

ADMINISTRATIVE DIVISION	FINA Administration and Finance
POLICY NUMBER	FINA 3.40
POLICY TITLE	Cost Accounting Standards
SCOPE OF POLICY	USC System
DATE OF REVISION	November 12, 2024
RESPONSIBLE OFFICER	Executive Vice President for Administration and Finance/Chief Financial Officer
ADMINISTRATIVE OFFICE	University Finance – Controller’s Office

PURPOSE

This policy outlines and ensures compliance with the federal cost accounting standards applicable to educational institutions. This policy applies to all sponsored awards, regardless of the source of funding.

DEFINITIONS AND ACRONYMS

Cognizant Agency: A federal agency (typically the agency that provides the largest amount of direct federal funding to an organization) that reviews, negotiates, and approves indirect cost proposals and cost allocation plans for an institution of higher education on behalf of all federal agencies.

Cost Accounting Standards (CAS): A set of standards designed to achieve uniformity and consistency in cost accounting practices.

Cost Objective: Any function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

Principal Investigator (PI):

Sponsored Award: Funding from an external entity (e.g., federal, state, local, commercial, philanthropic, etc.) for an activity/project with a defined scope and purpose undertaken by the University with the expectation of an outcome that directly benefits the provider.

POLICY STATEMENT

Cost accounting and financial compliance for the University’s sponsored awards is dictated by various federal and agency regulations.

In accordance with 2 CFR 200.419, an institution of higher education (IHE) that receives an aggregate total of \$50 million or more in federal awards and instruments (as specified in 200.101) in its most recently completed fiscal year must comply with the Cost Accounting Standards Board's cost accounting standards (CAS) located at 48 CFR 9905.501, 9905.502, 9905.505, and 9905.506. CAS-covered contracts and subcontracts awarded to the IHEs are subject to the broader range of CAS requirements at 48 CFR 9900 through 9999 and 48 CFR part 30 (FAR Part 30).

In accepting a sponsored award, the University and Principal Investigator (PI) assume responsibility for fulfilling the requirements of the program. These requirements may be specifically contained in the agreement, or they may be incorporated by reference to guidelines issued by the sponsor in special publications or directives.

The intent of CAS is to preclude a perceived overcharge to the government, standardize the requirements for sponsored award recipients, create uniformity in university costing practices, and prevent charging unallowable costs to federal sponsored awards. Formal CAS aid in setting the appropriate fiscal protocols for researchers and the University.

A. Types of Costs

All expenditures charged to a sponsored award must be allocable, allowable, reasonable, consistent, and necessary. The proper classification of expenditures is a key component of CAS and of complying with the respective regulations. Noncompliance may result in financial penalties to the University or an impacted ability to qualify for future sponsored awards.

1. **Direct Costs:** Costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.
2. **Indirect Costs:** Costs incurred for common or joint objectives and not readily assignable to the particular activity or sponsored award. Common examples include utilities, depreciation, administrative salaries, etc. Indirect cost allocations must adhere to the University's approved indirect cost rate agreement, which is negotiated periodically by the Controller's Office with the University's cognizant agency.
3. **Unallowable Costs:** Costs that cannot be paid by a sponsored award. Such costs may be expressly prohibited by federal regulation (Uniform Guidance) or is unallowable in a university policy or the terms and conditions outlined in the Notice of Award.

B. Applicable Cost Accounting Standards

1. CAS 9905.501 – Consistency in Estimating, Accumulating, and Reporting Costs by Educational Institutions: Sponsored award proposals/budgets should be established using the same methodologies and the same level of detail used to record and report actual costs. The consistent application of accounting practices facilitates appropriate comparison and accountability during award performance.
2. CAS 9905.502 – Consistency in Allocating Costs Incurred for the Same Purpose by Educational Institutions: Cost incurred for the same purpose, in like circumstances, must be given consistent treatment – all incurred costs are either direct costs only or indirect costs only. Consistent allocation of costs mitigates overcharging and double counting.
3. CAS 9905.505 – Accounting for Unallowable Costs – Educational Institutions: Costs expressly unallowable or mutually agreed to be unallowable must be identified and excluded from any billing, claim, or proposal applicable to a sponsored award. This

practice promotes the consistent application of sound cost accounting principles to all incurred costs.

4. CAS 9905.506 – Consistency in Using the Same Accounting Period for Purposes of Estimating, Accumulating, and Reporting Costs – Educational Institutions: The University’s cost accounting period is the same as its fiscal year – July 1st through June 30th. The use of an established, consistent period reduces the impact of variations and enhances objectivity, verifiability, and comparability.

C. Disclosure Requirements

The University must disclose its cost accounting practices by filing a required Disclosure Statement (D-2) with its cognizant agency. The Controller’s Office is responsible for the maintenance and submission of an accurate D-2.

D. Cost Sharing

Expenditures incurred to meet cost sharing commitments require the same accounting, financial, legal, and regulatory practices as expenditures charged directly to sponsored awards. Expenditures recorded as cost sharing must follow the guidance in this policy and FINA 3.00 Sponsored Awards (including the accompanying procedures).

PROCEDURES

The accompanying procedure provides additional details on the administration and management of this policy. The procedure can be found here: [Policies and Procedures - Office of the Controller](#)

RELATED UNIVERSITY, STATE, AND FEDERAL POLICIES

- [BUSA 7.00 Purchasing](#)
- [FINA 1.00 Chart of Accounts](#)
- [FINA 2.14 Acquisition and Payment of Goods and Services](#)
- [FINA 3.00 Sponsored Awards](#)
- [FINA 3.12 Time and Effort Reporting](#)
- [FINA 3.35 Cost Transfers](#)
- [FINA 5.10 Cash Management](#)

HISTORY OF REVISIONS

DATE OF REVISION	REASON FOR REVISION
March 21, 2007	Policy creation
February 17, 2025	Policy revisions due to departmental reorganization and name changes
November 12, 2024	Consolidation, language, content, and formatting updates. Formerly FINA 9.01