

Basic Financial Concepts for Managing Sponsored Projects

**Presented by Research Education
and**

Sponsored Projects Accounting

V1.1

Topics

- ▶ **OMB Circulars**
- ▶ **Policies**
- ▶ **Agreement Types**
- ▶ **Direct / F&A Costs**
- ▶ **Costing Concepts**
- ▶ **Cost Sharing**
- ▶ **Unallowable Costs**
- ▶ **Administrative Costs**
- ▶ **Equipment**
- ▶ **Proposal Costs**
- ▶ **Cost Transfers**
- ▶ **Fund Closeout**
- ▶ **Record Retention**
- ▶ **F&A Rates**
- ▶ **MTDC**
- ▶ **Off-campus**

OMB Circular A-21

- **Federal costs principles for educational institutions.**
- **Details the regulations regarding;**
 - **allowable and unallowable costs**
 - **administrative costs**
 - **effort reporting**
 - **facilities and administrative cost rates**
 - **cost account standards (CAS).**



Cost Accounting Standards (CAS)

- Originally designed for commercial contractors.
- A-21 included application of four CAS to institutions of higher education in 5/98.
- Must disclose cost accounting practices by filing a Disclosure Statement (DS-2), if institution awarded \$25 million or more in a fiscal year.

Main Principles of CAS

- **Costs must be treated in a consistent manner for all sponsored projects (federal and nonfederal) – CAS 501**
- **Amounts budgeted in proposal should correspond to actual expenses incurred for the project – CAS 501**
- **Administrative costs cannot be charged directly to a sponsored project – CAS 502**

CAS Policies, cont.

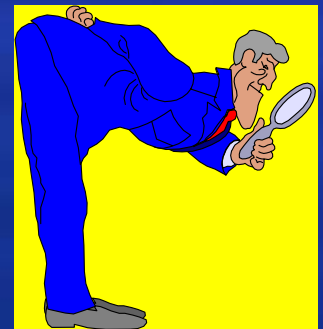
- Salaries and benefits for administrative and clerical positions in academic units **shall not be direct charged** to sponsored funds.
- General office supplies, postage, local telephone charges and memberships shall normally be **treated as indirect costs** (e.g., charged to a departmental administrative account).

OMB Circular A-110

- **Federal administrative regulations for educational institutions.**
- **Regulations regarding pre and post-award policies such as; special award conditions, record retention, property & procurement systems and financial reporting.**

OMB Circular A-133

- **Audit guidelines for non-profit organizations expending federal awards.**
- **Annual audit of federal awards performed by an independent firm.**
- **Audit report submitted to federal audit clearinghouse.**



NIH Grants Policy & Guidance

Office of Extramural Research

(<http://grants.nih.gov/grants/policy/>)

- **Grants Policy Statements**
- **Policy Notices and Information**
- **Modular Research Grant Applications**
- **Conflict of Interest Page**
- **Stem Cells**
- **Guidance Documents**

NIH Grants Policy Statement

- **Policy requirements that serve as the terms and conditions for NIH grants.**
- **Effective for budget periods beginning on or after 3/1/01.**
- **Other useful information**
 - **NIH organization**
 - **NIH staff**
 - **Grants process**

NSF Award Administration

Division of Grants and Agreements

(http://www.nsf.gov/home/grants/grants_admin.htm)

- **Grant Proposal Guide**
 - Provides guidance for the preparation and submission of proposals to NSF.
- **Grants Policy Manual**
 - Compendium of basic NSF policies and procedures for use by grantee organizations and NSF staff.

