Discussion of the Cost Principles and the Cost Accounting Standards

2 CFR, Part 200 - An Introduction to the Contents and Format
## A Brief History

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>Blue Book issued by ONR. Developed an institutional wide rate based on financial report</td>
</tr>
<tr>
<td>1958</td>
<td>First version of A-21 published by Bureau of the Budget</td>
</tr>
<tr>
<td>1958 to 1973</td>
<td>Many revisions took place and responsibility moved to OMB</td>
</tr>
<tr>
<td>1979</td>
<td>Most comprehensive revisions ever and responsibility moved back to OMB from GSA</td>
</tr>
<tr>
<td>1982 to 1991</td>
<td>More revisions including the 26% administrative cap, the cost accounting standards and the DS-2</td>
</tr>
<tr>
<td>1998</td>
<td>Utility cost adjustment factor, established process to review construction of new research facilities, depreciation method must be same for FS and F&amp;A proposal</td>
</tr>
<tr>
<td>2000</td>
<td>Standard format for long form</td>
</tr>
<tr>
<td>2005</td>
<td>A-21 moved to 2 CFR, Part 220</td>
</tr>
<tr>
<td>2013</td>
<td>A-21 incorporated into a consolidated Circular 2 CFR, Part 200, with many other changes</td>
</tr>
</tbody>
</table>
The circular contains the administrative requirements (A-110 & A-102), cost principles (A-21, A-87 & A-122) and audit requirements (A-50, A-89 & A-133) for Federal awards. The cost principles are for determining costs applicable to grants, contracts and other agreements with educational institutions, non-profit organizations and State and local government agencies and Indian Tribal councils.

- Addresses both direct and F&A costs.
- Will become the new “Bible” by federal negotiators.

2 CFR, Part 200 is Divided into Subparts:
- Subpart A – Acronyms (45) and Definitions (98)
- Subpart B – General Provisions (purpose, applicability, exceptions etc.)
- Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards
- Subpart D – Post Federal Award Requirements
- Subpart E – Cost Principles
- Subpart F - Audit Requirements
Appendices to 2CFR, Part 200

- Appendices include:
  » I – Full Text of Notice of Funding Opportunity
  » II – Contract Provisions for Non Federal Entity Contracts Under Federal Awards
  » III – F&A Cost Identification & Assignment, and Rate Determination for Institutions of Higher Education
  » IV – F&A Costs Identification & Assignment, and Rate Determination for Nonprofit Organizations
  » V – State/Local Government and Indian Tribe-Wide Central Service Cost Allocation Plans

Appendices to 2 CFR, Part 200

- Appendices includes
  » VI – Public Assistance Cost Allocation Plans
  » VII – States and Local Government and Indian Tribe Indirect Cost Proposals
  » VIII – Nonprofit Organizations Exempted From Subpart E-Cost Principles
  » IX – Hospital cost principles (45CFR, part 74, appendix E)
  » X – Data Collection Form (refers to FAC website)
  » XI – Compliance Supplement (refers to OMB website)
2CFR, Part 200

• Appendix III, Part 200 addresses: F&A Cost Identification & Assignment, and Rate Determination for Institutions of Higher Education
  » A. General
    » Defines major functions
    » Criteria for distribution
  B. Identification & Assignment of Indirect (F&A) Costs
    Discusses 8 cost pools and methods of allocation

2CFR, Part 200

• Appendices III, Part 200 addresses: F&A Cost Identification & Assignment, and Rate Determination for Institutions of Higher Education
  » C. Determination and Application of Indirect (F&A) Cost Rates
    » General discussion of the cost pools and the distribution base
    » Negotiated lump sums
    » Predetermined, fixed and provisional/final rates
    » Fixed rates for life of the sponsored agreement
    » Limitation on reimbursement of Administrative Costs
    » Alternative Method for Administrative Costs
    » Individual Rate Components
    » Negotiation of Indirect (F&A) Rates
    » Standard Format for Submission
2CFR, Part 200

