

COST ACCOUNTING POLICY - SIGNIFICANT POINTS

A brief summary of the policies promulgated by PPM 150-40, PPM 150-42, and PPM 150-43. Please refer to the PPM for full text and clarification of these policies.

Authoritative Reference Documents

OMB Circular A-21 (A-21)

OMB Circular A-21, Cost Principles for Educational Institutions, provides principles for determining costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the federal government. This includes guidance regarding the classification of costs as direct or F&A (indirect). Among its other provisions, A-21 requires consistency in the treatment of costs, identifies certain costs as being normally F&A, provides examples of when normally F&A costs may be considered direct, and establishes recovery ceilings or "caps" on F&A cost recovery. (150-42111.A)

On May 8, 1996, A-21 was revised to include the four CAS standards, and these standards were made applicable to all types of Federal awards. (150-40 111.C)

Cost Accounting Standards (CAS)

Cost Accounting Standards, including the requirement to adhere to disclosed practices, applies to all types of federally sponsored awards received by UCSD. (150-40 V.A.1.a)

The four Cost Accounting Standards applicable to UCSD are:

CAS 501: Consistency in Estimating, Accumulating, and Reporting Costs

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

CAS 505: Accounting for Unallowable Costs

CAS 506: Cost Accounting Period (150-40 111.B)

Disclosure Statement (DS-2)

UCSD's cost accounting system disclosure requirement is met by completion of a Cost Accounting Standards Board Disclosure Statement. This statement was submitted to the federal government in 1996. The cost accounting practices disclosed within the DS-2 apply to all federal awards. Accordingly, the proposing, accumulating, and reporting of costs related to all federal awards must comply with the four standards and the disclosed practices. (150-40 111.E) Individuals who are responsible for submitting proposals, assigning costs, or preparing billings shall be familiar with the requirements of this procedure and with the cost classification criteria described in the DS-2. They shall comply with the requirements in these documents and shall seek guidance from designated offices when uncertain about the proper classification of particular cost types. (150-42 IV.C)

The Office of the Controller shall be notified of any intent to propose, record, or report significant costs based on a practice that is not disclosed. (150-40 V.B.2)

COSTING POLICY

Proposal/Award Costing Consistency

Practices used in estimating costs in pricing a proposal shall be consistent with the cost accounting practices used in accumulating and reporting costs. Likewise, cost accounting practices used in accumulating and reporting actual costs for an award shall be consistent with the institution's practices used in estimating costs in pricing the related proposal. (150-40 IV.B.1)

Inconsistencies between Sponsoring Agency and CAS

In some instances a sponsoring agency or a sponsored agreement may authorize or direct a practice that is inconsistent with the UCSD disclosed practices or a CAS requirement. UCSD must adhere to CAS and is required to account for costs in the manner disclosed in its DS-2. Accordingly, a sponsoring agency's authorization or direction is not sufficient to support noncompliance with CAS. Conflicts between agency directions or agreement terms and the requirements to

adhere to CAS and disclosed practices should be brought to the immediate attention of the Office of the Controller if they cannot be promptly resolved with the agency. (150-40V.A.1.b)

Identified and Charged to Maximum Extent Possible

Consistent with the rules and limitations imposed by this procedure, the cost accounting practices disclosed in the DS-2, and provisions of A-21, costs shall be identified and charged directly to benefiting federally sponsored agreements or similar cost objectives to the maximum extent possible. (150-42 V.A.3)

Unallowable Costs

Costs that are expressly identified as unallowable in A-21, or that are otherwise considered unallowable by CAS regulation, policy, or mutual agreement with federal government agencies shall be identified and excluded from any billing, claim, or proposal applicable to a federal award. (150-40 IV.8.3)

Amounts that are not recoverable under a sponsored agreement may not be charged to other sponsored agreements. (150-43 V.D.3)

All proposals, billings, and claims submitted to the federal government shall exclude costs that are unallowable. (150-43 V.F.1)

Allowable Costs

For a cost to be considered an allowable direct or indirect charge to a federal award:

- (1) The cost must be reasonable.
- (2) The cost must be allocable to sponsored agreements under A-21.
- (3) The cost must be given consistent treatment.
- (4) The cost must conform to limitations or exclusions set by A-21. (150-43 III.A)

A sponsoring agency or a sponsored agreement may authorize or direct the treatment of an otherwise unallowable cost as an allowable direct cost for a specific program. This may occur when the inherent purpose of the program requires that such a cost be incurred. Such costs may be considered allowable costs of that program provided that they satisfy the requirements for a direct cost and there is sufficient documentation to clearly indicate the sponsor's intent to allow the costs. (150-43 IV.D.1)

Cost Categorization Matrix

The matrix provides additional guidance regarding whether many types of costs are allowed.

