

# The Ledger

## *A Newsletter of the University Controller's Organization*

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### **Cost Accounting Standards, OMB Circular A-21 and University Policies**

The University Controller and the Office of Sponsored Programs are conducting training sessions to provide information and guidance on how federal cost accounting standards, regulations and University policies impact your daily fiscal activities. We are scheduling visits at various departments over the next several months to conduct these training sessions. Additionally, for those unable to attend the departmental sessions we have scheduled three general training sessions at the Donaldson Brown Hotel and Conference Center. These sessions are appropriate for all personnel who process charges against sponsored projects. If you wish to attend one of these sessions, please call Rick Richardson at 1-8558 or e-mail [rcki@vt.edu](mailto:rcki@vt.edu) to reserve a seat.

Sessions are scheduled as follows:	March 11, 1999	9:00 to 11:00	Conference Room A
	March 17, 1999	2:00 to 4:00	Conference Room A
	March 24, 1999	9:00 to 11:00	Conference Room C

### **Purpose of Training**

The Federal Government is taking a heightened interest in how universities account for costs charged to federally sponsored programs and, they are conducting field audits to verify that university policies and procedures meet the requirements of the applicable federal regulations. The federal regulations we must follow related to sponsored projects are found in the Office of Management and Budget Circulars A-21 and A-110. Circular A-21 has been revised to incorporate four Cost Accounting Standards (CAS), to broaden the definition of indirect costs (renamed Facilities and Administrative costs), and to require universities to **formally disclose** their cost accounting practices, policies and procedures.

The Controller's Office established a committee representing academic areas and the administration and hired consultants to complete the required Cost Accounting Disclosure statement (the "DS-2" form). As part of this process we issued several new policies, or revised existing policies related to sponsored programs. The purpose of the training is to inform the faculty and staff who work with sponsored programs about the contents of the policies and the changes we need to make to comply with these federal regulations. Correct, consistent use of the associated procedures is critically important, so that the University not risk later disallowance of charges or ineligibility for Federally-funded awards.

### **Cost Accounting Standard 501 – Consistency in Estimating, Accumulating and Reporting Costs**

The overriding principle in this standard is consistency in the application of cost accounting practices to enhance the likelihood that comparable transactions are treated alike. That is to say, this standard reflects the expectation that:

- 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 recording and reporting costs.

and conversely,

- An educational institution's cost accounting practices used in recording and reporting **actual** costs to a sponsored fund shall be consistent with an educational institution's practices used in estimating costs in the related proposal.

### **Applicable New or Revised University Policies**

The following policies were issued/revised on January 21, 1998 and except for policy 3240 were effective when issued. Policy 3240, Consistency in Charging Administrative and Clerical Costs, was effective for all new proposals issued after **June 30, 1998** and applicable to all existing federally-funded projects starting with the next budget period beginning after June 30, 1998.

#### **University Policy 3245 – Cost Sharing on Sponsored Projects**

- Cost sharing will be included in proposals only if required by the sponsor (mandatory) or by the competitive nature of the program addressed (non-mandatory).
- Mandatory cost sharing amounts must be included in the proposal budget and recorded in the university's accounting system.
- Non-mandatory cost sharing that is quantified in the proposal must be recorded in the university's accounting system.
- Cost sharing expenditures that cannot be recorded in the university's accounting system (for example, cost sharing that uses Equipment Trust Fund money) must be brought to the attention of your OSP Program Administrator so that it may be documented in the project file maintained by the Office of Sponsored Programs.

#### **University Policy 3240 – Consistency in Charging Administrative and Clerical Costs**

**Consistency** in this context means that costs incurred for the same purpose, in like circumstances, must be charged uniformly either “directly” to federally sponsored agreements, or “indirectly” to departmental funds. Specifically, we must be consistent in how we charge administrative and clerical costs which normally include such activities as answering the telephone, making appointments, performing word processing tasks, preparing proposals, ordering supplies, and keeping records for the department or unit. The federal regulations state that the following administrative and clerical costs should **NORMALLY** be charged “indirectly” – that is, to departmental funds and **not to sponsored projects**:

- Clerical and administrative salaries, wages and fringes
- Office supplies
- Postage
- Local phone service (including modem and ethernet connections)
- Organizational memberships

The federal government pays its share of these and other “indirect” or “facilities and administrative” costs through the application of the indirect cost rate to the costs charged directly to federally sponsored projects. The on-campus rate for research projects is currently 45%, and over half of this rate is for recovering administrative costs. The main reason the federal regulations require that we be consistent in how we charge administrative and clerical costs is so that they don’t pay for the same costs twice – once when its charged directly to the project and once when its part of the indirect cost rate.

**Therefore, administrative and clerical costs must NOT be charged directly to federally sponsored programs or sponsored programs receiving federal flow-through funds unless extraordinary or “unlike” circumstances exist.** For example, although postage is normally treated as an indirect cost, a particular project may have a special need for postage because the project requires the mailing of hundreds of survey questionnaires. In this case, it would be appropriate to charge the project directly for the postage to mail these questionnaires, since this would constitute “unlike circumstances” compared to routine postage requirements. Another example is priority or overnight mail. Normal business correspondence sent priority or overnight mail does not constitute extraordinary or “unlike circumstances” and as such should not be directly charged to a federally sponsored program. The policy includes several other examples from the federal regulations of unlike circumstances, a partial list is provided below.

