Agenda

I. Cost Accounting Standards
II. National Science Foundation Audit
III. OMB Uniform Guidance
IV. Business & Finance Bulletin A-47
V. Costing Principles
Cost Accounting Standards (CAS)

- Set of standards and rules set by the US Government for use in determining costs on negotiated procurements.

- **HISTORY:** In 1970, Congress established the original Cost Accounting Standards Board (CASB) to 1) achieve uniformity and consistency in the cost accounting principles followed by defense contractors and subcontractors, and 2)
Cost Accounting Standards (CAS)

2) establish regulations to require defense contractors and subcontractors, as a condition of contracting, to disclose in writing their cost accounting practices, to follow the disclosed practices consistently and to comply with promulgated cost accounting standards. After adopting 19 standards, the original CASB was dissolved in 1980; the standards, though, remained active.
Cost Accounting Standards (CAS)

- CASB was revived in 1988 within the Office of Federal Procurement Policy (OFPP). The current CASB consists of five members: the OFPP Administrator (who serves as Chairman) and one member from the United States Department of Defense (this position is held by the Director of the Defense Contract Audit Agency), the General Services Administration, industry, and the private sector.
Cost Accounting Standards

- Cost Accounting Standards Board published regulations on cost accounting standards for educational institutions. The standards set forth principles for determining direct, indirect, allowable, and unallowable costs applicable to federal sponsored projects.
I. Cost Accounting Standards

Why are they required?

As noted in the Federal Register:

Based on information that some institutions of higher education were improperly allocating indirect costs to federal research programs and charging unallowable costs (directly) to federal awards...
Four Cost Accounting Standards Apply to Colleges and Universities

• 501: Consistency in Estimating, Accumulating, and Reporting Costs
• 502: Consistency in Allocating Costs Incurred for the Same Purpose
• 505: Accounting for Unallowable Costs
• 506: Cost Accounting Period
501- **Consistency in Estimating, Accumulating, and Reporting Costs**

- This standard requires that the practices used in accumulating and reporting actual costs on a contract or grant are consistent with practices that were used in estimating costs on the proposal.
501 Requires that:

- UCSB’s practices used for estimating costs in pricing a proposal (i.e., cost included in the proposal budget) shall be consistent with UCSB’s cost accounting practices used in accumulating and reporting costs (i.e., costs charged to a contract or grant award)
This standard requires that costs incurred for the same purpose, in like circumstances, be treated consistently as either direct or indirect costs. This standard applies to all costs regardless of funding source.
502-Requires that:

- **Costs incurred in like circumstances should be consistently charged as direct or indirect.**

- **For example:**
  - If long distance telephone charges are direct charged to a sponsored project, then all other remaining long distance charges should be charged to Instruction, or Departmental Administration, and be identified to the appropriate account/fund and object code.
This standard requires that **unallowable costs** be **identified** and accounted for separately from **allowable costs**.

- Unallowable Activities
- Unallowable Transactions
Unallowable Activities

- Unallowable Activities may not be allocated to sponsored projects, either as direct or indirect costs.
Unallowable Activities

• Commencement and Convocation Costs
• Costs of Legal Proceedings
• Housing and Personal Automobile Allowance for Executives,
• Lobbying costs, including Printed Advocacy Material,
• Selling and Marketing University Goods and Services, including Marketing and Licensing University Copyrights and Technology
• Alumni Activities
• Fund Raising and Investment Management Activities
• Student Activities
• Ongoing Advertising and Public Relations Activities
Unallowable Costs

- Unallowable Costs may not be allocated to sponsored projects, either as direct or indirect costs; however, there are unique projects that may require these types of costs which must be coded correctly.
- Unallowable Costs are reviewed monthly by the EMF unit.
Object Codes for Unallowable Costs

- 7700 – Fines and Penalties
- 7710 – Donations and Contributions
- 7720 – Memberships/Subscriptions
- 7730 – Advertising
- 7740 – Medical/Health Care Payments
- 7750 – Social Activity – Entertainment
- 7751 – Non-Cash Awards/Gifts
- 7755 – Commencement & Convocation Costs
- 7780 – Attorneys/Legal Proceedings
506- Cost Accounting Period

- This standard requires the consistent use of the same cost accounting period for purposes of estimating, accumulating, and reporting costs. The institution shall use their fiscal year as their cost accounting period for establishing an allocation basis in an indirect cost pool.
CONCLUSION

REMEMBER!