This matrix is intended to address common situations encountered by UCSB but cannot anticipate all types of costs that might be incurred or anticipated. (150-43 V.B.2)

Classification of Costs

The criteria for classification of costs as direct or F&A are described in the campus DS-2. (150-42 III.D)

All costs incurred for the same purpose, in like circumstances, shall be consistently classified as either direct costs only or F&A (indirect) costs only. (150-40 V.A.3.a)

The identification with a particular activity, rather than the nature of the cost, shall be the determining factor in distinguishing a direct from an F&A cost. (150-42 V.A.4)

The treatment of costs as direct or F&A shall be consistent both within a department and among campus departments and schools in like circumstances. (150-40 V.A.3.d)

The fringe benefits or other costs shall be classified as direct or F&A in the same ratio as the labor headcount or payroll dollars with which they are associated. Likewise, those costs that are classified as direct shall be apportioned among programs in the same ratio as the salaries of the individual or individuals with which they are associated. (150-42 V.D.4.c)

The willingness of a funding agency or customer to pay for a normally F&A expense as a direct cost is not sufficient to constitute an unlike circumstance under this procedure or federal regulations. Accordingly, that willingness alone shall not constitute sufficient justification for direct charging normally F&A costs. (150-42 V.D.b)

Direct Costs

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. (150-42 V.B.1)

The identification with a particular activity, rather than the nature of the cost, shall be the determining factor in distinguishing a direct from an F&A cost. (150-42 V.A.4) Costs that are normally considered indirect may be treated as direct costs if the purposes and circumstances for which these costs are incurred are different (unlike circumstance), and they meet all of the following conditions: (150-42 V.B.2)

- (1) The cost must be required to satisfy the project scope.
- (2) The cost must be identifiable to the specific project with a high degree of accuracy.
- (3) The cost must be budgeted into the award or the agency must permit rebudgeting to allow charging of the cost.

Facilities and Administrative (F&A) Costs

Costs 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 and cannot be directly charged. (150-43 11.B)

Direct or F&A - Like and Unlike Circumstances

The consideration of whether a particular type of cost may sometimes be charged direct and sometimes indirect involves assessment of various factors to determine whether "unlike" circumstances may exist to justify differing treatment of a cost. Examples of unlike circumstances include the direct charging of utility costs for the supercomputer facility, or other situations when a particular cost type or amount represents a level of service or support that is over-and-above the normal level of service or support provided by the campus to all projects or activities. 150-40 11.0 When costs are incurred under unlike circumstances, similar types of costs may be treated as direct under one circumstance and indirect under the differing circumstances. This does not violate the consistency requirements as long as all similar costs are treated in the same manner in like circumstances. Determining what constitutes an unlike circumstance requires evaluation of several factors. For assistance in determining potential unlike circumstances, refer to the DS-2 or contact the CAS Compliance Officer, OPAFS. (150-42 V.D.1.a)

Rate limits or caps imposed by A-21 or by negotiation with the federal government may limit the institution's ability to recover all costs that would otherwise be allocable and allowable. These caps will not be considered in determining the proper classification of administrative costs. (150-40 V.A.4.e)

Distribution of Costs

Certain costs are closely associated with either employee headcount or payroll dollars and accordingly, are distributed in the same proportion as the associated headcount or dollars of benefiting employees. Typical examples of these costs are retirement benefits, which are distributed based on the salaries and wages of eligible employees, and telecommunications and network costs, which are distributed as a monthly charge to each knowledge worker. (150-42 V.D.4.a)

Data and voice network access costs are charged to benefiting communication users, according to the level of assignment (FTE), and the location and corresponding benefits received. The monthly access fee charged to communication users is assigned to specific sponsored agreements and other fund sources in the same proportion as their salaries. (150-42 V.D.5)

ADMINISTRATIVE AND CLERICAL SALARIES

Major Project

A major project, as defined in A-21 and used in this policy, is one that requires an extensive amount of administrative or clerical support that is significantly greater than the routine level of such services provided by academic departments. (150-42 11.G)

PPM 150-42 Supplement II contains examples of Major Projects as defined by A-21 and includes other activities that may be indicative of Major Projects.

Administrative or Clerical Costs

With regard to salaries of administrative and clerical staff as described in A-21 F.6.b, these costs may be appropriate as direct charges when identified with a "major project." (150-42 V.B.2.c)

To comply with the above, both of the following tests must be met:

Definitional Test: Determine if the effort is identified with a major project. Refer to Appendix B for examples of "major projects" and types of supporting activities that require "significantly greater than routine" effort, and determine if a particular project qualifies.

