



Management
& Technology
Consultants



OMB CIRCULAR A-122 & OASC-3: The other cost principles

NCURA FRA X

La Quinta, Palm Springs

February 11, 2009



This presentation was prepared by:

Mark C. Davis, National Managing Director
BearingPoint

Tel: +1-703-747-3022

E-mail: mark.davis@BearingPoint.com

Wallace Davis, Managing Director
BearingPoint

Tel: +1-703-747-6292

E-mail: wallace.davis@BearingPoint.com

Louis Guin, Manager
BearingPoint

Tel: +1-323-662-7296

E-Mail: louis.guin@BearingPoint.com

INTRODUCTION



Management
& Technology
Consultants

- BASIC COST CONCEPTS
- OMB A-122
- OASC-3
- COMPARISON OF SELECTED ITEMS: A-21, A-122, OASC-3
- INDIRECT COST PROPOSAL WRAP UP
- PROBLEM AREAS
- QUESTIONS



Management
& Technology
Consultants



BASIC COST CONCEPTS



WHAT OMB A-122 & OASC DO



Management
& Technology
Consultants

REQUIRES THAT COSTS BE:

- ALLOWABLE
- ALLOCABLE
- TREATED CONSISTENTLY
- ACCEPTED BY ALL FEDERAL AGENCIES UNLESS PROHIBITED BY LAW OR APPROPRIATIONS LIMITATIONS

WHAT OMB A-122 & OASC-3 DO NOT DO



Management
& Technology
Consultants

- SUPERSEDE LIMITATIONS OF LAW
- DICTATE EXTENT OF FEDERAL FUNDING
- PROVIDE ADDITIONAL FEDERAL FUNDS FOR F&A COSTS
- DICTATE THE DISPOSITION OF F&A RECOVERIES
- DICTATE ORGANIZATIONAL FORM

FEDERAL COST PRINCIPLES



Management
& Technology
Consultants

- NONPROFIT ORGANIZATIONS – OMB CIRCULAR A-122
- HOSPITALS – HHS OASC-3
- COLLEGES AND UNIVERSITIES – OMB CIRCULAR A-21
- STATE AND LOCAL GOVERNMENT – OMB CIRCULAR A-87

DIRECT COSTS ARE THOSE COSTS:

- THAT CAN BE IDENTIFIED SPECIFICALLY WITH A PARTICULAR COST OBJECTIVE (A PARTICULAR AWARD, PROJECT, SERVICE, OR OTHER ACTIVITY).
- INCLUDES PROJECT RELATED SALARIES AND WAGES, FRINGE BENEFITS, TRAVEL, SUPPLIES, SERVICES AND SUBAWARDS.

- THOSE COSTS THAT ARE INCURRED FOR COMMON OR JOINT OBJECTIVES AND CANNOT BE READILY IDENTIFIED WITH A PARTICULAR FINAL COST OBJECTIVE.
- EXAMPLES INCLUDE ACCOUNTING, HUMAN RESOURCES, EXECUTIVE MANAGEMENT, UTILITIES, MAINTENANCE, DEPRECIATION ON BUILDINGS AND EQUIPMENT, LIBRARIES, ETC.
- MAY BE GROUPED INTO TWO GENERAL CATEGORIES:
 - FACILITIES COSTS
 - ADMINISTRATIVE COSTS
- GENERAL ADMINISTRATION
- LIBRARIES

FACILITIES COSTS



Management
& Technology
Consultants

- DEPRECIATION / UAL – BUILDINGS
- DEPRECIATION / UAL – EQUIPMENT
- DEPRECIATION / UAL – CAPITAL IMPROVEMENTS
- INTEREST EXPENSES
- OPERATIONS & MAINTENANCE

TOTAL COSTS



Management
& Technology
Consultants

THE TOTAL COST OF AN AWARD IS THE SUM OF THE ALLOWABLE DIRECT AND ALLOCABLE INDIRECT COSTS LESS ANY APPLICABLE CREDITS.

