



UNIVERSITY POLICY

SUBJECT: FINANCIAL AFFAIRS **TITLE:** FEDERAL COST ACCOUNTING STANDARDS

CODING: 00-01-50-105:00 **ADOPTED:** 01/15/98 **AMENDED:** 01/15/98

I. PURPOSE

To ensure compliance with federal regulations detailed in OMB Circular A-21 revised April, 1996, governing cost principles for Colleges and Universities in the area of organized sponsored research. To acknowledge, implement and enforce the following Cost Accounting Standards Board (CASB) policies regulating costing practices in the conduct of organized research:

- A. **Cost Accounting Standard 9905.501** - Consistency in estimating, accumulating and reporting costs by educational institutions.
- B. **Cost Accounting Standard 9905.502** - Consistency in allocating costs incurred for the same purpose by educational institutions.
- C. **Cost Accounting Standard 9905.505** - Accounting for unallowable costs - - Educational Institutions.
- D. **Cost Accounting Standard 9905.506** - Cost accounting period - - Educational Institutions.

II. ACCOUNTABILITY

Under the direction of the Senior Vice President for Administration and Finance, the Vice President for Finance and Treasurer shall ensure compliance with this policy, and the Controller shall implement this policy

III. POLICY

Requirements:

- 1. **CAS 9905.501** - Consistency in estimating, accumulating and reporting costs by educational institutions.
 - a. Purpose - To ensure that the University practices employed in estimating costs for a federal cost proposal are consistent with cost accounting practices utilized by the University in accumulating and reporting costs. Conforming with CAS 9905.501
 - b. Definitions
 - i. **Accumulating Costs** - collection of cost data in an organized manner, such as through a system of accounts.

- ii. **Estimating Costs** - process of forecasting a future result in terms of cost, predicated on information available at the time
 - iii. **Indirect Cost Pool** - the aggregation of incurred cost identified with two or more objectives but not identified specifically with any final cost objective.
 - iv. **Pricing** - process of establishing the amount or amounts to be paid in return for goods and services.
 - v. **Proposal** - submission used as a basis for pricing a sponsored agreement, sponsored agreement modification or termination settlement or for securing payments thereunder.
- c. Requirements - University cost accounting methods utilized to estimate, accumulate and report costs will be consistent in all federal proposals and submissions.
- d. Application - Consistent cost methodologies will be utilized with respect to 1) the classification of elements of costs as direct or indirect; 2) the indirect cost category to which each element of cost is charged or proposed to be charged; and 3) the methods of allocating indirect costs to a sponsored agreement.
2. **CAS 9905.502** - Consistency in allocating costs incurred for the same purpose by educational institutions.
- a. Purpose - To require that each type of cost is allocated only once, and on only one basis to any sponsored agreement or cost objective. Criteria for determining the allocation of costs to a sponsored agreement or other cost objective will be the same for all similar objectives.
 - b. Definitions
 - i. **Allocate** - assign an item of cost, or a group of items of cost to one or more cost objects.
 - ii. **Cost Objective** - a function, organizational subdivision, sponsored agreement or unit for which cost data are desired.
 - iii. **Direct Cost** - cost which is identified specifically with a particular final cost objective or individual sponsored agreement.
 - iv. **Final Cost Objective** - cost objective which has allocated to it both direct and indirect costs, and in the University accumulation system, is one of the final accumulation points.
 - v. **Indirect Cost** - cost not directly identified with a single final cost objective, but identified with two or more final cost objectives.
 - vi. **Indirect Cost Pool** - grouping of incurred costs identified with two or more cost objectives, but not identified with a final cost objective.
 - c. Requirements - Cost incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to the University's final cost objectives.

- d. Application - The University's CAS disclosure statement, submitted to the Federal government, will detail the institutions cost accounting practices with regard to the distinction of indirect and direct costs. Specific criteria will be detailed for the distinction of direct and indirect costs and describe circumstances in assigning and allocating such costs.
3. **CAS 9905.505** - Accounting for unallowable costs.
- a. Purpose - To facilitate the negotiation, audit administration and settlement of sponsored agreements by establishing University guidelines covering 1) identification of costs specifically described as unallowable and 2) the cost accounting treatment to be accorded such identified unallowable costs in order to promote consistent application of sound cost accounting principles covering all incurred costs.
 - b. Definitions
 - 1. **Unallowable Costs** - any cost which, under the provisions of any pertinent law, regulation, or sponsored agreement, cannot be included in prices, cost reimbursements or settlements under a Government sponsored agreement to which it is allocable.
 - c. Requirements - University costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, application or proposal applicable to Government sponsored agreements. All identified unallowable costs will be allocated or burdened an equitable share of indirect costs, i.e. administration, depreciation and operation and maintenance of physical plant.
 - d. Application - In compliance with this standard the University will maintain thorough cost screening and monitoring practices and adequately identify and isolate unallowable costs. Detailed documentation, including computer expense screening processes, will be maintained to establish visibility of identified unallowable costs including directly associated costs, i.e. cost generated solely as a result of the unallowable activities. Unallowable costs will be given appropriate consideration in all University cost accounting determinations governing the content of allocation bases utilized for distributing indirect cost to cost objectives.
4. **CAS 9905.506** - Cost accounting period.
- a. Purpose - Provide criteria for the selection of the time periods to be utilized as cost accounting periods for sponsored agreement estimating, accumulating and reporting.
 - b. Definitions
 - i. **Fiscal Year** - accounting period for which financial statements are regularly prepared, generally a 52 week period.
 - c. Requirements - The University's cost accounting period and fiscal year shall coincide. The same cost accounting period shall be used for accumulating costs in an indirect cost pool as for establishing the allocation base, except when contracting parties agree to use a different period for establishing an allocation base.

- d. Application - The University shall adhere to established appropriate practices for the accounting of deferrals, accruals, and other adjustments for inclusion in proposals, agreements, and settlements. All material exceptions shall be submitted to the appropriate Federal agency for review and approval.

By Direction of the Senior Vice President
for Administration and Finance:

Vice President for Finance and Treasurer