The Federal Costing Principles

OMB A-21 and the Cost Accounting Standards

Quick Refresher

OMB Circular A-21, Cost Principles for Educational Institutions

- Defines allowable costs and cost principles:
  - Federal contract, grant, or cooperative agreement
    - Including federal flow-through (subawards/subcontracts)
  - Private sponsors may have different requirements
- Distinguishes direct and indirect costs
- Determines the appropriate costs to proposal budgets and award expenditures, which must adhere to the same cost principles
- Identifies those costs that cannot be charged

Cost Accounting Standards (CAS)

- Incorporated into OMB A-21 1996 Revision
- CAS are requirements to achieve uniformity and consistency in cost accounting practices for recipients of federal funds
- Four basic standards prescribed in OMB Circular A-21 extended to grants, contracts and cooperative agreements
- A Disclosure Statement (DS-2) is required of institutions receiving $25 million or more to disclose their cost accounting practices
Why is CAS Important?

- To create consistency in estimating, accumulating, and reporting costs.
- To ensure that all costs incurred for the same purpose, in like circumstances, are either direct or indirect to help prevent overcharging and double-counting.
- To prevent charging unallowable costs to federal awards by identifying and excluding them from any billing, claim or proposal.

A-21/CAS: Core Requirements

- Allowable
- Applicable
- Allocable
- Reasonable
- Necessary
- Consistent

Allowable

- Is the cost allowable per OMB Circular A-21 then is it in compliance with the sponsor’s terms and conditions?
  - General purpose equipment is not allowable and scientific equipment is.
- Ref: A-21 section J1-J-54
"Sections 1 through 54 provide principles to be applied in establishing the allowability of certain items involved in determining cost.

These principles should apply regardless of whether a particular item of cost is properly treated as direct or F&A cost.

Be sure to read details. Some expenditures may be allowable in certain instances and unallowable in other instances.

Allocable

- Is the cost benefiting the sponsored project?
- If a cost benefits both the sponsored project and other work at UCLA, it must be allocated in appropriate proportions.
- Is the cost incurred solely to advance the work under the sponsored agreement?
A-21 Definition of Direct and Indirect (F&A) Costs

Direct

- "Costs that can be identified specifically with a particular sponsored project, instructional activity or other institutional activity, or that can be directly assigned to such activities relatively easy with a high degree of accuracy."
- Ref: A21 Section D1

Indirect (F&A)

- "Costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, instructional, or other institutional activity."
- Ref: A21 Section E1

Reasonable

- "A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved, 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."

  - The project requires replacement of a power supply for an experiment that requires 300V of power. Is it reasonable to purchase a power supply that has a maximum 3,000V power at over five times the cost?

  - NOT Reasonable

Consistent

- Is the cost consistent with UCLA’s policies, procedures and practices?

  - Is the cost incurred for the same purpose, in like circumstances, treated consistently as either direct or F&A across UCLA depts and units?

    - If technicians’ salaries are charged directly to grants and contracts, salaries of other staff performing comparable work on non-sponsored projects should also be charged as direct costs for those programs and excluded from the indirect cost pool.

  - Consistent
Applicable

- The expenditure must be incurred within the budget period of the award.
  - If a budget period is 8/1/2009 – 7/31/2010, expenses incurred before 8/01/2009 and after 7/31/2010 are generally not applicable.

Necessary

- The costs must be recognized as necessary for the performance and completion of the sponsored agreement.

Charging a Cost to a Federal Award

- Allowable?
  - Direct or F&A?
    - If F&A...
  - Allowable under Sponsor Policy?
    - If not...
- Allowable under UC and UCLA Policy?
  - If not...
- Allowable under Individual Grant Terms?
  - If not...

OK TO CHARGE THE COST TO THE GRANT!
**Practice these cost principles when creating a proposal budget**

1. Determine the allowability of each cost to be proposed
2. Determine how each cost should be proposed
   - direct versus F&A
3. Assign the costs to the proper cost category
4. Always act prudently and in accordance with the cost principles and University policies and procedures
5. When in doubt, contact OCGA or EFM

**Increased Awareness**

From the Council on Government Relations:

*As we reported in the October meeting report (November 19, 2010), “The College and University Indirect Costs Claimed as Direct Costs” HHS OIG audit initiative...is an item we should pay close attention to. Our understanding is that 8 institutions will be selected under this audit initiative, and COGR recently was informed by one institution they have been contacted by the HHS OIG.*

Letter sent to all grant recipients, January 2011
Increased Awareness

- Increased scrutiny of budgets and justifications
- Particularly in two areas of concern related to direct charging of F&A costs:
  - Administrative Personnel
  - General use supplies and equipment

Administrative Salaries

- Section F.6.b.(2) of OMB Circular A-21 addresses direct charging of administrative personnel:
  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. Some examples of major projects are described in Exhibit C.

