Pre-Session Discussion and Our Learning Objectives

- When you hear ‘costing’, what do you think of?
- What makes a cost ‘allowable’ to a sponsored project?
- What makes that same allowable cost ‘allocable’ to a sponsored project?
- What is the name of the costing circular for Educational Institutions on which we base our costing practices and decisions?
- Give some examples of Direct costs.
- Give some examples of Facilities & Administrative (F&A)/Indirect costs.
Pre-Session Discussion and Our Learning Objectives

- What makes Direct and F&A cost different?
- Do you know how the institution arrives at the F&A rates?
- Are you familiar with Transaction Controls and how they are managed?
- What is Cost Share?
- What do you consider in selecting an Expenditure Type to charge?
- Can you converse comfortably with your faculty/staff on costing matters?

Don't charge the Government twice for the same cost.
(Direct Costs versus Facilities & Administrative Costs)

F&A Costs = The Cost of Doing Business

Federal Costing Requirements:
- Don't charge the government for any expressly 'unallowable' costs.
- Be CONSISTENT in the budgeting, charging and reporting of costs on Federally sponsored awards—this consistency must be achieved across grounds.

CAS: Four Standards CURRENTLY Applicable to Educational Institutions

- Standard #501
  *Requires consistency in estimating, accumulating and reporting costs by educational institutions.

- Standard #502*
  **Requires consistency in allocating costs incurred for the same purpose by educational institutions (other than those of the F&A costs).

- Standard #505
  Requires accounting for unallowable costs.

- Standard #506
  Defines the Cost Accounting Period.

**Our focus today
Applying Costing Requirements at UVa.
APPLIES TO ANY SPONSORED AWARD SATISFYING ANY 1 OF THE FOLLOWING CRITERIA:

- Federally funded
- Funds used as cost sharing
- Is normally considered part of F&A (overhead)
- Falls under an expenditure type that is "locked" by Transaction Controls
- Is NOT Transaction-Controlled, but still needs approval:
  - General Use Software
  - General/Administrative Salaries

When do I need a costing exception form?
APPROVAL IS NEEDED IF CRITERIA IN THE PREVIOUS SLIDE ARE MET, AND THE ITEM BEING CHARGED:

- Is normally considered part of F&A (overhead)
- Falls under an expenditure type that is "locked" by Transaction Controls
- Is NOT Transaction-Controlled, but still needs approval:
  - General Use Software
  - General/Administrative Salaries

A word about non-Federal Sponsors
Alternate costing policy for other award types = reasonableness and timeliness in costing as well as adhering to sponsor terms and conditions/expectations.
Costing Basics

Is The Funding Federal/Flow-Through?

- Award documentation contains the name of the Sponsoring entity. (Be aware here, words like national or American don’t always denote a federal funding agency.)
- Award documentation references a Catalog of Federal Domestic Assistance (CFDA) number. A number assigned to Federal programs signifying the Sponsoring agency and the program being funded.
- Contracts received as direct Federal awards or via Flow-Through funding
- Award documentation references OMB Circular A-21 (2 CFR 220)

Costing Basics

UVA Costing and Costing Specific Documents

POLICIES
- VIII.C.1: Compliance with Sponsor Requirements
  http://www.virginia.edu/policies/v8c1.html
- VIII.C.1.A: Compliance with Federal Sponsor Requirements
  http://www.virginia.edu/policies/v8c1a.html

PROCEDURE
- Procedure 8-14: Budgeting Direct Costs of Sponsored Programs

The University’s Disclosure Statement (DS-2)

CAS requires that the institution

DISCLOSE...
- our “costing practices” formally in the Disclosure Statement or “DS-2” document

& FOLLOW...
- Our practices that we have disclosed in the DS-2!
CAS: The University’s Disclosure Statement (DS-2)

The DS-2 describes to the government how we’re treating costs at the University:

...detailing which costs we treat (“allocate”, “assign” or “charge”) as DIRECT COSTS... which ones we treat as FACILITIES & ADMINISTRATIVE (F&A) COSTS.

No two disclosure statements are alike!

