

Cost Accounting Standards (CAS)

PSU FAQ

1. What are the Cost Accounting Standards (CAS) and why do they matter?

The CAS were adopted by the U.S. Government to establish consistency in the way contractors estimate, allocate, accumulate, and report costs against federally funded projects. A key component of the CAS is the requirement that all costs are allocated consistently, either as direct costs or as facilities and administration (F&A) costs.

Federal audits at other universities have revealed examples of inconsistent cost allocation. Specifically, certain costs (clerical salaries, office supplies, mailing costs, etc.), which are normally considered F&A costs, were charged directly to federal grants and contracts. These audit findings resulted in multi-million dollar fines. If such fines were to be levied at Penn State, they would almost certainly impact the budgets of the units responsible.

The Cost Accounting Standards applicable to Penn State can be found at 2 CFR [200.419](#).

2. Are there any exceptions when costs normally charged to F&A can be charged directly to federal funds?

Yes. According to the Uniform Guidance ([200.412](#)):

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards.

A particularly important example can be found at [200.413\(c\)](#), which states “the salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs.” The clause then identifies the specific circumstances when administrative and clerical salaries can be directly charged to a project.

Certain other costs, such as general purpose equipment, can be direct charged to a project only with the prior approval of the Federal awarding agency ([200.439](#)). Direct cost allocation principles are further defined at [200.405\(d\)](#).

3. When is it appropriate to charge **administrative or clerical salaries** to a project?

If a project only requires a routine level of clerical or administrative support, such support is to be covered by the faculty member’s department, since these costs are recovered via the university’s collection of F&A. The only time clerical and administrative support can be charged directly to a sponsored project is when the level of support needed for a project is significantly greater than the routine level of services provided by the faculty member’s department. For

example, if a project involves a very large mail survey, the project may be able to justify charging a portion of a staff assistant's time to the project if he or she will be involved in preparing, copying, and mailing the survey, and collecting and collating the results. Large projects (such as multi-institutional research centers) also may require additional administrative support. Projects that involve extensive travel and meeting arrangements, such as conferences, also may require additional administrative support.

The following conditions must be satisfied prior to direct charging administrative or clerical salaries to federal grants and contracts:

- (1) Administrative or clerical services are integral to a project or activity;
- (2) Individuals involved can be specifically identified with the project or activity;
- (3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- (4) The costs are not also recovered as indirect costs ([200.413\(c\)](#)).

In all such cases, a specific justification must be provided for why clerical and/or administrative salaries are being charged directly to the project. Instructions for completing this justification can be found [here](#). The Cost Accounting Justification Form for personnel costs can be found [here](#). As stated above, this form should only be approved when the level of support is greater than the routine level of services provided by the department. Thus, such requests will only be approved when an amount equivalent to 10% or more of an administrative or clerical person's effort is being charged to the grant, and only when that effort is clearly allocable to the grant or contract.

4. When is it appropriate to charge **supplies to a project?**

Laboratory supplies (o/c 303) are generally allowable as direct costs, as long as they are being purchased for use on a specific project (as opposed to being purchased for general use). See [2 CFR 200.453](#) for further guidance.

Office supplies (o/c 301, 309) are generally not allowable as direct costs, since the cost of general office supplies are recovered via the university's collection of F&A. (See [2 CFR 200, Appendix III](#), Section B.6.b.(2)). The only time office supplies can be charged directly to a sponsored project is when the quantity of office supplies needed for a project is significantly greater than the routine level. For example, if a project involves developing and distributing educational materials throughout the state of Pennsylvania, charging the cost of the curricular materials directly to the project may be justifiable. A large center proposal also may require a greater than routine level of office supplies to conduct its business.

General purpose **computer supplies** (e.g., toner and inkjet cartridges) are considered office supplies, not laboratory supplies, and therefore should not be charged directly to a project unless specific justification can be provided.

In all such cases, it is imperative that a specific budget justification be provided for why office supplies are being charged directly to the project. The justification must make clear how the supplies are allocable to the project. Instructions for completing this justification can be found [here](#). The Cost Accounting Justification Form for nonpersonnel costs can be found [here](#).

5. When is it appropriate to charge photocopying, publication, or printing costs to a project?

Routine duplication costs should not be direct charged to a sponsored project. Greater than routine duplication costs can be direct charged, e.g., in the case of a large mail survey. In all such cases, it is imperative that a specific budget justification be provided for why duplication costs are being charged directly to the project. Instructions for completing this justification can be found [here](#). The Cost Accounting Justification Form for nonpersonnel costs can be found [here](#). See [2 CFR 200.461](#) for further guidance.

