

SPONSORED PROGRAMS

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Acknowledgement is given to the Web sites and associated material from the College of Arizona, the College of Minnesota, the College of Pennsylvania, Stanford College, the College of Colorado Health Sciences Center, and the Office of Contracts and Grants at CU-Boulder, as information from these respective sites has been incorporated into this chapter.

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I. PURPOSE OF CHAPTER 14

The purpose of this chapter of *The Guide* is to serve as a resource for those whose work involves post-award responsibilities within the area of sponsored programs administration. Sponsored program agreements are legally and mutually binding agreements between the sponsoring agency and Adams State College. Failure to comply with the required regulations and guidelines may jeopardize ASC's ability to qualify for future funding, require the refund of monies awarded, create audit disallowances, and/or result in fines or penalties. Consequently, the information contained in this chapter is designed to facilitate a culture of compliance. The responsibility for compliance begins before the award is made, continues throughout the duration of the program, and does not end until the program is completed and the record retention period has passed.

II. APPLICABILITY

The material contained in this chapter applies to all individuals who are involved in any aspect of post-award administration. This includes:

- anyone who authorizes the expenditure of sponsored program funds
- anyone who manages sponsored program

READ BEFORE PROCEEDING

1. In accepting a sponsored program award, all involved with the award agree to follow the cost principles and other rules or regulations mandated by the sponsoring agency.
2. **In no circumstance** may the terms of an award override college regulations or state rules.
3. At ASC, approximately 90% of sponsored program funding comes from federal agencies - either directly, or in the form of a subcontract from another college or organization. Consequently, federal requirements serve as the basis for the information presented in this chapter of *The Guide*.
4. ASC does receive some award funding from entities other than the federal government, such as state agencies or private sources. Since these organizations may have restrictions that are different from, and - in certain circumstances - more stringent than, those of the federal government, **it is imperative that the rules and regulations outlined in each and every award agreement be understood and followed.**
5. Every award has the potential for having terms that are unique to that award or that are more restrictive than awards typically funded by the respective sponsor.
6. KNOW THE TERMS, CONDITIONS, RULES, and REGULATIONS THAT GOVERN YOUR AWARD.

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III. KEY PLAYERS IN SPONSORED PROGRAMS POST-AWARD MANAGEMENT AT ASC

Post-award administration is a joint effort primarily on the part of the principal investigator and his/her departmental administration. Each area has specific responsibilities to ensure that ASC complies with federal, state and sponsor guidelines. Failure to comply with any of the required guidelines or regulations may jeopardize ASC's ability to qualify for future funding.

A. Principal Investigator

Although the sponsored program agreement is with the institution, the principal investigator has primary responsibility for achieving the technical success of the program, while also complying with the financial and administrative policies and regulations associated with the award. Many principal investigators have administrative staff to assist them with the management of their programs. However, the primary responsibility for the management of both the sponsored program work and funds rests with the principal investigator. With this responsibility comes the obligation to adhere to all terms and conditions of the award as well as all relevant college and state rules, and also to adequately document all expenditures in accordance with sponsor regulations, state rules and college policies.

Note: Additional information about principal investigator responsibilities is found in Section VI, "Research Team Roles and Responsibilities", of this chapter.

B. Office of Sponsored Programs (OSP)

OSP, a division of Finance and Administration, is the coordinating office for the financial aspects of post-award sponsored program administration. This includes budgeting, invoicing, reporting, and offering control and compliance support to departmental administrator and principal investigators.

Note: Additional information about the responsibilities of OSP with respect to sponsored program administration can be found in Section VI, "Research Team Roles and Responsibilities", of this chapter.

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IV. TYPES OF EXTERNAL SUPPORT

There are many types of financial support for research on the ASC campus. These include gifts and sponsored programs. The distinction between a gift and a sponsored program is an important one because the purpose of a gift is fundamentally different from that of a sponsored program. As a result, the resources associated with gifts and sponsored programs are recorded in different funds, and are subject to different regulations and processes.

A. Gift

A gift is any item of value given to the college by a donor, who expects nothing of significant value in return, other than recognition of the gift and disposition of the gift in accordance with the donor's wishes. With a gift, there are no quid pro quo or exchange transactions and no deliverable obligations to the donor. Gifts are irrevocable. Endowments, programmatic support, and scholarships are examples of gifts.

B. Sponsored Program

A sponsored program is an externally funded activity in which a formal written agreement - a grant, contract, or cooperative agreement - is entered into by the college and the sponsor. The conditions that follow describe characteristics of a sponsored program, and help distinguish a sponsored program from a gift. A sponsored program entails:

- a defined scope of work that provides a basis for sponsor expectations,
- a detailed statement of fiscal accountability, and
- specific deliverables.

The funding entity, or sponsor, can be a state or federal agency, a foundation, a non-profit organization, or a private enterprise such as business or industry. All government funds, except for financial aid and capital construction support, should be treated as sponsored programs and administered accordingly.

In addition to the characteristics listed above, sponsored programs may involve one or more of the following:

- award payments are contingent upon programmatic or fiscal reporting
- the award has a defined period of performance
- the proposal and/or award includes a detailed, itemized budget
- at the conclusion of the program, the sponsor requires the return of unexpended funds.

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1. Grants, Contracts, and Cooperative Agreements

The college is awarded sponsored programs in the form of grants, contracts, and cooperative agreements. The type of agreement usually reflects the relationship between the sponsor and the recipient. The following descriptions highlight distinctions between each type of sponsored program.

Note: The definitions that follow are those used by federal agencies. Non-federal sponsors may use these terms in a manner that may be either more loosely interpreted or more stringently applied.

a) *Grant*

A grant is a pledge of support in which the sponsor has little involvement in conducting the program.

b) *Contract*

A contract is an agreement in which the sponsor has more involvement than with a grant, and uses the program to achieve a specific outcome or deliverable.

c) *Cooperative Agreement*

A cooperative agreement is one in which the sponsor has substantial involvement in the program. The sponsor and the recipient work together to achieve a specific objective.

For all sponsored programs, it is imperative that the funding agency regulations and the program award agreement be reviewed to obtain specific information about implementing and administering the respective program.

2. Awards for Existing Programs

Not all awards received by the college are for new programs. Other types of awards include continuation awards, supplemental awards, and renewal awards.

a) *Continuation Awards*

A continuation award obligates funds for a subsequent budget period within an existing program. A continuation award typically is associated with a continuation proposal. With a continuation proposal, the sponsor initially agrees to fund a particular program for a certain

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period of time - five years, for example. The sponsor, however, usually requires an annual progress report before releasing funds to the college for each subsequent year of the program. This progress report actually takes the form of a proposal. Unlike the original proposal, the continuation proposal is minimal in nature.

b) Supplemental Awards

A supplemental award adds funding to an existing budget period for additional work or for costs not anticipated in the original proposal.

c) Renewal Awards

A renewal award results from a competitive proposal, and provides funds for the extension of a program beyond the original program period. In a renewal proposal, the “new” program entails the same type of work and is funded by the same sponsor as the original program.