SPECIALIZED SERVICE CENTERS



Management
& Technology
Consultants

- Highly complex facilities such as computers, wind tunnels, nuclear reactors, etc.
- The costs of these facilities are direct charged to the users of the services based on rates designed to recover the actual allowable costs of the services.
- Rates cannot discriminate against Federal users
- Rates are normally “burdened” with the service centers allocable share of F&A costs.

MODIFIED TOTAL DIRECT COSTS



MTDC BASE INCLUDES:

- SALARIES AND WAGES
- FRINGE BENEFITS
- MATERIALS AND SUPPLIES
- SERVICES
- TRAVEL
- SUBAWARDS (UP TO \$25K PER SUBAWARD)

MODIFIED TOTAL DIRECT COSTS



Management
& Technology
Consultants

MTDC BASE EXCLUDES:

- EQUIPMENT
- OTHER CAPITAL EXPENDITURES
- CHARGES FOR PATIENT CARE
- TUITION REMISSION
- RENTAL COSTS
- SCHOLARSHIPS & FELLOWSHIPS
- SUBAWARDS IN EXCESS OF \$25K

COSTS MUST BE:

- REASONABLE AND NECESSARY
- ALLOCABLE
- ALLOWABLE
- BE TREATED CONSISTENTLY
- BE DETERMINED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)
- NOT BE INCLUDED AS A COST OR USED TO MEET COST SHARING REQUIREMENTS OF ANY OTHER FEDERALLY FINANCED PROGRAM
- BE ADEQUATELY DOCUMENTED

REASONABLE & NECESSARY



Management
& Technology
Consultants

- REASONABLENESS – PRUDENT PERSON
- NECESSARY – IS THE COST NECESSARY FOR THE OVERALL OPERATION OF THE INSTITUTION OR THE PERFORMANCE OF THE PROJECT
- ARE THE COSTS INCURRED CONSISTENT WITH ORGANIZATIONAL POLICIES

- COSTS ARE ALLOCABLE TO A PARTICULAR COST OBJECTIVE IF THE COSTS ARE ASSIGNABLE IN ACCORDANCE WITH THE RELATIVE BENEFITS RECEIVED
- A COST THAT IS ALLOCABLE TO A PARTICULAR AWARD MAY NOT BE SHIFTED TO OTHER FEDERAL AWARDS TO OVERCOME FUNDING DEFICIENCIES, OR TO AVOID RESTRICTIONS UNDER THE AWARD.

ALLOWABLE



Management
& Technology
Consultants

- OMB A-122 ATTACHMENT B. DEFINES THE ALLOWABILITY OF COSTS
- OASC SECTION III.B DELINEATES FACTORS AFFECTING ALLOWABILITY OF COSTS
- UNALLOWABLE COSTS SUCH AS BAD DEBT EXPENSE ARE ELIMINATED FROM THE F&A COMPUTATION
- UNALLOWABLE ACTIVITIES SUCH AS DEVELOPMENT (FUNDRAISING) COSTS MUST BE INCLUDED IN THE BASE TO RECEIVE THEIR FAIR SHARE OF INDIRECT COSTS

CONSISTENT TREATMENT



Management
& Technology
Consultants

- LIKE COSTS UNDER LIKE CIRCUMSTANCES MUST BE TREATED AS EITHER INDIRECT COSTS OR DIRECT COSTS, BUT NOT BOTH
- PREVENTS DOUBLE CLAIMING OF COSTS

APPLICABLE CREDITS



- RECEIPTS OR NEGATIVE EXPENDITURES THAT OPERATE TO OFFSET OR REDUCE DIRECT OR F&A COST ITEMS
- EXAMPLES INCLUDE PURCHASE DISCOUNTS, REBATES, RECOVERIES ON LOSSES AND ADJUSTMENTS OF OVERCHARGES.



