Fiscal Administration in a Research Environment
Why Are We Talking About Fiscal Administration?

- Decrease the University’s exposure to Federal compliance risk
- Help ensure that sponsored projects are administered **consistently** across the University
- Identify and provide Research Administrators with the necessary tools and information to administer sponsored projects appropriately
- Understand the implications of non-compliance
  - Adopt and communicate compliance standards,
  - Appoint a compliance officer in a key position,
  - Implement procedures to educate and help ensure employee integrity,
  - Utilize communication tools to promote compliance,
  - Implement systems and procedures to detect and monitor instances of non-compliance,
  - Consistently enforce policies for non-compliance, and
  - Document that appropriate actions were taken to respond to, deter and correct non-compliance.
Agenda

- Regulations and Expectations
- Direct Charging
- Cost Sharing
- Effort Certification
- Cost Transfers
- Budgeting
- Program Income
- Cash Management
- Recharge Services
- No-Cost Extensions
- Roles and Responsibilities
Regulations and Expectations

Judy Bristow
Office of Grants Management, HSC
Applicable Research Guidelines

- The Office of Management and Budget (OMB) Circulars A-21, A-110 and A-133
  - A-21: cost principles (i.e., indirect costs, unallowable costs, service centers, etc.)
  - A-110: administrative requirements (i.e., pre-award, post award and close-out requirements)
  - A-133: audits (i.e., audit requirements, auditee responsibilities, etc.)

- Cost Accounting Standards 501, 502, 505, 506
  - Appendix to A-21

- Other: FDP, private or federal sponsor rules & terms of award
OMB Circular A-21

- Defines the financial framework for administering federally-sponsored research
- Describes the basis for calculating facilities and administrative (indirect) costs
- Provides a reference section for determining how to charge specific, common costs
- Should be familiar to research personnel
OMB Circular A-110

- Establishes uniform administrative requirements for federal grants and agreements to universities, hospitals and other non-profits

- Organized into three sections
  - Pre-award requirements (forms for application, special award conditions, etc.)
  - Post-award requirements (financial management, cost sharing, allowable costs, period of availability of funds, etc.)
  - Property Standards (federally-owned property, equipment, etc.)
General Federal Expectations
Direct Charging

Judy Bristow
Office of Grants Management, HSC
Direct Charging: OMB Circular A-21, Section D.1

- “Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.”

- “Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A (indirect) costs.”

- “Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution.”
Direct Charging: OMB Circular A-21, Section F

- F.6.b(1) In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs. For example, salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the...
Direct Charging: OMB Circular A-21, Section F

- F.6.b(2) The salaries of administrative and clerical staff should normally be treated as F&A costs.

Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. Some examples of major projects are described in Exhibit C.

- F.6.b(3) Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.
Direct Charging

Four key characteristics apply to all direct costs:

- ALLOWABLE
- ALLOCABLE
- REASONABLE
- CONSISTENT
Direct Charging: Allowability

- Costs must be allocable to sponsored agreements
- Costs must be reasonable
- Costs must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items
- Costs must be given consistent treatment through application of the generally accepted accounting principles appropriate to the circumstances
Direct Charging: Allocability

- An allowable cost incurred for the benefit of only one project which can be readily assigned to multiple projects which directly benefit from the cost, or is necessary to the operation of the institution
  - Relative benefits received
  - Approximated through use of reasonable methods
  - Without undue effort or cost
Direct Charging: Reasonableness

- Reflect the actions that a “prudent person” would take
  - Allocable and necessary for performance of the agreement
  - Consistent with ethical business practices and applicable laws
  - Consistent with University policies and sponsor rules
Direct Charging: Consistency

- Cost Accounting Standards
- “similar costs incurred in like circumstances”
Direct Charging

“The fact that a cost requested in a budget is awarded, as requested, does not ensure a determination of allowability. The organization is responsible for presenting costs consistently and must not include costs associated with their F&A rate as direct costs.”

- *NIH Grants Policy Statement, Part II*
A-21, Section J: Unallowable Costs

- Discusses the allowability of certain types of common F&A and sponsored projects direct costs, such as alcohol and entertainment

- Should be used as a reference tool

- If a type of cost is not specifically listed, assess the basic considerations of A-21:
  - Allowability
  - Allocability
  - Reasonableness
  - Consistency
Direct Charging: Examples

- Principal investigator’s salary
- Other, non-administrative salaries
- Fringe benefits
- Special equipment
- Materials
- Scientific supplies
- Animal care costs
- Travel
- Lab note books
Direct Charging: Supplies Example

**PI** I’m new here. I need to talk with you about how to charge my lab supplies. I’m certain I can charge them to my grants like at my last university.

