
OMB Circular A-21, “Cost Principles for Educational Institutions”

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OMB Circular A-21, “Cost Principles for Educational Institutions”

- Contents of Circular:
 - Sets forth allowability principles for the reimbursement of costs associated with Federally sponsored agreements (Direct and F&A)
 - Describes what costs can be included in the F&A rate and methods for its calculation
 - Prescribes methods to distribute F&A costs to various functions of the University (e.g., instruction, research, other activities)
 - Determination and application of F&A rates
 - Simplified method for small institutions
 - General provisions for selected items of cost
 - Certification of charges by “authorized official”



Direct Costs

- Costs 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
- Examples of Direct Costs:
 - Salary of Researcher (including benefit costs)
 - Laboratory Supplies purchased for project
 - Technician



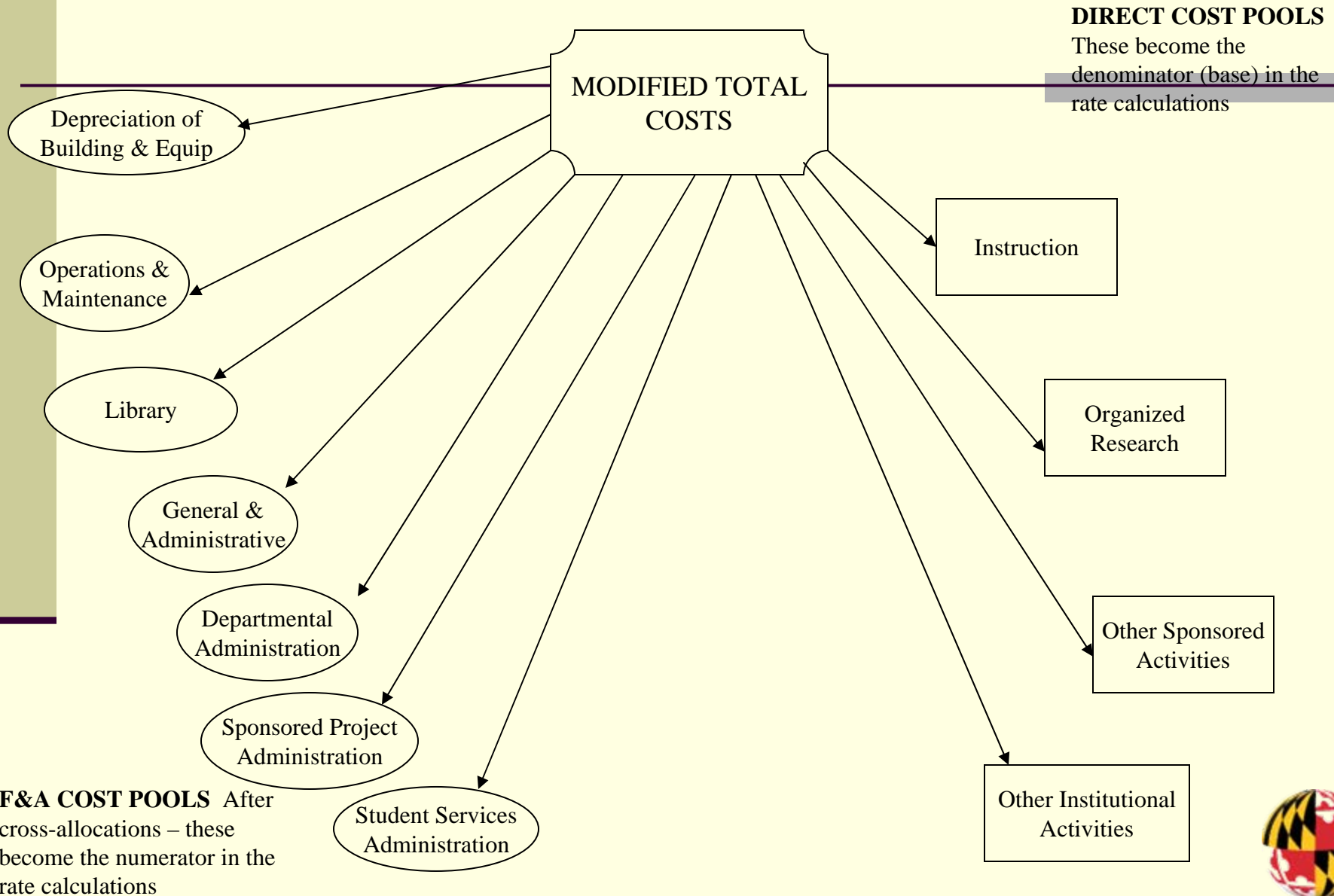
Facilities and Administrative (F&A) Costs *(formerly known as Indirect Costs)*