V. AWARD FUNDING AND PAYMENT

Once the award has been received by ASC, there is the expectation that funding will be forthcoming from the sponsor to cover the expenditure activity associated with the program. As described below, funding can be administered in a variety of ways.

A. Funding Mechanisms for Sponsored Programs

The most frequently used funding mechanisms at ASC are

- cost reimbursement
- fixed price.

1. Cost Reimbursement

The cost reimbursement type of funding mechanism is set up so that the sponsor reimburses ASC after-the-fact for actual dollars spent on allowable expenditures to carry out the program. A cost reimbursement award indicates that, while the sponsor agrees to fund the program up to the full extent described in the award notice, the sponsor will reimburse the college only for the actual, allowable costs incurred. Mechanisms used to administer cost reimbursement include letter of credit draw, billing, and autopay. Any budget that is unspent at the conclusion of the program typically reverts to the sponsor.

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2. Fixed Price

As described previously, when an award is a grant or a cost-reimbursable contract, the expenses reimbursable to the campus are exactly equal to the amount actually spent on the grant or contract, up to the maximum amount of the award. However, when an award is issued as a fixed price contract, the full value of the contract will be paid to the campus in exchange for the full performance of the work. In other words, the fixed price payment mechanism is set up in such a way that ASC agrees to provide services or deliver a product for an agreed upon, fixed, level of compensation. When working with a fixed price award, the principal investigator agrees to accomplish the program objectives within a specific timeframe for a set dollar amount. The award amount remains constant, even when the actual costs for the program fall short of, or exceed, the amount of the award.

Using the fixed price funding method can be risky, because any over expenditures become the responsibility of the department. On the other hand, if the actual expenditures are less than the amount of the contract, the extra funds may be retained by the college and are no longer restricted. The fixed price method of funding is almost exclusively associated with contracts.

B. Payments on Sponsored Programs

The sponsor provides payment to ASC in a variety of ways. These include:

- advance payment either in increments or of the entire award amount
- scheduled payments made upon receipt of deliverables
- scheduled payments made according to a specified time frame
- payments made upon receipt of invoices that include actual expenditure information
- mixed payment method, e.g., the sponsor provides an advance partial payment and then schedules remaining payments upon the receipt of deliverables.

In some instances, most notably sponsored programs involving non-federal awards or federal flow-through agreements, ASC is required to invoice the sponsor in order to receive payment.

1. Invoicing

Invoicing of sponsors is done by the billing staff within OSP. In the rare event the principal investigator's signature is needed on the invoice, the principal investigator is responsible for returning the signed invoice to

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OSP in a timely fashion. Similarly, if the principal investigator is required to provide additional information to the sponsor for billing purposes, it is the responsibility of the principal investigator and the departmental administrator to provide this documentation to OSP in a timely manner.

2. Wire Transfers

Wire transfers can be set up to receive payment from sponsors. If a sponsor wishes to use this method to fund a program, the principal investigator should contact OSP for assistance. OSP, in turn, will work directly with the sponsor and college Controller to make the wire transfer arrangements.

3. Receipt of Payments

All payments in support of sponsored programs must be processed through OSP. Upon receiving payment for a program, OSP will determine where and how the payment should be deposited and recorded. When necessary, OSP will work with departments to ensure the correct accounting for award funds.

VI. SPONSORED PROGRAM TEAM ROLES AND RESPONSIBILITIES

Post award administration is a shared responsibility among all members of the research team including the:

- Principal Investigator and the respective Departmental Administrators
- Office of Sponsored Programs (OSP)

Each individual or department has specific responsibilities designed to ensure that ASC is in compliance with sponsor regulations and guidelines. Failure to comply may jeopardize the ability of ASC to qualify for future funding and subject the individual and/or the college to sanctions.

A. Principal Investigator

The principal investigator is the most crucial individual where the technical and fiscal management of a program is concerned, because it is the principal investigator who holds overall responsibility for all aspects of the sponsored program. This is true even when the principal investigator has administrative

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staff to provide assistance. The principal investigator is ultimately responsible for technical compliance, completion of programmatic work, and management of program funds.

As required by the Administrative Policy titled [*Fiscal Management Roles and Responsibilities*](#), it is imperative that every fiscal manager, including principal investigators, receive appropriate training with respect to the responsibilities listed below. In addition, the principal investigators must ensure that administrative personnel working on the program also receive appropriate training.

A comprehensive list of principal investigator responsibilities includes:

- understanding and complying with the sponsor's general policies as well as all specific terms and conditions applicable to the award
- following state rules and college policies relative to human resources, procurement, travel, etc.
- executing the technical aspects of the program and submit all reports
- providing timely communication to OSP about proposed audits, financial review, and financial/administrative inquiries on the part of the sponsor.

1. Financial Management

As stated previously, the college holds the principal investigator responsible for managing every aspect of a sponsored program. Relative to the financial management of a sponsored program, the principal investigator must:

- maintain fiscal stewardship over the sponsored program, ensuring the reasonable and prudent use of the sponsor's funds, by authorizing *only* those expenditures that are reasonable and necessary to accomplish the program's goals, and consistent with the sponsor's terms and conditions
- carry out the program's financial plan as presented in the funded proposal. This includes:
 - checking the program budget in Banner to make sure it accurately reflects the funding associated with the award, and
 - following the sponsor's policies and procedures when making changes to the financial plan of the award.
- establish a means to ensure that actual spending does not exceed the amount authorized by the sponsor for the budget and/or program period
- review monthly Banner budget reports for the program to determine the appropriateness and allowability of all charges and

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credits and also to ensure that the pace of spending is proportional to the work actually performed and is consistent with that of the award budget period

- correct all inappropriate and erroneous transactions in a timely manner according to applicable rules, regulations, policies, and procedures
- work with OSP to obtain approvals for equipment purchase, travel, no-cost extensions, or other items that may require sponsor approval
- per *A-110*, make sure that all obligations incurred by the program are liquidated within 90 calendar days after the termination date. If it is not possible to liquidate the obligations within the 90-day period, it may be appropriate to request a no-cost extension of the termination date. Some extensions require funding agency approval.
- make sure no spending occurs after the termination date.