Empirical Test: Determine if the effort identifiable with a "major project" satisfies one of the following:

- (1) The administrative or clerical effort of an individual is at least 15 percent of either (i) the employee's total annual effort or (ii) the employee's effort during a definable period within the project, or
- (2) The administrative or clerical employee's effort has been distributed using the labor clearing fund approved for this purpose and at least 80 percent of the employee's effort is assigned to sponsored activities. (Refer to PPM 300-40, Exhibit 0 for a description of when labor clearing funds are appropriate and how they are used.), or
- (3) A level of administrative or clerical effort that is less than that specified in the Empirical Test may be charged direct only in exceptional circumstances. Exceptional circumstances exist where the type of administrative or clerical effort is not normally encountered at UCSD and/or adherence to this policy would result in a clear and significant inequitable cost distribution. Departments must adequately document why such effort is required to support the major project. As exceptional circumstances are expected to occur infrequently and involve unusual circumstances, the advance approval of the CAS Compliance Officer, or designee, is required. (150-42 V.8.3)

PPM 150-42 Supplement I contains a Decision Tree, "Criteria for Charging Administrative and Clerical Cost to Federal Awards"

Exceptions

Specific exceptions to the provisions of this section are allowed for:

- (1) "uniquely-costed grants", which have a significantly reduced F&A rate applied, and are approved for the direct charging of certain costs that would otherwise be recovered via the standard overhead rate (i.e. F&A rate), and
- (2) "institutional allowances", which by their nature are intended to pay for administrative expenses. (150-42 V.B.2.c)

Responsibilities

Responsibility for Compliance

The requirements of CAS are complex and interpretations can sometimes be difficult. Those individuals who have a responsibility to adhere to CAS, including compliance with the standards and the disclosed practices, shall be familiar with the requirements. (150-40 IV.D)

Principal Investigator/Department

Responsible for developing proposals requesting extramural support and for assuring that all direct costs proposed and incurred comply with the requirements of this policy and meet the federal and University criteria for proposing and charging of direct costs. (150-40 VI.A)

Responsibility for CAS Compliance

The primary contact for dealing with the government on CAS issues resides in the Controller's Office. Accordingly, the Controller should be promptly notified whenever anyone is notified of a pending evaluation for CAS compliance or if any questions arise regarding the institution's compliance. (150-40V.E)

The CAS Compliance Officer for UCSD is the Director of the Office of Post Award Financial Services (OPAFS). The Director has operational authority and responsibility to ensure that UCSD maintains a reasonable level of compliance with CAS requirements. (150-40 VI.E)

UCSD POLICY AND PROCEDURE MANUAL CONTRACTS AND GRANTS (RESEARCH) SECTION 150-42 PAGE 1 *Supplement I*

Effective: 8/1/2001

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Issuing Office: Office of Post Award Financial Services (OPAFS)

CRITERIA FOR CHARGING ADMINISTRATIVE AND CLERICAL COST TO FEDERAL AWARDS REFERENCE NOTES

(1) Normally, both of the following two tests must be met in order to answer "Yes" to the decision about Major Project Criteria:

- **DEFINITIONAL TEST:**

Refer to Supplement II of this policy for examples of "major projects" and types of supporting activities that require "significantly greater than routine" effort, and decide if the project qualifies, AND

- **EMPIRICAL TEST:** Effort is 15% or more of an individual's total annual effort, or the individual's effort for a definable period within the project period, OR the individual's effort is reported via a labor clearing fund and 80% or more of the individual's effort is devoted to sponsored projects,

OR

In EXCEPTIONAL CIRCUMSTANCES, departments must adequately document why effort of less than that specified in the Empirical Test is required to support the major project. Advance approval of the CAS Compliance Officer is required.

UCSD POLICY AND PROCEDURE MANUAL CONTRACTS AND GRANTS (RESEARCH) SECTION 150-42 PAGE 1 *Supplement II*

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EXAMPLES OF MAJOR PROJECTS

Examples are provided below to be used in determining when salaries of administrative and clerical staff may be in support of a "major project." These are only examples and should not be considered a comprehensive listing of all possible situations.

Section I. below quotes the text of OMS Circular A-21 Exhibit C. Section II. provides additional examples of types of activities in support of major projects.

I. OMB Circular A-21: Cost Principles for Educational Institutions, Exhibit C:

Examples of 'major project' where direct charging of administrative or clerical staff salaries may be appropriate:

- Large, complex programs such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects that involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting (such as epidemiological studies, clinical trials, and retrospective clinical records studies).
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field sites that are remote from campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project related investigator coordination and communications.

