

## OFFICE OF MANAGEMENT AND BUDGET

### Cost Principles for Educational Institutions

**AGENCY:** Office of Management and Budget.

**ACTION:** Proposed revision of OMB Circular A-21.

**SUMMARY:** The Office of Management and Budget (OMB) proposes to revise OMB Circular A-21, "Cost Principles for Educational Institutions" by extending the applicability of certain Cost Accounting Standards Board (CASB) Cost Accounting Standards (CAS) and the CASB Disclosure Statement for sponsored agreements received by certain educational institutions, and amending the definition of equipment at educational institutions receiving Federal funds and covered by this Circular.

**DATES:** Comments should be received on or before March 8, 1995.

**ADDRESSES:** Financial Standards and Reporting Branch, Office of Federal Financial Management, Office of Management and Budget, Room 6025, New Executive Office Building, Washington, DC 20503.

**FOR FURTHER INFORMATION CONTACT:** Federal agencies should contact the Financial Standards and Reporting Branch, Office of Management and Budget, (202) 395-3993. Non-Federal organizations should contact the organization's cognizant Federal funding agency.

#### SUPPLEMENTARY INFORMATION:

##### A. Purpose of Circular A-21

Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions," establishes principles for determining costs applicable to Federal grants, contracts, and other sponsored agreements with educational institutions.

##### B. Recent Prior Revisions

Circular A-21 was last amended in 1991 and 1993. The 1991 revisions excluded certain specified costs from reimbursements paid to colleges and universities receiving Federal awards and placed a limit on the amount of reimbursable administrative costs. That revision also required a certification to accompany each indirect cost proposal. The 1991 revision also added an exhibit containing a list of colleges and universities subject to Section J.9.F of Circular A-21. The 1993 revisions further clarified and standardized the

Circular's principles for determining applicable costs.

##### C. Current revisions

The proposed revision incorporates the cost accounting standards for educational institutions published by the Cost Accounting Standards Board (CASB) on November 8, 1994, in the **Federal Register** (59 FR 55770), and extends the applicability of these standards to all sponsored agreements subject to this Circular (See Sections A.3 and B.2. of Circular A-21). This proposed revision also extends the applicability of the CASB Disclosure Statement (Form CASB DS-2 (REV 10/94)), published by the CASB on November 8, 1994, in the **Federal Register** (59 FR 55758), to such sponsored agreements. This proposed revision is reflected as Section C.10.a-e of Circular A-21.

By applying these CASB Standards and the CASB Disclosure Statement to sponsored agreements, OMB will: promote uniformity and consistency in the cost accounting practices followed by educational institutions when they estimate, accumulate, and report costs under sponsored agreements; facilitate the award and administration process; and, reduce the potential for disagreements concerning the cost accounting practices used to estimate, accumulate and report the costs of sponsored agreements.

On October 8, 1991, the CASB published a staff discussion paper (56 FR 50737). After consideration of the public comments received in response to the discussion paper, the CASB published an Advanced Notice of Proposed Rulemaking on June 2, 1992 (57 FR 23189). On December 21, 1992, after consideration of the public comments received in response to the advanced notice, the CASB published a Notice of Proposed Rulemaking (57 FR 60503). Seventy sets of public comments were received in response to the proposed rule and were fully considered. On November 8, 1994, the CASB published a Final Rule (59 FR 55746).

On July 26, 1993, OMB, in the preamble to a proposal making certain final revisions to Circular A-21 (58 FR 39997), stated that "Consistent with the Board's stated expectations, OMB plans to extend the CASB's regulations and Standards applicable to educational institutions to all awards (contracts and grants) made to institutions that are major recipients of Federal research funds." At this time, public comments are invited on applying to sponsored agreements the CASB's Disclosure Statement Form, CASB DS-2, and the

cost accounting standards (CAS) pertaining to educational institutions, contained in Chapter 99 of Title 48 of the Code of Federal Regulations (48 CFR Chapter 99), as amended, published on November 8, 1994 (59 FR 55746), effective January 9, 1995.

This proposed revision also amends the definition of equipment in Section J.16. by increasing the monetary threshold from \$500 to \$5000. This proposed revision conforms Circular A-21 to Circular A-110, "Uniform Administrative Requirements for Grants with Institutions of Higher Education, Hospitals, and Non-Profit Organizations," published in the **Federal Register** (58 FR 62992) on November 29, 1993, and lessens the administrative burden associated with accounting for property.

In today's edition of the **Federal Register**, OMB is also proposing for 60 days of public comment a set of proposed revisions to Circular A-21 on which separate public comment is especially invited.

**John B. Arthur,**

*Associate Director for Administration.*

Circular A-21 is proposed to be revised as follows:

Amend Section "C, Basic Considerations," by adding a new paragraph 10 as follows:

10. Cost Accounting Standards and Disclosure.

a. Applicability of Cost Accounting Standards Board's Disclosure Statement and Standards. The Cost Accounting Standards Board's (CASB) Disclosure Statement Form, CASB DS-2, and the cost accounting standards (CAS) pertaining to educational institutions contained in Chapter 99 of Title 48 of the Code of Federal Regulations (48 CFR Chapter 99), as amended, are incorporated herein by reference and are to be applied to sponsored agreements as specified below.

(1) *Disclosure Statement.*

(i) Educational institutions subject to this Circular shall disclose their cost accounting practices by filing a Disclosure Statement Form, CASB DS-2, which is reproduced in Appendix A, whenever the total awards received under sponsored agreements during the prior fiscal year equals or exceeds \$25 million. An educational institution may meet the Disclosure Statement submission requirement by submitting the statement for each component unit that receives awards that in the aggregate equal or exceed \$25 million under sponsored agreements, with the approval of the cognizant Federal agency responsible for indirect cost rate negotiations.