Costing Basics

Talking the Same Language –
Key Terms and Concepts

Costing Basics

Allowable Costs

There are 2 ways to budget, charge, and report “allowable” costs:

• Direct Costs

• Facilities and Administrative (F&A) Costs
### Costing Basics

**Definition: Direct Costs**
- budgeted/charged to specific direct cost categories
- allocable and identifiable to a single project
- reasonably supports the technical goals/objectives/outcomes of the project
- identification is made with relative ease and a high degree of accuracy
- examples include: PI and research assistant salary, travel, equipment, subcontractors, lab supplies, etc.

### Costing Basics

**Definition: F&A Costs**
- budgeted/charged to F&A cost category
- benefit common objectives
- cannot be allocated to a single project with relative ease and a high degree of accuracy
- included in the University’s F&A cost rate proposal and negotiation
- examples include: utilities, building maintenance, landscaping, payroll, procurement and other central office salaries, the Sticky 6, etc.

### Costing Basics

**To be considered DIRECT the cost must be:**

- **Allocable**: The project which pays the expense must directly benefit from it. (The item charged to a grant must be directly related to the objectives of the science.)
- **Reasonable**: An expense would be reasonable, so that a “prudent person” would have paid the stated amount for the good/service and also would have budget/charged the cost to a sponsored award in the same manner.
- **Allowable**: A cost must be allowable under both the provisions of 2 CFR 220 (OMB Circular A-21), Section J and the terms of the particular award.
Costing Basics

**Allocation—When is it okay to directly charge a federal award for a given cost item?**

- Definition of a Direct cost must be met
- Cost furthers the PURPOSE of the technical aims of the project – are not a general NEED
- Cost is adequately documented: NO documentation – NO cost!
- Cost/Benefit is clear to a prudent person
- Have a method for allocation decisions

*Allocation is not always 100% of the total cost or nothing!*  

Some Good Examples:  
- General Lab Supplies  
- Animal Charges  
- Lab Chemicals and Gases  
- Equipment Maintenance/Service Agreements

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Costing Basics

**Allocation—When is it okay to directly charge a federal award for a given cost item?**

Florida State University audit finding – 7/12/12  
Overall fine nearly 3 million

“The pipette tips were charged to a project that was the only sponsored or nonsponsored project being conducted in the lab where they were used.”

http://www.costaccounting.org/audits.html

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Costing Basics

**Other Cost Allocation Pitfalls**

- Charge costs near the end of the project’s life (last 3 months)
- Charge the project that has the greater available balance – not alone a reasonable basis for allocation
- Charge the project that was funded for more $$ than another was
- Charge a project for 100% of the cost when 100% of the benefit was not received – It’s just easier
- Charge the problem that is ending the soonest
- Charge the project that was most recently received
- Charge federal funds first
- Perform cost transfers or labor distribution adjustments to fix an allocation (example, largest NIH project assigned with entire initial cost and later transferring portions onto other sponsored projects)
Costing Decisions & Transaction Controls

This system functionality is intended to aid compliance efforts by restricting the use of certain expenditure types on specific sponsored projects. Transaction controls are established at the PROJECT level. Transaction controls are routinely updated given new expenditure types and costing concerns. Can be "Exclusive" (what you seen in Oracle is what is EXCLUDED from charging) or "Inclusive" (what you see in Oracle is the ONLY thing you can charge).

Costing Basics

Costing Decisions & Transaction Controls

Transaction Controls - What They Are, What They Are Not

They Are

- In place to assist with institutional costing consistency and our decisions
- Enabled or "locked" to restrict specific expenditure types from charging to sponsored projects. These select expenditure types carry risks with allowability as direct costs and/or carry risk in their allocation
- Established at the project level at the time of PTAO set-up as determined by the type of funding received.
Costing Basics

Transaction Controls—What They Are, What They Are Not

They Are Not:
The only determinate in considering costing decisions.

• Just because a transaction control is “unlocked” doesn’t mean a particular item can be charged to that expenditure type!
• All costs—regardless of whether transaction controlled or not—need careful decision making before allocating them to a project!

Costing Basics

Management of A Sponsored Project

Transaction Controls

The following transaction control ‘templates’ are in use:

✓ Federal Grants, Contracts, Cooperative Agreements, Clinical Trials (including Federal flow-through awards) — Exclusive Control
✓ Federal Training Grants and Fellowships — Exclusive Control
✓ Subcontracts — Inclusive Control
✓ Non-Federal Awards — Exclusive Control
✓ Patient Care Projects — Inclusive Control

Exclusive — all expenditure types EXCEPT those listed in the template are allowable. “If you see it, you can’t charge it!”
Inclusive — ONLY the expenditure types listed in the template are allowable “if you see it, you can ONLY charge it”

Costing Basics

Costing Decisions & Transaction Controls

HOW DO I KNOW IF I HAVE TRANSACTION CONTROLS?
In order to lift or "Unlock" a Transaction Control, a supporting Federal Costing Exception Request form must be submitted and approved.