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. For instance, the examples would be appropriate when the costs of such activities are incurred in unlike circumstances, i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution's facilities and administrative (F&A) cost pools or, if the same, the indirect activity costs are immaterial in amount. It would be inappropriate to charge the cost of such activities directly to specific sponsored agreements if, in similar circumstances, the costs of performing the same type of activity for other sponsored agreements were included as allocable costs in the institution's F&A cost pools. Application of negotiated predetermined F&A cost rates may also be inappropriate if such activity costs charged directly were not provided for in the allocation base that was used to determine the predetermined F&A cost rates."

II. Additional Examples of Activities in Support of "Major Projects"

- Computer research work
- Competitive procurement (large equipment, consultant contracts, etc.)
- Conducting a telephone survey
- Coordinating and managing subcontracts
- Coordinating *extensive* travel and meeting arrangement
- Creating and maintaining budgets beyond the *routine*
- *Extensive* data entry
- *Extensive* research accumulation
- *Extensive* interviewing (e.g., human subjects, data collection, etc.)
- Managing projects with multiple sites
- Planning and organizing large conferences
- Preparing manuscripts/publications beyond the routine
- Preparing materials for presentation beyond the routine
- Project-related transcribing beyond the routine

COST ACCOUNTING STANDARDS

When are awards expected to conform to the new guidelines for charging administrative or clerical costs to a Major Project?

The new PPM language, effective August 1, 2001, clarifies and reinforces existing policy regarding charging of administrative and clerical salaries that has been in place since 1996 (submission of the DS-2). Cost accounting standards have not changed. The new PPM's, however, provide a less subjective framework for decision-making.

Campus personnel are encouraged to apply the new guidelines to new and existing awards on an award-by-award basis, with the expectation that within a reasonable time, all awards will be consistent in their treatment of administrative and clerical costs. A reasonable approach would be to review awards for consistent treatment at the time they are renewed or within one year, whichever is sooner. OPAFS, in its communications with departmental personnel, will encourage consistency in the treatment of all awards.

The new guidelines should be taken into consideration when developing new proposals and implementing new awards.

Definition of Major Project

Departments are encouraged - through training sessions and other means - to get assistance in making these determinations. To help avoid confusion, OPAFS is the central decision point for the campus.

Documentation of Major Project

There is no need to document justification for classifying an award as a Major Project. However, departments will be (1) encouraged to "think through" the policies and their impact on their awards; (2) gain help from OPAFS where there is uncertainty; and (3) when considered necessary, document the decision and its justification to the department's award file. There is no need to submit this information to OCGA or OPAFS.

And if the award can no longer charge Administrative or Clerical - where do you turn for financial help?

Everyone understands that funding for research support is limited. To bring an award into consistency with the new policy, it may be necessary to discontinue charging administrative or clerical costs. In this instance, the department should seek help from their division's business officer. The business officer may want to consult with their cognizant vice chancellor's office to review possible alternatives.

Department personnel must be creative to address these shortfalls. Implementation of the policy does not mean that alternative funding is necessarily available.

COST ACCOUNTING STANDARDS

OUTREACH AND TRAINING

RESPONSIBILITIES

A. Principal Investigator/Department

Responsible for developing proposals requesting extramural support and for assuring that all direct costs proposed and incurred comply with the requirements of this policy and meet the federal and University criteria for proposing and charging of direct costs.

See also PPM 150-36- Responsibilities of Principal Investigators for the Administration of Awards

B. Office of Contract and Grant Administration (OCGA)

Responsible for all direct versus F&A cost issues and inquiries related to proposal development and pre-award activities, and for negotiation of project terms and conditions.

C. Financial Analysis Office

Responsible for all direct versus F&A cost issues relating to campus recharge activities, and to the development and negotiation of F&A cost rates.

D. Office of Post Award Financial Services (OPAFS)

Responsible for all direct versus F&A cost issues relating to project accounting, financial reporting, effort certification, and other post-award aspects.

E. CAS Compliance Officer

The CAS Compliance Officer for UCSD is the Director of the Office of Post Award Financial Services (OPAFS). The Director has operational authority and responsibility to ensure that UCSD maintains a reasonable level of compliance with CAS requirements.

F. Audit & Management Advisory Services

Responsible for conducting a recurring program; of audits to evaluate business processes and activities, and the adequacy of departmental and division internal controls to provide reasonable assurance of compliance with appropriate federal and state regulations, and University policies and procedures

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COST ACCOUNTING STANDARDS

(UPDATE)

<http://blink.ucsd.edu/go/cas>