6. When is it appropriate to charge telecommunication charges to a project?

Some telecommunication charges (e.g., long-distance phone charges) can be charged directly to a project, as long as it can be documented that the costs are being incurred for the sole benefit of the project. Routine telecommunications costs (e.g., installation charges, monthly use charges, local access calls, pagers, cell phones, and other communication devices) should not be charged directly to a project, since they are recovered via the university's collection of F&A. (See [2 CFR 200, Appendix III](#), Section B.6.b.(2)). Exceptions are possible. If a phone line or special communication device is needed for a project-specific purpose (and will be used only for that project), the associated costs may be charged directly to the project. In all such cases, it is imperative that a specific budget justification be provided for why the telecommunication costs are being charged directly to the project. Instructions for completing this justification can be found [here](#). The Cost Accounting Justification Form for nonpersonnel costs can be found [here](#).

7. When is it appropriate to charge mail service charges to a project?

As a general rule, mailing costs, including overnight courier charges, should not be charged directly on federal grants and contracts. (See [2 CFR 200, Appendix III](#), Section B.6.b.(2)). There are certain examples when these types of charges may be direct charged. For example, postage may be direct charged if the cost of postage is associated with a survey that is part of the scope of work. Overnight courier charges are typically unallowable as a direct charge unless the cost is significant and warranted by the scope of work. For example, a PSU faculty member working with a collaborator in another state may include several hundred dollars of anticipated Fed Ex charges in the budget if they are required to ship perishable research samples between collaborators during the course of the project. In all such cases, it is imperative that a specific budget justification be provided for why the mail service charges are being charged directly to the project. Instructions for completing this justification can be found [here](#). The Cost Accounting Justification Form for nonpersonnel costs can be found [here](#).

8. When is it appropriate to charge memberships and subscriptions to a project?

As a general rule, memberships and subscriptions should not be charged directly to a project (See [2 CFR 200, Appendix III](#), Section B.6.b.(2)). It may be possible to justify direct charging a membership or subscription if it is being purchased for the sole benefit of a specific project. In

all such cases, it is imperative that a specific budget justification be provided for why the memberships and/or subscriptions are being charged directly to the project. Instructions for completing this justification can be found [here](#). The Cost Accounting Justification Form for nonpersonnel costs can be found [here](#).

9. When is it appropriate to charge **general purpose equipment or **furniture** to a project?**

General purpose equipment (e.g., fax machines) and furniture are considered F&A costs and should not be charged directly to a project. (See [2 CFR 200.48](#) and [2 CFR 200.439](#).) Exceptions are possible in unusual circumstances, e.g., in the case of an office being set up in a remote location to perform a special function (such as an office being established on a seagoing research vessel). It is particularly crucial that such exceptions be well documented, since the costs associated with such items can be high. In addition to completing the Cost Accounting Justification Form for nonpersonnel costs (which can be found [here](#)), it is also necessary to secure the prior written approval of the Federal awarding agency or pass-through agency prior to direct charging such items to a federal project.

10. When is it appropriate to charge **computers to a project?**

Computing devices with an acquisition cost of less than \$5,000 are considered supplies ([2 CFR 200.94](#)); computing devices with an acquisition cost of \$5,000 or greater are considered equipment ([2 CFR 200.33](#)). As stated above, neither office supplies nor general purpose equipment can be charged directly to a project. However, if a computer is being purchased for project-specific purposes (e.g., a dedicated laptop for fieldwork or a specialized computing device for high-end computational research), then it may be possible to charge the device directly to the project or project(s) for which it is being used. In all such cases, project-specific justification should be provided. Instructions for completing this justification can be found [here](#). The Cost Accounting Justification Form for nonpersonnel costs can be found [here](#). If the device has an acquisition cost of less than \$5,000, then “charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award” ([2 CFR 200.453](#)). If the device has an acquisition cost of \$5,000 or more, then the prior written approval of the Federal awarding agency or pass-through entity is required ([2 CFR 200.439](#)). If a computer will be used for the benefit of more than one project, the cost of the computer should be split among the projects proportional to the benefit each project will receive. Personal use of computers purchased with sponsored funds should be severely limited (as specified in PSU Policy [FN14](#)).

Under almost no circumstances should computers or other equipment be charged to a sponsored project during the last six months of the project, since it is unlikely that the project will derive sufficient benefit to justify the cost. Purchases of computers and other equipment should be made as early as possible in the period of performance to avoid being disallowed by auditors.

10. The sponsor has approved our proposal budget, which includes staff assistant time and/or other costs normally associated with F&A. Does that mean that the costs can be charged to the project?

