involves an intensive survey, requiring a high number of interviewers. The advertising will be to recruit the interviewers.

15. When can dues, fees and taxes be charged as a direct cost?

Dues, fees and taxes may be appropriate as a direct cost when it is required for the project and it is an unlike circumstance. Examples of justifications that have been approved as showing an unlike circumstance are:

- To cover costs for Public Television Programmers Association dues, and for station interconnection to PBS via satellite.
- Dues and fees necessary to do business in another country - exclusive to the use of the project. These are custom fees for import/export of materials.
- Various personnel are required to maintain professional memberships in organizations related to NASA scientific ballooning. NMSU/PSL represents NASA Scientific Ballooning in the activities of these organizations and are instrumental in the education of scientific community in balloon launch capabilities.
16. When can Computer/Software Services be charged as a direct cost?

Computer/Software Services may be appropriate as a direct cost when specific software services are required in order to accomplish the scope of work. Examples of justifications that have been approved as unlike circumstances are:

- Computer services and/or software are required to install, set up, and maintain computers designed for disabled students in the lab.

- Due to the remote location of the facility, various software packages are required to provide support and services for the stand-alone office required by NASA. Specialized software packages are also required to provide balloon flight operational support.