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# **HOW TO COPE WITH CAS 502**

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# BACKGROUND

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- **OMB Circular A-21: Cost Principles for Educational Institutions (A-21), principles and regulations for determining costs of sponsored work performed by colleges and universities. Recent revision specifies that certain types of costs will “normally” be treated as overhead costs. (F.6.b.)**



# BACKGROUND

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- **Cost Accounting Standards Board (CASB) provides guidelines on cost accounting practices for Federal contracts**



# BACKGROUND

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- **In 1994, four Standards were imposed by CASB on universities to:**
  - Prevent unallowable costs
  - Standardize university costing practices
  - Standardize requirements for Federal funds
- **A-21 revised to include applicable to all types of Federal awards**



# CAS 502 - PURPOSE

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- **Consistency in allocating costs incurred for the same purpose in like circumstances**
  - Purpose - "to require that each type of cost is allocated only once and on only one basis to any contract or other cost objective. The criteria for determining the allocation of costs...should be the same for all similar objectives...to prevent double counting."



# CAS 502 - CONCERN

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- **Double Counting or the "Double Screen"**
  - Costs directly charged to sponsored agreements
  - Other costs, incurred for the same purpose in like circumstances, are included in F&A cost pools
  - The F&A costs are allocated to the final cost objective(s) which had already absorbed the directly charged costs



# FUNDAMENTAL REQUIREMENT

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- **"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."**



# BASIS FOR COMPLIANCE

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## ■ **The Disclosure Statement:**

- by distinguishing between direct and F&A costs, and
- by describing the criteria and circumstances for allocating costs which are sometimes direct and sometimes F&A





# UNIVERSITY QUANDARY

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- **Universities rely on a variety of fund sources, employ a variety of organizational and costing approaches, experience variations due to nature of the research**
- **Because of CAS 502 and F.6.b., universities are struggling to comply with Federal requirements while still retaining costing and operational flexibility**



# HOW TO COPE

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- **Administrative/Clerical Salaries, Telephone, Postage - Direct or Facilities and Administrative?**
- **Short answer: Certain costs of administrative/clerical salaries, telephone equipment and postage are part of the costs claimed in calculation of F&A cost rate; others are direct charged**



# HOW TO COPE

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- **How can this be under the CAS standards and under the A-21, F6b language? The answer involves:**
  - 1. The definitions of direct and F&A costs,
  - 2. Correct/appropriate labeling of costs,
  - 3. OMB interpretations of F6b, which identify justifiable exceptions,



# HOW TO COPE

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- **The answer involves: (continued)**
  - 4. Criteria for other exceptions,
  - 5. The concept and application of unlike circumstances, and
  - 6. Our disclosed cost accounting practices



# BACKGROUND

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- **A-21 revised in 1993**
- **Certain types of costs (administrative/clerical staff, office supplies, postage, local telephone costs, memberships) “normally F&A”**
- **Therefore included in imposed cap on administrative costs**



## **F.6.b. RESOLUTION**

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- **F.6.b. - "normally" certain costs are to be treated as F&A**
- **Why?**
- **Normally, administrative and clerical salaries, office supplies, postage, local telephone costs, and memberships do not meet criteria for a direct cost**



## F.6.b. RESOLUTION

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- **“D.1. Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy”**



# HOW TO COPE

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- **University response to these restrictions resulted in OMB interpretations - exceptions applicable to administrative and clerical salaries, including:**
  - Large, complex programs, that entail assembling or managing teams of investigators
  - Projects with extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, literature search and reporting





# OMB INTERPRETATIONS

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- **Exceptions applicable to administrative and clerical salaries also included:**
  - Projects requiring travel and meeting arrangements for large numbers of participants
  - Projects whose main outcome is preparation of manuals, large reports, books and monographs
  - Projects which are geographically inaccessible to normal departmental administrative services



# OMB INTERPRETATIONS

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- **Exceptions applicable to administrative and clerical salaries also included:**
  - Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications



