



National Council of University Research Administrators

The Fourteenth Annual
Financial Research Administration Conference

March 10-12, 2013



ABC's of Cost Allocation: Allocability, Benefit to The Award and Consistent Treatment of Costs

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- I. OMB Circulars
- II. Cost Principles
- III. Allocability
- IV. OIG Reports and Audits Related to Allocability



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OMB Circulars



Current Governing Circulars

A circular is a federally mandated set of principles and guidelines used to determine costs applicable to grants and contracts with institutions

OMB Circular A-21

- Developed by the Office of Management and Budget (OMB), this circular covers costing projects within colleges and Universities

OMB Circular A-122

- Covers costing projects within non-profit organizations

OASC-3

- A Guide for Hospitals -. Developed by the Department of Health and Human Services (DHHS), this circular covers costing projects within hospitals

OMB Circular A-87

- Covers State and Local Governments (i.e., school districts, ESCs, and open enrollment charter schools operated by a governmental entity)

OMB Circular A-110

- Administrative requirements for grants and agreements with institutions of Higher Education, Hospitals, and other non-profit organizations

OMB Circular A-133

- Entities that receive federal funds are subject to audit requirements that are commonly referred to as Single Audits. The audits are tended to promote sound financial management, including effective internal control, with respect to federal awards



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Proposed Governing Circulars

Consolidated OMB Circular

On February 1, 2013, OMB issued proposed reforms to the guidance for Federal policies relating to grants. This includes consolidating a number of OMB circulars covering a variety of entities. These reforms cover Administrative Requirements, Cost Principles, and Audit Requirements.

Full Text Proposed OMB Uniform Guidance for Federal Financial Assistance:

<http://www.regulations.gov/#!documentDetail;D=OMB-2013-0001-0002>

Cost Principles Text Comparison:

<http://www.regulations.gov/#!documentDetail;D=OMB-2013-0001-0006>



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Cost Principles



Cost Principles Overview

Institutions that receive federal funds for research must abide by federal “Cost Principles.”

The principles are designed to provide that the Federal Government bear its fair share of total costs

The principles deal with the subject of cost determination, and make no attempt to identify the circumstances or dictate the extent of agency and institutional participation in the financing of a particular project



Concepts of Financial Compliance

The cost principles apply to any costs charged to the federal government

- Direct costs of research projects
- F&A /indirect costs
- Most institutions apply the federal cost principles to all sponsors, federal or non-federal



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Concepts of Financial Compliance

**Costs charged to
federally sponsored
projects must be:**

Allocable

Reasonable

Consistent

Allowable



Applicable Reference for Universities

Office of Management and Budget (OMB) Circular A-21

2 CFR, Part 220

“Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions”

- “Establishes principles for determining costs applicable to grants, contracts, and other agreements with educational institutions”
- “Principles are designed to provide that the Federal Government bear its fair share of total costs, determined in accordance with generally accepted accounting principles, except where restricted or prohibited by law”



Cost Accounting Standards Overview

OMB (Office of Management and Budget) Circular A-21 :
Appendix A



Issued by the Federal effort to establish government wide cost principles



Applicable to research and development grants, contracts, and other funding agreements with educational institutions

Based on information that some institutions of higher education were improperly allocating indirect costs to federal research programs and charging unallowable costs to federal awards...



Cost Accounting Standards

CAS 501

- Consistency in Estimating, Accumulating and Reporting Costs
- An institution's practices for estimating costs in pricing a proposal must be consistent with the practices used in accumulating and reporting costs
- An institution's cost accounting practices to accumulate and report actual costs for sponsored projects must be consistent with practices used to estimate costs in pricing the proposal or application.



Cost Accounting Standards

CAS 502

- Consistency in Allocating Costs for the Same Purpose
- Each type of cost may be allocated only once
- All costs incurred for the same purpose, in like circumstances, must be treated as either direct costs only or F&A costs only with respect to final cost objectives



Cost Accounting Standards

CAS 505

- Accounting for Unallowable Costs
- Unallowable costs must be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement



Cost Accounting Standards

CAS 506

- Cost Accounting Period
- Educational institutions must use their fiscal year as the cost accounting period



What Do Cost Principles Do?

Term	Definition
Reasonable	Goods or services acquired and amount involved reflect an action a prudent person would have taken.
Allocable	Benefits the project or award that was charged.
Allowable	Items not restricted by federal regulations or the <u>specific</u> grant/contract.
Treated Consistently	Like costs in similar circumstances need to be charged directly or indirectly at the institution.

Costs that do not meet these standards should not be charged to a project



Reasonable

OMB Circular A-21 C.3.

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



Reasonable

Major Considerations:

- Is the cost recognized as necessary for the operation of the institution or the performance of the sponsored agreement?
- Required by arm's length bargaining, federal and state laws and regulations, or within the sponsored agreement terms and conditions.
- Whether or not individuals concerned acted with due prudence under the circumstances.
- Consistent with established institutional policies and practices.

Would **you** buy this item and pay this price if you had to pay for it?



Allowable/Unallowable Listing

OMB Circular A- 21 Section J

- 54 types of costs
- For some costs, also specifies approval requirements, documentation and other provisions



Examples of Unallowable Costs per A-21

Unallowable Activities

- Organized fund raising
- Lobbying
- General public relations & alumni activities
- Commencement expenses
- Social events

Unallowable Objects

- Advertising
- Alcoholic beverages
- Entertainment
- Fines and penalties
- Gifts and Awards

This list is not all inclusive. Individual agency and program requirements may list other “unallowable” costs.