- Large, complex programs managing teams of investigators from a number of institutions.
- Projects with extensive data accumulation, analysis, etc.
- Projects requiring travel and meeting arrangements for large numbers of people.
- Projects geographically inaccessible to normal departmental administrative services.

#### **THIS LIST IS NOT ALL INCLUSIVE**

**The “unlike” circumstances must be documented, in writing, by the principal investigator; approved by the Office of Sponsored Programs; be separately identified in the project proposal and its budget; and be accepted by the sponsor.**

***THE LACK OF DEPARTMENTAL FUNDING IS NOT AN ACCEPTABLE “UNLIKE” CIRCUMSTANCE !!!***

#### **University Policy 3255 – Cost Transfers on Sponsored Projects**

- Transfers must be timely, within **90 days** of initial charge to avoid disallowance.
- **The reasons for the transfer must be fully explained on the transfer form.**
- Transfers to correct errors made in recording salaries of faculty and staff or wages to graduate assistants must be made using “Change and/or Extend Funding” (Form P-10).
- **NO** changes may be made for salaried personnel or graduate assistants **AFTER** Personal Activity Report certification.
- The cost to be transferred must be proper and allowable to the receiving project.
- The Principal Investigator must certify the transfer is between projects involved in closely related work and the transfer has been reviewed and approved by the Office of Sponsored Programs and the Controller’s Office.
- Whenever the costs for a sponsored project exceed its approved budget, and the principal investigator cannot transfer the costs to another qualified sponsored project in order to correct

the overspent condition. The amount of the cost overrun must be transferred to a departmental fund.

- Costs must **NOT** be shifted between projects to cover overrun deficiencies.

### University Policy 3250 – Service Centers

- Service centers are established to provide goods and services primarily to the university and only incidentally to customers outside the university.
- Rates for goods and services are established based on **COST** (actual and/or estimated), and must be reviewed and approved by the Controller's Office.
- ALL cost associated with the operation of the service center must be recorded in the center's funds.
- ALL users of the center must be charged based on the center's approved rates for goods and services.
- **Deficits or surpluses from the service center's operations must be carried forward as an adjustment to future billing rates. The goal is to set realistic rates that ensure the service center will break-even in the long run.**

The above policies are available by entering the University's Administrative Intranet page from the Virginia Tech home page then clicking on the Policies tab. If you have questions on implementing these policies or require additional information, please contact your sponsored program administrator or Thomas Olson, Associate Director of the Office of Sponsored Programs, at one of the numbers listed below.

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|---|--------|
| - Agriculture, Human Resources, Forestry & Wildlife and Veterinary Medicine | 1-9374 |
| - Architecture, Arts & Sciences, Business and Education                     | 1-9390 |
| - Engineering   | 1-5283 |
| - Associate Director of the Office of Sponsored Programs                    | 1-5281 |

Questions on the Service Center Policy 3250 should be referred to Rick Richardson at 1-8558 or Dave McGarry at 1-3340.

### Accounting for Unallowable Costs

Most of the costs that fall within the unallowable category as defined by the Federal Government are necessary to meet the normal missions of the university. However, we must ensure that these types of costs are **NEVER** charged directly to Federally sponsored programs. Moreover, they should also be excluded from all other expenditures used to compute the indirect cost (F & A) rate. Therefore we need your help in identifying these unallowable costs. OMB Circular A-21 contains a complete listing of unallowable costs in Section J. A list of the most frequently encountered unallowable costs follows:

- Advertising and Public Relations cost not required for performance of a sponsored agreement.
- Alcoholic beverages and Alumni activities.
- Commencement and convocation cost at the college level.
- Personal use of Institution-furnished automobiles.
- Entertainment costs or social activities.
- Losses on sponsored agreements.
- Selling and marketing university products or services.
- Fund raising (Development) costs.

There are two methods to ensure these types of unallowable costs are not charged as direct costs or indirect costs (F&A) to a federally sponsored program.

- For single activities collect all costs in a separate fund, for example, costs incurred by University Development are charged to one Banner fund.
- A single charge can be excluded by use of the “U” suffix on the Banner account code, for example, travel costs paid for a college commencement speaker from the dean’s office could be charged using the Banner account code 1285U.

These types of costs are usually incurred by the Provost, Deans’ offices or other administrative areas. However, unallowable costs could be paid in academic departments or elsewhere, and must be identified. For questions related to accounting for unallowable costs please contact Rick Richardson at 1-8558 or Dave McGarry at 1-3340.

In summary, some changes to existing methods of recording costs are necessary. Charging normally indirect costs as direct costs to federally sponsored programs is not appropriate unless exceptional circumstances have been substantiated by the principal investigator in writing and approved by the Office of Sponsored Programs. **The principal investigator is ultimately responsible for his or her project. If the costs charged to the project are later found not to be in compliance with cost accounting standards and University policies, the unallowable expenditures will be transferred to the department’s overhead fund.**

We hope to see you at one of the general training sessions or at a scheduled session in your department soon.