2. Spending the Award

When spending the award, it is imperative for the principal investigator to be a good steward of sponsor funds by

- incurring and authorizing costs only for items that are allowable according to award stipulations, federal regulations, state fiscal rules, and college policies
- incurring and authorizing costs only for goods or services that will be received and used during the program period
- incurring and authorizing only those costs that provide a direct benefit to advancing the work of the program
- accurately identifying and categorizing “personnel” expenses. An individual whose salary is paid through the college’s payroll system is considered to be an employee, and their pay should be classified as such. Payments for services to an individual who is not paid through the payroll system should be classified as subcontract expense or consultant pay.
- adhering to sponsor limitations addressing the amount of money that may be spent in any single budget category
- ensuring that direct charges to a sponsored program for administrative and clerical salaries, office supplies, postage, telephones and phone calls and general purpose equipment are incurred only when specifically authorized in the award and in accordance with college policies
- consistently categorizing costs as either direct or indirect

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- working with OSP to obtain approvals for equipment purchases, travel, no-cost extensions, or other items that may require sponsor approval
- keeping the costs associated with a fixed price contract agreement within the amount agreed upon with the sponsor.

3. Administering the Award

When administering the award, the principal investigator must comply with all sponsor terms and conditions, as well as state rules and college policies. Examples include:

- ensuring all cost sharing is identified and documented appropriately
- reviewing and approving the progress of the work and the related invoices for subcontracts
- certifying effort and verifying that the effort expended is consistent with the terms of the award
- complying with ASC policies that address direct costs, cost sharing, and cost transfers.

4. Deliverables

The award document typically outlines the type of deliverables and reports required by the sponsor, as well as the deadlines by which the sponsor must receive them. It is the responsibility of the principal investigator to:

- provide deliverables to the sponsor in a timely manner as required by the award. When necessary, the principal investigator should work with the appropriate college and campus offices to complete financial, invention, and/or property reports.
- submit technical and progress reports in accordance with the required formats, time schedules, and deadlines established by the sponsoring agencies.

Delinquent deliverables can result in negative consequences, including the possibilities that a sponsor will withhold all new awards to a particular principal investigator or to the entire campus, withhold payment of amounts owed to the college, and/or demand the return of funds already paid to the college.

5. Towards the End of the Program

The responsibility for a smooth close out of a program, which primarily rests with the principal investigator, includes the following tasks:

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- two or three months prior to the end of the program, determine if the program will be completed by the program end date, or if additional time is needed. If the program needs to continue, work with the sponsoring agency to request an extension.
- one or two months prior to the program termination date, start thinking about how to wrap up and close out the program. Consider report deadlines, securing and reviewing final invoices from subcontractors, moving employees off the program account to the college account, if applicable, and terminating monthly routine expenses such as telephone toll charges, clearing encumbrances, etc.

6. Records

The responsibilities of the principal investigator do not stop upon program completion and close out. The principal investigator has ongoing records management responsibilities such as:

- retaining original financial source documents according to Colorado State Archives Records Management Manual, which can be found at:
<http://www.colorado.gov/dpa/doit/archives/rm/rmman/index.htm>
- maintaining supporting documentation for accounting and financial records that are initiated by the department
- maintaining all grant related documents and reports related to the program.

B. Office of Sponsored Programs (OSP)

OSP is extensively involved in the financial post-award administration and management phase of every sponsored program.

1. Program Set-Up

OSP has an internal business process for setting up programs. This involves:

- reviewing the award notice for special terms and conditions. Examples include cost sharing, matching funds, prior approval requirements, and invoicing procedures.
- creating the program in the sponsored programs database and Banner. This includes recording the budget for the program in accordance with the award notice from the sponsor.

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2. During the Program

Members of the OSP staff have numerous and varied responsibilities throughout the duration of the program. OSP supports the work of the principal investigator by:

- monitoring expenditures with respect to allowability, allocability, and reasonableness, and making sure that all expenditures reviewed adhere to college, state, sponsor, and program-specific terms and conditions.
- managing billing and cash collection activities which include:
 - preparing and sending invoices to funding agencies for reimbursement of costs incurred on grant and contract funds
 - administering letter of credit payment systems
 - performing appropriate follow-up when payments are past due, including the tracking and aging of receivables.
- monitoring cost sharing
- monitoring cost transfers
- providing three, six, and nine-month budget reviews with the principal investigator and any other program staff
- providing assistance in solving budget and accounting problems that may arise during and after the program period
- providing interim financial reports as required by the sponsor.

3. Overall Financial Administration

OSP, along with the principal investigator, verifies that financial information relative to sponsored programs has been recorded accurately in the finance system and reported correctly beyond the boundaries of the ASC campus. Specifically, OSP:

- prepares fiscal year-end Exhibit K for restricted funds
- responds to inquiries or audits by sponsors.

4. At the Conclusion of the Program

OSP initiates program close out procedures to ensure the timely submission of all final financial reports and liquidation of all obligations incurred under the award. This involves:

- preparing final financial reports as required by the sponsor. In doing this task, OSP provides support to the principal investigator
 - to make sure that expenditures reflected in the financial reports are in accordance with sponsor terms and conditions and
 - to account for all cost sharing expenditures to be reported to the sponsors.
- inactivating and closing the program in Banner.

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VII. RULES AND REGULATIONS

Sponsored programs are characterized by numerous and complex rules and regulations. For example, sponsored program support is subject not only to the rules, regulations, and processes of the sponsor, but also to the laws and regulations of the state, and to the policies and procedures of the college.

A. Rationale for the Rules

Regulations pertaining to sponsored programs serve to maintain the public trust. This involves trust in that public funds are spent prudently.

B. Consequences of Non-Compliance

Failure to comply with regulations is viewed seriously by the sponsor, and consequences of mismanagement can be severe. Non-compliance can result in:

- withholding of cash payments
- disallowing all or part of the cost of the activity or action not in compliance
- suspension or termination (either in whole or in part) of the current award
- reductions in funding
- withholding further awards for the program
- increased scrutiny by sponsors and audit agencies
- implementation of corrective action plans
- imposition of additional regulations
- loss of administrative flexibility
- harm to the reputation of ASC
- in the case of criminal conduct, fines and/or jail time.

C. Overview of Federal Regulations

At ASC, approximately 90% of sponsored program funding comes either directly or indirectly (through subcontracts) from agencies of the federal government. Consequently, the college must comply with government-wide policies issued by the Office of Management and Budget (OMB). OMB is charged with assuring that federal grants and contracts are managed properly, and that federal dollars are spent in accordance with all applicable laws and regulations. In addition to the directives issued by OMB, the college must

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also adhere to other federal regulations including the Code of Federal Regulations.