**A** Well, I’ll need to know a little about the types of grant funds you have. Also, what are the supplies, and how will they be used?

**PI** Well, all my grants require general supplies. I even put it in my proposal on my R01 and the sponsor approved it.

**A** I understand…but if the supply expenses aren’t consistent with our direct cost guidelines here, they can’t be charged to the grant. Federal regulations require us to treat costs consistently across the entire institution. An individual sponsor can’t know our policies, they expect us to be consistent.

**PI** OK, I’m familiar with the charging guidelines. But what about the paper costs for my survey responses from 500 study participants?

**A** You can charge that cost because it’s necessary and directly related to the goals of the research. Let’s just make sure we clearly document the purchase.
Direct Charge Questions

1. Does the cost make sense for the project?
2. Is the cost too much to pay?
3. Is the cost allowable?
4. Did the cost directly benefit the project?
5. How much benefit?
6. Does the University direct charge other costs like this?
Cost Sharing

Darrel Chenoweth
Office of the Vice President for Research
Cost Sharing

● Definition: Cost sharing or matching is the portion of sponsored project costs that is not funded by the [federal] project (OMB A-110 Appendix A.A.2(i))

● Committed and Uncommitted cost sharing for faculty and senior researchers (1/5/01 Memorandum)
  ● Mandatory
  ● Voluntary Committed
  ● Voluntary Uncommitted
Cost Sharing: Types

● Mandatory Cost Sharing
  ● Required by legislation or sponsoring program
  ● Examples: EPSCoR, NSF

● Voluntary Cost Sharing
  ● Not required by legislation or the sponsor
  ● University supplements sponsored program costs
    ● Payment of over-expenditures
    ● Salary costs provided on unfunded effort (e.g., NIH salary cap)
    ● Additions or changes to project scope with no additional funding by the sponsor
    ● Tuition match
    ● Unrecovered indirect costs or fringes
Cost Sharing: Relationship with Effort Reporting

- Effort reporting is necessary to capture “voluntary uncommitted” cost sharing
  - Expect increased scrutiny of reported cost sharing
  - Additional time spent on a project leads to a lower F&A rate
Cost Sharing: Budgeting

- Committed cost sharing must be separately budgeted and accounted for using a companion account (PeopleSoft COSTXXXX)
- If grant is awarded based upon proposals containing cost sharing, the University **MUST** cost share
Effort Certification

Lisa Braden
Director, Office of Grants Management
Effort Reporting

What is effort reporting?
- A means of verifying that appropriate salary and wage expenses were charged to sponsored programs
- A means of verifying that cost sharing was performed as promised
- A means of verifying that sponsored activity was appropriately classified in the indirect cost rate

Why have effort reporting?
- Labor related charges generally comprise the majority of direct research costs
- To be consistent with other recipients of federal funds who have detailed and precise methods of verifying labor expenses
<table>
<thead>
<tr>
<th>ACCOUNT 1</th>
<th>TITLE</th>
<th>AMOUNT CHARGED</th>
<th>PERCENT CHARGED</th>
<th>EFFORT (IF DIFFERENT)</th>
<th>COST SHARING</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCOUNT 2</td>
<td>TITLE</td>
<td>1,250.00</td>
<td>19.23%</td>
<td>30.00%</td>
<td>700.00</td>
</tr>
<tr>
<td>ACCOUNT 3</td>
<td>TITLE</td>
<td>5,000.00</td>
<td>76.92%</td>
<td>60.00%</td>
<td>-1,000.00</td>
</tr>
<tr>
<td>ACCOUNT 4</td>
<td>TITLE</td>
<td>0.00</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00</td>
</tr>
<tr>
<td>ACCOUNT 5</td>
<td>TITLE</td>
<td>0.00</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00</td>
</tr>
<tr>
<td>ACCOUNT 6</td>
<td>TITLE</td>
<td>0.00</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00</td>
</tr>
<tr>
<td>6,500.00</td>
<td></td>
<td>100.00%</td>
<td>100.00%</td>
<td></td>
<td>0.00</td>
</tr>
</tbody>
</table>

EMPLOYEE SIGNATURE

RESPONSIBLE OFFICIAL SIGNATURE

I CERTIFY THAT THE SALARIES & WAGES CHARGED TO THESE ACCOUNTS ARE REASONABLE IN RELATION TO THE WORK PERFORMED.
Effort Reporting: Requirements

- Effort must be reported at the end of a designated time period (*after* the work is performed), not before.