Administrative Salaries

- Examples of "major project" from Exhibit C:
  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.
Administrative Salaries

- Examples of "major project" from Exhibit C:
  - Projects which 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).

Administrative Salaries

- Examples of "major project" from Exhibit C:
  - Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.

Administrative Salaries

- Examples of "major project" from Exhibit C:
  - Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
Administrative Salaries

- Examples of "major project" from Exhibit C:
  - Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research fields sites that are remote from campus.

Administrative Salaries

- Examples of "major project" from Exhibit C:
  - Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

Administrative Salaries

- When preparing budget justifications that include administrative salaries
  - be very specific and detailed as to how the project meets the criteria for major projects;
  - provide sufficient detail and/or explanation to hold up under scrutiny of a sponsor or auditor, or both
- The budget and justification should reflect the project description and vice-versa
  - the budget and justification alone may not be enough for OCGA to assess the appropriateness of the costs
General Use Supplies and Equipment

Examples include, but are not limited to:
- Computers, peripherals and computer supplies
- Communication costs (telephones, usage costs, long distance charges, fax machines)
  - Exception: TIF
- Copying costs, including supplies to run/maintain copiers
- Office-type supplies – pens, pencils, folders, tape, staplers, binders, desk accessories
- Furniture

In cases where general use costs are requested as direct costs, the budget justification should:
- describe why the costs are necessary to accomplish the programmatic needs of the grant
- provide sufficient detail and/or explanation to hold up under scrutiny
- Simply stating that a cost is project specific or identifiable to a project is not sufficient

Unallowable Costs

But I always put these costs in my budgets and nobody ever complained.

Doing something incorrectly in the past, does not mean it is acceptable to continue doing it incorrectly.
Unallowable Costs

The sponsor didn’t question the costs or remove them, so it’s okay.

The burden is with the award recipient (us!) to ensure we follow OMB A-21 as well as any other applicable laws and/or sponsor policies.

Charging a Cost to a Federal Award

Allowable? Direct or F&A? Allowable under Sponsor Policy?
YES YES YES

Direct or F&A?
IF F&A... YES

Allowable under Sponsor Policy?
IF not... YES

Allowable under UC and UCLA Policy?
IF not...

Allowable under Individual Grant Terms?
IF not...

OK TO CHARGE THE COST TO THE GRANT!
CASE STUDIES

Alcohol 1

- PI has approval to put on a working-lunch under a federal grant. The PI is aware that alcohol is not permitted to be paid for by federal funds. However, the bill is in one lump sum with no breakdown of costs. Is this allowable?

ITEMIZE

Alcohol 2

- You have an award from NIH that studies the effect of alcohol on diving performance and safety in swimming pools. Can you charge the alcohol to the grant?

Allowable
Price Variation

An MRI facility in the School of Medicine charges a different rate for scans for those within the school than those outside of the school....

Not Consistent

Incidentals

PI decides to bring his wife and two children to attend a conference specifically related to his research project and charges all family airplane tickets to the project.

Not Necessary
Not Allowable

Subscriptions

Your PI wants to buy the Journal of Cell Biology and the Journal of Microscopic Cells for Islet Transplant—the exact subject of his NIH grant—and charge them to his NIH grant. Allowable or not?

Allowable only if specific to his project and not available at UCLA
Lab personnel exposed to radioactive substances must wear radiation badges and rings. If turned in late or lost, the department is charged $35/badge and $5/ring. These costs are not included in the approved proposal budget.

Researchers often use items such as graham crackers as incentive for children participating as research subjects. Promotional items such as mugs are sometimes used to attract research subjects. These items are necessary to ensure participation by research subjects.

- Univ. Of Chicago (0.65 M – mischarging Fed. Grants)
- Univ. Of Connecticut ($1.3 M training grant issues)
- Med. College of Georgia (10M theft of research funds related to clinical trials, 2 PI’s with jail time)
- Univ. of MN ($32M: program income/clinical trial violations)
- Stanford ($3.1 M – unallowable costs)
- New York Unv. Med. Ctr ($15M – cost sharing/unallowable costs)
- Univ. of Wisconsin (Fraudulent application-PI jail time)