ALLOWABILITY OF COSTS

Topics:

- Cost Principles
  - Direct Costs
  - Indirect Costs
- Cost Transfers
  - Compliance Risks
  - Risk Mitigation

COST PRINCIPLES 2 CFR 200 SUB-PART E OBJECTIVES

- Uniform standards of allocation
- Uniform standards of allowability
- Designed to provide that the federal government bears its fair share of the cost recognized under these principles
- Simplify intergovernmental relations
- Encourages consistent costing

Drawing

THE UNIFORM GUIDANCE (AND PREVIOUS OMB CIRCULARS) ESTABLISHED PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO FEDERAL GRANTS, CONTRACTS AND OTHER AGREEMENTS.

Reasonable	Goods or services acquired and amount involed reflect an action a prudent person would have taken.
Allocable	Directly benefits the project or award to be charged.
Allowable	Items not restricted by the federal regulations or the specific grant/contract.
Treated Consistently	Like costs in similar circumstances need to be charged directly or indirectly (F&A).

How do the Cost Accounting Standards apply to sponsored project cost?

Any Costs charged to federally sponsored awards are classified as:

DIRECT COSTS

OR

FACILITIES & ADMINISTRATIVE COST
INDIRECT COSTS (IDC)

DIRECT COSTS

Are costs that can identified specifically with a particular sponsored project or that can be directly assigned to an activity relatively easily with a high degree of accuracy

- Personnel: Salaries, wages, fringe benefits for individuals working directly on the project
- Materials & Supplies: Goods needed to conduct the project
- Purchased Services: Services needed to conduct the project
- Equipment: Needed to conduct the project
- Subcontracts: Work perform by other institutions needed to conduct the project
- Other Direct Costs: That are project specific as outlined in the proposed budget

FACILITIES & ADMINISTRATIVE COST
INDIRECT COSTS

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

- Cost of operating and maintaining facilities: water, electricity, general maintenance
- Administrative activities: HR, payroll, accounting, executive management, OSP, department administrative support (capped at 26%)
- General purpose supplies: office supplies, furniture, toner, copiers
- Memberships, Subscriptions & Professional Activity
- Regular Postage
- Office telephone lines, individual cell phones & data communication

[NAU Negotiated Rate Agreement]

A LIST OF *SOME* OF THE UNALLOWABLE COSTS FOR BOTH DIRECT AND INDIRECT

- Alcoholic Beverages
- Contributions and Donations
- Entertainment Costs
- Fines and Penalties
- Goods and Services for personal use
- Housing & Personal Living Expense
- Lobbying Costs
- Losses on other sponsored Agreements or Contracts
- Student Activity Costs

Quick Reference Guide

GRAY AREA COST (TYPICALLY TREATED AS INDIRECT) THAT CAN BE DIRECTLY CHARGED TO A GRANT

- Indirect costs may be directly charged to a sponsored award when they directly benefit the sponsored project – this is typically when "unlike circumstances" apply.
- Unlike circumstances generally exist when a sponsored project or activity, due to its size and nature, requires administrative or clerical service, supplies, postage and/or telecommunications cost that are well beyond the core use routinely provided for with non-sponsored/administration funds.

*****All costs described below need to be in the sponsor approved proposal budget/justification*****

- High volume need for supplies, specific-purpose computer software is required
- High demand for postage (mass mailings), overnight mail costs for materials/samples
- Telephone as the nature of the sponsored project requires extensive use (work in the field)
- Administrative or clerical services that are integral to a sponsored project

Not across multiple grants

WHEN REASONABLE AND ALLOWABLE COSTS ARE CONSIDERED INAPPROPRIATE

When they are charged to the wrong award and/or funding source

resulting in a

COST TRANSFER !!!!

COST TRANSFERS

- Any cost that is first charged to one sponsored project and later charged to another sponsored project, where one or both of the accounts is a grant or contract, is referred to as a cost transfer, the uniform guidance refers to these as cost allocations.
- Reclassification of charges within an award from one account code to another account code are not cost transfers.
- Reclassifications should not be made in an effort to make an unallowable cost allowable

- Cost Transfers can be:
  - Salary expenditures
  - Non-Salary expenditure

[NAU's Cost Transfer Policy]

CONSIDERATIONS WHEN A SALARY COST TRANSFER OCCURS.

