POLICY FOR COMPLIANCE WITH COST ACCOUNTING STANDARDS

Policy Statement

As a recipient of federal awards, the university is obligated to comply with numerous rules and regulations promulgated by various federal offices. These organizations include sponsoring agencies such as the Department of Education and the National Science Foundation, and regulatory agencies such as the Office of Management and Budget (OMB). The OMB has adopted regulations from the Cost Accounting Standards Board (CASB) and applied them to educational institutions. Included in these regulations is a requirement for universities to disclose to the federal government their practices regarding charging costs to projects either as direct costs or facilities and administrative (indirect) costs if they receive federal awards in excess of $25 million. The university's practice of charging costs to sponsored projects and other institutional chartfield strings has been disclosed to the federal government as described in this policy. Therefore, adherence to these cost principles and practices by the university is necessary to prevent cost disallowance by the federal government.

Reason for Policy/Purpose

This policy is required for the effective communication of university policies regarding compliance with cost accounting standards.

Who Needs to Know This Policy

All members of The University of Southern Mississippi community.

Website Address for this Policy

www.usm.edu/institutional-policies/policy-rsch-cga-001
Definitions

Policy/Procedures

COST ACCOUNTING STANDARDS

The four Cost Accounting Standards (CAS) applicable to educational institutions are the following:

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.

502 – Consistency in Allocating Costs Incurred for the Same Purposes by Educational Institutions
Fundamental Requirement – All costs incurred for the same purpose, in like circumstances, are either direct costs only or 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 Project.

506 – Consistency in Using the Same Accounting Period for Purposes of Estimating, Accumulating and Reporting Costs
Fundamental Requirement – Educational institutions shall use their fiscal year as their cost accounting period.

POLICY

A. Proposal budgets must be developed utilizing specific items and categories of costs, which are consistent with the university's accounting system for recording and reporting of costs.

B. Specific items of cost must be consistently budgeted and charged in similar circumstances.

C. Similar cost incurred in like circumstances must be consistently treated as either direct or facilities and administrative (F&A) across all functions or activities of the institution, unless special or unlike circumstances exists.

COST ACCOUNTING STANDARDS APPLICABILITY

CAS covers the following types of sponsored projects:

A. All federal awards.

B. All awards that contain any federal flow-through money.

C. Terms and conditions of the proposal or award documents that reference OMB Circular A-21 or Cost Accounting Standards.
D. Any sponsored project whose funds are being used as cost sharing on a CAS covered project.

CAS will not apply to fixed price awards unless the funds are used as cost sharing against another CAS covered sponsored project. The Office of Contracts and Grants Accounting is responsible for determining whether or not a sponsored award meets the requirements of a “fixed price” award. To be considered a “fixed price” award, a project must meet each of the criteria below:

- Funds are obtained in full prior to the completion of the sponsored project or are obtained through installments as stated in the award;
- There are no financial reporting requirements;
- There are no audit requirements;
- There is no reference to costs being reimbursable; or
- There is no reference to Federal Circulars or Cost Accounting Standards (CAS).

PROPOSALS

CAS requires that the practices used in charging and reporting actual costs on a contract or grant is consistent with the practices used in estimating cost on the proposal. When preparing proposal budgets, only costs that are allowable, allocable, reasonable, and normally treated as direct costs should be included. In those instances when it is necessary to include in a proposal budget, a cost that does not meet these criteria, specific justification must also be provided in the budget. Costs included in proposal budgets must be based upon reasonable and consistently applied methods of estimating. All costs included in a proposal budget must be supported by documentation, even if that documentation consists only of the university policy that specifies how that cost is to be estimated.

DOCUMENTATION FOR DIRECT COSTS

A direct charge is an expense that may be paid using sponsored project funds. The federal guidelines state which costs may be directly paid by a contract or grant. Only those expenses that are allowable according to OMB Circular A-21 may be directly charged to a federal sponsored project. OMB Circular A-21 states that the allowable direct costs must be “reasonable”, “allocable”, “consistently treated as direct charges” and “not specifically designated as unallowable.” These terms are further described below. In essence, these guidelines mean that an expense must meet all of the following conditions before it may be directly charged to a contract or grant.

A. The expense must be reasonable and necessary for the performance of the project. This means that a prudent individual pursuing the proposed work would spend funds in this manner.