1. OMB Circulars

Three OMB circulars provide the majority of guidance given to the college with respect to managing the federal funds it receives for sponsored programs. These circulars include:

- *A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions* (including the Cost Accounting Standards). This circular sets the ground rules for determining which costs can be incurred on grants, contracts, and other agreements with educational institutions that receive federal funds. *A-21* governs allowable and unallowable costs, as well as direct and indirect charges made by educational institutions to the federal government.
- *A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*. This circular sets forth standards for the pre-award and post-award administration of federally-funded grants to and agreements with institutions of higher education. *A-110* includes provisions related to property management, procurement standards, record retention, and reporting.
- *A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions*. This circular sets forth standards for obtaining consistency and uniformity among federal agencies for the audit of non-profit organizations that expend federal awards. *A-133* requires a single, annual compliance audit of educational institutions that receive federal funds for sponsored programs in an amount exceeding \$500,000 per year.

2. Other Federal Regulations

Additional regulations pertaining to sponsored programs supported by federal funds are described briefly below.

- *Code of Federal Regulations (CFR)*, which is issued via the Government Printing Office. After publication in the Federal Register as a final rule, regulations are then codified in the CFR. The CFR is divided into 50 titles representing broad areas that are subject to regulation. Each title is next divided into chapters that

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bear the name of the issuing agency, and then further divided into sub-parts that cover specific regulatory areas.

It is possible for an individual grant or contract award to include restrictions that are more stringent than those normally required by federal agencies. Thus, it is imperative that the terms and conditions of **each and every award** be reviewed and understood by the involved principal investigators, program directors, and departmental administrators.

D. Sponsor Policies - Non-Federal

Non-federal sponsors usually provide their grant management regulations as an integral part of the award document, often supplemented by a policy manual or brochure. The requirements of private sponsors vary widely, and the individual responsible for managing a particular private award must become familiar with these requirements. For non-federal awards, the specific award agreement, together with state rules and college policy, usually guides the conduct of the program. State agencies, foundations, and private businesses may also publish their own guidelines.

E. College Policies

The Principal Investigator shall be required to comply with the policies and procedures of the college, which can be found at:

<http://www2.adams.edu/pubs/> and
<http://test2.adams.edu/pubs/policy/index.php>

VIII. AN IN-DEPTH LOOK AT A-21

The full name of this circular is *Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions*. *A-21* establishes principles for determining what costs can be applied against federally-funded grants, contracts, and other agreements with educational institutions. The principles are designed to ensure that the federal government bears its fair share of total program costs. Three important concepts that are found in *A-21* include:

1. The Cost Accounting Standards (CAS)
2. Allowable and Unallowable Costs
3. Direct Costs vs. Facilities and Administrative (F&A) Costs.

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A. Cost Accounting Standards (CAS)

The *CAS* expand on the principles outlined in *A-21*, and deal primarily with the requirement for consistent treatment of direct and indirect costs. In May 1996 the *CAS* were incorporated in *A-21*, and they now apply to federally funded sponsored agreements. The four cost accounting standards applicable to higher education include the following:

1. Cost Accounting Standard 501, *Consistency in Estimating, Accumulating, and Reporting Costs*

This standard requires that institutions have systems in place to provide for consistent costing practices in estimating, accounting, and reporting costs. In other words, the practices used to estimate costs in a proposal must be consistent with the normal practices used by the institution to accumulate and report costs. Practically speaking, this means that an institution's accounting system should be able to support the proposal budget and award reporting to the level of detail required by federal agencies.

⇒ Relevance of Standard 501 to members of the sponsored program team:

- Proposal budgets should use the same cost categories as those found in the college's accounting system.
- Committed cost sharing or matching funds included in proposals must be documented.
- Effort reports must document the effort charged to each program as well as the effort contributed as cost sharing. Non-salary costs must also be documented.

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2. Cost Accounting Standard 502, *Consistency in Allocating Costs Incurred for the Same Purpose*

This standard requires that institutions maintain the consistency requirements already in place in *A21*, by consistently categorizing costs as either direct or indirect (F&A). In other words, all costs incurred for the same purpose - and under similar circumstances - are either direct costs only or F&A costs only. Standard 502 applies to costs charged as well as to cost sharing.

⇒ Relevance of Standard 502 to members of the sponsored program team:

- Costs that are charged directly to a program must be consistently treated as direct costs across all activities of the college. This requirement also applies to direct costs used for cost sharing.
- Certain costs types are designated by *A-21* as usually being indirect, e.g., office supplies, postage, telecommunications, general purpose equipment, etc. Costs falling into this indirect category cannot be charged directly to a sponsored program, unless the cost is justified as meeting a special circumstance that is not covered by the college's indirect cost category. When a member of the research team believes a cost that is typically treated as an indirect cost should be treated as a direct cost on a particular program, the justification must be included in the proposal provided to the sponsor.
- Effort reports must document the effort charged to each program as well as the effort contributed as cost sharing. Non-salary costs must also be documented.

3. Cost Accounting Standard 505, *Accounting for Unallowable Costs*

This standard requires that institutions have a system in place to identify unallowable costs and to exclude them from any charges made to the government, whether direct or indirect. *CAS 505* is used to facilitate the negotiation, audit, administration and settlement of sponsored programs by establishing guidelines that cover the identification and accounting for unallowable costs.

⇒ Relevance of Standard 505 to members of the sponsored program team:

- Each and every cost, whether direct or indirect, that is charged to a sponsored program or used as cost sharing on the program must be allowable.

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4. Cost Accounting Standard 506, Cost Accounting Period

This standard provides criteria for the selection of time periods to be used as cost accounting periods for estimating, accumulating, and reporting costs. It requires that the cost accounting period used be consistent with an institution's fiscal year and reflect current practice.

⇒ Relevance of Standard 506 to members of the sponsored program team:

- This standard does not specifically pertain to members of the research team. Rather, is it directed towards the college's finance departments.

B. Allowable Costs

An allowable cost is one that is permitted under the terms and conditions of the sponsored agreement. Examples of terms and conditions include costs must be incurred within the program effective dates and must be in accordance with the approved program budget. *A21* lists four general tests for allowability.

FOUR TESTS OF ALLOWABILITY FOR COSTS

- 1. Costs must be reasonable.**
A reasonable cost results from an action that a prudent person would have taken under the prevailing circumstances at the time the decision to incur the cost was made. In addition, a reasonable cost is necessary to the performance of the sponsored agreement.
- 2. Costs must be allocable.**
Allocability of cost involves an assessment of the relative benefits received from the incurrence of the cost.
- 3. Costs must be given consistent treatment.**
According to *A21*, 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 must be treated as direct costs of all activities of the institution. Consistent also refers to the costing or pricing methods used by the institution. The institution must use the same costing or pricing methods for all costs. For example, it is not permissible for ASC to charge more for a cost assigned to a grant than it charges for that same cost when assigned to an ASC funded department.
- 4. Costs must conform to any limitations or exclusions set forth in *A21* or in the sponsored agreement.**

Per *A-21*, examples of normally allowable costs include:

- salaries of sponsored program staff working on the program
- office supplies used exclusively for the program

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- long distance telephone charges associated with the program
- printing and duplicating reports for the program
- travel in support of the program

C. Unallowable Costs

An allowable cost is one that is not permitted under the terms and conditions of the sponsored agreement, or under the rules and regulations of the state and the college.