This form provides a justification for costing exceptions and differences by specific project (PTAO).

Just because an expenditure type is unlocked, doesn't mean FCE forms are not required for subsequent purchases!

We do not "re-lock" every expenditure type after FCE-approved purchases.

For items that do not have individually identifiable unit costs, such as Office Supplies, look at the overall comprehensiveness of the charges.

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Can You Name The Sticky 6?

There are six cost items that are not normally allowable as a direct costs on CAS covered projects (federal or federal flow-through funds)

What Are They?

- Clerical/Administrative Salaries
- Office Supplies
- Postage
- Professional Memberships/Subscriptions
- Communication Costs (including cell phones, pagers, etc.)
- Computers, general use software, and related charges
Non-sponsored allocation typically required. Allocation of mobile units (e.g., laptops, tablets) is especially risky - vast majority of circumstances will require less than 100% allocation to the project. Printers, cables, memory sticks and the like are RARELY approved for direct charging.

100% allocation to federally sponsored project(s) may be appropriate if a computer is required to run a piece of equipment, process data 24/7, etc. Example: department is purchasing a CPU (no monitor) for computer to run equipment in a lab.

Software is not transaction controlled, but may still need an FCE form, depending on the kind of software you are charging:

<table>
<thead>
<tr>
<th>Software Type</th>
<th>Examples</th>
<th>Transaction Controlled</th>
<th>CAS form needed?</th>
</tr>
</thead>
</table>
| General Purpose        | - Microsoft Office
                        | - Adobe Illustrator, Acrobat, etc.
                        | - End Note
                        | - SnagIt
                        | - Others                  | No                      | YES - general purpose software is considered part of F&A (overhead) and requires justification for direct charging |
| Technical Software     | - Software required to run technical equipment
                        | - Specialized software that is clearly technical in nature (for example, mouse colony management software) | No                      | No               |

General office supplies:

- They are transaction-controlled (FCE required to unlock “Supplies, Office”)
- To allow direct charging, must demonstrate unusual circumstance & be a large amount relative to regular use (see unlike circumstances/major projects)
- Paper, toner cartridges and printer ink are unlikely to receive FCE approval for direct charging.
Costing Basics

COMMUNICATION COSTS/CELL PHONES, ETC.*

VERY difficult to justify direct charging.

ALLOCATION – Costing requirements of direct charges be identifiable with relative ease and a high degree of accuracy – accurate allocation is difficult to achieve with these items.

DOCUMENTATION – text messages, data usage, etc. – extremely difficult for departments to do.

Would include items like pagers, data plans, corporate emails and other similar items; also installation charges, monthly use charges, local access calls, etc.

Key Terms/Concepts: Expressly Unallowable Costs

Costs which cannot be proven to be necessary, reasonable, allocable and thus, the federal government will not cover/reimburse, either as a direct or as an F&A cost.

- Alcohol
- Entertainment (e.g., bar, theater)
- Fines
- Fines
- Lobbying
- Losses on other sponsored projects
- Alcohol
- Membership in civic, community organizations and country clubs
- Public relations

Why Is Selecting the Right Expenditure Type So Important?

- Budgets were formulated based on specific types of costs
- Budgets were approved for those specific costs
- Financial reporting often requires detailed cost breakdowns
- Reduces audit findings

If it’s a duck – call it a duck!
More On Facilities & Administrative Costs (F&A)

These costs are:
- not charged directly to Federal or Federal flow-through sponsored awards – cannot meet the direct cost definition
- not a ‘tax’ assessed to sponsored research awards
- based on real expenditures previously incurred across grounds in support of research activities
- represent partial recovery of costs already incurred by the University

The recoveries of F&A costs are distributed based on a formula established and reviewed by the Academic Vice Presidents.

What is the F&A Cost Rate?