Management
& Technology
Consultants



OMB A-122 Nonprofit Organizations



INDIRECT COST RATES



Management
& Technology
Consultants

SIMPLIFIED ALLOCATION METHOD

MULTIPLE ALLOCATION METHOD

DIRECT ALLOCATION METHOD

SPECIAL INDIRECT COST RATES

SIMPLIFIED METHOD



- MOST FREQUENTLY USED METHOD
- USED WHERE AN ORGANIZATION'S MAJOR FUNCTIONS BENEFIT FROM ITS INDIRECT COSTS APPROXIMATELY TO THE SAME DEGREE
- USES THE FOLLOWING FORMULA:

ALLOWABLE INDIRECT COST

$$\frac{\text{-----}}{\text{DIRECT COST BASE}} = \text{INDIRECT COST RATE}$$

DIRECT COST BASE

SIMPLIFIED METHOD



- BASE MAY BE MODIFIED TOTAL DIRECT COSTS OR DIRECT SALARIES AND WAGES OR DIRECT SALARIES AND WAGES AND DIRECT FRINGE BENEFIT COSTS
- APPLICABLE TO ALL AWARDS AT THE INSTITUTION
- FOR ORGANIZATIONS THAT RECEIVE MORE THAN \$10 MILLION IN FEDERAL DIRECT COSTS IN ONE YEAR, THE INDIRECT COST POOL WILL BE BROKEN INTO TWO CATEGORIES;
 - Facilities costs
 - Administrative Costs

MULTIPLE ALLOCATION BASE



- USED WHERE AN ORGANIZATION'S INDIRECT COSTS BENEFIT ITS MAJOR FUNCTIONS IN VARYING DEGREES
- INDIRECT COSTS ARE ACCUMULATED IN SEPARATE COST GROUPINGS - FACILITIES AND ADMINISTRATION
- FACILITIES POOLS – DEPRECIATION / USE ALLOWANCES, INTEREST AND OPERATIONS AND MAINTENANCE. ALLOCATED ACCORDING TO SPACE STATISTICS
- ADMINISTRATION POOLS – GENERAL ADMINISTRATION (INCLUDES LIBRARIES). ALLOCATED BY MTDC

DIRECT ALLOCATION METHOD



- USED VERY RARELY
- USED WHERE ALL COSTS OF THE ORGANIZATION ARE TREATED AS DIRECT COSTS EXCEPT FOR GENERAL ADMINISTRATION COSTS.
- DEPRECIATION, RENTAL COSTS, OPERATIONS AND MAINTENANCE, ETC., ARE CONSIDERED TO BE JOINT COSTS. THESE COSTS ARE PRORATED TO THE MAJOR FUNCTIONS OF THE INSTITUTION IN ACCORDANCE WITH BENEFITS RECEIVED, AND TREATED AS DIRECT COSTS.

SPECIAL INDIRECT COST RATES



- USED WHEN WORK IS PERFORMED IN AN ENVIRONMENT WHERE THE AMOUNT OF INDIRECT COSTS ALLOCABLE TO THE ENVIRONMENT IS SUBSTANTIALLY DIFFERENT THAN FOR THE REST OF THE ORGANIZATION.
- EXAMPLES INCLUDE DIFFERENT LOCATIONS OR VERY SPECIALIZED PROGRAMS SUCH AS MARINE LABORATORIES, ETC.

SELECTED ITEMS OF COST

ATTACHMENT B OF OMB A-122



Management
& Technology
Consultants

1. Advertising and Public Relations
2. Advisory Councils
3. Alcoholic Beverages
4. Audit Costs and related services
5. Bad Debts
6. Bonding Costs
7. Communication Costs
8. Compensation for Personal Services
9. Contingency Provisions
10. Defense and Prosecution of Criminal and Civil Proceedings, Claims, Appeals, and Patent Infringement

SELECTED ITEMS OF COST



11. Depreciation and Use Allowances
12. Donations and Contributions
13. Employee Morale, Health, and Welfare Costs
14. Entertainment Costs
15. Equipment and Other Capital Expenditures
16. Fines and Penalties
17. Fund Raising and Investment Management Costs
18. Gains and Losses on Depreciable Assets
19. Goods or Services for Personal Use
20. Housing and Personal Living Expenses