Examples of costs that are typically unallowable include:

- salaries for general administrative and clerical support
- costs associated with general office administration such as office supplies, postage, local telephone costs, and membership dues or fees
- entertainment costs
- lobbying costs
- general purpose equipment
- any costs incurred before the program start date and after the program end date.

Charging sponsors for costs not allowed on the award is problematic. For example, in 1998 Brown College was required to return in excess of \$300,000 to a sponsor as a result of improper charging and billing. More information about the situation at Brown College is available on the Web at http://www.brown.edu/Administration/News_Bureau//1998-99/98-056.html.

D. Direct Costs

According to *A21*, a direct cost is one that can be identified specifically with a particular sponsored program, or that can be directly assigned to a particular sponsored program, relatively easily and with a high degree of accuracy. A direct cost is one that is of distinct and genuine benefit to the work of the program. In order to charge a cost directly to a program, the goods or service must:

- be used on the program,
- be permitted by the sponsor,
- be incurred during the period of performance, **and**
- be treated as a direct cost when incurred for the same purpose in like circumstances.

The following list provides a sampling of costs that are **not normally allowable** as direct costs on a sponsored program because these costs are normally incurred as indirect costs:

- salaries and benefits of administrative and clerical staff
- entertainment costs

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- membership dues
- general purpose equipment.

It is not permissible to charge a program for goods or services that were never used on the program, or for a goods or services that were used on the program but are not allowed according to the terms of the award.

E. Facilities and Administrative (F&A or Indirect) Costs

F&A costs are costs incurred for common or joint purposes. In other words, they are college expenses that cannot be specifically identified with a particular program or activity. F&A costs are also referred to as indirect costs or overhead. Examples of F&A costs include the costs of building and equipment depreciation, utilities, and the numerous other costs necessary to operate the college such as the costs associated with accounting and purchasing functions; and administrative services provided by academic departments including administrative and clerical salaries, telephone equipment, postage, etc.

F. Special Circumstances that May Justify the Direct Charging of Costs that are Normally Considered to be F&A (Indirect) Costs

A-21 recognizes that, in certain circumstances it may be appropriate to treat a cost, which is usually classified as an F&A cost, as a direct cost on a federal contract or grant. Examples of special circumstances that may justify the direct charging of costs that are normally considered to be F&A costs are listed below. Direct charging of the costs described below is permissible only when specifically noted as being allowed in the award document.

1. Administrative and Clerical Salaries

When a program requires an extensive amount of administrative or clerical support, it *may be* appropriate to charge these salaries directly to the program. Examples include:

- programs involving extensive data collection, data entry, and data analysis
- programs requiring travel arrangements for large numbers or participants such as seminars and conferences
- programs whose principal purpose is to prepare and produce large reports, manuals, books, etc.
- programs that are geographically inaccessible to normal departmental administrative services, such as a program being conducted at a remotely located field research site

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- programs requiring program-specific database management, graphics or manuscript preparation, human or animal protocols, or multiple investigator coordination.

1. Non-Salary Costs

In the types of programs described below, it *may be* appropriate to charge normally indirect non-salary costs directly to the sponsored program:

- programs involving a large mail survey could justify direct charging for the postage necessary to conduct the survey
- programs involving a telephone survey could justify direct charging for the dedicated phone lines necessary to conduct the survey.

IX. AN IN-DEPTH LOOK AT A-110

The full name of this circular is *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations. A-110*, which pertains only to grants, seeks to ensure that those institutions of higher education receiving federal grants demonstrate good business practices. *A-110* not only describes the requirements for adequate systems and standards of management, the circular also states that universities must have in place policies, procedures, and management systems appropriate for monitoring sponsored program performance.

The sections of *A-110* that are most relevant to the financial aspects of post-award administration are examined below.

Note: This is not an all-inclusive review of each section within *A-110*.

A. Subpart A - General

Circular *A-110* presents the standards for obtaining consistency and uniformity among federal agencies in the administration of grants and agreements with institutions of higher education, hospitals, and other nonprofit organizations. *A-110* provisions apply to recipient and subrecipient agreements awarded by the primary recipient. Federal awarding agencies generally cannot impose additional or inconsistent requirements outside the scope of *A-110*.

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B. Subpart C - Post-Award Requirements

1. Financial and Program Management

This section of *A-110* sets standards for financial management systems, payment methods, and rules to satisfy cost sharing and matching requirements, account for program income, approve budget revisions, conduct audits, determine allowability of costs, and establish fund availability.

2. Property Standards

This section of *A-110* specifies standards for the management and disposition of any property that is furnished by the federal government *and* whose cost was charged to a program supported by a federal award.

3. Procurement Standards

The purpose of this section within *A-110* is to ensure that materials and services are obtained in an effective manner. This section establishes procedures for the procurement of supplies and other expendable property, equipment, real property, and other services.

4. Reports and Records

This section of *A-110* requires award recipients to manage, monitor, and report on each program, program, subcontract, function or activity supported by the award.

5. Termination and Enforcement

This section of *A-110* describes the conditions under which an award may be terminated, either in whole or in part. It also describes enforcement remedies and penalties should an award recipient fail to comply with the terms and conditions of an award.

C. Subpart D - After-the-Award Requirements

This section of *A-110* covers closeout procedures for sponsored programs.

X. AWARD ACCEPTANCE

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The vehicle for award acceptance, a notice of award, is a legal agreement between the college and the sponsor. Award notices can assume the form of formal contracts, grants, or cooperative agreements. Before accepting an award or beginning work on an award, the Purchasing Office and the OSP must review the award notice for compliance with college policy and good business practice.

Note: If an award notification is sent to the principal investigator or to a departmental office, the award notice and any agreements or contract materials **must be forwarded immediately** to SPA. The award is made to the college and not to the principal investigator.

The award document is considered to be an **official agreement** regarding the scope of work, the amount of support the sponsor will provide, the cost sharing commitments on the part of the college, and other terms and conditions that govern the program. Award notices typically contain the following information:

- title or description of the program
- award beginning and ending dates
- dates of the budget period, which may or may not coincide with the dates for the total program period
- name of the principal investigator who is responsible for conducting the program in accordance with college policies and sponsor requirements
- dollars committed or obligated

Note: Not all program funds may be released at the beginning of the program. The sponsor is under no legal obligation to pay dollars not yet obligated.

- future year commitments, which are funds that are contingent upon their availability as well as on satisfactory progress on the program
- restrictions on spending which may be imposed by the sponsor and therefore limit the kinds of costs that can be charged to the program
- terms of payment, e.g., letter of credit, invoice
- milestones or deliverables, which are specific work products that the college must deliver to the sponsor
- reporting requirements

Note: Virtually all awards require technical and financial reports. Some awards also require patent and property reports.