WU Direct Charging Policies

(<http://spa.wustl.edu/direct.html>)

- **Based on OMB A-21, CAS, A-110...**
- **Apply to federal and non-federal projects**
- **Grant funds should only be expended to support work approved under the project.**
- **PI is primary fiscal manager, as well as principle scientific investigator.**
- **PI and WU collaborate to create an auditable link between the benefiting grant and the direct charge.**

WU Policies and Procedures

(<http://www.spa.wustl.edu/admin.html>)

- ◆ **Admin. Costs**
- ◆ **Code of Conduct**
- ◆ **Cost Sharing**
- ◆ **Cost Transfer**
- ◆ **F&A Rates**
- ◆ **Financial Closeout**
- ◆ **Gov't Property**
- ◆ **NIH Salary Cap**
- ◆ **Off-campus**
- ◆ **PCT's**
- ◆ **Program Income**
- ◆ **Recharge**
- ◆ **Unallowable Costs**

What is a Grant?

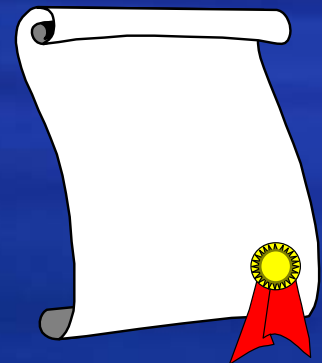
- **Grant:** A financial assistance mechanism providing money, property or both to an eligible entity to carry out an approved project or activity. The sponsoring agency anticipates no substantial programmatic involvement with the recipient during the project term.

What is a Cooperative Agreement?

- **Cooperative Agreement:** A financial assistance mechanism used when substantial Federal programmatic involvement with the recipient during the project term is anticipated by the sponsoring agency.

What is a Contract?

- **Contract:** A mutually binding legal relationship in which the buyer (agency/sponsor) acquires goods or service under a well defined and specific project.



What is a Cost Reimbursement Agreement ?

- **The terms of the agreement indicate that the University will be reimbursed (after the fact) for allowable expenses incurred during the performance of the project.**
- **The agreement usually stipulates a ceiling for the reimbursement amount (i.e., up to a maximum of \$xxx,xxx's).**
- **These terms can be found in grant, contracts and cooperative agreements.**

What is a Fixed Price Agreement?

- The terms of the agreement indicate that the University will be paid a fixed amount for the performance of the project's objectives.
- Payment can be up-front or after the completion of certain project objectives.
- These terms are usually found in contracts.

What is a Sub-agreement?

- **Outgoing** - WU is the prime grantee. A subagreement is issued to another entity to perform a portion of the project. The subgrantee bills WU (cost reimbursement).
- **Incoming** - WU is the sub-grantee. The prime grantee issues a subagreement to WU to perform a portion of their project. WU bills the prime grantee (cost reimbursement).

Direct Costs

- **Definition: Costs that can be specifically identified to a particular project or program.**
 - ✧ **Salaries & Fringe Benefits**
 - ✧ **Travel**
 - ✧ **Equipment**
 - ✧ **Supplies**

Facilities & Administrative Costs **(a.k.a., Indirect or Overhead)**

- **Definition: Costs that are incurred for common or joint objectives which cannot be specifically identified with a particular project.**
 - HVAC
 - Building upkeep
 - Dept and school administration

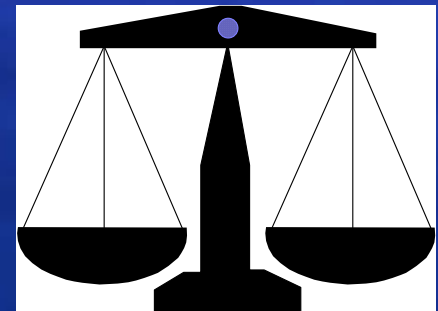
Costs are required to be:

- ◆ Reasonable
- ◆ Allowable
- ◆ Allocable
- ◆ Consistently Treated



Reasonable Costs

- **Cost is considered reasonable if the nature of the goods or services involved and the amount reflect the action of a prudent person.**



Allocable Costs

- **Cost is allocable to a particular project if it is incurred solely for the benefit of the sponsored agreement.**