# OMB INTERPRETATIONS

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- **Note that the last exception lists a variety of criteria, one or more of which are found in most Federal research projects**
- **Note also that these exceptions have been incorporated into A-21, as Exhibit C**



# OMB INTERPRETATIONS

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- **Referenced a "Direct Charge Equivalent (DCE) calculation"**
  - Intended to ensure that Federal government is not overcharged for a certain cost as a result of its treatment as both direct and F&A
  - Identifies ratio of administrative and clerical support salaries charged directly to contracts and grants, classifies same ratio to Instruction function, allows remainder, if any, to be classified as administrative in F&A rate

# DCE CALCULATION

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- **A basic DCE formula looks like this:**  
**(\$ = salaries, or salaries + benefits)**

$$\text{Ratio} = \frac{\text{Sponsored Support \$}}{\text{Sponsored Faculty \$}}$$

$$\text{Portion to Instruction} = \text{Ratio} \times \text{Nonsponsored Faculty \$}$$

$$\text{Balance} = \text{DA}$$



# DCE CALCULATION

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- **Prevents overcharging**
- **DHHS (our cognizant Federal agency) preferred approach - allows cost as direct, reduces F&A rate**



# DCE CALCULATION

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- **NOTE: DCE calculation does not address intent of F6b - does not cap or prevent direct charging of administrative costs**
- **DCE calculation presumes that administrative costs were direct charged when cap was imposed**
- **Apparently, this is O.K. with DHHS (They developed DCE formula)**



# HOW TO COPE

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- **F.6.b presumes that, normally, administrative and clerical salaries, office supplies, postage, local telephone costs, and memberships cannot be identified specifically with a particular activity, or cannot be directly assigned to individual activities relatively easily with a high degree of accuracy**





# HOW TO COPE

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- **However, if a cost CAN be specifically identified with a particular activity or directly assigned relatively easily with a high degree of accuracy, then it meets the definition of a direct cost**

# DIRECT CHARGING CRITERIA

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- **Criteria for direct charging costs which are "normally" F&A:**
  - 1. Cost required by project scope
  - 2. Cost can be specifically identified to project
  - 3. Cost is explicitly budgeted in award
- When a cost meets the first two criteria, cost meets the definition of a direct cost, and therefore falls outside the "normal" parameters in F.6.b.

# DIRECT CHARGING CRITERIA

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- **Third criteria provides additional assurance that the direct charging is acceptable to sponsor**
- **Referenced in F.6.b.:**
  - "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."

# DIRECT CHARGING CRITERIA

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- **When sponsoring agency permits rebudgeting for these items if need arises after award, and cost meets first two criteria, third criteria not required**  
(DS-2, Section 2.1.0 explanation, page II-7)



# HOW TO COPE - CAS 502

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- **DCE calculation on administrative and clerical salaries achieves intent of CAS 502 - to prevent overcharging**
- **Instead of identifying unlike circumstances when cost is treated as direct or F&A, calculates limitation on F&A amount to ensure that no overcharging takes place**



# HOW TO COPE - CAS 502

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- **Non-salary costs (postage and telephone) are prorated to Instruction and DA based on salaries**
- **Therefore, both salary and non-salary costs are assigned to Instruction, overhead rate for Organized Research does not overcharge costs to Federally sponsored research projects**



# DISCLOSURE STATEMENT

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- **DS-2 discloses "unlike circumstances" when compared with "normal" sponsored activity (if there is such a thing) including:**
  - Exceptions identified in OMB Interpretations
  - Federal training grants/programs w/fixed/capped F&A rates
  - Sponsor costing requirements counter to normal UCSD costing practices



# DISCLOSURE STATEMENT

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- **DS-2 "unlike circumstances" (continued)**
  - State/private agreements w/restrictions on types of costs that are direct/F&A
  - Projects w/extraordinary special requirements (facilities, materials, supplies and other project-specific direct costs)
  - Research units w/Federally negotiated unique F&A rates



# COMPLIANCE WITH 502 INTENT

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- **In each case, costs that are treated as direct are excluded from F&A cost pools in rate calculations**

