The following is provided as a brief summary of the basic requirements of Circular A-21. Please review the full text of the circular located at http://www.whitehouse.gov/omb/circulars/index.html, and other OGC materials and policies. Please contact your OGC representative if you have any questions or email grantsc@ecu.edu.
OMB CIRCULAR A-21

- Titled “Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions”.

- Is the primary document for defining specific allowable costs and activities on federal awards to educational institutions.

- The A-21 provisions also apply to other university funds that are used as a cost share to federal awards.
WHAT IS A-21?

- Issued by the Office of Management and Budget (OMB)
- Provides government wide policies on cost reimbursement that agencies must incorporate into their awards including:
  - UNIFORM STANDARDS OF COST ALLOWABILITY
  - UNIFORM STANDARDS OF COST ALLOCATION
- Last updated 2004
WHAT DOES A-21 DO?

- Establishes the maximum requirements that the government can request for use of federal funds.
- Establishes the minimum standards the receiving institutions must meet for use of federal funds.
- Requires all federal agencies to incorporate provisions in their award terms and conditions.
A-21 OVERVIEW

- Purpose and Scope
- Definition of Terms
- Basic Considerations
- Direct Costs
- General Provisions for Selected Costs (J Section)
- Certification of Charges
- Cost Accounting Standards
- F&A Costs:
  - Identification and Assignment of Costs
  - Determination and Application of Rates
PURPOSE AND SCOPE

- Provides principles for determining allowable costs.

- Provides principles for determining applicable costs for sponsored agreements.

- Defines for the purposes of F&A (overhead) the allowable costs by award types:
  - Instruction/Training
  - Organized Research
  - Other Sponsored Activities
  - Other Institutional Activities
MAJOR PROVISIONS OF A-21

- Defines Direct Costs
- Defines F&A Costs and F&AC Rate Development
- Outlines Allowable and Unallowable Costs
- Defines Financial Management Standards
- Requires and Defines that all costs must be in conformance with any specific sponsor requirements and must always be:
  - Reasonable
  - Allocable
  - Necessary
  - Treated Consistently
SPECIFIC RULES FOR SELECTED COSTS

- Provides specific rules and definitions for selected costs:
  - Salaries/Wages
  - Fringe Benefits
  - Depreciation
  - Travel, etc.

- Covers allowability, federal approval requirements, documentation of costs, and other conditions.

- Provides standards for classifying and allocating indirect costs and computing indirect cost rates.
GENERAL STANDARDS FOR COST ALLOWABILITY

REASONABLE & NECESSARY

- Prudent person rule for test of reasonableness of cost.
- Is cost necessary for overall operation or the performance of the sponsored project?
- Are costs incurred consistent with University policies and procedures?
GENERAL STANDARDS FOR COST ALLOWABILITY cont....

ALLOCABILITY

- Are the costs assignable to a specific cost objective in accordance with relative benefit received?

- Are the costs incurred solely to advance the work under the sponsored project?

- Where multiple projects benefit, can reasonable proportions be assigned?

- Is the cost necessary and of benefit to the specific project charged?
GENERAL STANDARDS FOR COST ALLOWABILITY cont...

CONSISTENT TREATMENT

- Requires costs incurred for the same purpose, in like circumstances, to be handled consistently within the accounting system and across all projects.

- Requires costs incurred for the same purpose, in like circumstances, to be defined consistently as either a direct or an indirect cost (F&A).
GENERAL STANDARDS OF COST ALLOWABILITY cont....

Requires the institution to document, report, and apply all applicable credits to the federal award to include:

- Receipts or negative expenditures that offset costs reported.
- Purchase Discounts
- Refunds
- Rebates, etc.
SPECIFIC RULES ON COST ALLOWABILITY

A21 PROVIDES SPECIFIC GUIDANCE ON SELECTED AREAS OF COSTS

- Currently describes over 50 specific cost types
- Includes specific policies on cost allowability for types of costs
- Includes specific policies for unallowability of types of costs
- For some costs, it specifies prior approval requirements, documentation, and other provisions
SPECIFIC RULES ON COST ALLOWABILITY cont....

A21 PROVIDES SPECIFIC GUIDANCE ON SELECTED AREAS OF COSTS DEFINING THEM AS:

- Normally a direct cost, allowable as a charge to an individual project.

- Normally an indirect cost, not normally allowable as a direct charge to an individual project.