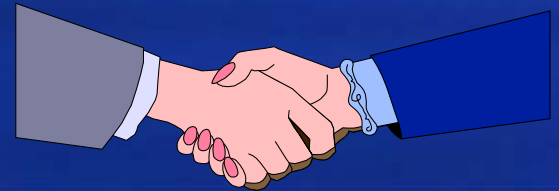


Allowable Costs

- **Cost must be allowable under the terms of the agreement, sponsoring agency's guidelines (i.e., NIH/NSF Policy Statements) and public laws.**

Cost Sharing

- Costs incurred under a specific cost objective which *are not* supported by the sponsoring agency.
- Provided in the form of cash contributions (via department or University funds), third party in-kind contributions or funding from another sponsoring agency.



Valid Cost Sharing

- **Costs are verifiable in FIS.**
- **Costs are necessary and reasonable for the accomplishment of the project.**
- **Costs are allowable under the applicable cost principles (A-21, NIH GPS...).**
- **Costs are not paid by another federally funded project.**

Mandatory Cost Sharing

- **The sponsoring agency or program require the grantee to contribute resources to the project, as a condition of the award.**
 - **Agency funds 80% & Univ. funds 20%**
 - **NSF statutory cost sharing (1%)**
 - **NIH salary cap**
 - **PI effort is required but not funded by grant.**

Voluntary Cost Sharing

- **PI will voluntarily pledge resources for the project in the proposal.**
 - **PI pledges 25% effort, but requests only 20% salary support.**
 - **Project related expenses (supplies, travel, equipment) are paid by department funds.**

NSF Statutory C/S

- The National Science Foundation (NSF) requires that each grantee share in the costs of *research* projects resulting from unsolicited proposals.
- Cost share a minimum of one percent of total costs (direct and F&A) on each NSF project.
- **Non-research** projects are excluded from this requirement (int'l travel, education & training, conference grants...).

Cost Sharing Accounts

- **Cost sharing expenses are separately budgeted and accounted for in FIS.**
- **Accounts are established based upon the terms of the award.**
- **Accounts are set up by Grants & Contracts (Med School) or Research Office (Hilltop) at the time of the award or upon submission of a Cost Sharing Account Request Form.**

X Accounts - Mandatory

- **Cost sharing obligations mandated by the sponsor and/or committed in the proposal should be charged to an account that ends in “X”.**
 - **Sponsored Fund: 54321**
 - **Mandatory C/S: 54321X**

V Accounts - Voluntary

- All other cost sharing obligations not managed via an “X” account can be monitored in an account that ends in “V”.
 - Sponsored Fund 54321
 - Voluntary C/S 54321V

U Accounts - NSF 1%

- Effective 9/1/02, the RO and G&C will establish “U” funds, as applicable, for new NSF awards (i.e., assigned a new fund number) with unsolicited minimum cost sharing requirements (1%).
 - Sponsored Fund 57321
 - NSF Min. C/S 57321U

Debit Accounts

- **The actual source of departmental or University funds that covers the cost sharing obligation.**
- **PI/Dept. must provide a Debit account number for each cost sharing account.**
 - **Unrestricted LC 12**
 - **Unrestricted LC 22 (gift or endowment)**
 - **Non-federal career development award, LC 22.**

Third Party (In-Kind)

- External individual or entity contributes resources to the project.
- Costs are not accumulated in g/l.
- Third party must submit detailed documentation of the costs to PI/Dept.
- Cost sharing must be certified by third party or responsible individual within third party entity.