- Appendices III, Part 200 addresses: F&A Cost Identification & Assignment, and Rate Determination for Institutions of Higher Education
  - D. Simplified Method for Small Institutions
    - General Information
    - Salary &Wage (S&W) Base
    - Modified Total Direct Cost (MTDC) Base
  - E. Documentation Requirements
    - Refers to OMB website for the standard format requirements

- Appendices III, Part 200 addresses: F&A Cost Identification & Assignment, and Rate Determination for Institutions of Higher Education
  - F. Certification of charges and certification on indirect (F&A) costs
    - The proposal has been reviewed
    - All cost are allowable
    - Does not include any unallowable costs
    - All costs included are allocable
    - Proposal is prepared in compliance with the DS-2
2 CFR, Part 200, Subpart E – Cost Principles - Contents and Format

- General Provisions
  » Objectives, policy guides, application of the cost principles

- Basic considerations
  » 200.402 Composition of total costs:
    • Direct + allocable F&A – applicable credits
  » 200.403 Factors affecting allowability of costs
    » Reasonable, allocable, consistently treated and conform to any limitations or exclusions set forth in the cost principles or the sponsored agreement.
  » 200.404 Reasonable costs – reflects the action of a prudent person (continued)
2 CFR, Part 200, Subpart E - Contents and Format

- Basic considerations
  » 200.405 Allocable costs
     • Is there a reasonable benefit between the cost allocated and receiving activity
  » 200.406 Applicable credits
     • Receipts & negative expenditures that tend to offset or reduce direct or F&A cost items
  » 200.407 Prior written approval (prior approval)
  » 200.408 Limitation on allowance of costs

2 CFR, Part 200, Subpart E - Contents and Format

- Basic considerations
  » 200.409 Special considerations for IHE and State/local governments
  » 200.410 Collection of unallowable costs
  » 200.411 Adjustments to previously negotiated indirect (F&A) cost rates containing unallowable costs
• Direct and Indirect (F&A) Costs
  » 200.412 Classification of costs
  » 200.413 Direct costs
    » Discussion on administrative and clerical costs
    » Discussion on unallowable activities
  » 200.414 Indirect (F&A) costs
    » Defines “administration” and “facilities”
    » Federal agencies acceptance of negotiated indirect cost rates

• Direct and Indirect (F&A) Cost
  ○ 200.414 Indirect (F&A) costs (continued)
    » Discusses 10% MTDC rate for non federal entities never having a rate and that the rate may be used indefinitely
    » Indirect cost rates may be extended up to 4 years on a one time basis with approval from the cognizant federal agency
2 CFR, Part 200, Subpart E - Contents and Format

• Required Certifications
  ○ 200.415
    » Certification for payments
    » Certification of indirect (F&A) costs

• Special Considerations for States, Local Governments and Indian Tribes
  ○ 200.416 – Cost allocation plans and indirect cost rate proposals
  ○ 200.417 - Interagency service
2 CFR, Part 200, Subpart E - Contents and Format

- Special Considerations for Institutions for Higher Education
  o 200.418 – Costs incurred by states and local governments
  o 200.419 - Cost accounting standards and disclosure statement
- General Provisions for Selected Items of Cost
  o 200.420 – 200.475

2CFR, Part 200 - General Information

- Objectives
- What the cost principles do
- What the cost principles do not do
- What is a reasonable cost
Objectives of the Cost Principles

- Uniform standards of allocation
- Uniform standards of allowability
- Designed to provide that the federal government bears its fair share of costs recognized under these principles
- Simplify intergovernmental relations
- Encourages consistent costing

What the Cost Principles Do:

- Requires that a cost:
  » Be allowable
  » Be allocable
  » Be reasonable
  » Be treated consistently in like circumstances
  » Be necessary to perform the program
  » Be permissible under the law
What the Cost Principles Do:

- Requires uniform acceptance of indirect (F&A) cost rates by all federal agencies except:
  - When approved by Federal awarding agency head with documented justification
  - Cost is prohibited by appropriation limitations

What the Cost Principles Do Not Do:

- Supersede limitations imposed by law
- Dictate extent of federal funding
- Dictate how F&A cost revenue should be used
- Dictate organization form or management techniques necessary for program administration
What is a Reasonable Cost?