- 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:
 - Salary of Department Administrator
 - Building utility and maintenance costs
 - President, Provost, and CFOs offices



FACILITIES AND ADMINISTRATION (F&A) COST CALCULATION



Calculation of Research F&A Rate

$$\frac{\text{F\&A Costs (overhead)}}{\text{Organized Research Base (incl. University Research)}} = \text{F\&A Rate}$$

Organized Research Base
(incl. University Research)

All direct (MTDC) expenses related
to organized research

Sponsored
project costs

Committed
Cost Sharing

Overdrafts

University-funded competitive awards



F & A Costs are Real

- “Any research project must cover two components of costs-those directly attributed to the project and those incurred for the general support and management of research.
- ...If the sponsors of research projects do not fully reimburse the costs, they must be paid from other institutional funds.”

- American Council on Education



Assessing Whether a Cost is Allowable or Unallowable

- A cost may be “expressly” unallowable, i.e., it is always unallowable as either a direct or indirect.
 - Unallowable activities: fund raising, alumni relations, lobbying, etc
 - Unallowable transactions: alcohol, entertainment, fines, etc.
- A cost may be allowable but only as an indirect (F&A) cost, not a direct charge, e.g., proposal preparation
- A cost that is allowable as a direct charge should not be included in the F&A rate, e.g., salary of technician



Caution on Allowability

- An “allowable” cost is one that is eligible for reimbursement by the federal government.
- Contrast with:
 - **PERMISSIBLE BY INSTITUTION:** A cost is permitted by institution, as outlined in its various administrative policies or procedures.
 - **ALLOWABLE BY AGENCY:** A cost is permitted by the policies of the sponsoring agency or the terms or an award.
- An "unallowable" cost is one that is not eligible for reimbursement by the federal government.



Reasonable Costs

- Reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.
- Necessary for ... the performance of the sponsored agreement;



How Is Allocability Determined?

- A cost can be allocable as a direct or an indirect cost
- A cost is allocable as a direct cost if the goods or services provided are assignable in accordance with the relative benefits received....
 - It is incurred solely to advance the work under the sponsored agreement
 - It benefits both the work under the sponsored agreement and other work of the institution in proportions that can be approximated
 - If a cost benefits two or more interrelated projects in proportions that cannot be determined the cost may be allocated on any reasonable basis
- A cost is allocable as an indirect cost if it is necessary for the overall operation of the institution (and conforms with the other principles in A-21)



Allocable Costs

- A cost is allocable to a sponsored agreement if:
 - it is incurred solely to advance the work under the sponsored agreement;
 - If the cost is charged in accordance with relative benefits received or other equitable relationship.



Allocation and Documentation

- C.4.d.(1) Cost principles. The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles.

C.4.d.(2) Internal controls. The institution's financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.



Allocation and Documentation

- C.4.d.(4) Documentation
 - ...If the institution authorizes the principal investigator or other individual to have primary responsibility, given the requirements of subsection d. (2), for the management of sponsored agreement funds, then the institution's documentation requirements for the actions of those individuals (e.g., signature or initials of the principal investigator or designee or use of a password) will normally be considered sufficient.



The Front Page of the Newspaper Test

“Contemplating any business act, an employee should ask himself whether he would be willing to see it immediately described by an informed and critical reporter on the front page of his local paper, there to be read by his spouse, children, and friends.”

--- *Warren E. Buffet*

