

Administrative Operational Guidelines

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Guideline Number:	2.5.4	Guideline Title:	Cost Accounting Standards
Effective Date:	01/01/09	Approved By:	Kerry Kennedy, Vice President for Business Affairs Janet Parker, Assoc Vice President for Business Affairs
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I. Purpose/Scope

In 1970, the Cost Accounting Standards Board (CASB) was created by Congress to tighten the rules on allowability, allocation and reporting of costs on government grants and contracts. Originally, educational institutions were exempt. However, in 1996, four cost accounting standards and disclosure statement requirements were incorporated into OMB Circular A-21, Cost Principles for Educational Institutions. All educational institutions must comply with these standards.

II. Cost Accounting Standards (CAS)

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

Practices used to estimate costs must be consistent with the institution's cost accounting practices used to record and report costs. This standard is designed to provide a basis to compare cost estimates used in proposal budgets with actual costs.

- Only costs that are allowable, allocable, reasonable and normally treated as direct costs should be included in proposal budgets.
- Costs included in proposal budgets must be based on reasonable and consistently applied methods of estimating. The method used by a faculty member in one Department to prepare cost estimates must be consistent with the method used by a faculty member in any other Department.
- Personnel effort reports must tie with accounting records (including any cost transfers), with proposal budgets and with all progress reports to the sponsor.

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

Costs incurred for the same purpose, in like circumstances, must be treated consistently as either direct costs or Facilities and Administrative costs (F+A).

- Only those costs necessary for the performance of the award or activity may be charged.
- Costs allocated to more than one award or activity must be allocated in proportion to the benefits received.
- Costs applicable to one award or activity may not be charged or shifted to another unrelated award or activity.
- Appropriate backup documentation must be available for each transaction charged to an award or activity.
- The correct use of object codes is critical to accurately identify costs as direct, indirect or unallowable.

CAS 505 – Accounting for Unallowable Costs

Costs that are unallowable as charges to sponsored agreements must be identified and accounted for separately from allowable costs.

- Costs expressly unallowable under OMB Circular A-21 or mutually agreed to be unallowable under the terms of a sponsored agreement must be identified and excluded from any applications or proposals relative to that agreement and subsequent billings.

CAS 506 – Cost Accounting Period

Educational institutions shall use their fiscal year as their cost accounting period. For UTSA that period is September 1 to August 31.

III. Cost Accounting Disclosure Statement. Educational institutions that received \$25 million or more in Federal sponsored agreements during their most recently completed fiscal year are required to file a disclosure statement.

- The Disclosure Statement (DS-2) is a document in which the university details and summarizes its accounting practices. The university must also ensure that policies and procedures are consistent with the described practices.
- Federal agencies use this document to evaluate whether an institution has the costing practices necessary to comply with Federal regulations. Federal audits determine whether an institution is following these policies and procedures.

IV. Costing Guidelines

There are three categories of cost – direct, indirect and unallowable.

- Direct costs are those costs that can be specifically identified with a particular sponsored project with relative ease and a high degree of accuracy.
- Indirect or Facilities and Administrative (F+A) costs are those costs that are incurred for common or joint objectives and cannot be identified readily or specifically with a particular sponsored project.
- Unallowable costs and activities are those that cannot be directly charged to a federal contract or grant nor can they be included in the F+A rate calculations.
- Common types of costs are listed below. The following table is not all inclusive.

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Direct Costs	F&A Costs	Unallowable Costs
Salaries and fringe benefits of principal investigators, research and technical personnel;	Clerical and administrative salaries and fringe benefits	Memberships in civic/social groups
	Operation and maintenance of buildings	Fines and penalties
Software purchased for scientific purposes;	Sponsored Program Administration	Entertainment
Laboratory supplies;	Library costs	Lobbying
Long-Distance Telephone charges	Accounting and Budgeting	Fund Raising
Repair and maintenance of scientific equipment ;	Local Telephone Charges	Donations
Travel	Human Resources	Flowers
Scientific equipment	University Purchasing	Alcohol
Animal care		
Consultants		
Subcontracts		

V. Selected Items of Cost

Problems often arise when someone wishes to charge an F&A cost as a direct cost. To do this, the item must be required by the scope of work, be capable of project specific identification and allocation and represent a unique requirement. Unlike circumstances must be demonstrated.

- **Administrative and clerical salaries and wages** generally should not be charged directly to a sponsored project. OMB Circular A-21, Section F.6 b (2), states:

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. Examples are provided at Appendix C of OMB Circular A-21 and include:

- Large, complex projects such as research centers.
 - Projects involving extensive data accumulation, analysis, entry, surveying, cataloging, etc.
 - Planning and organizing large conferences.
 - Projects designed to produce manuals, large reports, and books.
- **General purpose equipment** is equipment that can be used by everyone for a variety of reasons - not necessarily unique to research. As such, general purpose equipment should not be charged directly to a sponsored project. A partial list would include office equipment, office furnishings, PCs, printers and copy machines. General purpose equipment used for scientific and technical purposes may be appropriate as direct costs if justified in the proposal budget and approved by the funding agency.

- **General office supplies** are also items that are not commonly charged as direct costs to sponsored projects. However, if the work takes place at a remote site or if the scope of work requires an excessive amount of office supplies for tasks unique to the project, then, office supplies may be an appropriate direct charge. Examples include:
 - Projects that involve workshops and require the printing of packets of materials for participants.
 - Projects that require excessive supplies for the preparation of brochures, mailings and reports.
- **Local Telephone Services.** Basic telephone line and equipment charges and local telephone services are normally treated as indirect costs.
 - An exception may be made only when dedicated lines are required by the project scope of work (e.g. telephone survey or a telephone hot line) and approved by the sponsor in the project budget.
 - Long distance and fax charges may be charged to sponsored projects.

VI. Facilities and Administrative Cost Rates (Indirect Costs)

These are costs that cannot be specifically identified with a particular sponsored project but are incurred for joint or common objectives. They include costs such as building and facilities operation and maintenance, capital improvements, interest, equipment depreciation, library expenses, sponsored projects administration and general administration.

A cost proposal is negotiated with the U.S. Department of Health and Human Services whereby these indirect costs are calculated as a rate to be charged to sponsored program grants and

contracts. These rates are charged as a percentage of some (but not all) of the direct cost elements proposed in a sponsored program budget.

The base to which the rate is applied is known as Modified Total Direct Cost (MTDC). The direct cost elements include: salaries, wages, fringe benefits, materials, supplies, services,

travel and subcontracts up to the first \$25,000 of each subcontract, regardless of the period covered. Direct costs to which the rate cannot be applied are: equipment, tuition, scholarships, rent for off-site facilities and the portion of each subcontract in excess of \$25,000.

VII. Reference

Office of Management and Budget Circular A-21, re-located to the Code of Federal Regulations, 2 CFR, Parts 215 and 220, 08/31/05). <http://www.whitehouse.gov/omb/circulars>

VIII. Revision History

Date	Description
02/27/09	Published guideline.