- Differences between actual effort % and % of salary charged may require a cost transfer.
  - *Example: when a PI notices on his/her effort report that 90% effort is indicated on a particular sponsored project while in reality he/she is aware that they only spent 50% of their time on that sponsored project.*
- Cost transfers processed after certification of effort may require a re-certification of effort.
  - *This should only happen due to unique and compelling circumstances.*

A more in-depth session on EFFORT REPORTING is scheduled for February 12, 2019

WHAT ARE COMMON CAUSES OF COST TRANSFERS?

- Data entry error – expense hit grant x instead of grant y
- Reallocation of effort
- Cost incurred prior to award notification but within the sponsored project period of performance. ****Note this type of cost transfer can be avoided by having an advance account set up.*

Cost transfers are NEVER an award management tool and should not be used to balance out projects. Under not circumstances may a Cost Transfer be made from one sponsored project to another one with the sole intent of using up the unexpended balance in Federal project by clearing a Federal project overdraft!

COMPLIANCE RISKS

Cost transfers are consistently a very "hot topic" in sponsored projects administration

Continually a focus of Federal sponsor's Office of Inspector General work plans	A key focus area for other auditors (AZ State Auditors, Single Audit)

A high volume of cost transfers suggests a lack of proper award management and raises questions on internal accounting practices and controls, such as:

Poor Spending Plans	Lack of expenditure monitoring	Charging award for costs that they did not benefit from in a proportional way	Charge "holding" or balance "Floating"

STRATEGIES FOR RISK MITIGATION

Keep cost transfers to a minimum

- Charge the proper account initially – carefully double-check data entry (use the [questionable account code list] when approving cost to be applied to the project).
- Monitor spending and balances on projects preferably monthly but at least quarterly

Document, document, and document!

- Document a complete explanation and justification, use the "Cost Transfer Justification Form"
- Explanations such as "to correct an error" or "to transfer to correct project" generally are not sufficient

ACCEPTABLE JUSTIFICATION FOR A COST TRANSFER

How did this error occur?

During September 2017, the Principal Investigator had an increase of effort on his project X during the deer season while project Y was in it's final stage requiring less effort from the PI. This cost transfer is to reallocate effort to reflect actual effort applies on each project.

What is the benefit of moving this expense o the project?

The increased effort on project X was a direct benefit to the award as the time spent was on additional analysis of the increased sample supply during the peak of the season.

What is being done to prevent this type of expense transfer in the future?

The department will ensure to review salary distributions with the PIs that will be on extended leave prior to their departure.

Why is the expense being moved so late (90 days or later from when the error wad discovered?

Due to the departure of the administrator responsible to timely review of expenses on project X for the PI, combined with the PI travel over the summer, the department was unable to review the ledger with the PI for accuracy.

NAU's Cost Transfer Justification Form

STRATEGIES FOR RISK MITIGATION

Be timely

- Process cost transfer within 90 days after discovering the need for one
- Provide additional information when transfer is not made within the 90 day period

Transfer appropriately

- Verify that costs charged to a project directly benefit the award
- Ensure charges are allowable, allocable, reasonable, and consistently treated across all awards for like charges

AVOID THE FOLLOWING PRACTICES

- Charging a cost to one sponsored project while waiting for another award to come in or be set-up in the financial system (i.e Advance Account Request)
- Posting a cost share charge directly to the grant until cost share funds can be identified
- Charging one project for an item that benefits multiple grants because more funding is available than on other projects
- Transferring cost to use up an unspent balance at the end of an award
- Transferring cost to avoid the 25% carry over approval requirement by the Sponsor
- Transferring costs from one sponsored project to another to clear and overdraft

WHAT COSTS DO YOU STRUGGLE WITH?

DIRECT OR INDIRECT

THANK YOU!

- This presentation will be available on the OSP website within 5 days.
- OSP next session is scheduled for November 13, 2018, same time, same place.
  - Topics:
    - Subcontractor / Subawardee vs Vendor
    - Subrecipient Monitoring
    - Participant Support Costs