- cost sharing or matching expectations if applicable
- budget, particularly if it has changed from the budget submitted at the proposal stage.

XI. SETTING UP THE PROGRAM

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A. Program Create Process

The tasks associated with the program create process are shared by both principal investigator and OSP.

Upon receipt and acceptance of an award, the program create process gets underway. Many principal investigators think that when the award document arrives “the money is here.” In fact, budget authority and payment terms are two separate issues. The budget authority is set up at the beginning of the budget period through the program create process, and cash is received throughout the budget period in accordance with the payment terms. It is the purpose of the program create process to ensure that all new programs, all pending award approvals, and all program changes are correctly entered into the System.

During the program create process OSP is responsible for:

- creating the program in the grant database
- assigning an account number within the chart of accounts hierarchy
- setting up the program budget in a chart of accounts

Upon completion of the tasks listed above, OSP then sends the principal investigator the proposal account number and chart of accounts, start and end dates, award amount, and any other special terms or conditions associated with the award for approval and signature.

When OSP receives the signed chart of accounts from the principal investigator, the OSP staff then inputs the budget into the Banner system and verifies the budget and award is current, accurate, and complete before spending begins against award funds.

B. Hiring Personnel

Where sponsored programs are concerned, the responsibility for personnel hiring and supervision rests with the principal investigator for that particular program. The principal investigator must keep in mind that all personnel actions are subject to college policy, including those funded by external sponsors. Due to the complexity of personnel rules and regulations, it is imperative that the principal investigator seek out assistance from the Human Resource Department to get assistance with personnel responsibilities, actions, policies, and procedures. All questions regarding employment issues should be addressed to the Human Resource Department.

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C. Establishing Subcontracts/Interagency Agreements (IA) /Memorandums of Understanding (MOU)

When an award is received, if a substantive portion of the programmatic effort is to be performed by a third party, a formal agreement is developed. Depending on the type of agency (state or private) of the third party, determines the type of formal agreement that may be developed; i.e., IA or MOU. For this section, subcontract will be used in relation to the formal agreement. The third party, or the legal entity that has agreed to work in collaboration with ASC, is known as the subcontractor. A subcontract sets up a relationship in which each institution has its own principal investigator, and where ASC is the prime awardee. Once the subcontract has been executed, the subcontractor becomes accountable to ASC for the use of the funds provided. The subcontractor must also comply with all of the terms and conditions of the prime award.

Additional information about subcontracts can be found in Section XIX of this chapter.

XII. BEGINNING WORK ON A PROGRAM

Work can officially begin on a sponsored program on or after the award's official start date as indicated on the award notice or contract *and* when the agreement has been fully executed by both parties **or** when a binding commitment from a sponsor has been received and the terms and conditions of the award have been accepted.

A. Pending Awards

In certain circumstances, it may be necessary to obtain an Accounting String number for a sponsored program before the award is finalized. It may also be necessary, upon occasion, to incur program costs before the award process is completed. For example, a principal investigator may wish to begin the hiring process before the actual program start date. In situations such as these, it may be permissible to begin work on the program provided that:

- pre-award activities are allowed by the sponsor
- The Vice President for Finance and Governmental Relations approves the pre-award spending of the funds
- OSPOSP sets up a pending program Accounting String number.

Prior to the finalization of an award, program charges **should not** be made to a departmental account and then transferred to a sponsored program account when the award is established. Charges should be made to a sponsored

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program so that they receive proper review and oversight. Furthermore, program charges should never be incurred on another sponsored program with the intent to transfer them to a different program at a later date.

A WORD ABOUT PRE-AWARD RESPONSIBILITY AND RISK

The department assumes full financial responsibility for all expenditures incurred on a pre-award basis. There is a risk. If an award is not received, if a contract goes unexecuted, or if a sponsor decides to disallow pre-award costs, the department must transfer any disallowed or unfunded costs to a non-sponsored program departmental account.

XIII. SPENDING THE AWARD: COMPLIANCE RESPONSIBILITIES

A. Principal Investigator Responsibilities

Although the principal investigator may have administrative staff to assist with the management of a program, the ultimate responsibility for the work of the sponsored program and the spending of program funds rests with the principal investigator. The expenditure of funds on sponsored awards will ALWAYS be subject to

- the terms of the award
- ASC policies regarding personnel, purchasing and travel
- State of Colorado regulations relative to procurement and travel.

Therefore, the principal investigator must establish a means to ensure that

- no more than the amount authorized by the sponsor for the program period is spent
- sponsor limitations on the amount of money that may be spent in any single budget category is adhered to
- costs are incurred only for goods or services that will be received and used during the program period
- only those expenditures that are reasonable and necessary to accomplish the program goals, and that are also consistent with the terms and conditions of the sponsor, are authorized
- fiscal stewardship is maintained over the sponsored program, ensuring the reasonable and prudent use of sponsor funds.

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ESSENTIAL COMPLIANCE CONSIDERATIONS FOR THE PRINCIPAL INVESTIGATOR

For each and every anticipated purchase using sponsored program funds, consider the following:

- Does the purchase about to be made further the purpose of the respective program?
- Does the expenditure about to be charged comply with the award contract?
- Will the expenditure about to be charged directly benefit the award?

If the answer to even one of the above questions is NO, then find another source of

B. Office of Sponsored Programs Responsibilities

The focus of OSP's work is to support the principal investigator. To this end, OSP monitors expenditures within the financial system to ensure that expenditure activity appears appropriate. Examples include pro-card purchases, requisitions, payment vouchers, equipment purchases, and payroll expense transfers.

1. Pro-card

OSP reviews all pro-card purchases that are charged to sponsored programs. Pro-card logs are obtained from sponsored programs staff and/or departmental staff for further verification of sponsored programs purchases.

2. Requisitions

A manual process has been set up whereby the Purchasing Department staff will not process a requisition charged to a sponsored program unless OSP has approved the requisition.

3. Equipment Purchases

Equipment purchases are monitored by the property staff within Finance and Administration. For example, each year the property staff provides department/program heads with a report of equipment purchases that were charged to sponsored programs. The Principal Investigator is responsible to provide documentation ensuring that the cost of the equipment is allowable on the program and adequately documented in the program file.

Note: Capital equipment, as defined by the college, is an item with a unit acquisition cost of \$5,000 or greater *and* an expected useful life of one year or more.

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a) **Routine Review**

The Principal Investigator is responsible to determine if

- the item of equipment is included within the approved program budget
- the funds to purchase the equipment exist within the Accounting String for the program
- the funds are budgeted in an equipment account within the Accounting String
- additional sponsoring agency approval is necessary prior to making the capital equipment purchase.