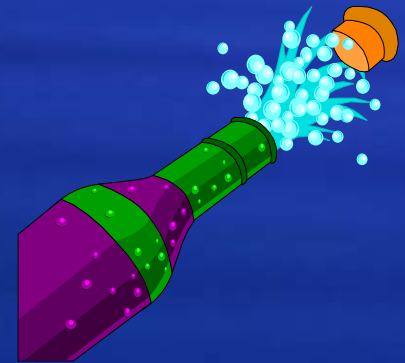


Grant Budget w/ Cost Sharing

<u>Category</u>	<u>Agency Funding</u>	<u>University Funding (C/S)</u>	<u>Total Project</u>
Salaries & Benefits	\$ 120,000	\$ 12,000	\$ 132,000
Travel	6,000		6,000
Supplies	10,000	10,000	20,000
Other	7,500	1,000	8,500
Direct Costs	<u>143,500</u>	<u>23,000</u>	<u>166,500</u>
F&A Costs (53% mtdc)	<u>76,055</u>	<u>12,190</u>	<u>88,245</u>
Total	<u>\$ 219,555</u>	<u>\$ 35,190</u>	<u>\$ 254,745</u>

Unallowable Costs

- **Costs which are not reasonable and directly allocable to the project.**
- **Costs specifically deemed unallowable by the sponsor (entertainment, donations, personal expenses ...).**



Unallowable Items



- ◆ Advertising
- ◆ Alcoholic Beverages
- ◆ Charitable Contributions
- ◆ Entertainment
- ◆ Fines and Penalties
- ◆ Food Costs
- ◆ Losses on sponsored agreements (deficits)
- ◆ Personal use of goods or services

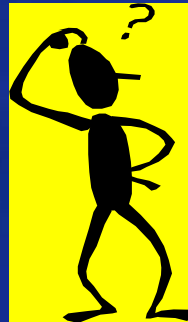
Administrative Costs



- **OMB A-21 prohibits most administrative costs from being directly charged to grants and contracts.**
- **Salaries of administrative and clerical personnel.**
- **Non-personnel costs such as office supplies, postage, local telephone and memberships.**

Questionable Items

- ◆ **Computers**
- ◆ **Printers**
- ◆ **Laptops**
- ◆ **Flat screen monitors**
- ◆ **Equipment within 90 days of fund end date**
- ◆ **Furniture**
- ◆ **Office supply items**
- ◆ **Printer supply items**
- ◆ **Rental car upgrades**
- ◆ **Generic software**
- ◆ **Office / kitchen equipment**



Restricted BUOB's

- ♦ **3403** - Research Office Supplies
- ♦ **3411** - Office Supplies
- ♦ **3455** - Laser Printer Supplies
- ♦ **3512** - Postage
- ♦ **3530** - Telephone Monthly Service
- ♦ **3532** - Telephone Data Processing Equip.
- ♦ **3557** - Dues, Memberships

Questionable BUOB's

- ♦ **3417** - Computer Supplies
- ♦ **3424** - Uniforms
- ♦ **3537** - Laundry
- ♦ **3540** - Advertising
- ♦ **3541** - Recruitment Costs
- ♦ **3552** - Relocation Costs
- ♦ **3575** - Books
- ♦ **3576** - Subscriptions
- ♦ **3517** - Publications of a Book

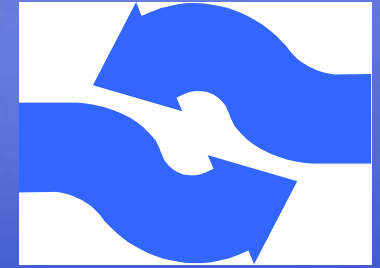
Equipment

- University's capitalization threshold is **\$5,000**, and a usable life of more than two years.
- ***Special Purpose Equipment*** - used *only* for research, medical, scientific or other technical activities
- ***General Purpose Equipment*** - use which is not limited only to research, medical scientific or other technical activities.

Proposal Costs

- **Per OMB Circular A-21 defined as: The costs of preparing proposals on potential federally and non-federally-sponsored agreement or projects.**
- **Proposal costs for both successful and unsuccessful proposals should be treated as F&A costs (i.e., not direct costs).**

Cost Transfers



- **Transactions must be supported by documentation that fully explains how the error occurred.**
- **Must be signed by the PI or his/her designee. Certifies the correctness of the new charge.**
- **Cost transfer must be made within *90 days* of the original charge or within *60 days* of the fund expiration date, whichever is sooner.**

Fund Closeout

- **Verify that all charges have been properly applied to the sponsored fund.**
- **Prepare and submit necessary journals or PCTs within 60 days of the project's expiration date.**
- **Encumbrances should be deleted or transferred to another account.**

Fund Closeout, cont.