B. The expense must be allocable to the project. This is not an issue if the expense was incurred by a single project. However, if the item is of benefit to more than a single award, then a sponsored project may only be charged for that portion of the expense that represents the benefit directly received by that sponsored project. If the item or service benefits both a sponsored project and other work, only the proportion of the cost that benefits the sponsored project may be charged to that project.
C. For an expense to be directly charged to a federal sponsored project, it must be consistently treated in like circumstances as a direct charge for all other federally funded projects. A cost item may not be charged as a direct cost on some sponsored projects and as an indirect cost on other sponsored projects.

D. A sponsored project may not be directly charged for any item or service, which is specifically designated as unallowable in either an OMB Circular, the agency guidelines or in the agency award.

E. All four of these criteria must be met before an expense may be directly charged to a sponsored project. Costs that might be incurred for the common or joint objectives of several sponsored projects, but which cannot be specifically attributed to a particular sponsored project with a high degree of accuracy, may not be directly charged to these sponsored projects.

Appendix A lists a variety of costs and identifies their treatment as direct or facilities and administration.

UNACCEPTABLE DIRECT COSTING PRACTICES

The following direct costing practices are unacceptable because they do not meet the OMB Circular A-21 guideline for a “high degree of accuracy” for the assignment of costs to sponsored projects:

A. Rotation of charges among sponsored projects by month without establishing that the rotation schedule credibly reflects the relative benefit to each grant.

B. Assigning charges to the sponsored project with the largest remaining balance.

C. Charging amounts budgeted in contrast to charging an amount based on actual usage.

D. Assigning charges to sponsored projects in advance of the time the cost is incurred.

E. Identifying a cost as something other than what it is.

F. Charging expenses exclusively to sponsored projects, when the expense has supported non-sponsored projects.

G. Assigning charges that are part of the normal administrative support for contracts and grants (e.g., proposal preparation, accounting, and payroll).

H. Charging ending sponsored projects to expend funds without regard to the appropriateness of the costs.

These practices are not acceptable because they do not meet A-21’s standard for a “high degree of accuracy” in the assignment of costs to contracts and grants.

FACILITIES AND ADMINISTRATIVE (INDIRECT) COSTS

Facilities and Administrative (F&A) costs are defined in OMB circular A-21 as “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” (A-21 Section E). Facilities costs include depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operations and maintenance and library expenses. “Administration” is defined as general administration and general expenses, departmental administration, sponsored program administration, student services, and all other type of expenditures not listed specifically listed within one of the subcategories of Facilities, (A-21 Section F).
At the department level, salaries of administrative and clerical staff, items such as office supplies, postage, local telephone costs, and university memberships shall normally be treated as F&A costs.

Appendix A lists a variety of costs and identifies their treatment as direct or facilities and administrative.

SPECIAL CIRCUMSTANCES

Charging costs normally treated as F&A (indirect cost) as direct charge to a sponsored project may be approved for projects that involve the following special circumstances:

**Administrative and Clerical Salaries**

These costs are normally treated as F&A costs and are covered by the negotiated F&A cost rate. There may be exceptions when the Office of Management and Budget (OMB) permits the direct charging of these costs. Budgeting and charging these costs as a direct cost may be considered where a major project or activity explicitly budgets for administrative or clerical salaries and the individuals involved can be specifically identified with the project activity. The nature of the work or actual functions performed under a particular project should require an extensive amount of administrative or clerical support that is significantly greater than and in addition to the routine level of such services provided by academic departments. The following are specific examples of when direct charging of administrative and clerical salaries/wages and fringe benefits might be allowable with adequate justification in the proposal narrative and approval of the sponsor:

- Large complex programs such as centers or other projects that entail assembling and managing teams of PIs from a number of institutions.
- Specific externally sponsored activities involving extensive data collection, statistical analysis and entry database management, surveying, tabulation, cataloging and researching literature.
- 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 or books.
- Projects that are geographically inaccessible to normal departmental administrative services such as seagoing research vessels and other research field sites that are remote from the campus.
- Grants that bring together investigators from relevant disciplines and operates as an identifiable unit, such as core grants.
- Service Centers.

The college should provide adequate justification in the proposal narrative for the direct charging of costs in this category, showing that the clerical and administrative salaries met the criteria for unlike circumstances.
Routine monitoring of externally funded projects, proposal processing, typing of general correspondence, manuscripts or technical reports, ordering of supplies and meeting or travel arrangements are not included in the definition for direct charging of administrative and clerical salaries and is covered by the university's F&A cost rate.

