



UC San Diego

Policy & Procedure Manual

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CONTRACTS AND GRANTS (RESEARCH)

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COST ACCOUNTING STANDARDS COMPLIANCE

I. REFERENCES AND RELATED POLICIES

- A. [OMB Circular No. A-21, Cost Principles for Educational Institutions](#)
- B. [Cost Accounting Standards Board Regulations, Part 9905, Cost Accounting Standards for Educational Institutions](#)
- C. [UCSD Cost Accounting Standards Board Disclosure Statement \(CASB DS-2\)](#)
- D. UCSD Policy and Procedure Manual (PPM)
 - [150-14](#) Facilities and Administrative (F&A) Cost Rates Development Process & Timetable
 - [150-15](#) Facilities and Administrative Cost Rates Applicable to Research, Instruction, and Other Federal and Non-Federal Sponsored Projects
 - [150-42](#) Classification of Costs as Direct or Facilities and Administrative (Indirect)
 - [150-43](#) Accounting for Unallowable Costs
 - [150-45](#) Cost Sharing on Sponsored Projects
 - [300-40](#) Guidelines for Recharge and Other Income-Producing Activities
 - [300-51](#) Account Code Violation

II. DEFINITIONS

A. Allocation

The process of assigning a cost, or a group of costs, to one or more cost objectives, in reasonable and realistic proportion to the benefit provided or other equitable relationship. A cost objective may be a major function of the institution, a particular service or project, a sponsored agreement, or an F&A cost activity. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives

B. Cost Accounting Practice

Any disclosed or established accounting method or technique which is used for allocation of cost to cost objectives, assignment of cost to cost accounting periods, or measurement of cost.

C. Cost Accounting Practice Change

Any alteration in a cost accounting practice, whether or not such practice is covered by the Disclosure Statement, except for the following:

1. The initial adoption of a cost accounting practice for the first time a cost is incurred, or a function is created;
2. The partial or total elimination of a cost or the cost of a function;
3. The revision of a cost accounting practice for a cost that previously had been immaterial.

D. Cost Accounting Standards

A statement formally issued by the Cost Accounting Standards Board that (1) enunciates a principle or principles to be followed, (2) establishes practices to be applied, or (3) specifies criteria to be employed in selecting from alternative principles and practices in estimating, accumulating and reporting costs.

E. Cost Impact

The increase or reduction in costs assigned, or to be assigned, to sponsored projects as a result of either (a) a change in cost accounting practices or (b) a noncompliance with Cost Accounting Standards or with disclosed or established cost accounting practices.

F. Cost Objective

A function, project, activity, capitalized project, or other work unit for which cost data is desired, and for which provision is made to accumulate and measure costs.

G. Direct Cost

Any costs that 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.

H. Disclosed Practice

A cost accounting practice that is expressly described in the University's Cost Accounting Standards Board Disclosure Statement ([CASB DS-2](#)) submitted to the federal government.

I. Disclosure Statement ([CASB DS-2](#))

A description of an organization's cost accounting practices that is submitted to the federal government.

J. Facilities and Administrative (F&A) costs

Costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instruction activity, or any other institutional activity and cannot be directly charged. A grouping of incurred costs that is identified with two or more cost objectives but not with any final cost objective is referred to as an F&A cost pool. F&A costs are also referred to as "indirect" costs.

K. Final Cost Objective

A cost objective that has allocated to it both direct and F&A costs, and in the educational institution's accumulation system, is one of the final accumulation points. The term applies to individual cost objectives, e.g., individually sponsored projects (contracts, grants, etc.), co-sponsored projects, in-house projects, and similar cost objectives. Normally, costs accumulated in a final cost objective are not allocated to other cost objectives.

L. Fiscal Year

The accounting period for which annual financial statements are regularly prepared. UCSD has a fiscal year that runs from July 1 to June 30.