It is important to look at the guidance for each cost category, as well as the specific agency implementation of the guidance. In the case of direct charging administrative effort, the Uniform Guidance says that “direct charging of these costs may be appropriate” if “such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency.” (All of the other criteria referenced in [2 CFR 200.413](#) must also be met.) NIH specifically waives the prior approval requirement when rebudgeting funds for this purpose ([NIH FAQ](#)). Prior written approval is required to purchase capital equipment (whether general purpose equipment or special purpose equipment), but NIH waives this requirement as well ([NIH FAQ](#)). It is difficult to generalize in this environment. If specific guidance cannot be found, it is better to check with the federal agency before direct charging costs normally associated with F&A.

11. What if a faculty member asks to re-budget funds to purchase an item normally charged to F&A?

Some sponsors require us to request their prior approval before re-budgeting funds. Other sponsors provide the university with broad latitude to re-budget funds to meet the project’s objectives, as long as all costs are consistent with the CAS. If PSU is not required to seek a sponsor’s prior approval to re-budget funds, then it is not generally necessary to inform the Office of Sponsored Programs (OSP) that the funds are being re-budgeted. Even so, it is still necessary to provide justification for direct charging a cost that is normally associated with F&A. Justification should be provided to the Financial Officer at the time the item is ordered, and copies of this justification should be maintained by the department. Instructions for completing this justification can be found [here](#).

12. Do the above rules apply to non-federal projects as well?

The Cost Accounting Standards apply to all federal and federal flow-through awards.

Non-federal funds are not subject to the CAS (unless they are being used to meet cost-sharing obligations on a federally funded project). Nonetheless, the cost principles identified in the [Uniform Guidance](#) serve as the default rules for all sponsored programs at PSU. Justification should be provided prior to direct charging office supplies, clerical salaries, and any other costs typically paid out of F&A. All of PSU’s sponsors have a right to expect that all costs charged to our sponsored programs will be allowable, allocable, and reasonable.

13. If a sponsor does not pay full F&A, is it appropriate to direct charge costs that otherwise would be paid out of F&A?

All federal funds are subject to the CAS, even though some federal sponsors do not pay full F&A. Non-federal funds are not typically subject to the CAS, but justification should be provided before direct charging costs normally allocated to F&A. Even if the non-federal sponsor does not require any justification, such justification should be maintained for internal purposes.

14. What is the role of the Office of Sponsored Programs (OSP) in reviewing proposal budgets for CAS compliance?

OSP expects all individuals preparing proposals at PSU to comply with the CAS. OSP should always receive a copy of the detailed proposal budget with the IAF (even for NIH modular budgets). If OSP identifies a questionable cost, it will contact the college/unit for additional information. If the costs are consistent with the CAS, OSP may require more detailed budget notes to document the justification. If the budgeted costs are inconsistent with the CAS, OSP will ask the college/unit to submit a revised budget. In some cases, these revised budgets may be for internal purposes only (to document that the inappropriate costs have been removed from the budget). In other cases, the sponsor may require prior approval of budget revisions.

15. Question: Can Penn State ever charge a “fee” on top of direct and indirect costs?

Answer: ARL is approved to assess a fee on top of direct and indirect costs. The rest of the University is not typically permitted to assess administrative fees. An exception can be made for certain projects issued under Other Transaction Agreements (OTAs). (Certain Federal agencies are permitted under special circumstances to issue OTAs, which are a special form of “flexible” contracting not subject to Cost Accounting Standards, the Bayh-Dole Act, or the Federal Acquisition Regulation.) When the Federal government issues OTAs directly to Penn State, no fee will be assessed (unless they are run through ARL, which will assess its standard fee as a matter of course.) However, some OTAs are managed by third-party organizations sometimes known as consortium management firms (CMFs). CMFs will sometimes assess a fee on OTA award recipients in order to fund their own activities. Penn State is not permitted to include this fee as a direct cost in its proposal budgets, nor is the fee covered in Penn State’s indirect cost rate calculation. However, with the prior written approval of the Senior Director of Research Administration in the Corporate Controller’s office, an administrative fee can be included as an additional line item on top of direct and indirect costs. Object code 905 should be used for budgeting and billing purposes. In no case should more fee be collected than the amount to be returned to the CMF.

ACKNOWLEDGEMENTS:

This FAQ makes extensive use of a number of excellent resources available on the University of Washington’s financial management website, in particular the following: http://www.washington.edu/research/gca/ref/cas10_01.html and <http://www.washington.edu/research/osp/gim/gim23.html>.

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