**General Office Supplies**

Costs include those incurred in support of routine administrative activities associated with instruction, public service, research and other institutional activities. These items of cost are considered readily expendable and are treated as facilities and administrative costs covered by the negotiated F&A cost rate. The only exceptions are those wherein the purchase of the supplies is extensive in nature, can be specifically identified to the project and meets the definition of a direct charge. The college should provide adequate written justification in the proposal narrative for the direct charging of costs in this category, explaining that the supplies were a direct benefit to the purpose of the project and can be specifically identified with the project.

**Postage Expense**

Postage expense incurred in support of routine administrative communication activities associated with instruction, public service, research, and other institutional activities should not be charged directly to sponsored projects. The only exceptions are those cases where extensive postage expense is required in support of the goals and objectives of the sponsored award being charged. The written justification should demonstrate that the postage provided a direct benefit to the purpose of the project, is extensive, and can be specifically identified with the project.

**Telephone and Communication Expenses**

Communication expenses incurred in support of routine administrative activities associated with instruction, public service, research and other institutional activities should not be charged directly against sponsored projects. The only exceptions are those relating to equipment charges (dedicated research/lab lines), long distance calls, telegrams, fax long distance charges, and various other communication expenses specific to a project and incurred for the sole direct benefit of the project.

**Memberships and Subscriptions**

Institutional memberships in professional organizations and subscriptions to technical periodicals are allowable. Generally, individual memberships are unallowable. Individual memberships in civic or social organizations are expressly unallowable. An individual membership or subscription to a professional group or periodical may be allowed as a direct charge to a contract or grant only if the following can be demonstrated:

1. An institutional membership is not available or will not meet the needs of the project.
2. The cost has been justified in the proposal or a justification is in the College file if the need arises after the project was awarded.

**Maintenance Contracts**
Maintenance contracts on special purpose equipment are allowable as a direct cost. Maintenance contracts on general purpose equipment are allowable as an indirect cost unless the underlying equipment purchased is budgeted in the grant award. In those instances in which equipment is transferred to a core grant or core center and is used exclusively by the center, the associated maintenance cost would follow the equipment.

**Unallowable Costs**

Unallowable costs are specified in OMB Circular A-21 that are not eligible for reimbursement on sponsored projects as either direct or F&A (indirect). See Appendix B for a list of common unallowable costs.

**Cost Sharing**

Cost sharing is the portion of the total project costs of any sponsored project that is not provided by the sponsor. Other terms used for cost sharing are matching, third party, and in-kind contributions. Cost sharing occurs whenever the university is required or has volunteered to participate in either direct or F&A costs of a sponsored project. Cost sharing should be engaged in only when:

- Mandated by the sponsor;
- Needed to accurately reflect the level of effort required to conduct the project; or
- Necessary due to the competitive nature of the award.

If cost sharing is required or intended, it should be identified in the proposed budget.

**Mandatory versus Voluntary Cost Sharing**

Mandatory cost sharing is a contribution explicitly required by the sponsor's policies. Voluntary cost sharing is a cost contribution not required by the sponsor but voluntarily offered in the proposal. Cost sharing not quantified in the original proposal may subsequently be voluntarily contributed by the university because sponsor funds are not sufficient to perform the agreed upon scope of the work.

**Criteria for Cost Sharing**

To qualify as cost sharing, costs must be all of the following:

A. Allowable and allocable under OMB Circular A-21 and the terms of the sponsored project;
B. Verifiable through effort reports or other appropriate documentation;
C. Necessary and directly related to the project objectives;
D. In compliance with the provisions set forth in OMB Circular A-110 or in the terms of the sponsored project.

The costs must not be:

A. Included as cost sharing for any other project or
B. Paid by the sponsor under another award (federal funds must not be used as cost sharing on another federal project without prior approval).
Allowable Forms of Cost Sharing Expenditures

Cost treated as direct costs on sponsored projects may be used to meet a cost-sharing obligation. Costs included in F&A costs may not. The following is a partial list of allowable forms of cost sharing:

A. Direct Costs
   1. Effort of the PI and/or employees committed to sponsored projects, including their associated benefits costs
   2. Tuition, fees, and stipends related to work performed by graduate students on sponsored projects
   3. Costs of equipment purchases when the purchase of equipment is necessary for, and dedicated to, the successful completion of the project (existing equipment made available for, but not dedicated to, the performance of sponsored projects is not considered cost sharing)
   4. Laboratory supplies
   5. Travel

B. F&A cost rate
   1. Waived or reduced F&A costs. This is the difference between the applicable negotiated F&A cost rate and the amount of F&A costs awarded by the sponsor. This amount may be used as cost sharing if approved by the sponsor.
   2. When the direct expenses are as cost share, the associated F&A rate is automatically cost shared.

