

1. What are cost accounting standards (CAS)? Who created them? Why?

Cost accounting standards (CAS) were created as an act of Congress to tighten the rules on the allowability, allocation, and reporting of costs on government grants and contracts. CAS was originally applied to defense contractors in 1970, but did not apply to institutions of higher education until 1996. Many believe that CAS was created as a result of major audit findings at several universities.

CAS was made binding on institutions by its inclusion in the Office of Management and Budget Circular A-21. The Circular is available at <http://www.whitehouse.gov/omb/circulars/a021/a021.html>. There are four parts of CAS that apply to educational institutions:

- *501 Consistency in Estimating, Accumulating and Reporting Costs by Educational Institutions:* All educational institutions should use practices in estimating costs that are consistent with their cost accounting practices used in accumulating and reporting costs.
- *502 Consistency in Allocating Costs Incurred for the Same Purpose by Educational Institutions:* All costs incurred for the same purpose, in like circumstances, are either direct costs only or Facilities and Administration (F&A) costs only with respect to final cost objectives.
- *505 Accounting for Unallowable Costs:* Costs expressly unallowable or mutually agreed to be unallowable shall be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement.
- *506 Consistency in Using the Same Accounting Period for Purposes of Estimating Accumulating and Reporting Costs:* Educational institutions shall use their fiscal year as their cost accounting period.

2. Why training on cost accounting standards?

Before 1996 and the introduction of the mandated CAS, researchers had the freedom to control their research money and to decide how it was to be spent. It was common practice for a researcher to take an invoice to the departmental secretary and say "pay these from whatever account that has money." Beginning with the implementation of CAS in 1996, it does not work that way today. CAS has been mandated by Congress and new standards must be followed.

Administration has been very involved in CAS and how to implement the new standards, but researchers were left in the dark. They did not understand the new requirements and why they could not spend their research funds as they wanted. The CAS implementation also caused additional work and effort by all involved; this led to slower turnaround getting new grants and contracts set up. The implementation of CAS led to high levels of frustration, especially with researchers.

As an effort to decrease the frustration experienced by many, the Office of the Vice President for Research (OVPR) began training the campus on Cost Accounting Standards (CAS) in January 2000. The purpose of the training is to help faculty and staff:

- understand ways to speed up approval of grants and contracts,
- understand CAS and the approval process, and
- understand how to prevent audit findings.

The desired outcome, that more people know and understand CAS, will smooth the process of setting up new awards in administrative systems. Since New Mexico State University (NMSU) has decentralized contract administration, good communication between the college research centers and the central office is crucial. OVPR believes that if people understand the what, why, and how - there will be fewer audit findings and less frustration.

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When an audit finding occurs, several entities are notified: the Board of Regents, the State Auditor, the Federal Clearinghouse, and the funding agency. The Federal Clearinghouse contains a list of all audit findings for institutions of higher education. For example, if NMSU has submitted a proposal, the federal agency can access the Federal Clearinghouse on the internet and see any and all audit findings for NMSU. If NMSU has repeat audit findings, the agency may decide not to do business with us. Audit findings may prevent future awards, as well as result in fines. We may have to pay back questionable costs.

3. What is a disclosure statement?

A disclosure statement (DS-2) is written by the university and approved by the Defense Contract Audit Agency. It states how the university intends to account for certain costs; auditors verify that NMSU indeed accounts for grant and contract costs in that manner. Disclosure statements are required of universities with grants and contracts that annually total more than \$25 million. NMSU used the OMB Circulars as a guideline when creating our disclosure statement. The disclosure statement specifically lists what costs will be handled as direct costs and as F&A costs.

4. What are direct costs and F&A costs?

There are two ways to charge costs to a grant or contract –

- direct costs OR
- indirect or facilities and administrative (F&A) costs.

The OMB Circular definition of direct costs is:

Those costs that can be specifically identified to the cost objective with relative ease and a high degree of accuracy.

The other way of charging a cost to a grant or contract is F&A. The OMB Circular definition of F&A is:

Costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.

Examples of F&A costs are:

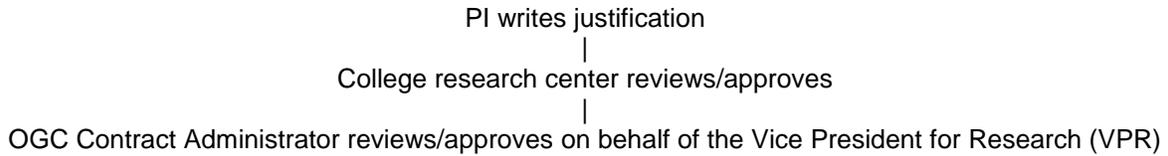
- Operation and maintenance of buildings
- Library costs
- Phone service
- Professional development
- Advertising

Issues arise when an investigator wants to charge a cost that is normally (according to the DS-2) an F&A cost as a direct cost. In order to do so, the item must be required by the scope of work for the project, the cost must be accurately identified and allocated to the project, and the item must be a unique requirement. To charge a normally F&A cost as a direct cost, a justification showing an “unlike circumstance” (that is, a circumstance unlike that in the general rule included in the DS-2) must be written. Since the PI is the most knowledgeable person about the project, he/she should write the justification and send it to the research center. If the research center believes the justification shows an

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unlike circumstance, the justification is forwarded to OGC. The assigned contract administrator at OGC reviews the justification and approves or disapproves.