M. Formal Cost Sharing

The commitment of University resources/funding that supplements externally sponsored projects. The supplemental resource/funding may be required as a condition of accepting a sponsored project or may be incurred at the University's discretion. Formal cost sharing is defined as cost sharing which meets one or more of the following criteria:

1. Included and quantified in the proposal budget,
2. Identified and quantified in the proposal narrative,
3. Included and quantified in the award document.

Additional guidance is located in the cost sharing policy [PPM 150-45](#).

N. Indirect Cost

See Section II. J. Facilities and Administrative Costs.

O. Like and Unlike Circumstances

The consideration of whether a particular type of cost may sometimes be charged direct and sometimes indirect involves assessment of various factors to determine whether "unlike" circumstances may exist to justify differing treatment of a cost. Examples of unlike circumstances include the direct charging of utility costs for the supercomputer facility, or other situations when a particular cost type or amount represents a level of service or support that is over-and-above the normal level of service or support provided by the campus to all projects or activities.

P. Measurement of Costs

The accounting methods and techniques used in defining the components of cost, determining the basis for cost measurement, and establishing criteria for use of alternative cost measurement techniques. The determination of the amount paid or a change in the amount paid for a unit of goods and services is not a cost accounting practice.

Q. Noncompliance

Failure to adhere to a disclosed or established cost accounting practice or failure to comply with requirements of promulgated Cost Accounting Standards.

R. Price Adjustment

A modification of existing award amounts or a monetary settlement due to increased costs to the federal government resulting from (a) failure to comply with Cost Accounting Standards; (b) failure to follow disclosed cost accounting practices in pricing proposals or in accumulating and reporting contract performance cost data; or (c) changes in the institution's cost accounting practices.

S. Segment

One of two or more divisions, campus locations, or other subdivisions of an educational institution that operate as independent organizational entities under the auspices of the

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parent educational institution and report directly to an intermediary group office or the governing central system office of the parent educational institution.

T. Unallowable Costs

Any cost which, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost reimbursements, or settlements under a federal grant or contract to which it is allocable.

U. Voluntary Change

A change that an institution elects to make from one compliant cost accounting practice to another.

III. BACKGROUND/SCOPE

A. The Cost Accounting Standards Board (CASB) provides guidelines, referred to as Cost Accounting Standards (CAS), on cost accounting practices for federal contracts. In November 1994, the CASB imposed four standards and a cost accounting practice disclosure requirement on universities receiving significant awards from federal agencies. The stated intent was to prevent the charging of unallowable costs to federal awards, to standardize University costing practices, and to standardize requirements for recipients of federal funds.

B. The four Cost Accounting Standards applicable to UCSD are:

[CAS 501](#): Consistency in Estimating, Accumulating, and Reporting Costs

[CAS 502](#): Consistency in Allocating Costs Incurred for the Same Purpose

[CAS 505](#): Accounting for Unallowable Costs

[CAS 506](#): Cost Accounting Period

The cost accounting requirements imposed by these standards are discussed in Sections IV. and V. below, and in the related policies and procedures referenced in Section V. for [CAS 502](#) and [CAS 505](#).

C. [OMB Circular A-21](#), *Cost Principles for Educational Institutions*, contains the principles, guidelines, rules and regulations for determining costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the federal government. On May 8, 1996, [OMB Circular A-21](#) was revised to include the four CAS standards, and these standards were made applicable to all types of Federal awards.

D. As a recipient of federal awards, UCSD must comply with [OMB Circular A-21](#), including the CAS cost accounting requirements. UCSD must also disclose its cost accounting practices in writing to the federal government and consistently follow those practices. This compliance is critical to ensuring the institution's ability to recover direct and F&A costs pertaining to federally sponsored research.

E. UCSD's cost accounting system disclosure requirement is met by completion of a Cost Accounting Standards Board Disclosure Statement ([CASB DS-2](#)). This statement was submitted to the federal government in 1996 and will be revised as needed to disclose any future accounting system changes that may be made. The statement has seven major parts:

- Part I: General Information
- Part II: Direct Costs
- Part III: F&A Costs
- Part IV: Depreciation and Use Allowances
- Part V: Other Costs and Credits

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- Part VI: Deferred Compensation and Insurance Costs
Part VII: Central System or Group Expenses

The cost accounting practices disclosed within the [CASB DS-2](#) apply to all federal awards. Accordingly, the proposing, accumulating, and reporting of costs related to all federal awards must comply with the four standards and the disclosed practices.

