

## Florida Atlantic University Allowability of Costs on Federal Awards

### IV. Cost Accounting Standards

On May 8, 1996, the Office of Management and Budget revised OMB Circular A-21 to include four Cost Accounting Standards. A complete copy of the Cost Accounting Standards can be found in Appendix A of OMB Circular A-21 at <http://www.whitehouse.gov/omb/circulars/a021/a021.html>. The purpose of the Cost Accounting Standards is to provide guidance on acceptable and consistent cost accounting practices for projects funded by Federal sponsors.

#### A. Cost Accounting Standard 501

**CAS 9905.501 -- 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 the educational institution's cost accounting practices used in accumulating and reporting costs.

An educational institution's cost accounting practices used in accumulating and reporting actual costs for a sponsored agreement shall be consistent with the educational institution's practices used in estimating costs in the related proposal or application.

The grouping of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices of this paragraph when such costs are accumulated in reported in greater detail on an actual costs basis during performance of the sponsored agreement.

Cost Accounting Standard 501 requires consistency in estimating, accumulating, and reporting costs. To comply with CAS 501, FAU issued DSR Memorandum 99-02, requiring cost share to be accounted for in separate and unique Cost Share Accounts. Basically, if cost share is proposed, whether it is mandatory or voluntarily committed, it must be documented and accounted for by the University. In addition, the University must report the cost share to the sponsor as required. The Cost Share Policies and Procedures are discussed in a separate document.

At the same time, the proposal budgets must be constructed with the end result in mind. The budget categories used in the proposal will include items that will ultimately be charged as direct costs on the FAU Project Account or Cost Share Account, once the project is set up in the University accounting system. See Exhibit G for a list of expense items that may be charged to Federal awards as direct costs. In addition, Exhibit G includes a list of expense items that are typically treated as

indirect costs. The list includes the Banner Budget Pools and Account Codes. The Exhibit should be used by PIs and Departmental Budget Coordinators when constructing proposal budgets.

To illustrate, consulting costs should be listed in the Expense Budget Pool, rather than in the Personnel Cost Budget Pool. Expense items that are not subject to indirect cost include the following:

1. Equipment
2. Tuition
3. The Portion of Each Subcontract Greater than \$25,000
4. Patient Care Costs
5. Participant Training Costs
6. Off-Site Facility Rental

These expense items should be budgeted for separately in the respective budget pools. The budget for indirect cost should be equal to the indirect cost base multiplied by the indirect cost rate.

In addition, when constructing a proposal budget, the PI should consult the Allowability Grid (Exhibit H) to determine which expense items are allowable and unallowable for Federal awards.

All proposal budgets should be prepared consistently throughout the University. For example, the way a PI in the Physics Department prepares the cost estimates reflected in his/her proposal budget must be consistent with the way a PI in the College of Nursing prepares his/her cost estimates. For specific questions concerning proposal budgets, please contact your Sponsored Programs representative.

#### B. Cost Accounting Standard 502

**CAS 9905.502 -- 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 indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

Cost Accounting Standard 502 requires consistency in allocating costs incurred for the same purpose. In other words, like expenses must be treated consistently throughout the University in like circumstances. The purpose of this standard is to prevent Federal sponsors from being charged twice for one cost. If a cost is typically considered to be an F&A cost, it should not be charged as a direct cost to a project. Otherwise, the expense is being “double counted” and the Federal sponsor is paying for the cost twice.

The costs that are typically treated as indirect costs are Administrative and Clerical Salaries and the Non-Labor Administrative Costs, which include:

1. Postage
2. Office Supplies
3. Local Telephone Costs
4. Memberships/Subscriptions
5. General Purpose Equipment
6. General Purpose Software

Certain situations, known as “Major Projects” and “special circumstances” require more administrative costs than the usual, routine amounts that an academic department typically provides. OMB Circular A-21 Exhibit C lists the situations when charging Administrative and Clerical Salaries as direct costs may be allowable. These situations are known as “Major Projects”. Exhibit E of this document includes a list of “Major Projects” as stated in OMB Circular A-21. Examples of “special circumstances” when certain Non-Labor Administrative Costs (that are typically treated as indirect costs) may be charged as direct costs to Federal awards are listed in Exhibit F.

