

## Cost Principles – An Introduction



### Agenda

- The Federal cost accounting pronouncements applicable to grants and contracts management
- Codification of the pronouncements into law
- Principles of cost accounting for higher education institution

- The White House Office of Management and Budget (OMB) provides guidance via pronouncements or Circulars to Federal agencies in formulating regulations applicable to Institutional Research Financial Activities
  
- The following OMB Circulars apply to higher education
  - OMB Circular A-21: Cost Principles for Educational Institutions
  - OMB Circular A-110: Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
  - OMB Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations

- OMB Circular A-21 and A-110 are codified in the Code of Federal Regulations (CFR)
  - A-21: 2 CFR PART 220
  - A-110: 2 CFR PART 215
  
- Each agency determines its own regulations based on OMB Circular A-110. These regulations are then codified in the CFR. For example:
  - Regulations in 45 CFR 1-199 apply to the Department of Health and Human Services, General Administration
  - Regulations in 45 CFR 600-699 apply to the National Science Foundation.

- Cost principles for educational institutions
- Principles for determining costs applicable to research and development, training, and other sponsored work
- Apply to grants, contracts, and other agreements with the Federal Government
- Prescribes government-wide policies on cost reimbursement
  - Uniform standards of cost allowability
  - Uniform standards of cost allocation
- Assures the Federal Government bear its fair share of costs
- Encourages consistent treatment of costs

- OMB Circular A-110 establishes uniform administrative requirements for Federal grants and agreements awarded to institutions of higher education, hospitals, and other non-profit organizations.
- OMB Circular A-110 sets requirements in the following areas:
  - Pre-award
  - Post-award
    - Standards for financial management system
    - Payment
    - Cost sharing
    - Program income

- Post-Award (cont'd)
  - Revision of budget and program plans
  - Audit
  - Allowable costs
  - Period of availability of funds
  - Property Standards
  - Procurement Standards
  - Reports and Records
- After-the-award: closeout etc.

- Sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards
- Issued pursuant to the Single Audit Act of 1984 and the Single Audit Act Amendments of 1996
- Non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted for that year
- The single audit or A-133 audit is an annual audit of all federally funded programs at an institution
- Establishes the “cognizant agency” policy
  - The Federal agency from which the institution received the most funding
  - Cognizant agency is the oversight agency for the institution

- OMB Circular A-21 provides the following cost accounting principles to test the allowability of costs associated with federally funded sponsored projects for Colleges and Universities:
  - Reasonable
  - Allocable
  - Treated consistently
  - Allowed by regulations and by terms of the sponsored agreement

- **Necessary:** Is it necessary for the completion of the project?
- **Arm's length transaction:** Is it treated as a transaction with an unrelated third party?
- **Due prudence:** Is it a decision made by a prudent person under similar circumstance?
- **Consistent with institutional policies and practices:** Is it treated consistently across campus when under similar circumstance?

- Chargeable or assignable to a cost objective in accordance with relative benefits received
  - Costs incurred solely to benefit the project
  - Reasonable allocation method if costs benefit multiple activities
  - Indirect costs have to be necessary to the overall operation of the institution
  - Equipment items that are budgeted and benefit the project may be charged entirely to the project regardless its useful life (A-21 Sec. C.4.a)

- Costs may not be shifted to other sponsored agreements to
  - Relieve deficits
  - Avoid restrictions imposed by law or by terms of the sponsored agreement
  - For other reasons of convenience
- May not shift costs charged to non-federal projects to federally sponsored projects
- Allocation standard
  - Can be allocated without undue effort or cost
  - Allocated based on the proportional benefit
  - Reasonable allocation basis
  - Document allocation basis

- Applicable credits to be applied
  - Purchase discounts, rebates, allowances, adjustments of overpayment, or erroneous charges, etc...
- Consistency in estimating, accumulating and reporting costs
- Consistency in allocating costs incurred for the same purposes
- See OMB Circular A-21, Section J for discussion of allowability for selected items of cost

13



- Contact
  - Jing Liu, 626-6442, [jingliu@email.arizona.edu](mailto:jingliu@email.arizona.edu)
  - Marcel Villalobos, 626-6660, [marcel@email.arizona.edu](mailto:marcel@email.arizona.edu)

14