- **Ensure cost sharing obligations have been met.**
- **Ensure all subcontract invoices have been paid.**
- **Move overdrafts to voluntary cost sharing account.**
- **Request prior written approval to carryover funds to next budget period.**

Record Retention

- Financial records, supporting documents, statistical records and all other records pertinent to an award shall be retained for a period of **three years** from the date of the submission of the final financial status report (per OMB Circular A-110).
- Minimum retention date = Project end date + 90 days + 3 years

Record Retention - Exceptions

- **If any litigation, claim or audit is started before the expiration of the three years, grantee must retain all records until the issue is resolved.**
- **Records for equipment acquired with Federal funds must be kept for three years after disposition.**
- **When records are transferred to or maintained by a Federal awarding agency, three year period is not required.**

F&A Rate Agreement

Rate Type	Effective Period	Rate	Location	Applicable To
Final	7/1/04 – 6/30/05	53.0	On-Campus	Organized Research
Final	7/1/04 – 6/30/05	53.0	On-Campus	Instruction
Final	7/1/04 – 6/30/05	30.0	On-Campus	Other Spon. Activities
Final	7/1/04 – 6/30/05	26.0	Off-Campus	Organized Research
Predetermined	7/1/05 – 6/30/06	53.0	On-Campus	Organized Research
Predetermined	7/1/06 – 6/30/07	52.5	On-Campus	Organized Research
Predetermined	7/1/07 – 6/30/08	52.0	On-Campus	Organized Research
Predetermined	7/1/05 – 6/30/06	53.0	On-Campus	Instruction
Predetermined	7/1/06 – 6/30/08	44.0	On-Campus	Instruction
Predetermined	7/1/05 – 6/30/06	30.0	On-Campus	Other Spon. Activities
Predetermined	7/1/06 – 6/30/08	35.0	On-Campus	Other Spon. Activities
Predetermined	7/1/05 – 6/30/08	26.0	Off-Campus	All Programs
Provisional	7/1/08 Until Amended	Use same rates and conditions as those cited for fiscal year ending June 30, 2008.		

Old or New Rate?

- Competitive project period starting on or **before 6/30/04**:
 - Retain old rates (53%) for the remainder of the project period.
- Competitive project period starting on or **after 7/1/04**:
 - Utilize “**Final Rates**” through 6/30/06
 - Utilize new “**Predetermined Rates**” from 7/1/06 through end of project period.
 - The rate in FIS will be automatically revised in 7/06 and 7/07.

F&A Rate Categories

- Research - Projects that investigate new scientific areas, procedures or devices.
- Instruction - Projects which educate, train or develop instructional tools/methods.
- Public Service - Projects involving individuals or groups which enhance the community/area.
- Other Sponsored Activities - May include patient service projects.

F&A Rate Components

Effective July 29, 2005

		<u>Negotiated Rate</u>
<u>Administrative</u>		
General Administration	}	
Departmental Administration		
Sponsored Administration		
		26.00%
<u>Facilities</u>		
Depreciation - Buildings & Improvements	5.8	
Depreciation - Moveable Equipment	5.1	
Interest	2.4	
Operations & Maintenance	12.2	
Library	1.5	
		<hr/>
		27.00%
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	Total	<u>53.00%</u>

What do F&A dollars pay for?