SELECTED ITEMS OF COST



21. Idle Facilities and Idle Capacity
22. Insurance and Indemnification
23. Interest
24. Labor Relations Costs
25. Lobbying
26. Losses on Other Sponsored Agreements or Contracts
27. Maintenance and Repairs Costs
28. Materials and Supplies Costs
29. Meetings and Conferences
30. Memberships, Subscriptions and Professional Activity Costs
31. Organization Costs

SELECTED ITEMS OF COST



- 32. Page Charges in Professional Journals
- 33. Participant Support Costs
- 34. Patent Costs
- 35. Plant and Homeland Security Costs
- 36. Pre-Agreement Costs
- 37. Professional Services Costs
- 38. Publication and Printing Costs
- 39. Rearrangement and Alteration Costs
- 40. Reconversion Costs
- 41. Recruiting Costs

SELECTED ITEMS OF COST



- 42. Relocation Costs
- 43. Rental Costs of Buildings and Equipment
- 44. Royalties and Other Costs for Patents and Copyrights
- 45. Selling and Marketing
- 46. Specialized Service Facilities
- 47. Taxes
- 48. Termination Costs Applicable to Sponsored Agreements
- 49. Training Costs
- 50. Transportation Costs
- 51. Travel Costs
- 52. Trustees



Management
& Technology
Consultants



HHS OASC-3 Costing Provisions for Hospitals



OASC-3 COSTING PROVISIONS

– APPLICABLE COST PRINCIPLES: 45 CFR 74 (OASC-3)

ISSUED BY DHHS IN 1974

CHANGES EXPECTED IN THE NEAR FUTURE

– OASC-3 SECTIONS

- I. PURPOSE AND SCOPE
- II. DEFINITIONS OF TERMS
- III. BASIC CONSIDERATIONS
- IV. DIRECT COSTS
- V. INDIRECT COSTS
- VI. IDENTIFICATION AND ASSIGNMENT OF INDIRECT COSTS
- VII. DETERMINATION AND APPLICATION OF INDIRECT COSTS RATE
- VIII. SIMPLIFIED METHOD FOR SMALL INSTITUTIONS
- IX. GENERAL STANDARDS OF SELECTED ITEMS OF COSTS

– REQUIREMENT FOR INDIRECT COST RATE DETERMINATION

USE MEDICARE COST REPORT AS THE REFERENCE DOCUMENT

RESEARCH RELATED EXPENSES ARE ACCUMULATED IN LINE 97.XX

OASC-3 COSTING PROVISIONS



Why are hospitals different when it comes to F&A?

– **MEDICARE COST REPORT (MCR)**

PURPOSE: ACCUMULATE EXPENSES BASED ON CMS'S COST CENTERS
COST CENTERS CAN BE REIMBURSABLE OR NON-REIMBURSABLE
SEPARATE LABOR & NON-LABOR COSTS (COLUMN 1 & 2)

– **MCR WORKSHEET A**

SHEET A MEDICARE ALLOWABLE COST DETERMINATION

SHEET A-6 RECLASSIFICATION OF LEDGER EXPENSES
BETWEEN COST CENTERS

SHEET A-8 EXPENSE ADJUSTMENTS TO COST CENTERS FOR
NON-PATIENT CARE SERVICES

– **MCR WORKSHEET B**

SHEET B-1 COST ALLOCATION STATISTICS (RESEARCH BASE IS IN
LINE 97.XX)

SHEET B, PART 1 ALLOCATION OF INDIRECT COST CENTERS TO
REVENUE CENTERS STEPDOWN ALLOCATION PROCESS

OASC-3 COSTING PROVISIONS



Why are hospitals different when it comes to F&A?

– MEDICARE COST POOLS

DEPRECIATION: MCR LINES 1 THROUGH 4

INTEREST COSTS: ALLOWABLE ONLY IF PRE-APPROVED BY DHHS.