(ii) Required Disclosure Statements shall be filed with the cognizant Federal agency responsible for indirect cost rate negotiations within three months after the end of the fiscal year in which the educational institution meets the criteria in (i), except for educational institutions that establish a specific due date in accordance with paragraph (iii), or that are required to file a Disclosure Statement earlier under the terms and conditions of a CAS-covered contract.

(iii) Prior to December 31, 1995, those educational institutions meeting the criteria of (i) for the most recently completed fiscal year occurring during 1994, the cognizant Federal agency and the educational institution should establish, in writing, a specific due date for the first time submission of the required Disclosure Statement, as follows:

(a) Educational institutions listed as number 1-20 in Exhibit A of this Circular, or unlisted educational institutions that received more than \$50 million under sponsored agreements during a fiscal year ending in calendar year 1994, shall file the required Disclosure Statement no later than June 30, 1996.

(b) Educational institutions listed as numbers 21-50 in Exhibit A of this Circular, or unlisted educational institutions that receive more than \$25 but less than \$50 million under sponsored agreements during a fiscal year ending in calendar year 1994, shall file the required Disclosure Statement no later than December 31, 1996.

(c) Educational institutions listed as numbers 51-99 in Exhibit A of this Circular shall file the required Disclosure Statement no later than June 30, 1997.

(iv) Amendments and revisions. Educational institutions are responsible for maintaining accurate Disclosure Statements and complying with disclosed practices. Educational institutions must amend required Disclosure Statements when disclosed practices are changed to comply with a new or modified Standard, or when practices are changed with or without agreement of the cognizant Federal agency. Amendments and revisions to Disclosure Statements may be submitted at any time and may be proposed by either the institution or the cognizant Federal agency. Resubmission of complete, updated Disclosure Statements is discouraged except when extensive changes require it to assist the review process.

(2) *Cost Accounting Standards (CAS)*. An educational institution's cost accounting practices used to estimate, accumulate and report costs for

sponsored agreements shall conform with the CAS specified in Part 9905 (48 CFR Part 9905), except for contracts incorporating the full CAS coverage specified in Part 9904 (48 CFR Part 9904). Those CAS in Part 9904 are not incorporated in this Circular. The applicability of the CAS under Circular A-21 will not be effective on the effective date specified in 9905.506-63 (January 9, 1995).

b. *Cost and Funding Adjustments*. Cost, price, and funding adjustments shall be made by the cognizant Federal agency if an institution fails to comply with an applicable CAS or fails to consistently follow its established or disclosed cost accounting practices when:

(1) Estimating costs in contract proposals and the resultant contract provides funds materially in excess of the amounts that would have been provided had the estimated costs been based on compliant cost accounting practices. In such cases, the contract prices or cost allowances shall be appropriately adjusted.

(2) Accumulating and reporting costs under a sponsored agreement. In such cases, the institution shall correct the noncompliance by changing to a compliant cost accounting practice and by adjusting the accumulated and reported costs to reflect a compliant practice.

c. *Overpayments*. Excess amounts paid in the aggregate by the Federal Government under sponsored agreements due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs shall be credited or refunded, as deemed appropriate by the cognizant Federal agency. Interest applicable to the excess amounts paid in the aggregate during the period of noncompliance shall also be determined and collected in accordance with applicable Federal agency regulations.

d. *Compliant cost accounting practice changes*. Changes from one compliant cost accounting practice to another compliant practice that are approved by the cognizant Federal agency may require cost or funding adjustments if deemed appropriate by the cognizant Federal agency.

e. *Responsibilities*. The cognizant Federal agency shall:

(1) Determine cost or funding adjustments for all sponsored agreements in the aggregate on behalf of the Federal Government. Actions of the cognizant Federal agency official in making cost or funding adjustment determinations shall be coordinated with all affected Federal agencies to the extent necessary.

(2) Prescribe regulations and establish internal procedures to promptly determine on behalf of the Federal Government that a Disclosure Statement adequately discloses the educational institution's cost accounting practices and that the disclosed practices are compliant with applicable Cost Accounting Standards and the requirements of this Circular. The determination of adequacy and compliance shall be distributed to all affected agencies.

Amend Section J, paragraph 16.a.(1), "General Provisions for Selected Items of Cost," to read as follows:

"Equipment" means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which exceeds the lesser of (a) the capitalization level established by the organization for financial statement purposes, or (b) \$5000.

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## OFFICE OF MANAGEMENT AND BUDGET

### Cost Principles for Educational Institutions

**AGENCY:** Office of Management and Budget.

**ACTION:** Proposed revisions to OMB Circular A-21 and proposed rescission of OMB Circular A-88.

**SUMMARY:** This Notice offers interested parties an opportunity to comment on proposed revisions to Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions" and OMB's proposal to rescind OMB Circular A-88, "Indirect Cost Rates, Audit, and Audit Followup at Educational Institutions."

This proposed revision, together with a separate proposed revision published in this issue of the **Federal Register**, fulfills the Administration's commitment in the fiscal year 1995 budget to "conduct a comprehensive review with the goal of improving the incentives that govern overhead reimbursement for a wide range of federal research grantees and contractors." It also reflects the Administration's policies regarding Circular A-21 as described in the fiscal year 1996 budget, transmitted to Congress on February 6, 1995. Of the 14 policies in this Notice, eight are proposed as revisions to Circular A-21 itself in this Notice, and the other six revisions, as described below, require