- F.** The CAS Board also imposes other limitations and requirements on UCSD and other educational institutions. These include procedures for making cost accounting system changes, and requirements for determining cost impacts caused by those changes or due to noncompliance with the standards or disclosed practices. UCSD is subject to federal audits to verify the institution's compliance with CAS.
- G.** The purpose of this policy is to summarize the primary requirements imposed on UCSD by CAS. This is one of several procedures addressing issues related to CAS and compliance with federal cost accounting requirements. See Section I. for other related procedures.

IV. POLICY

- A.** It is UCSD policy to comply with the terms included in sponsored projects, and with the applicable standards, disclosure requirements, and administrative rules implemented by the Cost Accounting Standards Board.
- B.** UCSD shall comply with the following fundamental requirements of CAS as they relate to federally sponsored programs:
1. Practices used in estimating costs in pricing a proposal shall be consistent with the cost accounting practices used in accumulating and reporting costs. Likewise, cost accounting practices used in accumulating and reporting actual costs for an award shall be consistent with the institution's practices used in estimating costs in pricing the related proposal.
 2. All costs incurred for the same purpose, in like circumstances, shall be consistently classified as either direct costs only or F&A (indirect) costs only.
 3. Costs that are expressly identified as unallowable in [OMB Circular A-21](#), or that are otherwise considered unallowable by CAS regulation, policy, or mutual agreement with federal government agencies shall be identified and excluded from any billing, claim, or proposal applicable to a federal award.
 4. UCSD's fiscal year shall be used as the institution's cost accounting period for cost accumulation and development of F&A rates.
- C.** UCSD will disclose its cost accounting practices in the format required by the federal government. The disclosed practices will comply with applicable CAS, and the accounting and reporting of costs on federal awards will adhere to those disclosed practices.
- D.** The requirements of CAS are complex and interpretations can sometimes be difficult. Those individuals who have a responsibility to adhere to CAS, including compliance with the standards and the disclosed practices, shall be familiar with the requirements. To further this objective, adequate training will be provided to personnel and designated personnel shall be made available to provide guidance regarding the proper treatment of costs in specific situations.
- E.** UCSD will adhere to the additional restrictions and limitations imposed by CAS related to the making of cost accounting system changes. While working within these limitations, the institution will also ensure that accounting practices are designed to meet internal needs and other external requirements.

V. PROCEDURES

A. Compliance with Cost Accounting Standards (CAS)

1. General Applicability

- a. Cost Accounting Standards, including the requirement to adhere to disclosed practices, applies to all types of federally sponsored awards received by UCSD.
- b. In some instances a sponsoring agency or a sponsored agreement may authorize or direct a practice that is inconsistent with the UCSD disclosed practices or a CAS requirement. UCSD must adhere to CAS and is required to account for costs in the manner disclosed in its [CASB DS-2](#). Accordingly, a sponsoring agency’s authorization or direction is not sufficient to support noncompliance with CAS. Conflicts between agency directions or agreement terms, and the requirements to adhere to CAS and disclosed practices should be brought to the immediate attention of the Office of the Controller if they cannot be promptly resolved with the agency.
- c. Assistance in interpreting CAS requirements or disclosed practices may be obtained from:

Topic	Office of Responsibility	Telephone Extension
Proposals and Pre-award Issues	Contract & Grant Administration	(858) 534-3330
Post-award and Accounting Issues and Overall CAS Issues	Office of Post Award Financial Services	(858) 534-0664
F&A and Recharge Issues	Financial Analysis Office	(858) 534-6517
Audit Issues	Audit & Management Advisory Services	(858) 534-3617