Facilities

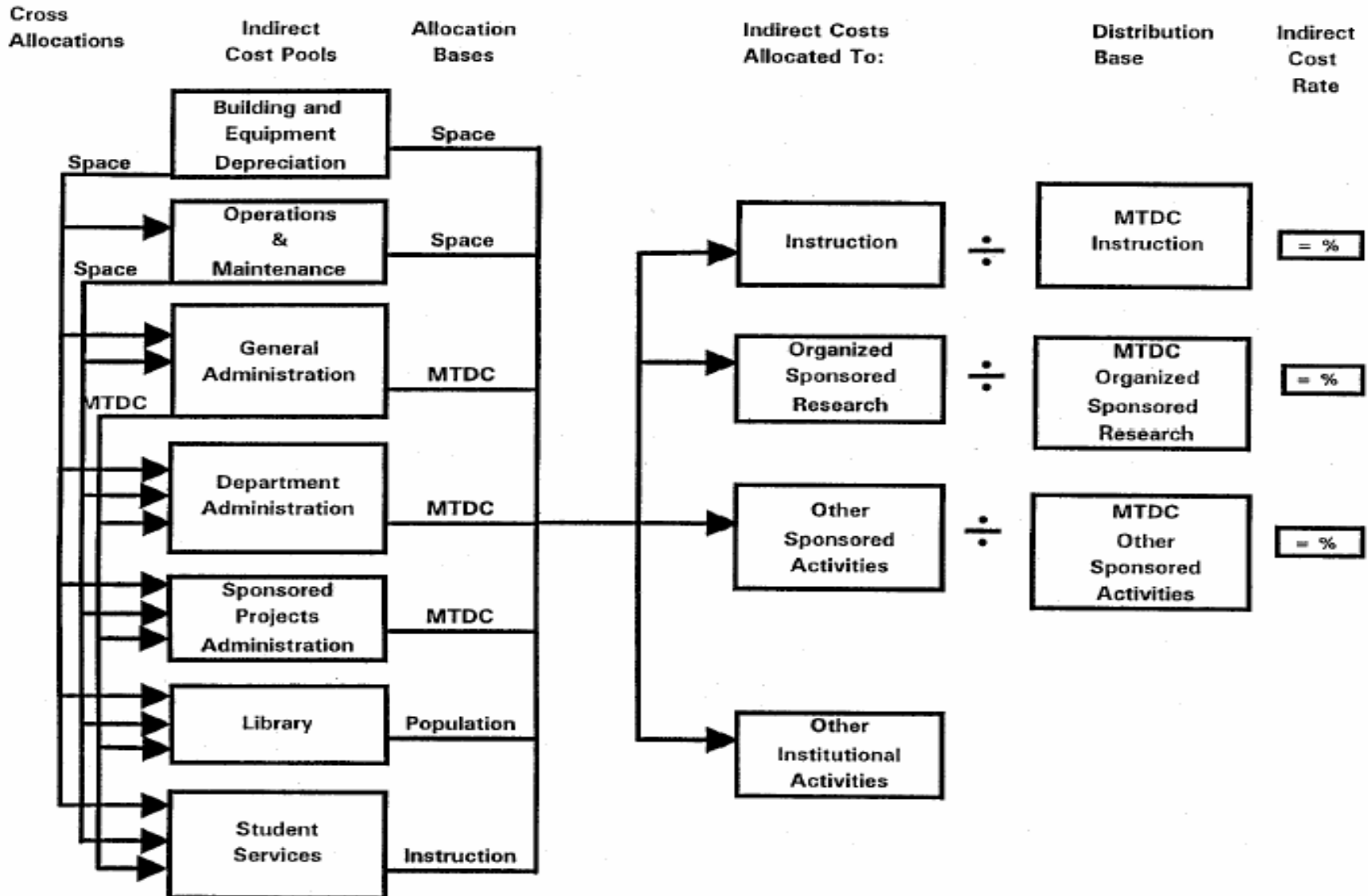
- Heat, Light & A/C
- Building maintenance
- Building depreciation
- Interest on building loans/bonds.
- Equipment depreciation
- Library

Administrative

- Chancellor's, VP's and Dean's Offices
- Human Resources
- Payroll, A/P & Purch.
- Research Office & SPA
- Department Admin.