Standard 501
Consistency in Estimating, Accumulating, and Reporting Costs

Standard 502
Consistency in Allocating Costs Incurred for the Same Purpose

Standard 505
Accounting for Unallowable Costs
Disclosure Statement (Form DS-2)

• This Disclosure Statement has been designed to meet the requirements of Public Law 100-679, and

• persons completing it are to describe the educational institution and its cost accounting practices.
Disclosure Statement (Form DS-2)

• Disclosure Statements must be amended when disclosed practices are changed to comply with a new Cost Accounting Standard or when practices are changed with or without agreement of the Government.

• Amended Disclosure Statements are required when the F&A rate is negotiated.
II. – National Science Foundation Audit

• September 2010 Audit Initiation - The University was notified regarding the audit.
• 3-Year Audit Period – 2008-2010
• Fieldwork 2010-2011
• Final Audit report September 28, 2012
Audit Results – $6.3 Million Is Questioned Because UCSB Did Not Comply with Federal and NSF Award Requirements
Finding 1

Over $1.9 Million of Overcharged Summer Salaries
Finding 2

Over $2.8 Million of Excess Federal Cash Disbursements Resulted From Not Fulfilling Grant Cost Share Requirements
Finding 3

Approximately $500,000 of Inappropriate Cost Transfers Into NSF Awards
Finding 4

Over $473,000 of Indirect Cost Overcharges to NSF Grants
Finding 5

$440,000 of Unallowable Costs Charged to NSF Grants
Finding 6

UCSB Used $180,000 of Remaining Fellowship Funds for Non-Award Purposes
Final Resolution: UCSB returned $43,000 of disallowed costs
August 21, 2015

In the NSF's priciest Grant-Fraud Settlement, Northeastern University Will Pay $2.7 Million
The case stems from the management of NSF grant money awarded to Northeastern for work at CERN, the European Organization for Nuclear Research, from 2001 to 2010. The work was led by a professor of physics, Stephen Reucroft.
The university issued a written statement that put the blame largely on the PI, who retired from Northeastern in 2010.

"The conduct in question related to accounting and grant oversight," Northeastern said in a written statement. "The university self-reported the discrepancies to the funding agency, the National Science Foundation, as soon as they were discovered and fully cooperated with the agency’s review."
But the terms of the $2.7-million settlement suggested that Northeastern bore substantial responsibility. According to the agreement, the university failed to provide necessary oversight, failed to pay interest due, paid salaries without required documentation, and paid expense money based on inadequate or fraudulent documentation submitted by the PI.

Northeastern "continued to engage in these practices when it knew or should have known in 2006, if not before, that Professor Reucroft had violated NSF requirements when he submitted fraudulent claims for personal expenses," said the settlement.
Altogether the university "approved and disbursed at least 26 advances, totaling approximately $8.4 million in NSF funds, to CERN team accounts without required verification of need and sufficient oversight," the settlement said.

The PI denied authorizing any improper expenses, and said he has not been contacted since his 2010 retirement by anyone at Northeastern, the NSF, or the U.S. DoE. "I am at a loss to understand it," he said of the complaint and settlement. "I am also a bit surprised that I have not been involved in the process."
The NSF’s Office of Inspector General handled the investigation. A spokeswoman with the office said she had no comment on the case, which she described as the OIG’s largest civil investigative recovery of NSF award funds.
BREAK!
III. - OMB Uniform Guidance Replaces A-21 Cost Principles for Educational Institutions

- Establishes principles for determining costs applicable to agreements with educational institutions

- It requires that:
  - All Federal agencies that sponsor research and development, training, and other work at educational institutions apply the provisions of the Circular in determining the costs incurred for such work.
Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost.
How to Determine if a Cost is:
Reasonable, Allocable, and Allowable
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.”
Questions to Determine **Reasonableness**

- Did the individual act with due prudence under the circumstances?
- Are the actions consistent with established institutional policies and practices?
- Is the cost generally recognized as necessary for the operation of the institution or the performance of the agreement?
Allocable

• “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship.”
Questions to Determine if Costs are Allocable