Examples of expenditures, which may not be used as cost sharing, are:
   1. Expenditures normally treated as F&A, such as administrative salaries and office supplies
   2. Unallowable costs, such as alcoholic beverages, entertainment, etc.

Documentation of Cost Sharing

All types of cost sharing must be documented and identifiable in the accounting system. If the sponsor as a condition of the award accepts cost sharing, accurate records must be maintained to verify that these funds have been provided through the use of university resources. The costs used for cost sharing will be documented in the same way as costs charged to sponsored projects. For example, if the cost sharing is in the form of a salary contribution, the contribution will be documented by the time and effort certification system. Cost sharing records are also used in calculating F&A cost rates. Excessive or unnecessary cost sharing can have the effect of reducing the F&A cost rate.

Cost Transfers

A cost transfer is any transfer of expenditures to a sponsored project through the use of an Interdepartmental Invoice. OMB Circular A-110 states that transfers of cost to sponsored projects by grantees that represent corrections of clerical or bookkeeping errors must be made promptly after the error is discovered. Adjustments to salaries must be made within 45 days after the end of the time and effort reporting period, which is set on a semesterly basis at the
university. Any necessary adjustments identified as a result of reviewing the Time or Effort report must be communicated to OCGA within 90 days.

Allowable Types of Transfers

Cost Transfers may be necessary to:

A. Correct bookkeeping or clerical errors in original charges;
B. Properly allocate costs to the appropriate chartfield strings using a verifiable and reasonable method in accordance with cost accounting principles;
C. Transfer charges between chartfield strings supporting closely related work for reasons other than covering overexpenditures;
D. Reclassify overexpenditures to voluntary cost sharing chartfield strings.

Documentation

All adjustments, whether moving costs to or from a sponsored project must be adequately explained. The following should be included for each transfer:

A. Specific identification of the original charge;
B. Justification of the appropriateness of the charge to the receiving sponsored project; and
C. A full explanation of why the transfer is necessary.

Should a cost transfer be required, it is important that complete and accurate explanations be provided to support the journal entry. Only authorized university employees should prepare these entries.

TIME AND EFFORT REPORTING

Time and effort reporting is required by OMB A-21 and is designed to substantiate effort spent by all employees whose salaries are charged directly to sponsored projects (including federal flow through funds) as well as those committed as mandatory and voluntary cost share. The university uses a Plan – Confirmation method to distribute the salaries of salaried employees and the Payroll Distribution method for hourly employees. The type of time and effort report used for the different classification of employee is as follows:

Faculty and Salaried Staff

An email based Time and Effort Report is generated by the Office of Contract and Grants Accounting and distributed to the applicable principal investigator for every salaried employee paid directly through the payroll system from a Restricted Fund chartfield string and to those included as an “In-kind” contribution to the project. It provides after-the-fact verification of time expended on sponsored projects as a percentage of total employee time. The percentage of time spent on the various activities is documented on the Time and Effort Report. Reports may be accepted or declined. Any declined reports are emailed back to the Office of Contracts and Grants Accounting. Corrections on the declined reports are made on a hard copy and mailed to the Principal Investigator for approval. Two notices will be sent to the principal investigator for
unapproved reports. After the third request, if there are any unapproved reports, the director of the Office of Contracts and Grants Accounting is notified for any further action.

**Hourly Staff**

Hourly employees' effort is documented by the completing of the Time and Attendance Report. This form is completed bi-weekly and documents time spent on various assignments.

**SERVICE CENTERS**

Costs identified to a particular sponsored project for the use of university service centers should be budgeted, charged, and reported as direct charges. These charges must be based on actual utilization supported by adequate documentation. These charges must also be based on a usage rate approved by the Office of Contracts and Grants Accounting. The rate must be approved before the charge is incurred by the sponsored projects. For procedures that cover the operation of university service centers please refer to the Service Centers Policy.

**Review**

The Assistant Vice President for Research Administration is responsible for the review of this policy every four years (or whenever circumstances require immediate review).