- A single number that reimburses the institution for the use of:
  - Buildings
  - Equipment
  - Interest on Debt
  - O&M
  - General Administration
  - Departmental Administration
  - Sponsored Projects Administration
  - Library

…or stated another way…

- The ratio, expressed as a percentage, of an OR facilities and administrative cost pool and an OR direct cost base.
- The OR cost pool is made up of allocations from the administrative and facilities cost pools.
- OR pool costs / OR base direct costs = OR F&A rate.

(OR=Organized Research)
Calculation of the Facilities & Administrative Cost Rate
(aka = Indirect Cost Rate)

**F&A COSTS**
- Building Depreciation
- Equipment Depreciation
- Interest on Debt
- Operations & Maintenance
- Library Support
- General Administration
- Departmental Administration
- Sponsored Project Administration

**DIRECT COSTS**
- Research Salaries & Fringes
- Consultant Services
- Travel
- Technical Services
- Research Supplies
- Subcontracts up to $25,000
- Committed Cost Sharing

\[
\frac{\text{F&A Costs}}{\text{Direct Costs}} = \frac{88,160,000}{152,000,000} = 0.58 = 58\%
\]

The F&A Rate Calculation Process

1. Audited Financial Statements → Total Costs
2. Adjustments & Transfers → F&A Costs
3. Allocations → F&A Costs Pools
4. Review for Unallowable Expenses → Applicable Credits
5. Assign Expenses to F&A Pools and Direct Bases
6. Direct Cost Bases:
   - Instruction and Department Research
   - Organized Research
   - Other Sponsored Activities
   - Other Institutional Activities
   - Other Special Direct Bases

http://www.virginia.edu/finance/finanalysis/overhead.html
Costing Basics

Direct Charging of Items That Are Normally Considered F&A When Circumstances are Not ‘Like’

- KEY: allocable and identifiable with relative ease & high degree of accuracy
- For clerical/admin salaries – work should typically be ‘extensive’ in nature (over and above routine support by the academic unit)
- Align with the funded purpose of the award to ensure that its goals are unlike those generally charged as F&A costs
Managing Specific Instances of ‘Unlike Circumstances’

- should be identified at the proposal stage and budgeted/explained
- should be justified and documented (both internally on UVa. FCE forms and externally in the proposal)
- should advance the technical goals and objectives of the project
- should be justified and documented internally on UVa. CAS forms

Adequacy in the Justification of ‘Unlike Circumstances’

- specific cost item(s)
- comprehensive justification, addressing extensiveness and PURPOSE
- estimated item quantity and unit cost
- Project/Task/Award information
- Principal Investigator’s last name

See the Annotated FCE form for an example

Direct Charging of Items That Are Normally Considered F&A When Circumstances are Not ‘Like’

Clerical/ Administrative Salaries
MAJOR PROJECTS: EXHIBIT C #1

- Large, complex programs -
  Includes General Clinical Research and Primate Centers, Program Projects, environmental and engineering research centers and other grants and contracts that entail assembling and managing teams of investigators from other organizations.

MAJOR PROJECTS: EXHIBIT C #2

- Projects that are geographically inaccessible to routine support, i.e., research vessels, radio astronomy projects, other remote field locations.

MAJOR PROJECTS: EXHIBIT C #3

- Projects that require a large number of repeated travel and/or meeting arrangements for large numbers of participants, such as conferences and seminars.
MAJOR PROJECTS: EXHIBIT C #4

- Projects involving extensive data accumulation, analysis and entry, surveying, tabulation, and cataloging.

MAJOR PROJECTS: EXHIBIT C #5

Projects funded to produce large numbers of reports, manuals, books, and monographs (excluding routine progress and technical reporting).

"Obvious" Examples:
- Research Specialist
- Facilities Technician
- Program Support Tech
- Regulatory Coordinator
- Web Designer/Developer
- IT Staff/Technologist

"Not-So-Obvious" Examples:
- Grants Specialist
- Admin Assistant
- Office Specialist
- Program Coordinator
- Assistant Director
- Institute Administrator

FCE Always Needed

FCE May Be Needed

Examine Role

List of Roles:
- Grants Specialist
- Admin Assistant
- Office Specialist

Note: Individual's work within the terminal area of the

role may vary more extensively than normal departmental administrative

Example:
- Staff/Technologist

Other!
Costing Basics

**Invalid Arguments for Direct Charging F&A Costs**

- Insufficient F&A cost recovery funds to support cost
- Sponsor won’t pay F&A costs
- We are the sub and the prime allowed it (e.g. State projects)
- “But the sponsor approved it”
- Sponsor is willing to pay questioned costs as direct
- We did it that way before!