- Is the cost generally recognized as ordinary and necessary for the operation of the non federal entity, the performance of a grant or contract, or both? (1 of 3)
What is a reasonable cost?

- Was the cost incurred based on generally accepted sound business practices?
  - Was it an arm’s length transaction?
  - Was the cost in compliance with grant/contract terms and conditions, and federal and state laws and regulations?
  - Was the cost allowable and allocable?

What is a reasonable cost?

- Was the action that which a prudent businessperson would take in the circumstances?
- Does the cost incurred result from significant deviations in the established practices of the institution?
200.419 The Cost Accounting Standards & the Disclosure Statement

The Cost Accounting Standards

- Four cost accounting standards and the disclosure statement were extended to grants and cooperative agreements in 1996.
- Standards apply to all grants, contracts and cooperative agreements (sponsored agreements).
The Cost Accounting Standards

- The four standards apply to all educational institutions.
- The Disclosure Statement (DS-2) applies to those institutions receiving $50 million or more during a fiscal year.
- The DS-2 is a description of the institution’s cost accounting practices.

The Cost Accounting Standards

- The $50 million includes:
  » All direct federal sponsored agreement monies subject to the cost principles.
  » Pass through federal monies and block grants.
  » Sub-contracted federal monies.
CAS Disclosure Statement

- DS-2 is included in Appendix B of OMB Circular A-21
- Should have been reproduced in Appendix III of 2CFR, Part 200 but is not there as stated in 200.419 (b)
The Cost Accounting Standards

- Purpose - provides for:
  » Reliable cost estimates
  » Improved cost control
  » Enhanced accountability
  » Consistent treatment in like circumstances

The Cost Accounting Standards

- 48 CFR CAS - 501 non-compliant practice:
  » Estimate PI effort on research to be 40 percent with zero salary charged to the sponsored organized research agreement.
  » Accumulate and report the PI effort as Instruction since no salary was paid from the sponsored organized research agreement.
The Cost Accounting Standards

- 48 CFR CAS - 502 Consistency in Allocating Costs Incurred for the Same Purpose:
- Purpose - assures costs incurred for the same purpose in like circumstances is treated consistently as direct or indirect.

The Cost Accounting Standards

- 48 CFR CAS - 505 Accounting for Unallowable Costs:
- Purpose - provides for:
  » Consistent allocation of all costs, including unallowable costs.
  » Consistent treatment of allowable and unallowable costs.
The Cost Accounting Standards

- 48 CFR CAS - 506 Cost Accounting Period:
- Purpose - provides that the accounting period be the institution’s fiscal year.
- Remember, the F&A proposal certification certifies that the F&A “rate proposal is prepared using the same cost accounting practices that are disclosed in the DS-2...”

Amendments to the DS-2

- Amendments to the DS-2 must be filed with the cognizant agency for indirect costs 6 months in advance of the practices being changed. An IHE may proceed with implementing the change only if it has not been notified by the cog agency that either a longer period will be needed for review or there are concerns with the potential change within the 6 months period.
Direct Charging Costs to Sponsored Projects

Direct Charging

- Special attention to 200.413
  » “...costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.”
Direct Charging

- Special attention to 200.413 (c)
  - Salaries of admin/clerical (AC) staff should normally be treated as indirect (F&A) costs.
  - Direct charging may be appropriate only when all of the following conditions are met.
    - AC services are integral to a project or activity
    - Individuals can be specifically identified with the project
    - Such costs are explicitly included in the budget or have written prior approval of the awarding agency
    - The costs are also not recovered as indirect (F&A costs)