- Effort must certify percentage of **actual** time spent working on the award, not:
  - Estimated time expressed in the “payroll” system
  - Actual salary paid from a grant

- Effort must be certified by someone with first-hand knowledge or who used suitable means of verification.
Effort Reporting: Notification

- Key Personnel = Principal Investigator and sometimes other individuals critical to achieving the award objectives
- Absence of PI for more than 3 months requires sponsor approval
- Agencies still retain approval authority for significant changes in PI effort
Effort Reporting: Changes

- Things You Cannot Cannot Change
  - All employees that expend effort on sponsored programs are required to certify 100% effort
  - Must certify to each individual federal project
  - Must be certified by individual with first-hand knowledge
  - Results must be incorporated into institution’s official records
Effort Reporting: Problems

- Effort reports are certified by someone with no first-hand knowledge of effort
- Certifying payroll charges rather than effort
- Effort reports not completed
- Cost-shared effort not captured in certification
- NIH salary limitation
Effort Reporting: Examples

Assumptions
- Basic science investigator, making $100,000
- $100,000 is federally funded
- Project requires 40 hrs/week PI effort
- Teaches 2 classes (approx. 10 hrs/week)

Issues to consider
- What constitutes total effort?
- What effort was proposed and awarded by the sponsor?
- What was actually worked?
- How was the investigator paid?
- What impact will effort changes have?
Effort Reporting: Examples

Assumptions
● Clinical investigator, making $200,000
● Salary cap is $150,000
● Project requires 40 hrs/week PI effort
● Teaches 2 classes (approx. 10 hrs/week)

Issues to consider
● What constitutes total effort?
● What effort was proposed and awarded by the sponsor?
● How should salary be charged relative to the cap?
● What was actually worked?
● How was the investigator paid?
● What impact will effort changes have?
Effort Reporting: University Considerations

- Currently, University of Louisville has elected an annual effort certification frequency
- Faculty should generally certify for themselves
- Direct supervisors can certify on behalf of others, although it is preferable for employees to certify their own effort
- Inappropriate for UBAs/UBMs to certify effort for an entire department
Cost Transfers

Judy Bristow
Office of Grants Management, HSC
Cost Transfers

- Simply moving charges from one account to another
- Must be an allocable, allowable and justified charge to the particular grant
Cost Transfers

- Documentation
  - Supported by full explanation and justification, as well as a certification of the propriety of the transfer
  - Includes documentation of the original charge such as the ledger sheet or purchase order
  - Transfers among object codes should only be made to reflect the appropriate cost category
  - Explanations such as “to correct error” or “to transfer to correct project” are not sufficient
    - Generally you need to answer the question “WHY” you are making the transfer rather than merely explaining “WHAT” you are doing.
Cost Transfers

- **Timing**
  - HHS: should be made within 120 days after the original charge, particularly between grants with cost overruns, unexpended funds or scientific overlap
  - NIH: must be made within 90 days after the error is discovered
  - University: should be made using the Intra-University Transfer form within 90 days of the original charge; with review and approval from the Office of Grants Management; and prior to effort certification (for salary transfers)
Cost Transfers: Red Flags

- Transfers made in excess of 120 days after the original charge
- Transfers without a full explanation
- High volume of transfers
- Timing and “route” of transfers
- Charging based on fund availability
Cost Transfers: General Principles

- Cost transfers are for correcting **ERRORS**
- Cost transfers should **NOT** be used as a means of managing cash flow
  - Costs not allocable to a project **CANNOT** be transferred to that project, even temporarily
- **Project funds are **NOT** interchangeable**
  - The integrity of each grant account must be maintained
  - Costs allocable to several projects **CANNOT** be charged solely to a single project
- **Fundamental allowability of costs must still be established**
Cost Transfers

- Simply moving charges from one account to another
- Must be an allocable, allowable and justified charge to the particular grant
Cost Transfers: General Concepts

- Provide a reason for the entry
  - Why the entry needs to be made
  - An explanation of how the error occurred

- Explain the purpose of the entry
  - What is the entry intended to accomplish

- A correlation of the charge to the fund to which it is being transferred
  - Establish benefit to the new project

- Documentation of all relevant information must be maintained
Cost Transfers: Red Flags

- Transfers made in excess of 120 days after the original charge (or 90 days for NIH grants)
- Transfers without a full explanation
- High volume of transfers
- Timing and “route” of transfers
- Transfers among “closely related” projects
- “Cookie Cutter” explanations (“to correct error” etc.)
Cost Transfers: Common Issues