2. [CAS 501](#) Consistency in Estimating, Accumulating and Reporting Costs

- a. The purpose of [CAS 501](#) is to ensure that practices used in estimating costs for a proposal are consistent with cost accounting practices used to accumulate and report costs. [CAS 501](#) has several objectives, including:
 - (1) Enhancing the likelihood that comparable transactions will be treated alike
 - (2) Facilitating the preparation of reliable cost estimates used to price a proposal
 - (3) Facilitating the ability to compare estimates to the actual costs of performance
 - (4) Providing a basis of financial control over costs during the period of performance
 - (5) Aiding the establishment of accountability for costs in the manner agreed to by both parties at the time of the initial award

- (6) Providing an improved basis for evaluating estimating capabilities.
- b. To comply with the requirements of [CAS 501](#), UCSD shall consistently adhere to the following practices regarding the estimating, accumulating and reporting of costs:
 - (1) The practices used to estimate costs in pricing a proposal shall be consistent with the institution's cost accounting practices used to accumulate and report costs.
 - (2) The cost accounting practices used to accumulate and report actual costs for a federal award shall be consistent with the practices used to estimate costs in pricing the related proposal.
 - (3) Costs in estimates prepared for proposal purposes may be combined into groups of similar costs provided that such costs are accumulated and reported in equal or greater detail on an actual cost basis during performance of the award. Such a practice complies with the standard because it allows for the comparison of the actual cost detail with the equivalent proposed costs, even if some actual data needs to be combined to make the comparison.
 - (4) Costs in estimates prepared for proposal purposes may not be shown in greater detail than will be accumulated and reported on an actual cost basis during performance of the award. Such a practice would violate the intent of the Standard since the individual cost elements in the proposal could not be compared to the equivalent actual costs.
 - (5) Although a proposal may group certain costs, the accounting system shall identify all significant amounts of costs so as to permit sufficient and meaningful comparison with the estimates.
 - c. The use of percentage estimates or add-on factors may not be used to estimate costs in a proposal unless the equivalent actual percentages or factors can be determined for comparison purposes.

This restriction does not require any specific level of support for cost estimates. It only requires that the ability to compare estimates to actual costs be maintained. For example, a \$5,000 estimate for lab supplies could be determined in various ways, including judgment or some form of calculation. The adequacy of the estimating technique is a matter of negotiation with the sponsoring agency. The requirement imposed by the Standard is that the system shall have the capability of accumulating and reporting the actual costs of lab supplies to compare with the estimate.

3. [CAS 502](#) Consistency in Allocating Costs Incurred for the Same Purpose
 - a. All costs incurred for the same purpose, in like circumstances, shall be consistently classified as either direct costs only or F&A (indirect) costs only.
 - b. No final cost objective shall be charged both direct and indirect for the same type of cost when incurred in like circumstances.
 - c. Individuals who are responsible for submitting proposals, assigning costs, or preparing billings shall be familiar with the requirements of this procedure and with the cost classification criteria described in [CASB DS-](#)

(3) The same cost accounting period shall be used for accumulating costs in an F&A cost pool as for establishing its allocation base

- c. No method of assigning costs to accounting periods and no F&A rate development methodologies may be implemented if they are inconsistent with the accounting period requirements of this procedures and [CAS 506](#).

B. Compliance with Disclosed Practices

1. The UCSD Cost Accounting Standard Board Disclosure Statement, [CASB DS-2](#), describes the cost accounting practices to be followed for federal projects. The federal government will consider variations from these disclosed practices as a noncompliance. Such a determination could impact cost recovery on other federal awards. Accordingly, individual exceptions to disclosed practices are not authorized unless they are expressly written into the Disclosure Statement, approved by the cognizant federal agency, or do not materially affect costs for federally sponsored activities.

Including exceptions in the Disclosure Statement shall be limited to those circumstances where a particular disclosed practice is clearly inappropriate to a certain segment or other unit within the University. In such a situation, the primary practice shall be fully disclosed followed by a description of the alternative cost treatment. The Disclosure Statement shall clearly identify the segments or other units to which the alternative practice applies.