**Forms/Instructions**

N/A

**Appendices**

Appendix A: Typical Direct and Indirect Costs
Appendix B: A-21 Unallowable Costs

**Related Information**

N/A

**History**

11/01/11: Formatted for Institutional Policies website.
02/20/13: Formatted for template. Minor editing throughout.
**Amendments:** Month, Day, Year – summary of changes
Authorization

POLICY FOR COMPLIANCE WITH COST ACCOUNTING STANDARDS
RSCH-CGA-000-001

As the Responsible Officer, I have reviewed this policy and believe it represents the current policy.

[Signature]
Responsible Officer

4-2-13
Date
## Appendix A: Typical Direct and Indirect Costs

The following chart provides a summary for charging direct and F&A (indirect):

<table>
<thead>
<tr>
<th>DIRECT</th>
<th>INDIRECT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Wages/Fringe Benefits:</td>
<td>Salaries and Wages/Fringe Benefits:</td>
</tr>
<tr>
<td>Faculty, technicians, scientists, research, assistants, postdoctoral</td>
<td>Clerical and administrative positions such as fiscal officers, accountants,</td>
</tr>
<tr>
<td>associates, or other technical and programmatic personnel who are</td>
<td>secretaries, directors, vice-presidents, president, office personnel,</td>
</tr>
<tr>
<td>necessary to meet the goals of the project</td>
<td>executive assistants, and administrators</td>
</tr>
<tr>
<td>Clerical and administrative positions such as fiscal officers,</td>
<td>Memberships</td>
</tr>
<tr>
<td>accountants, secretaries, directors, vice-presidents, president,</td>
<td>Subscriptions, library books, periodicals, etc.</td>
</tr>
<tr>
<td>office personnel, executive assistants, and administrators</td>
<td></td>
</tr>
<tr>
<td>Scientific and Technical equipment</td>
<td></td>
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<tr>
<td>Computer costs (Software, supplies and services)</td>
<td>Subscriptions, library books, periodicals, etc.</td>
</tr>
<tr>
<td>Long-distance telephone charges</td>
<td></td>
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<tr>
<td>Maintenance projects related to scientific and technical equipment</td>
<td>Equipment (office and general)</td>
</tr>
<tr>
<td>Materials (including noncapitalized equipment)</td>
<td>Janitorial Services</td>
</tr>
<tr>
<td>Participant expenses Supplies (project supplies, items solely consumed</td>
<td>Photocopy (for office and general use)</td>
</tr>
<tr>
<td>the project)</td>
<td></td>
</tr>
<tr>
<td>Services obtained:</td>
<td>Postage</td>
</tr>
<tr>
<td>- Animal care</td>
<td>Repairs &amp; maintenance (buildings, ground, equipment, remodeling, etc.)</td>
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<tr>
<td>- Outside consultant/professional</td>
<td></td>
</tr>
<tr>
<td>Service centers</td>
<td>Sanitation services including hazardous waste</td>
</tr>
<tr>
<td>Subgrants/subcontracts</td>
<td>Telephone (recurring, installation and maintenance)</td>
</tr>
<tr>
<td>Subject costs</td>
<td>Utilities</td>
</tr>
<tr>
<td>Travel</td>
<td>Departmental Administration</td>
</tr>
<tr>
<td>Tools, uniforms</td>
<td></td>
</tr>
<tr>
<td>Conference Fees</td>
<td>Student Services</td>
</tr>
<tr>
<td>Chemicals, glassware</td>
<td>General Administration</td>
</tr>
<tr>
<td>Photographic supplies</td>
<td></td>
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<tr>
<td>Consulting/lecture costs</td>
<td></td>
</tr>
<tr>
<td>Publication and Page costs</td>
<td></td>
</tr>
<tr>
<td>Subawards</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: A-21 Unallowable Costs

Costs that are specifically designated as unallowable cost by OMB Circular A-21 include:
- Advertising expenses except for employee and subject recruitment
- Alcohol beverages
- Alumni activities
- Automobiles for personal use
- Bad debts
- Commencement and convocation costs
- Contingency provision costs
- Certain defense and prosecution of criminal and civil proceedings
- Donations and contributions
- Entertainment and social activities
- Fines and penalties
- Goods and services for personal use
- Housing and personal living expenses for officers of the institution
- Insurance against defective work
- Interest, fund raising and investment costs (excluding third party interest expense)
- Lobbying costs
- Malpractice insurance that does not involve human subjects
- Membership in any civic or community organization, country club, social or dining club
- Public relations costs
- Selling and marketing costs
- Severance costs incurred in excess of the institution's normal policy
- Student activity costs
- Travel airfare costs in excess of standard coach fees