HUMAN RESOURCE ADMINISTRATION: MCR LINE 5

ADMINISTRATIVE & GENERAL COSTS: MCR LINE 6

SPROJECTS & PATIENT CARE ADMINISTRATION ISSUES

DEPARTMENTAL ADMIN: NO SPECIFIC MCR LINE NUMBER (COST ANALYSIS)

OPERATION & MAINTENANCE OF PLANT: MCR LINE 8

OTHER INDIRECT COST CENTERS:

HOUSEKEEPING, LAUNDRY& LINEN, DIETARY, MEDICAL RECORDS

Why are hospitals different when it comes to F&A?

– ORGANIZED RESEARCH BASE DETERMINATION ISSUES

MCR LINE 97.XX MAY INCLUDE THE FOLLOWING EXPENSES

- SPONSORED RESEARCH & ASSOCIATED COMMITTED COST SHARING
- OTHER RESEARCH ACTIVITIES FUNDED WITH INSTITUTIONAL FUNDS
- OTHER RESEARCH ACTIVITIES FUNDED BY GIFTS
- RESEARCH TRAINING GRANTS
- CLINICAL TRIALS
- OTHER SPONSORED ACTIVITIES
- OTHER EXPENSES

ON AND OFF CAMPUS DETERMINATION

Why are hospitals different when it comes to F&A?

– SPACE FUNCTIONAL DISTRIBUTION

- MCR SPACE DISTRIBUTION IS DETERMINED BY COST CENTERS
- F&A SPACE DISTRIBUTION IS BASED ON ACTUAL USAGE
- MORE OFTEN THAN NOT MCR SPACE DISTRIBUTION UNDERESTIMATES ACTUAL ORGANIZED RESEARCH USAGE
- ANIMAL CARE SPACE SHOULD BE CODED FOLLOWING NIH'S 1999 COSTING GUIDANCE
- OTHER RECHARGE OR SHARE SERVICES
- MATCHING SPACE USAGE WITH RESEARCH & OTHER BASES

STATUS of NEW HOSPITAL COST PRINCIPLES



Management
& Technology
Consultants

- STILL UNDER DHHS INTERNAL REVIEW
- ISSUES:
 - STANDARIZATION OF COST DEFINITIONS
 - STANDARIZATION OF COST TREATMENTS
 - ALLOWABILITY OF INTEREST ON NEW BUILDINGS
 - EQUIPMENT THRESHOLD
 - APPLICABILITY OF A-21 TO RESEARCH HOSPITALS

3-WAY COMPARISON: A-21, A-122, OASC-3



ITEM	A-21	A-122	OASC-3
RECONCILIATION	Financial Statements	Financial Statements	Medicare Cost Report
Capitalization	\$5,000	\$5,000	\$500
Interest Costs	Allowable with limitations	Allowable with limitations	Not Allowable
Departmental Admin cost pool	Specifically defined 3.6% faculty allowance	Not defined	Not defined
F&A Admin Cap	26% of MTDC	None	None
Effort Reporting	Annual	Monthly	Monthly
CAS Requirements	CAS 501, 502, 505, 506 DS-2 Report	If federal contracts exceeds \$25 million	If federal contracts exceeds \$25 million
Applied F&A Rate	Existing Rate(s) at time of award	Current Rate	Current Rate



Management
& Technology
Consultants



INDIRECT COST PROPOSAL WRAP UP





Management
& Technology
Consultants



HHS OASC-3 Costing Provisions for Hospitals



PREPARING THE PROPOSAL PACKAGE



Management
& Technology
Consultants

- General Guidelines
 - Submit a complete, well organized indirect cost proposal package
 - Number the pages sequentially to the extend possible
 - Include the audited financial statements and the DCA checklist
 - Include the proposed F&A rate(s) in the transmittal letter
 - Ensure that the F&A cost proposal includes the F&A rate schedule, as well as any subsidiary schedules

PREPARING THE PROPOSAL PACKAGE



Management
& Technology
Consultants

- General Guidelines (cont'd)
 - Ensure that the indirect cost proposal reconciles to the financial statements
 - Ensure unallowable costs were excluded from the indirect cost pool.
 - Ensure that unallowable activities were included in the base
 - Assess potential cost findings and prepare additional supporting documentation if those costs flag for review by the DCA negotiator