While CAS permits the submission of a separate [CASB DS-2](#) for an individual segment that has significantly different cost accounting practices, this will only be considered where accounting practices are materially different than those being disclosed for the rest of the campus and it would be confusing or unduly cumbersome to incorporate both sets of practices into the same [CASB DS-2](#).

2. Some cost accounting practices are not specifically addressed in the [CASB DS-2](#). This is because the related costs were immaterial at the time the [CASB DS-2](#) was prepared or the accounting practice or cost-type did not exist at the time of the initial submittal. Whenever a cost accounting practice is not disclosed, established University practices shall be followed.

The Office of the Controller shall be notified of any intent to propose, record, or report significant costs based on a practice that is not disclosed. This will alert the Controller to the potential need for a revision of the [CASB DS-2](#) and help ensure compliance with the requirements to adhere to established practices.

C. Cost Accounting Changes

1. The requirement that UCSD adhere to its disclosed and established cost accounting practices does not prohibit the institution from implementing cost accounting changes. Voluntary changes will be made when appropriate to ensure that costs are properly recorded and equitably allocated.

Because a voluntary change requires adherence to certain CAS administrative provisions that can be time-consuming and may lead to additional audit oversight, the Controller shall approve all such changes. Additionally, the changes shall be implemented, whenever practical, at the start of a fiscal year so as to minimize the impact on programs and rates that could result from a mid-year change in accounting practices.

Cost accounting changes consist of revisions to the methods or techniques used to allocate costs to cost objectives, to measure costs, or to assign costs to cost accounting periods.

2. Changes in amounts assigned to cost objectives because of variations between estimated and incurred costs do not constitute cost accounting changes. Neither do variations resulting from circumstances such as the need to incur types of costs that were not anticipated in the original proposal, changes to rates due to F&A cost increases or decreases, or changes in recharge rates due to increased or decreased usage. In each of these examples the method or technique has remained the same although the amount may vary.

Also excluded as cost accounting changes are the (a) the initial adoption of a cost accounting practice or the creation of a new function, (b) the partial or total elimination of a cost or the cost of a function, and (c) the revision of a cost accounting practice for a costs that had previously been immaterial.

3. A cost accounting change can be government-directed or voluntary.
 - a. A government-directed change is one imposed by the implementation of a new cost accounting standard, the modification of an existing standard, or some other government-imposed requirement to change an otherwise compliant accounting practice. This form of change will normally result in a modification of disclosed practices.

Attempts by individual sponsoring agencies to direct non-compliant accounting practices or to influence changes in accounting practices do not constitute government-directed changes.

- b. A voluntary change is one where the institution elects to replace one compliant practice with another compliant practice. The federal government will evaluate proposed voluntary changes to determine whether the new practice is compliant with CAS requirements, whether it considers the change appropriate, and whether the change results in net increased cost allocations to existing federal awards. The federal determination as to whether a voluntary change is “appropriate” may affect how this impact on federal awards is determined.
 - c. The following steps identify the process to be followed in assessing the cost impact of a voluntary cost accounting change and of notifying the federal government of the change:
 - (1) The proposed change shall be defined and contrasted with existing cost accounting practices.
 - (2) An internal assessment shall be made to determine whether the revision constitutes a cost accounting change as defined in the CAS administrative guidelines.
 - (3) If the revision constitutes a cost accounting change as defined by CAS, an internal assessment shall be made of the potential cost impact on federal awards and on potential cost recovery. This financial assessment shall be considered as part of the total consideration as to whether to implement the change.
 - (4) The federal government shall be notified in writing before implementation of the voluntary change. Whenever possible, the notification shall be made at least 60 days before implementation of the voluntary change. The notification shall describe the change and provide an explanation of the reason for the change. It shall also include either a statement that the change is not expected to have a material impact on costs allocated to federal awards, or an estimate of the overall net impact.