Calculating the F&A Rate

INDIRECT COST CALCULATION - OVERVIEW



Calculating the F&A Rate

F&A(indirect) Costs

(Numerator)

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Modified Total Direct Costs

(Denominator)

= F&A Rate

MTDC

Modified Total Direct Costs

Includes

- Salaries
- Fringe Benefits
- Supplies
- Travel
- Consultants
- Other Expenses
- First \$25k of Subcontract Exp's

Excludes(buob)

- Equipment (63)
- Patient Care Charges (41)
- Tuition (42)
- Rent (off-site) (3529)
- Scholarships & Fellowships (42)
- Subcontract Exp's (except for first \$25K) (38##)

Off-Campus

- **Project is performed in facilities that are not owned by the University and not on the Medical Center campus.**
- **Actual costs must be apportioned between the on-campus and off-campus components. Separate off-campus allocation will be set up in FIS (####O).**
- **The current off-campus F&A rate is 26% MTDC (modified total direct costs).**

Roles & Responsibilities

- Principal Investigator - Responsible for overall management of the sponsored funds, and for determining whether financial charges are allowable and allocable to the sponsored project in accordance with all applicable Federal, University, and sponsoring agency policies and procedures.

R&R - Department Administrator

- **Provides day-to-day oversight of financial management as delegated by the PI.**
- **Reviews and approves FIS/on-line financial transactions.**
- **Reviews and analyzes financial reports for sponsored projects.**
- **Serves as an advisor to the Principal Investigator on financial and administrative matters.**

Questions and Answers



Q & A - #1

- The PI wants to provide a pizza lunch for his lab staff on Friday. Can he charge this to his NSF grant?
- **Answer:** Food and beverages are considered unallowable costs on federal grants. Working lunch/dinners are also considered unallowable costs.

Q&A - #2

- While driving to a scientific conference in Chicago, the PI got a \$250 speeding ticket. In addition to the hotel, meals and mileage cost incurred during the conference, can the PI charge the cost of the ticket to his federal grant?
- **Answer:** Fines and penalties are considered unallowable costs on federal grants. This type of costs would not seem reasonable to a prudent person.

Q&A - #3

- The PI's NSF grant ended last month and it's overbudget by \$1,500. Supplies that were purchased in the last weeks of the project have caused this deficit. Who covers the deficit? Is this cost sharing (mandatory or voluntary)?
- **Answer:** If the supplies were used to complete the project, the amount is considered voluntary cost sharing. The \$1,500 should be journaled to a V account.

Q&A - #4

- The PI proposed and was awarded funding for the salary and benefits of two technicians (\$45,000). The PI wants to rebudget the \$45k to equipment and buy a supercyclometer-thing. Is this OK?
- **Answer:** CAS consistency issue. Probably need prior approval if the rebudget is a change in scope. How will the technician's work get done?

Q&A - #5

- The PI purchased the following items and considers them all equipment. Is this correct?
 - Microscope, \$12,500 & \$2,000 service contract
 - PC, \$3,500
 - LaserJet Color Printer, \$1,500
- **Answer:** The microscope is a capitalizable item. The service contract is an expense. The PC and printer are considered supplies (<\$5,000).

Q&A - #6

- The PI wants to purchase airline tickets in 5/03 for the conference he's going to attend in 8/03. He wants to charge it to Grant A, but the grant ends on 6/30/03. Can he do this?
- **Answer:** The date of the conference is outside of the project period, therefore, the cost is not allocable to the project. The PI would have to provide additional info about the relationship between the conference and the grant.

Advanced Financial Concepts

- Effort Reporting
- PCTs
- Property/Equipment
- NIH Salary Cap
- K Awards
- Training Grants
- Travel
- Program Income
- F&A Rates
- Collections/Bad Debt
- Consultant Costs
- Project Advance

Basic Financial Concepts for Managing Sponsored Projects

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