In order to comply with CAS 502, FAU issued DSR Memorandum 99-04. See Exhibit C for a copy of DSR Memorandum 99-04. This document is also located at [www.fau.edu/dsr](http://www.fau.edu/dsr) under “Policies and Procedures”. In addition, FAU also implemented the CAS 502 Exception Form. This form is completed by the PI at the proposal stage when a project is administratively intensive and requires clerical and administrative salaries and/or any of the Non-Labor Administrative Costs that are typically treated as indirect costs. See Exhibit G for a list of the Non-Labor Administrative Costs that are typically treated as indirect costs on Federal awards.

In these cases, the PI can follow the CAS 502 Exception Form instructions to request approval for such costs. If Sponsored Programs approves the CAS 502 Exception Form and the Federal sponsor approves the proposed budget and does not expressly disapprove any of the items, these costs are allowable direct costs for the project and the University is in compliance with Cost Accounting Standard 502.

#### C. Cost Accounting Standard 505

<b>CAS 9905.505 -- Accounting for unallowable costs -- Educational institutions.</b>
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### **Fundamental requirement**

(a) Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, application, or proposal applicable to a Government sponsored agreement.

(b) Costs which specifically become designated as unallowable as a result of a written decision furnished by a Federal official pursuant to sponsored agreement disputes procedures shall be identified if included in or used in the computation of any billing, claim, or proposal applicable to a sponsored agreement. This identification requirement applies also to any costs incurred for the same purpose under like circumstances as the costs specifically identified as unallowable under either this paragraph or paragraph (a) of this subsection.

(c) Costs which, in a Federal official's written decision furnished pursuant to disputes procedures, are designated as unallowable directly associated costs of unallowable costs covered by either paragraph (a) or (b) of this subsection shall be accorded the identification required by paragraph b. of this subsection.

(d) The costs of any work project not contractually authorized, whether or not related to performance of a proposed or existing contract, shall be accounted for, to the extent appropriate, in a manner which permits ready separation from the costs of authorized work projects.

(e) All unallowable costs covered by paragraphs (a) through (d) of this subsection shall be subject to the same cost accounting principles governing cost allocability as allowable costs. In circumstances where these unallowable costs normally would be part of a regular indirect-cost allocation base or bases, they shall remain in such base or bases. Where a directly associated cost is part of a category of costs normally included in an indirect-cost pool that will be allocated over a base containing the unallowable cost with which it is associated, such a directly associated cost shall be retained in the indirect-cost pool and be allocated through the regular allocation process.

(f) Where the total of the allocable and otherwise allowable costs exceeds a limitation-of-cost or ceiling-price provision in a sponsored agreement, full direct and indirect cost allocation shall be made to the cost objective, in accordance with established cost accounting practices and Standards which regularly govern a given entity's allocations to Government sponsored agreement cost objectives. In any determination of unallowable cost overrun, the amount thereof shall be identified in terms of the excess of allowable costs over the ceiling amount, rather than through specific identification of particular cost items or cost elements.

This standard requires that unallowable costs are identified and not:

1. included in proposal budgets

2. charged to FAU Project Accounts funded by Federal sponsors or the related Cost Share Accounts
3. included in invoices or drawdowns submitted to Federal sponsors
4. included in financial reports submitted to Federal sponsors
5. included in F&A cost pools used to compute the F&A cost rate

The Allowability Grid (Exhibit H) lists 51 expense items and states whether they are allowable or unallowable costs on Federal awards.

#### D. Cost Accounting Standard 506

**CAS 9905.506 -- Cost accounting period -- Educational institutions.**

**Fundamental requirement**

Educational institutions shall use their fiscal year as their cost accounting period, except that: Costs of an indirect function which exists for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period.

An annual period other than the fiscal year may be used as the cost accounting period if its use is an established practice of the educational institution.

A transitional cost accounting period other than a year shall be used whenever a change of fiscal year occurs.

An educational institution shall follow consistent practices in the selection of the cost accounting period or periods in which any types of expense and any types of adjustment to expense (including prior-period adjustments) are accumulated and allocated.

The same cost accounting period shall be used for accumulating costs in an indirect cost pool as for establishing its allocation base, except that the contracting parties may agree to use a different period for establishing an allocation base.

This standard requires that FAU consistently use the University's fiscal year (July 1 – June 30) as the cost accounting period for computing the F&A cost rate. This standard does not affect the period of performance of each Federal award.