- (5) The federal government will review the proposed change for adequacy and compliance. If the change meets these tests, the government may ask for a cost impact statement. Normally a cost impact determination should not be required if the overall impact is expected to be immaterial.
 - (6) If a cost impact analysis is required, it shall be prepared in the level of detail requested by the federal government. In most instances this should consist of determining the net aggregate impact on all sponsored projects. Because of the extensive effort that a more detailed analysis would require, it is appropriate to discuss the format of a cost impact calculation with the government to ensure that required information is being provided without expending unnecessary effort.
 - (7) A cost impact analysis determines the costs that would have been charged to federally sponsored programs, from the point of the change to the end of the project, using the former accounting practices. These costs are then compared to the amounts that will actually be charged using the new practices. The difference constitutes the cost impact.
 - (8) The federal government will evaluate the cost impact analysis. If the aggregate impact on sponsored agreements is considered material, a cost adjustment will normally be made through an adjustment of future F&A rates or by other means considered appropriate by the cognizant agency.
 - (9) The cost impact shall only be calculated for existing programs that will have costs impacted by the change. Future programs that were not priced or negotiated using the former cost accounting practices shall be subject to the new cost accounting practices. The amount allocated to the new projects is not affected by what would have been charged using the former accounting methods.
- d. Voluntary cost accounting changes will often also require changes to practices disclosed in the [CASB DS-2](#) submitted to the federal government. When such a change to disclosed practices is necessary, the pages with revisions shall be notated in the margin to indicate that a change has been made. These revised pages shall be submitted as part of the notification of the pending change.

The entire [CASB DS-2](#) should be resubmitted only if the changes are so extensive as to make a complete revision more practical than making changes to individual pages.

D. Overpayments due to CAS Non-Compliances

1. The federal government may also require cost impact analyses if it determines that there has been a potential overpayment due to the institution's non-compliance with disclosed or established accounting practices, or with the cost accounting standards. As with cost accounting system changes, the cost impact study will normally determine the aggregate impact of the non-compliance on federally sponsored agreements.
2. If a net aggregate overpayment by the federal government is determined, UCSD may be required to refund or credit costs to the affected agency. Interest payments may also be required to the extent provided for by agency regulations.

E. Other Administrative Requirements

The CAS rules and regulations provide for additional federal government oversight of the institution's cost accounting practices. This includes the authority and responsibility to assess our compliance with the individual standards and our adherence to our disclosed and established cost accounting practices. While a federal audit may include review of documents, and discussions with individuals, within individual departments of UCSD, the primary contact for dealing with the government on CAS issues resides in the Controller's Office. Accordingly, the Controller should be promptly notified whenever anyone is notified of a pending evaluation for CAS compliance or if any questions arise regarding the institution's compliance.

VI. RESPONSIBILITIES

A. Principal Investigator/Department

Responsible for developing proposals requesting extramural support and for assuring that all direct costs proposed and incurred comply with the requirements of this policy and meet the federal and University criteria for proposing and charging of direct costs.

B. Office of Contract and Grant Administration (OCGA)

Responsible for all direct versus F&A cost issues and inquiries related to proposal development and pre-award activities, and for negotiation of project terms and conditions.

C. Financial Analysis Office

Responsible for all direct versus F&A cost issues relating to campus recharge activities, and to the development and negotiation of F&A cost rates.

D. Office of Post Award Financial Services (OPAFS)

Responsible for all direct versus F&A cost issues relating to project accounting, financial reporting, effort certification, and other post-award aspects.

E. CAS Compliance Officer

The CAS Compliance Officer for UCSD is the Director of the Office of Post Award Financial Services (OPAFS). The Director has operational authority and responsibility to ensure that UCSD maintains a reasonable level of compliance with CAS requirements.

F. Audit & Management Advisory Services

Responsible for conducting a recurring program of audits to evaluate business processes and activities, and the adequacy of departmental and division internal controls to provide reasonable assurance of compliance with appropriate federal and state regulations, and University policies and procedures.

G. Office of the Controller

Overall responsibility for direct versus F&A compliance and cost implementation.