• Can costs be easily allocated in proportion to the benefits derived by a specific project?
• Is the cost incurred solely to advance the work under the sponsored agreement?
• Does the cost benefit both the sponsored agreement and other work of the institution in proportions that can be approximated through the use of reasonable methods?
Allowable

- Costs must be:
  - Reasonable.
  - Allocable.
  - Given consistent treatment through application of generally accepted accounting practices appropriate to the circumstances.
  - In conformance with the limitations or exclusions for individual cost set forth in Uniform Guidance.
  - Individual award terms not restrict the charge.
  - Follow UC Policy guidelines.
Questions to Determine Allowability

- Is it consistent with UC policy & practices?
- Is the cost in compliance with Uniform Guidance?
- Does the individual contract or grant terms indicate restrictions or not allowable?
- Is it easy to allocate for the cost as a direct expense?
- Does the cost benefit the project?
- Is the cost consistently treated?
To sum it up..........  

- Costs must be necessary for the performance of the award or activity.
- Costs should be allocated to the users 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.
- Each transaction charged to an award or activity must include backup documentation.
Determining Cost Allowability & Classification

Is the cost allocable?

Yes → Is the cost reasonable?

Yes → Is the cost allowed under Uniform Guidance or approved in the award?

Yes → Does the cost meet Uniform Guidance direct cost definition or approved in the award?

Yes → Allowable direct cost. Charge to award account.

No → Does the cost meet Uniform Guidance indirect cost definition?

Yes → Allowable indirect cost. Charge to department operating account.

No → For unallowable activities, charge to a designated non-sponsored account. For unallowable expenses, charge to an unrestricted non-federal fund using an appropriate designated object code.

No → Is the cost reasonable?

No → Is the cost allowed under Uniform Guidance or approved in the award?
IV. Business Finance Bulletin A-47

- University Direct Costing Procedures
  - Direct Costs
  - Expenditure Adjustments
    - Conditions
    - Criteria
  - Recharges
    - Definition
Expenditure Adjustment

1. Conditions
   • Correct an error
   • Change in decision
   • Redistribute high volume, low cost
   • Redistribute payroll costs based on a PAR

2. Criteria
   • Must relate to individual items
   • Contain the reference from the original charge
   • Must be fully explained, justified, and approved
   • Must be transferred within 120 days (4 ledger cycles)
Direct Charges

1. Direct charges are original transactions from various methods (i.e. payroll, vendor invoices, sub-recipient invoices, etc.)

2. Direct charges need to be transferred from the original account to another account (i.e. errors, decision changed, redistribute high volume low cost charges, & redistribute payroll costs based on effort reports).
Business Finance Bulletin A-47

Recharge Categories

1. Cost charged to a department for goods or services provided by another department.
2. Cost charged to self-supporting activities which are primarily funded by external income. (i.e. Summer Sessions).
3. Cost charged to a department for special services above normal services provided by a central admin department. These charges must be approved by the Chancellor.
V. Costing Principles

A. Direct Costs
B. F&A Costs
C. Major Projects
D. Object Code Listing
A. Direct Costs

- Direct Costs are those costs which:
  - can be readily identified with a specific sponsored project or institutional activity.
  - may benefit one project, but not benefit another project.
  - the methodology used is easy to allocate based on benefit to the project.
Examples of Direct Costs

- Salaries and benefits (readily identifiable with a sponsored project or other institutional activity)
- Travel
- Scientific equipment
Costs Directly Charged to Awards

- PAYROLL
- EMPLOYEE BENEFITS
- TRAVEL
- FREIGHT
- RECHARGES
- TOLL CALLS
- RENTS
- FEES FOR SERVICES
- LAB SUPPLIES & MATERIALS
- EQUIPMENT
- INDIRECT COST
B. Facilities & Administrative Costs

• F&A COSTS are costs that cannot be specifically identified with a particular sponsored project or other direct activity such as instruction or research. These costs, instead, are generally related to departmental operations and administrative activities that support sponsored projects and other institutional activities.
Types of F&A Costs

- Utilities
- Library Costs
- Copy Costs
- Departmental Assistance
- Office Supplies
- Phone Charges, Local Calls, & Phone Equipment
- Other Communication Costs
- Postage Costs & Mail Services
Introduction to Indirect Costs at UCSB

- Developed by Vice Chancellor Witherell as a primer for faculty and staff on indirect cost recovery at UCSB
- Provides background and overview of indirect costs
- Covers
  - Why indirect costs are charged to contracts and grants
  - How indirect costs relate to UCSB expenditures
  - How indirect cost rates are calculated
Is it a DIRECT COST OR F&A?