The diagram below shows the approval flow for a justification:



If any of the people who review the justification believe that it is not adequate or needs more information, it may be returned with comments or suggestions.

5. What is a CAS template?

As a tool to help determine direct and F&A costs, NMSU created a CAS template. The CAS template is available at <http://research.nmsu.edu/docs/GandC/castemp1.xls>. The CAS template was designed from the Disclosure Statement where direct and F&A charges are itemized. The template will have an asterisk (*) before each item that is normally an F&A charge. The asterisk is a reminder to the PI that a justification is required in order to charge the item as a direct cost. The template is used as a budgeting tool, and PIs are encouraged to use the template at the proposal stage to break out the costs and determine the charges that require justification.

6. What is general purpose equipment?

General purpose equipment refers to items that are considered to be general purpose and ALWAYS require a justification to charge as a direct cost. A partial list of general purpose equipment is:

- PCs, printers,
- office equipment (typewriters, etc.),
- office furnishings,
- air conditioning equipment,
- reproduction and printing equipment,
- photo supplies,
- color scanners,
- copy machines, and
- safety clothes and shoes.

General purpose equipment is generally viewed as equipment that can be used by everyone—not just for research. PCs are the most frequently used item in research from this list. The justification must show an unlike circumstance associated with the research such as perhaps a PC with specific speed is required for the calculations needed for the research, or perhaps the PC is required to connect to a scientific piece of equipment.

The most frequent complaint heard from researchers is probably "but the government agency said it is ok..."

Note: The burden of implementing and following CAS has been placed on the university, NOT on the sponsor. If there are audit findings, the university will pay back the questionable costs and any fines associated with the audit finding.

7. Are there tips on writing justifications?

Yes, there are several tips that may assist you when writing justifications. The most important thing to remember is to tie the justification to the scope of work. Discuss the objective of the contract and explain how the purchase is necessary to achieve the goals of the grant or contract. Additional tips include:

- Write so that an auditor will understand; stay away from technical jargon.
- If the grant or contract requires workshops or training seminars, include this in your justification. Often the requirement for workshops or seminars helps justify direct charging of office supplies and other similar costs.
- If foreign countries are involved with the research, mention this in the justification. When required to do business in a foreign country, there are often encounter requirements of an unlike nature such as import/export fees.
- To charge repair and maintenance of equipment as a direct charge, the equipment should be dedicated to the project.
- If the costs are necessary to a project deliverable, state this in justification.
- If work takes place in a remote location, include this in the justification.

Following are some indirect costs that have never been approved as direct costs at NMSU:

- Lab notebooks are necessary to record data and findings for all research projects; therefore, no unlike circumstance exists.
- NMSU should ensure that all drivers of university vehicles are good drivers; a defensive driving course may benefit several different grants and contracts.
- The university should ensure that the secretarial staff is trained in software and other skills in order to succeed in their jobs; secretarial training falls under professional development which is an indirect cost.
- NMSU is also responsible for ensuring that their faculty and staff is kept abreast of the latest in science and technology; therefore, journal subscriptions are also an indirect cost.

8. When can clerical support be charged as a direct cost?

Clerical support may be appropriate as a direct charge if the award involves:

- A large complex program,
- making travel/meeting arrangements for large number of participants,
- a principal focus on preparation and production of manuals and large reports,
- travel to geographically inaccessible (vessels), remote research field sites, etc.,
- preparation of project-specific manuals, workbooks, etc.,
- investigator coordination and communications across a number of sites, or
- extensive data accumulation, analysis and entry, surveying, etc.

Following are examples of justifications for clerical support that have been approved as showing unlike circumstances:

- Salary for a person to maintain records of students, coordinate schedules related to training seminars, and to make travel arrangements for internships and meetings.
- Administrative duties involve preparing and maintaining inventories, overseeing housing and room reservations for visiting observers exterior to the faculty, and acting as contact person for persons visiting the observatory as well as inquiries.

9. When can office supplies be charged as a direct charge?

Office supplies may be appropriate as a direct cost if the work takes place at a remote site and if the scope of work requires an unusual amount of office supplies for tasks unique to the project. Projects including extensive workshops or training seminars frequently need an unusual amount of office supplies to develop handouts for the participants.

Following are several examples of justifications for office supplies that have been approved as showing unlike circumstances:

- This program is set up for the development of a teacher preparation throughout the state. It is a stand-alone office and requires supplies for mailings, brochures, reports, etc. All supplies are used for this project exclusively.
- Higher-than-usual amounts of office supplies are needed due to agency requirement of daily, quarterly, semi-annual, and annual reports. Upon request, the agency may request a copy of the Standard Operating Procedure Manual be sent to other agencies to demonstrate the sampling techniques and methods which are being utilized in sampling water samples.
- Supplies are used for a number of projects related specifically to this grant—developing and printing packets of materials distributed to participants in workshops; materials for website development, and maintaining various software tools and databases associated with project.
- This program is to promote AIDS awareness on campus. Requires an unusually large amount of supplies to prepare brochures and educational training materials for workshops.