Consistent

OMB A-21 Section C.11.a

- 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.



Consistent

Considered to be the biggest compliance risk of the
“allowability” criteria:

- Costs must be treated consistently in estimating, accumulating and reporting costs
- Costs must be treated consistently (across the institution) as either a direct cost or an F&A (indirect) cost
- The Department of Health and Human Services (DHHS) Office of Inspector General (OIG) conducts several Audits to determine compliance regarding these cost principles



Consistent (Direct vs. Indirect)

- Direct Costs are charged to a specific award that directly benefit
- After direct costs have been determined and assigned to awards as appropriate, indirect costs are those remaining to be allocated to benefiting cost objectives
- General administrative and clerical salaries and general expenses are considered indirect costs in most instances

Direct

- Principal Investigator salaries
- Lab supplies
- Travel
- Subcontracts
- Equipment
- Patient care costs

Indirect

- Departmental Administrator
- Postage and office supplies
- Depreciation or use allowances on buildings and equipment
- Operating and maintaining facilities



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Allocable



Allocable

OMB A-21 Section C.4.a

- A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship.



Considerations for Allocability

1

- Costs must be assigned to a project in proportion to the benefit received

2

- Costs incurred advance the work under the sponsored award

3

- The costs necessary to the overall operation

4

- Costs allocable to a project may not be shifted to another project to eliminate deficits or other reasons of convenience



Allocable to Multiple Projects

If a cost benefits two or more projects or activities:

In proportions that
can be determined

Cost should be
allocated to the
projects based on the
proportional benefit

In proportions that
cannot be determined
because of the
interrelationship of
the work involved

Costs may be
allocated or
transferred to
benefited projects on
any reasonable basis



Allocation Methodologies

It is a common practice to purchase and allocate general supplies that may be used across multiple awards.

These items are easier purchased in bulk and apportioned to various projects as appropriate

In these cases, it is nearly impossible to assigned costs in a precise manner based on actual use, so in these cases regulations allow for distribution of costs in a method that is reasonable, consistently applied and documented



Allocation Methodologies

A

- Number of researchers on each project compared to the total number of all researchers

B

- Number of experiments/projects being performed and estimated usage for each project

C

- Based on lab space for each project compared to the total space used for all projects receiving the allocated costs

D

- The amount of other related project costs, e.g., lab animal costs



Clerical and Administrative Costs

OMB Circular A-21 F.6.b.

- 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.
- Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.



Consistent and Allocable

What costs are most scrutinized by federal auditors?

- Clerical and Administrative Costs
- Office Supplies
- Computers and Software
- Memberships
- Postage

Why is it a problem to charge these costs directly to sponsored programs?

- Typically these cost categories are included in the Departmental Administration component of institutions' F&A Rates
- Auditors recognize that economic factors may preclude doing the right thing
- In all but "exceptional circumstances", these costs benefit multiple activities, and therefore meet the definition of an F&A cost



Allocation of Indirect Costs

Unlike Circumstances

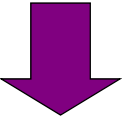
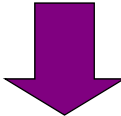
- Generally exist when a sponsored project or activity, due to its size and nature, requires administrative or clerical services, supplies, postage and/or telecommunications costs that are well beyond the core of departmental support routinely provided for departmental activities

Major Project

- The project typically has a “major project” designation (OMB Circular A-21, Exhibit C)
- Projects that involve extensive data accumulation, analysis and entry, surveying, tabulation, etc.



Allocation of Indirect Costs

Allocability of Administrative Support	
Scenario 1	Scenario 2
A large volume of research data needs to be entered for a federal award	Typing of correspondence, journal articles, expense reimbursements, etc.
Unique to the scope of work	General research administrative cost
	
YES – Able to be charged directly to the award	NO – Not allocable to a specific award



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OIG Reports and Audits Related to Allocability



Florida State

Florida State

- The period October 1, 2008, through September 30, 2010
- HHS OIG reviewed approximately \$10.6M in transactions. Determined the University charged approximately \$3M in unallowable activity and requested payback
- Admin and Clerical Staff
(cleaning glassware, ordering supplies, supervising data collections)
- General-use supplies, including toner
- Charged 5 backup computers, should any of the 10 computers become inoperable



Duke University

Duke investigation for administrative and clerical costs

- Administrative and Clerical Costs
- Period October 1, 2002, through September 30, 2004
- OIG based its claim by extrapolation from a mere two samples out of a total of 114 charges for administrative and clerical salaries, and 120 charges for other administrative costs
- OIG recommended that the University
 - (1) refund \$1.7 million to the Federal Government and
 - (2) that Duke revise its policies as needed to comply with the requirements of Office of Management and Budget (OMB) Circular A-21 and ensure consistent treatment of administrative and clerical costs.



Florida International University

FIU investigation for administrative and clerical costs

- Time period 1995-2003
- Audit by U.S. Department of Energy that a research center for environmental technology improperly billed for scientists' time, travel and administration expenses
- Settlement of \$11.5 million to the Federal Government



University of South Florida

USF investigation for administrative and clerical costs

- The four year audit began in one college as a routine audit in 1999, was expanded to other colleges in 2001 and completed in 2003
- charging clerical costs to grants without justification, purchasing equipment after project ended, travel for personnel not reported on grant, and departmental administrators signing effort reports for PIs
- Required to return \$4 million



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Questions?

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