- “Parking charges” until funding available
  - Funds not available at a particular time, so costs charged to a different account until funds are available

- Circumvent 90 day pre-award spending limitations

- Charging based on fund availability
  - If funds are depleted in one account, use a different account to absorb charges

- Lack of internal controls

- Reliability of the accounting system
Cost Transfers: Pre-Award Accounts

- Establishing pre-award accounts can prevent the necessity of making an excessively high volume of cost transfers.
- Pre-award accounts allow the PI to begin work and incur charges related to a project before the start of the award.
- Costs are incurred at the institution’s (department’s) risk.
- Use cautiously, especially if sponsor has not agreed to contract terms and dates.
- PI requests account from the Office of Grants Management, explaining the need, identifying a “guarantee” account and supplying a detailed budget.
Budgeting

Lisa Braden
Director, Office of Grants Management
Budgeting: Considerations

- Appropriate identification and classification of costs
- Correct application of indirect cost and fringe benefit rates
- Inclusion of cost sharing as necessary
- All these apply even in the world of modular grant budgets!
Budgeting: Significant Reallocations

- Obtain permission (or documentation) supporting increases of 25% or $500 in domestic travel, consultants, subcontracts or equipment
- Significant changes in PI effort require sponsor approval
- Expenses included in indirect cost pool may not be charged directly
- Rebudgeting in excess of 10% of total direct costs may require approval
- Consider whether the change signifies a change in project purposes
- FDP rebudgeting privileges waive many restrictions
- Office of Grants Management assists in completing the Rebudgeting Form for Sponsored Accounts
Program Income

Lisa Braden
Director, Office of Grants Management
Program Income

“Gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award.”

Includes:

- Income from fees for services performed (not service centers)
- The use or rental of real or personal property acquired under Federally-funded projects
- The sale of commodities or items fabricated under an award
- License fees and royalties on patents and copyrights
- Interest on loans made with award funds
Program Income: Usage Guidelines

- Added to grant funds to further project objectives unless otherwise stipulated by the awarding agency
  - Use before requesting additional cash payments
- Decrease the Federal share of costs contributed to the project
- Used to finance the non-Federal share of the project
- No obligation to the Federal government for income earned after the project’s end unless indicated in the award
Cash Management

Sean McNamara
College of Business and Public Administration
Cash Management: Subcontracts

- Subcontract costs must be allowable, allocable, reasonable, consistent AND necessary
- Federal guidelines applicable to primary award are also applicable to the subcontract
  - Recipient of primary award has obligation for ensuring subcontractor compliance
  - Access to records, EEO, anti-kickback, fair wage and workplace provisions, intellectual property, anti-lobbying, debarment and suspension
Cash Management: Subcontracts

Regulatory Applicability

- Federal guidelines applicable to primary award are also applicable to the subcontract
- Recipient of primary award has obligation for ensuring subcontractor compliance
- Option for lump sum indirect costs
- Contract provisions
  - Access to records, EEO, anti-kickback, fair wage and workplace provisions, intellectual property, anti-lobbying, debarment and suspension
Cash Management: Consultants

Policy states that consultants are appropriate if the consultant:

- works independently without detailed supervision
- is not currently and has not been within the last 12 months an employee of the University
- uses own facilities or equipment to conduct the work
- is eligible for participation in federal programs
- consultant costs must be reasonable and necessary
  
- Costs can include reasonable, allowable and necessary fringe benefits - BUT NOT OVERHEAD - costs
Cash Management: Billing and Invoicing

- Generally performed electronically as part of the institution’s financial systems
- Billing must be performed monthly (if not electronic and not in accordance with a defined payment schedule)
  - Great practice for non-federal sponsors, too!
- Payment within 30 days
- Working capital provision
- Letter of credit billing is a privilege that can be lost!
Cash Management: Financial Reporting

- Typically use the SF-269, *Financial Status Report*
  - SF-270, *Request for Advance or Reimbursement or SF-272, Report of Federal Cash Transactions* may be OK

- Frequency (quarterly to annual) can be established by the sponsoring agency
  - Interim due within 30 days, final within 90 days

- Generally the responsibility of the Office of the Controller but the department may also be required to assist in preparation and review
Overdrafts

- Also may be considered a type of uncollectable cost
- Allocable, allowable and reasonable overdrafts constitute part of the total costs of the project
- Department is typically responsible for funding these costs
- Office of the Controller
  - notifies department of the overdraft
  - assist in transferring to a cost sharing companion account
Recharge Services

Sean McNamara
College of Business and Public Administration
Recharge Services

“Service centers are operating units that provide goods and services to University users, although services may be provided on an incidental basis to external users.”