# OTHER COSTING STRATEGIES

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- **Specific and accurate titling of staff positions and other non-salary expenses**
- **Encouraging faculty/researchers to more fully charge their project time to their project budgets**
- **Using the released salary and benefits funds to pay for costs which do not meet direct charge criteria**

# OTHER COSTING STRATEGIES

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**In addition, released funds can be used for:**

- **Funding a “research sabbatical reserve”**
- **Salary funding for researchers between sponsored projects**



# POST SCRIPT

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## ■ **Federal Reaction:**

- F.6.b. intended to standardize university costing practices for referenced costs

## ■ **Response:**

- This goal requires standardization of sponsoring agency costing requirements
- Currently, some requirements in conflict with A-21/rate negotiations



# POST SCRIPT

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## ■ **Federal Reaction:**

- F.6.b. intended to enforce the administrative cap and preclude migration of costs from capped administrative to direct

## ■ **Response:**

- F.6.b. costs have been direct charged since beginning of federal sponsorship of research



# POST SCRIPT

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## ■ Response:

- UCSD 1989-90 rate proposal included federally funded direct costs of:
  - Administrative and clerical salaries - \$9.5M
  - Telephone costs (excluding toll charges) - \$417K
  - Subscription and membership charges - \$165K
  - Storehouse purchases and office supplies- \$1.1M



# POST SCRIPT

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## ■ **Federal Reaction:**

- F.6.b. is not superceded by Section D.1.

## ■ **Response:**

- F.6.b. and D.1 are superceded by sponsoring agency prerogative to approve direct charges on sponsored projects
- Unlikely that cognizant agencies will contradict sponsoring agency decisions



# POST SCRIPT

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## ■ **Federal Reaction:**

- “Extraordinary circumstances” required to justify direct charging of F.6.b. costs
- Exhibit C examples can be used to justify extraordinary circumstance

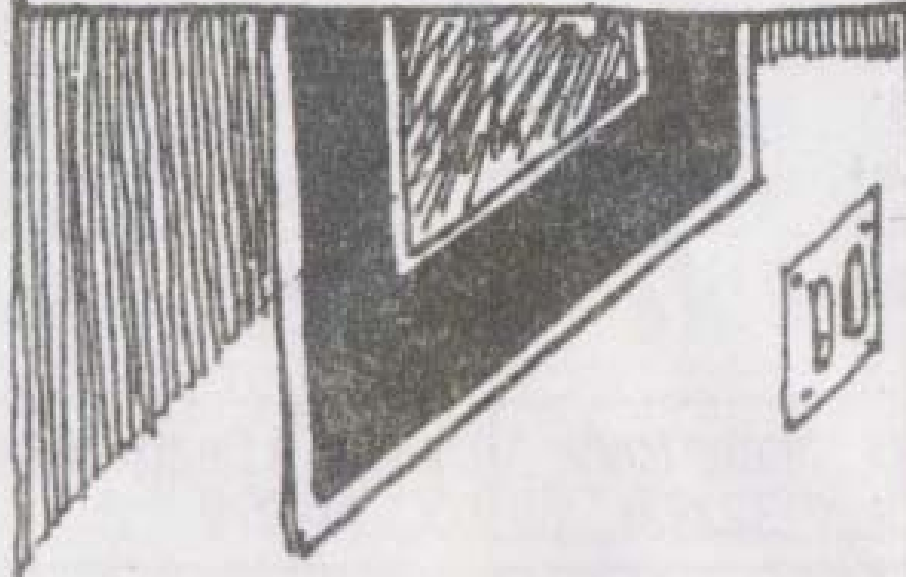
## ■ **Response:**

- UCSD approach is more restrictive, results in more consistent application
- Which successful researcher will NOT argue that their projects are extraordinary?