Costing Basics

**Funding Issues**

“How do I pay for this??”

~should not be confused with~

**Costing Issues**

“Does this charge meet criteria for direct charging to the project?”

Costing Basics

**A Bit on Cost Sharing**

- Actual project costs not borne by the Sponsor but committed by the University
- Cost sharing can be in the form of “hard dollars (%), $”, or in-kind contributions such as time committed to a project
- Cost sharing is quantifiable in proposal budgets/narratives
Costing Basics

A Few Examples of Cost Share

- Commitments of Faculty effort not supported by the Sponsor’s award, or re-budgeting of Sponsor supported salary/effort into other costs categories
- Faculty salaries above the ‘salary cap’ – imposed by the National Institutes of Health
- Travel, supplies, equipment costs not supported by the Sponsor’s award
- Project deficits/cost-overruns

Example: A university receives a grant for a project estimated to have a total cost of $100,000. The sponsor agrees to pay 75% ($75,000) and the university agrees to pay 25% ($25,000). The $25,000 is the committed ‘cost-share’.

Costing Basics

Activity:

Costing Questions – YOU Make the Call!

Assess your understanding of Costing definitions and consistency issues

WHEN DON’T I NEED A CAS FORM?

CIRCUMSTANCES WHERE A CAS FORM IS NOT REQUIRED

- Non-federal projects
- Non-sponsored projects
- Software that is clearly technical in nature. See the Software discussion for additional information
- Specialized equipment purchases (e.g., microscope, autoclave).
- Replacements of PREVIOUSLY FCE APPROVED items purchased on that exact FTAO number. (It’s a good idea to be sure you have the original approved FCE form as part of your documentation for the new charges).
Approved budgets by the Sponsor can be relied upon.

Centers, Consortia, and Program projects are automatically exempt from CAS guidance.

Computers/Peripherals and Software are unallowable or conversely, are allocable at 100% of their costs.

Even if we have a training grant, center, or other large grant, we STILL have to document! Sponsors often do not look at budgets in detail, and they do NOT have the authority to exempt us from costing requirements.

Computers/Peripherals and Software are unallowable or conversely, are allocable at 100% of their costs.

Normally – Computers, their peripherals and general software applications are considered Office Supplies but we realize they have valuable functionality to research efforts – ALLOCATE BASED UPON USE (cost/benefit).

There is no risk in charging a 44 cent stamp. The value of even the smallest inappropriately charged cost can result in a very large fine. (Extrapolation)

Costing requirements only apply if the expenditure type is locked, or the cost is one of the "Sticky 6". EVERY cost should be AARC – the FCE process is just another level of review for certain high-risk or "tricky" costs!

If a cost is approved through out internal process, it's 100% bulletproof!

Others:
- Training grants are different!
- International programs are different!
- FCE forms roll forward from year to year.

Auditors can disallow ANYTHING. Training grants fall under A21 but read the terms – no different if federal, unless terms dictate it!

FCE forms required for each new "P" (Project).

How Can We Be Successful in Managing Costs?

- Federal Regulations
  - Circular A-21 – General
  - Circular A-110 – Administrative
  - Circular A-133 – Audit
  - Federal Acquisition Regulations (FAR) - Contracts

- UVa. Guidance
  - Internal Policies and Procedures
  - Cost Accounting Standards Guidelines
  - CAS Disclosure Statement (2012)
  - Federal Acquisition Regulations (FAR) - Contracts

- External Policies and Procedures
  - State of VA Guidelines
  - Procurement/Purchasing Guidance
  - Travel Regulations

- Sponsor Award Terms and Conditions
  - Can be unique with each award/project
  - Can be more restrictive but not less than CAS

- Facts and circumstances of each award
  - The scientific goals/outcomes relates to the types of costs that can be budgeted and charged DIRECTLY (PURPOSE). "The science drives the charge."

What Are You Asking Us To Do?

- Document costing decisions
- Communicate on purchases and decisions in charging those costs
- Differentiate between A21 (cost is NOT DIRECTLY related to the PURPOSE of the award)
- Select the most concise costing description applicable to the cost incurred
- Make the most concise costing description avoiding cost transfers
- The Right Thing!