- Normally unallowable as either a direct cost or an indirect cost.
INDIRECT COST RATES

A-21 ESTABLISHES THE REQUIREMENTS FOR INDIRECT COSTS (F&AC) INCLUDING:

- How costs are documented
- How rates are developed
- What costs are eligible
- What costs are excluded
- How rates are defined (fixed, provisional, predetermined, final)
- How rates are applied to individual projects (Base for F&A calculation)
SERVICE CENTER RATES

A-21 ESTABLISHES THE REQUIREMENTS FOR SERVICE CENTER (INSTITUTIONAL RECHARGE) RATES INCLUDING:

- How costs are documented
- How rates are developed
- What costs are eligible
- What costs are excluded
- How rates can be applied to federal awards
In 1996 specific CASB Requirements (previously only applied to contracts) were incorporated into A-21 for Grants and Cooperative Agreements:

- 501 CONSISTENCY IN REPORTING COSTS
- 502 CONSISTENCY IN ALLOCATING COSTS
- 505 ACCOUNTING FOR UNALLOWABLE COSTS
- 506 CONSISTENCY IN COST ACCOUNTING PERIOD
CAS cont...

CASB UPDATE, SECTION F.6.B AND A-21 REVISIONS:

More clearly defined certain costs as normally indirect; therefore, not to be direct charged to an individual research project, except under unusual mitigating circumstances with an institutional exception process documented.
Because of the CASB requirements, many universities had to submit a DS-2 report to the Federal Government, which describes institutional business practices and systems including:

- COST TRANSFER PROCEDURES
- COST SHARING DOCUMENTATION & PROCEDURES
- OVERRUN PROCEDURES

And establishes consistent definitions of costs normally classified as direct costs and costs normally classified as indirect costs for federal awards (cost principles) and implements a CAS Exception Policy.
CAS WITHOUT DS2

- Institutions that do not have to file a DS2 are still required to develop practices and procedures in conformance with the CAS requirements.
- ECU has not yet filed a DS2, but is still subject to audit and review for consistency and applicability of the A-21 and CAS requirements.
- A DS2 must be filed by any institution receiving $25 million in federal sponsored projects.
- ECU will probably have to file a DS2 in the near future. At that time, all business practices, policies and procedures, must be documented and audited as in full compliance with CAS, A-21, and other federal requirements.
WHY IS A-21 IMPORTANT TO THE PI?

- Agency-specific implementations affect individual award terms and conditions.
- Establishes the rules on which most sponsor and university policies and procedures are based, especially:
  - ALLOWABLE COSTS
  - UNALLOWABLE COSTS
  - NORMALLY F&A COSTS
  - F&A RATES APPLIED TO AWARD TYPES
  - ACCOUNTING AND DOCUMENTATION REQUIREMENTS
WHY IS A-21 IMPORTANT TO THE PI? cont....

- 1996 - F.6.B and other areas strengthened restrictions on selected areas of costs including some costs traditionally charged to grants.

- Some costs are now prohibited as a direct cost, except in documented extenuating, mitigating circumstances.
WHY IS A-21 IMPORTANT TO THE PI? cont....

EXCEPTION DOCUMENTATION PROCESS

It requires the institution to establish an exception documentation process for such costs as:

- Admin/Managerial/Clerical Salaries/Fringe
- Postage
- Telephone
- Office Supplies
- General Purpose Equipment
- Books/Publications
- Dues & Memberships
- Facilities Management (Maintenance and Work)
- Insurance
- Alterations & Renovations
- Staff Recruitment/Relocation
- General Computer Services
- Computer Services or Use Fees
- Accounting/Audit Costs
- Banking Fees/Charges
- Construction/Architectural Fees
- Legal Costs
- Library Acquisitions
WHY IS A-21 IMPORTANT TO THE PI? cont...

Non-Compliance can lead to:

- DISALLOWED COSTS
- REDUCTION IN FUNDING
- TERMINATION OF AWARD
- ADDITIONAL COMPLIANCE REQUIREMENTS
- SANCTIONS
- SUSPENSION
- DEBARMENT
- CRIMINAL PENALTIES
ADDITIONAL INFORMATION

Reference the ECU Business Manual and other materials on the OGC website for more detailed information on A-21 in relation to:

- ALLOWABLE COSTS
- UNALLOWABLE COSTS
- COST EXCEPTION PROCEDURES
- COST SHARE
- COST TRANSFERS
- OVERRUNS
- SERVICE CENTERS
- SPECIFIC BUSINESS PRACTICES RELATED TO SPONSORED PROJECTS

For questions about Circular A-21, please contact your OGC Representative or email grantsc@ecu.edu.