Examples:
- Printing and copy centers
- Machine and instrumentation shops
- Computing services
- Telecommunications
Recharge Services: Requirements

- Charges must be designed to recover no more than the total cost of the service over a long-term period.
- Billing rates charged directly to users must be based on the actual use of the services.
- Rates must be reviewed periodically (at least annually) for consistency with a long-term cost recovery plan and adjusted if necessary.
  - Rate calculations will be provided annually to the Office of the Controller for review and approval.
- Alternative costing arrangements may be negotiated with a federal agency where it is in the best interest of both the government and the institution.
Recharge Services: Expectations

- Rates and services will be segregated to ensure that federal users do not subsidize non-federal users.
- Residuals should be carried forward into the next year’s rate calculation.
  - 60 days’ working capital does not need to be carried forward.
- Service center costs must meet the guidelines of allowability, allocability, reasonableness and consistency.
No-Cost Extensions

Judy Bristow
Office of Grants Management, HSC
No-Cost Extension

- Typically granted to allow extra time to gather final data and prepare project reports
- Unobligated balance is NOT an appropriate justification for a no-cost extension
No-Cost Extension: Policy

- No-cost extensions do not provide ability to expend project funds!
- Office of Grants Management has been granted some authority to approve a one-time, no-cost extension up to 12 months
- PI must provide explanation for the extension and the anticipated length more than 30 days before project end
Roles and Responsibilities

Lisa Braden and Judy Bristow
Office of Grants Management
Roles and Responsibilities

- A document describing research roles and responsibilities is available.
- A good understanding of roles and responsibilities will help make grants management easier and smoother.
Roles and Responsibilities: Central Administration

Primary responsibilities

- Establish University policies and procedures
- Establish specific guidelines and rules for administration
- Review proposals and award requirements
- Provide funding for sponsored projects through
  - Invoicing
  - Advance Payment Mechanism
- Issue interim and final financial reports
- Submit expense budget and F&A rate proposals
- Negotiate and sign contracts
- Establish accounts
- Assist in award interpretation
- Assist in communication and conflict resolution
Roles and Responsibilities: Administrator

Primary responsibilities

- Read and follow requirements specified in the NoGA
- Establish budget in FRS and plan grant activity and close-out with PI
- Perform financial functions related to research operations such as charging accounts for supplies
- Monitor financial and compliance controls for grants
  - e.g., ensure unallowable costs are not charged to grants
- Maintain awareness of current Federal and agency rules and regulations (with help)
- Keep PIs informed of compliance and other grant issues
- Prepare/submit/approve financial reports in a timely manner
Roles and Responsibilities: Administrator

- An interdependent relationship with the PI
  - Compliance risk is mitigated together
  - PI has ultimate responsibility for the grant, but…
- Keep PIs informed of the account status and grant administration/ compliance issues
- Complements the PI’s scientific expertise with an understanding of the administrative mechanics necessary to advance the research operations
- Coordinate project planning, operation and close-out
Roles and Responsibilities: PI

Primary responsibilities

- Ultimate management of project and budget
- Not spending in excess of the budget
- Active communication with sponsor
- Required technical, patent and property reports
- Financial report oversight
Consequences of Non-Compliance

- Fines and penalties
- Institution considered “exceptional” by sponsors
  - Additional oversight/monitoring by the government
  - Loss of expanded authorities and participation in FDP
- Potential reduction in Federal funding
- Loss of letter of credit funding authorization
- Professional integrity compromised
- Suspension and debarment
Consequences of Non-Compliance: Examples

- Large Public University
  - $32 million penalty for misusing federal grant funds

- Large University
  - $15.5 million due to problems in the calculation of IDC rate, including about 1/3 attributable to cost sharing

- Midwest University
  - PI held personally responsible – had to pay approximately $650,000 for misappropriating grant funds

- Academic Medical Center
  - Key personnel suspended from any kind of research
Consequences of Non-Compliance: Examples

- Large Research University
  - “Exceptional” designation followed by significant drop in federal funding

- Large Research University
  - Overstated research support when applying for research grants
  - Researcher was fined and JAILED

- Large Private Research University
  - Long-term Federal presence

- Medium-Sized Public Research University
  - Ongoing Federal investigator presence (2 years and counting)