Upon completion of a successful review, the Principal Investigator approves the requisition to purchase the capital equipment.

4. **Payroll Expense**

OSP staff review, approve, and track (if approved) each and every personnel contract recommendation involving a sponsored program. Each pay period, the monthly FIN2 report is reviewed for all payroll expenses charged to a sponsored program. If discrepancies are found, they are corrected before month end to ensure accurate grant reporting on the monthly budget reports.

5. **Travel**

The OSP travel review is designed to meet the *A-110* requirement that requires the campus to have in place systems to monitor sponsored program activities. The purpose of the OSP travel review process is to ensure that all travel-related rules, regulations, policies, and procedures - including those of the State of Colorado, the college, and the sponsoring agency - are followed.

The OSP process focuses on the following:

- examining the relevance of the trip to the program
- confirming that the traveler is either paid by the program or otherwise documented as being directly involved in the work of the program
- verifying that the travel will occur during the time period of the program
- making certain that funds are budgeted in the program for the travel and that the available balance is sufficient to pay for the expenses associated with the trip
- verifying the rates (i.e., mileage, lodging, per diem) comply with the award contract
- confirming with the principal investigator that there are no funding agency restrictions or additional approvals needed for the travel.

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XIV. MANAGING THE PROGRAM: PERSONNEL

With respect to sponsored programs, the term “personnel” encompasses a variety of individuals. The personnel types addressed in this section include those for whom effort reporting must be administered, such as principal investigators and non-hourly employees, as well as those who do not require effort reporting, such as hourly employees.

A. Effort Reporting for Principal Investigators and Non-Hourly Employees

Most sponsors assume that, in the course of their work, principal investigators are involved in a combination of administering the grant, teaching, and service-related activities. It is reasonable to expect that a principal investigator, who primarily administers a grant, may also serve on committees, have college administrative duties, advise students, etc. Since federal sponsors will not pay for time spent performing non-program specific activities on the part of the principal investigator or other employees, personnel on sponsored programs are required to certify the percentage of time (or effort) that they devote to a particular sponsored program—whether for grant funding or as part of an in-kind match.

Effort reporting is a requirement imposed by the federal government upon those who receive federal funding for sponsored programs. Sponsoring agencies require reasonable assurance that labor costs charged to a sponsored program reflect the actual effort expended on the program. Effort reporting attests to the appropriateness of salaries and wages charged to a particular contract or grant.

To confirm that the distribution of payroll costs represents a reasonable allocation of the work performed by the employee during the period, effort reports must be signed by the employee and by a responsible official in a position of authority with respect to the employee. Examples of such positions include principal investigator, director, chair, or dean. It is neither permissible nor appropriate for a departmental support person, such as a secretary, administrative assistant, program assistant, or office manager, to sign the effort report. It is imperative that whoever signs the effort report has suitable means of verification that the work was performed as stated. The certification of the Personnel Effort Report (PER) asserts, in writing, the accuracy of the effort being reported.

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Employees with a complex distribution of effort and employees who might have difficulty in recalling the allocation of their effort among multiple activities during the course of a semester, should maintain a record of their activities sufficient to assist them in completing their effort reporting with reasonable accuracy.

WARNING

Any payroll expense that is disallowed by a funding agency or an auditor due to non-certification becomes the responsibility of the respective department.

FOUR FINAL POINTS ABOUT EFFORT

1. Due to the combination of sponsor regulations and the relatively unstructured nature of teaching, accounting for the effort of personnel assigned to grants and contracts requires more attention than is typically paid to other academic activities.
2. The salaries and wages charged to a program must represent the proportionate share of effort that directly benefits the program.
3. Sanctions for non-compliance can be serious, including criminal charges.
4. The principal investigator is responsible for all financial activity charged to their sponsored programs, including charges associated with personnel effort.

B. Hourly Employees

Employees who are paid on an hourly basis are not included in the above process, since the effort of hourly employees is certified when employees sign their timesheets through the time collection process.

XV. MANAGING THE PROGRAM: PURCHASING

The purchase of goods and services for a sponsored program must comply with the overall intent of the award, the specific detail of the sponsor's regulations, policies and procedures of the college, and state fiscal rules.

A. Purchasing and the Principal Investigator

It is the responsibility of the principal investigator to initiate the purchase of all goods and services charged to a sponsored program. Furthermore, it is the responsibility of the principal investigator to approve only those expenditures that are appropriate for a particular award, as well as to monitor the allowability of all expenditures actually charged against a particular award. It is imperative that the principal investigator knows what costs are allowable

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according to the regulations, restrictions, terms, and conditions associated with **each *and* every award**.

B. Purchasing Documentation

Upon occasion, the principal investigator may delegate portions of the purchasing function to a sponsored program-funded support personnel or departmental administrator or support staff. All persons involved in the procurement of goods and services on a sponsored program are responsible for ensuring that expenditures are adequately documented. Since the college regularly participates in both internal and external audits, it is imperative that the principal investigator be able to demonstrate, through sufficient or adequate documentation, the manner in which a specific expenditure directly benefited a particular program.

C. Purchasing Procedures

If the department has a designated employee who handles purchasing for the unit, it is imperative that the principal investigator work with this individual when performing procurement activities on a sponsored program.

D. HOT Topics in Purchasing

The items noted as hot topics in this section have been included for one of two reasons:

1. the number and complexity of regulations associated with the item
2. the high visibility associated with the item.

1. Travel

The sponsor expects that travel expenses charged to a program will be consistent with college policy.

a) Rules and Regulations

All applicable state fiscal rules, college policies, and sponsoring agency regulations must be followed for travel done on sponsored programs. This holds true even when the award specifically provides a budget for a certain travel item that is not permitted according to state and college travel policies. For example, if an award contained a budget category designated to fund first class travel, the purchase of a first class ticket would likely be disallowed because neither the college nor the state permits first class travel. There are also set state mileage reimbursement rates for employees who use their own vehicles for

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official state travel. Thus, even if an award allows for a mileage reimbursement in excess of the state limit, it is not permissible for an employee to be reimbursed at a rate greater than that authorized by the state. Unallowable travel expenses include, but are not limited to:

- alcohol
- laundry
- mini-bar
- movie rental.

b) *OSP Approval*

OSP reviews all travel authorizations for sponsored program travel. The purpose of the OSP review is to ensure that the travel is of benefit to the program and is an allowable expenditure of the program.