PREPARATION FOR RATE NEGOTIATION



Management
& Technology
Consultants

- Strategy Planning
 - Do you want an increase in the F&A rate; if so, how much?
 - How many years do you want? 3 years?
 - Perform risk analysis
- DCA Negotiator
 - Review last F&A negotiation issues
 - Know the name of the DCA negotiator
 - Be aware of his or her negotiation styles
 - Be aware of national as well as regional hot F&A issues



Management
& Technology
Consultants



PROBLEM AREAS



- INSUFFICIENT DOCUMENTATION FOR INDIRECT COST PROPOSAL
- INADEQUATE RECONCILIATION OF PROPOSAL TO FINANCIAL STATEMENTS
- PROPOSAL PREPARED WITH COSTING PRACTICES THAT ARE DIFFERENT FROM REGULAR ORGANIZATIONAL PRACTICES
- ASSUMPTIONS ARE NOT FULLY EXPLAINED / DISCLOSED

PROBLEM AREAS



Management
& Technology
Consultants

- INCONSISTENT COSTING
- OFF-SITE RATE NEEDED BUT NOT PROPOSED
- IMPROPER TREATMENT OF UNALLOWABLE ACTIVITIES SUCH AS FUNDRAISING / DEVELOPMENT.
- FAILURE TO INCLUDE A FRINGE BENEFIT CALCULATION IF A FRINGE BENEFIT RATE IS USED FOR MAKING ACTUAL CLAIMS TO FEDERAL AWARDS
- FAILURE TO ELIMINATE ALL UNALLOWABLE EXPENSES

SPECIFIC COSTING ISSUES



A & G COSTS

- Fund raising
- Investment expenses
- Marketing
- Malpractice insurance
- Patient admitting, billings and records (hospitals)
- Patient services (hospitals)
- Public relations

— OTHER

- Volunteer services
- NIH CAPS

- Proposal and documentation complete
- Proposal reconciles to MCR / Financial Statements
- Appropriate treatment of fringe benefits and paid absences
- Trend analysis of pool and base
- Appropriate screening of indirect cost pool
- Completeness of direct cost base
- Space functional verification
- Equipment inventory verification
- Review of selected item of costs

Visiting scholars & HHMRI researchers, tech transfer costs,
DA pool

QUESTIONS



Management
& Technology
Consultants

Experiences From the field:

- Missed Opportunities
- Common Errors



Management
& Technology
Consultants



IMPORTANT REFERENCES



REFERENCES



1. Circular A-122: http://www.whitehouse.gov/omb/circulars/a122/a122_2004.html
2. http://rates.psc.gov/fms/dca/cfr45_pt74_appx_e.html (45 CFR 74 Appendix E)
3. <http://oig.hhs.gov/oas/reports/region1/19201528.pdf> (OIG review of OASC-3)
4. NIH Cost Issues:
http://grants.nih.gov/grants/policy/nihgps_2003/NIHGPS_Part5.htm#_Toc54600115
5. Circular A-110: <http://www.whitehouse.gov/omb/circulars/a110/a110.html>
6. Circular A-133: <http://www.whitehouse.gov/omb/circulars/a133/a133.html>
7. A-133 Compliance:
http://www.whitehouse.gov/omb/circulars/a133_compliance/05/cs5updates.html
8. Division of Cost Allocation: <http://rates.psc.gov/fms/dca/faq.html>
9. Long-Form Review Guide: <http://rates.psc.gov/fms/dca/lfrevugd1.pdf>
10. FDP website: <http://www.thefdp.org/>
11. NCURA website: <http://www.ncura.edu/>
12. SRA website: <http://www.srainternational.org/newweb/grantsweb/index.cfm>
13. COGR: <http://www.cogr.edu/>
14. BearingPoint: www.BearingPoint.com



Management
& Technology
Consultants

A large graphic element consisting of a red square on the left containing the white BearingPoint logo and text, and a white rectangle on the right containing the tagline "Management & Technology Consultants" in red text. A thin red vertical line separates the two sections.

BearingPoint.[®]

**Management
& Technology
Consultants**