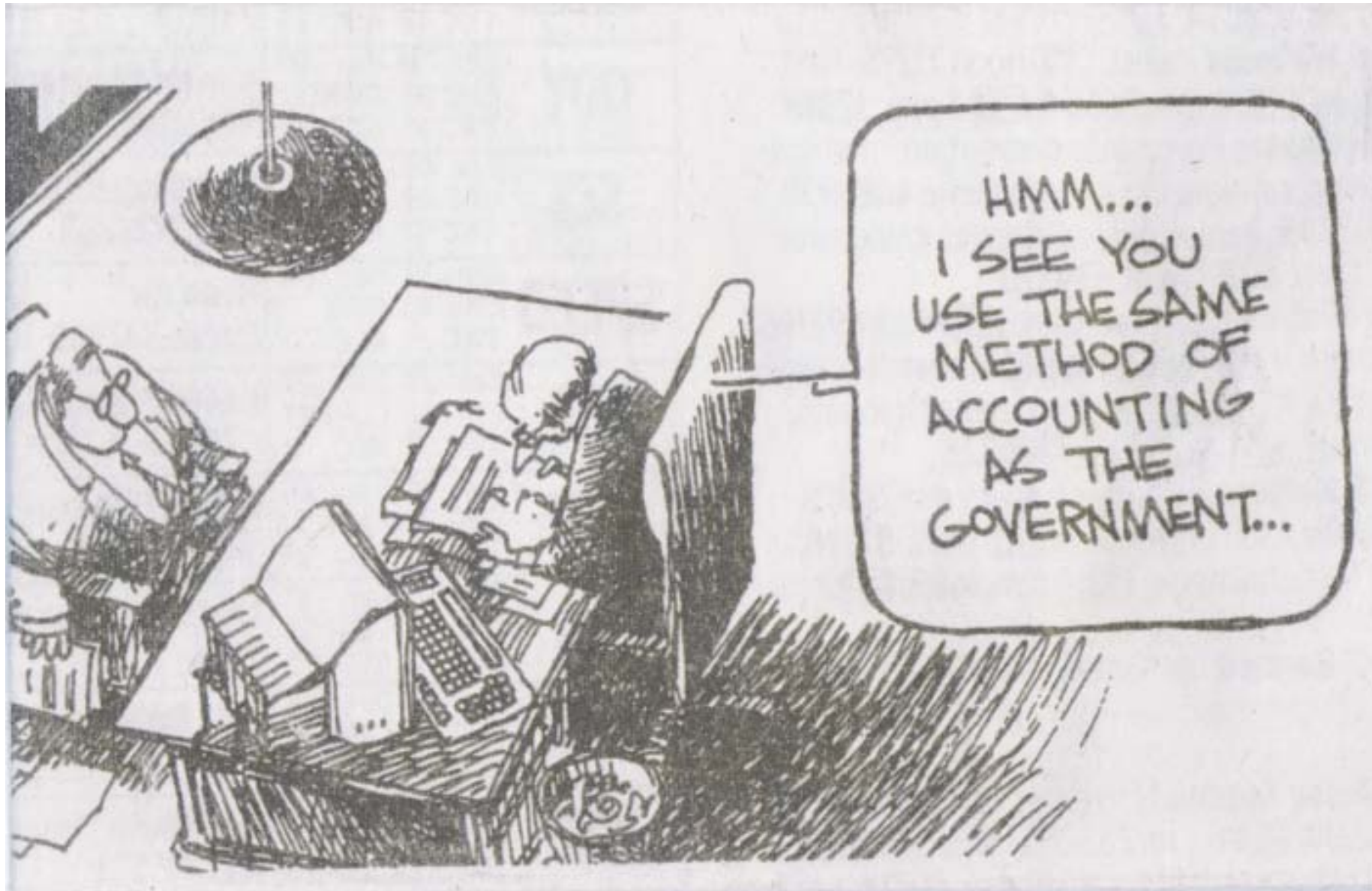
# NON SEQUITUR *by WILEY MILLER*

THE MOMENT BOB  
KNEW HE WOULD  
BE CHARGED FOR  
FRAUD...



WILEY 1-15





HMM...  
I SEE YOU  
USE THE SAME  
METHOD OF  
ACCOUNTING  
AS THE  
GOVERNMENT...