- Computers
- Office Supplies
- Phone Lines/Phone Equipment
- Internet Connection
- Copy Charges
- Mail Charges
- Recruitment Advertising
- Business Officer Salary
B. Major Projects distinction no longer required by Uniform Guidance

Administrative program support, SIGNIFICANTLY greater than the routine level provided by academic department administrative and clerical staff may be direct charged to a sponsored project if the activity is included in the project budget or revised budget and adequate documentation is available to support the direct charge.

This must be pre-approved by Sponsored Projects
Charging Clerical / Admin Salaries

- Use specific and functional purpose descriptions such as survey costs, survey supplies and survey mailing instead of general office costs, miscellaneous office supplies and postage.
- Use sufficient detail to demonstrate that the costs are required, allowable, and identifiable to the project (e.g., local phone charges are necessary to conduct the telephone survey and communicate with client families; these costs will be incurred solely to support the project).
- **Document! Document! Document to justify!!** Justification should be in the budget description and narrative.
Examples of Such Activities

• Performing administrative activities beyond the routine (e.g., mass mailing)
• Extensive data accumulation, analysis, and entry (e.g., surveys)
• Planning and organizing large conferences
• Must be identified as approved charges by the SPO during the proposal process
C. Object Code Listing

• The codes are used to classify expenditures.
• Provides a more detail breakdown than the sub account (i.e. salaries, benefits, supplies...)
• Used primarily in the preparation and control of budgets.
• Used to accumulate expenditures for the annual financial report and special studies.
• F&A Rate
Object Code Summary

✓ The correct use of object codes is critical to the accurate identification of costs that should, and should not be included in the campus indirect cost pool.

✓ Identify whether a cost is reasonable, allowable, and allocable and indicate the correct object code charged to a project.

✓ Identify unallowable costs and code them properly.
Stipends

• The use of the terminology “Stipend” generates confusion because it seems to represent a third category of support that is neither student aid nor wages.

• No such third category is recognized by IRS tax regulations or by federal financial aid regulations.

• RISK: Both non-compensatory and compensatory disbursements have federal tax reporting requirements and must be disbursed in a fashion that allows the university to identify and report them accurately.
Subcontracts/Subgrants

- Subcontract is an award made to a third party outside the University to perform a portion of the scope of work on a project.
- Subcontracts are given a unique KK number by Office of Research.
- Expenditures of $25,000 or less will be charged F&A at the negotiated rate (7305).
- Subcontract expenditures over $25,000 for the same third party will be excluded from additional F&A charges (7300).
OVERVIEW

What can you do?

- Understand OMB Uniform Guidance and the Costing Principles
- DS-2
- Be aware of additional award restrictions.
- Exercise Good Judgment
- Demonstrate Accountability
- Strengthen Internal Controls
- Document! Document! Document to Justify Allowability!
UC Path Purpose

Implement a single payroll and human resources system across all ten campuses and five medical centers

- **Benefits of a unified system:**
  
  **STANDARDIZATION**

  - Efficiencies
  - Improved data
  - Improved service
Resources

- OMB Uniform Guidance
  - http://www.bfs.ucsb.edu/omb/omb-uniform-guidance
  - Business Finance Bulletin A-47

- Departmental Costing Guidelines
  - Object Code Listing
  - Disclosure Statement (Form DS-2)
F&A Resources

- **IDC Rate Agreement**
  - Introduction to IDC by V.C. Witherell
  - [https://www.research.ucsb.edu/media/199439/introduction_to_indirect_costs.pdf](https://www.research.ucsb.edu/media/199439/introduction_to_indirect_costs.pdf)
- Typically F&A Listing
Additional Resources

• Equipment Management-Vaughn Boyle
  – vaughn.boyle@purc.ucsb.edu (ext.7377)
• Travel-Annette Gonzales (ext.7037)
  – annette.gonzales@bfs.ucsb.edu
QUESTIONS??