10. When can print/photo supplies be charged as a direct cost?

Print and photo supplies may be appropriate as a direct cost when the scope of work requires large amounts of print or photo supplies or unlike circumstances exist. An example of a justification that has been approved as showing an unlike circumstance is:

- Printing and photo supplies are necessary in the transmission and dissemination of flight progress and results. This is a collaborative effort and information is shared with members from other countries.

11. When can food products be approved as direct costs?

Food products may be appropriate as direct costs when the scope of work requires all-day or half-day workshops or training seminars. The food must be included in the award and the budget. Examples of justifications that have been approved as showing an unlike circumstance are:

- As part of the Health Career Awareness program, we plan and sponsor several all-day events for middle school and high school students. We house and feed the students, sponsors, and presenters.
- Food products are required for recruiting and workshop activities for students visiting from tribal community colleges.

12. When can non-capitalized equipment be charged as a direct cost?

Non-capitalized equipment may be appropriate as a direct cost when it costs less than \$1,000 and can be tied to the scope of work as an unlike circumstance. An example of a justification that has been approved as showing an unlike circumstance is:

- In order to build the electronic prototype system listed in the scope of work as a deliverable, various small electronic parts will need to be purchased.

13. When can postage be charged as a direct cost?

Postage may be appropriate as a direct cost when it is excessive, involves requirements to mail to foreign countries, and can be tied to scope of work as an unlike circumstance. An example of a justification that has been approved as showing an unlike circumstance is:

- Excessive postage is required due to project requirement that classified packages be mailed monthly to collaborators located in several states. Document may contain 100 or more pages.

14. When can advertising be charged as a direct cost?

Advertising may be appropriate as a direct cost when it is advertising the project and when it is included in the scope of work. Advertising for employee recruitment is not normally an allowable direct charge, but there are instances where it can be approved as you will see in the last justification below. Examples of justifications that have been approved as showing an unlike circumstance are:

- Advertising for publication of test dates, program outreach and operations, scheduling of courses, public notification (Adult Basic Education).
- Advertising costs are required for audience research and to gain new TV station supporters.
- This project involves an intensive survey, requiring a high number of interviewers. The advertising will be to recruit the interviewers.

15. When can dues, fees and taxes be charged as a direct cost?

Dues, fees and taxes may be appropriate as a direct cost when it is required for the project and it is an unlike circumstance. Subscriptions to scientific journals are not an unlike circumstance. Examples of justifications that have been approved as showing an unlike circumstance are:

- To cover costs for Public Television Programmers Association dues, and for station interconnection to PBS via satellite.
- Dues and fees necessary to do business in another country - exclusive to the use of the project. These are custom fees for import/export of materials.
- Various personnel are required to maintain professional memberships in organizations related to NASA scientific ballooning. NMSU/PSL represents NASA Scientific Ballooning in the activities of these organizations and are instrumental in the education of scientific community in balloon launch capabilities.

16. When can Computer/Software Services be charged as a direct cost?

Computer/Software Services may be appropriate as a direct cost when specific software services are required in order to accomplish the scope of work. Examples of justifications that have been approved as unlike circumstances are:

- Computer services and/or software are required to install, set up, and maintain computers designed for disabled students in the lab.
- Due to the remote location of the facility, various software packages are required to provide support and services for the stand-alone office required by NASA. Specialized software packages are also required to provide balloon flight operational support.

17. When can Capitalized Equipment (non-scientific and non-technical) be charged as a direct cost?

Capitalized equipment (non-scientific and non-technical) may be appropriate as a direct cost when the cost is over \$1,000 and an unlike circumstance exists. General purpose equipment being used for scientific and technical purposes can be approved as a direct cost with a justification. Examples of justifications that have been approved as unlike circumstances are:

- The purpose of a digital camera is necessary due to the extensive and heavily utilized visual cues required for the Navajo, Zuni, and Apache tribes. The camera will be used to enhance the hard copy and electronic water quality presentations, as described in the project plan of work.
- The objective of this project is to evaluate hardware and software needs, and to upgrade and extend computer and data management capabilities for the sponsor.
- Computers, laptops and other multi-media equipment required to provide training and integration of technology and distance education to faculty and students, as outlined in the scope of the project. Also required to improve institutional systems to increase student retention and access.
- The project requires that we collect GPS data in the field in Mexico and then use GIS software to manipulate and analyze the data. We will need a laptop computer for field work. We also need a large-memory computer in order to handle the GIS software and large amount of data.

18. Will there be additional training provided?

Yes, OVPR is currently preparing workshops or mini-lessons on individual topics. The first workshop will be on cost share. Additional topics that have been requested are how to use the CAS template and indirect costs. If you would like to have training on a specific topic, please contact Neta Fernandez, Director of Grants and Contracts at 646-1590.