Specifically, OSP examines:

- the relevance of the trip to the program
- whether traveler is paid by, or otherwise involved with, the program
- whether or not funds exist in the program for the travel
- any funding agency restrictions or additional approvals needed relative to the travel.

c) *Foreign Travel*

The purpose of the travel determines if it is foreign or domestic. For example, if the purpose of the trip is to attend a meeting in Germany, then even the domestic portion of the airfare to traveling from Denver to New York in order to get a flight to Germany is foreign travel. If the purpose of the travel is to attend a meeting in New York and then go to a different meeting in Germany, the portion of the airfare to New York is domestic, and the portion to Germany is foreign. American flag carrier restrictions usually apply to foreign travel. For some sponsoring agencies, foreign travel requires specific agency approval.

d) *Trip Completion*

Upon completion of the trip, the travel expense sheet must be processed. Problems occur in this process when

- original receipts are missing
- the travel authorization does not provide adequate information
- the travel expense does not directly benefit the program.

Visit the ASC Travel Web page at
<http://www2.adams.edu/administration/travel/>

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for additional information about travel policies and procedures.

2. Consultants

A consultant is an individual who is not employed by ASC, but whose expertise is required by the principal investigator to perform the work of the program. Since sponsors may set limitations on allowable payment rates for consultants, it is imperative that the principal investigator carefully review the award for this information. **A consultant should perform no work on a program until it has been determined by the ASC Department of Human Resources that the individual meets the legal criteria to be a consultant.**

A consultant is paid using a purchase order. Therefore, in order to be paid, the consultant must submit a bill to the principal investigator that details the following:

- name and address
- W-9 form with vendor ID (or social security number if the consultant does not yet have a vendor ID)
- rate of pay, total amount of contract and balance due, if any
- performance period
- nature of services rendered
- relevance of the consultant's work to the award.

3. Making Purchases Near the End of a Program

Goods and services not received during the program period do not benefit the program and therefore, may not be charged to the program. Similarly, when goods and services are ordered and received towards the end of the program, it is the responsibility of the principal investigator to demonstrate that these goods and services directly benefited the program. If this cannot be substantiated, then the costs for such goods and services may be disallowed. For example, it can be difficult to support that equipment ordered during the last six months of a program will directly, and substantially, benefit the work of the program.

XVI. MANAGING THE PROGRAM: FINANCIAL MATTERS

Each sponsored program is assigned an Accounting String number by OSP, and each organization has an individual designated as the manager. It is the manager, who is typically the principal investigator, which serves as the responsible person for the account. Although the principal investigator may delegate the duties

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associated with financial management of the account to a subordinate, the principal investigator assumes full responsibility for all financial activity associated with the sponsored program and recorded in the account.

The financial responsibilities associated with a sponsored program include ensuring that

- revenue is deposited and recorded correctly
Note: If a check from a sponsor for a program is received in a department, the check must be forwarded to OSP immediately.
- expenditures are allowable according to sponsor, state, and college regulations
- funds are spent during the award period
- fiscal oversight, including monthly transaction reconciling and Banner monitoring, is being conducted.

Strong financial management and diligent stewardship of award funds are fundamental elements of compliance.

A. Revenue

Sponsors are asked to transmit award funds directly to OSP. Upon occasion, however, checks may be addressed to the principal investigator or the department. These checks must be forwarded immediately to OSP for deposit. The check should be accompanied by a memorandum indicating as much about the check as is known by the department. Examples of useful information to include on the memo are the Accounting String number, the program number, the program name, and the principal investigator.

If a program receives program income (gross income earned by the recipient that is directly generated by an activity supported by the sponsored program or that is earned as a result of the award), these funds with supporting documentation that includes Accounting String number, grant name, income specific information, need to also go through OSP.

For sponsored programs that receive funds through a letter of credit or as a result of invoicing, these payment processes are administered by OSP.

By regularly monitoring the revenue activities of an award, the principal investigator can avoid problems or enable a more expeditious resolution should a problem arise, thereby providing responsible stewardship of sponsor funds.

B. Expense

The most important responsibility with respect to spending award funds is to ensure that all expense transactions are acceptable on the sponsored program.

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Thus, the principal investigator must make sure that each and every expense charged to the program is

- allowable according to the terms of the award
- authorized according to college policies, state rules/laws, and federal regulations
- of direct benefit to the program
- charged to the correct Accounting String
- within the approved budget categories
- within the funding available for the program
- expended during the award period.

It is also important for the principal investigator be familiar with the encumbrances recorded on a program in order to do accurate expense projections and avoid cost overruns. In addition, the principal investigator must ensure that the encumbrances on a program adhere to the same criteria as actual expenses charged against the program.

Regular monitoring of award expenses is essential to ensuring compliance with award conditions and sponsor regulations, and also to promoting overall stewardship of resources.

C. Fiscal Oversight

The principal investigator holds responsibility for fiscal oversight of the sponsored program. This involves reconciling the transactions recorded in the program Accounting String and monitoring the Accounting String for the purpose of comparing the approved budget for the program to the revenue and expenses actually recorded in the Accounting String.

Each month, after the final close, two reports should be run by the principal investigator or delegate for use in reconciling and monitoring the sponsored program. These reports include

- Summary of Budget, Revenues, Expenditures, and Encumbrances, also known as the Budget Status Report (FGRBDSC)
- Detail of Budget, Revenues, Expenditures and Encumbrances, also known as the Organization Detail Activity Report (FGRODTA)

1. Reconciling the Org Unit

Every month the revenue and expense source documents for a sponsored program account must be reconciled to the Organization Detail Activity Report. Programs must be reconciled for

- payroll expenses
- vendor payments
- subcontractor payments

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- travel expenses
- equipment expenses
- other operating expenses
- encumbrances

The purpose of this transaction-by-transaction reconciliation is to answer the following three questions:

1. Are all transactions recorded in the Accounting String in the correct account? for the correct amount?
2. Do all transactions recorded in the particular Accounting String belong in that Accounting String?
3. Are all transactions that should be recorded in the Accounting String appearing on the respective statement?

When a discrepancy is found during the reconciling process, it is imperative that immediate action be taken to resolve the error. In addition, diligent follow-up must be done to ensure all error corrections have been processed.

2. Monitoring the Org Unit

The primary purpose of monthly monitoring relative to a sponsored program Accounting String is to determine whether or not the program is financially on-track by comparing the budget for the program to the expenditures actually recorded in the Accounting String. For example, some sponsors pay close attention to pace of spending. For non-equipment based programs, if the program period is 75% complete, then it could be expected that the program would be 75% spent. In other cases, conducting a regular comparison between a program's budget and its actual revenues and expenses is an effective way of identifying potential revenue shortfalls and cost overruns. Corrective action, such as adjusting spending patterns, can be implemented to keep the program financially sound.

D. Overexpenditures

Expenditures must stay within the budget established for the program and also within any specific expenditure guidelines dictated by the sponsor. Should this not happen and an overdraft results, the principal investigator is responsible for initiating the prompt removal of the overdraft charges to a suitable non-sponsored program Accounting String. The charges should not be moved to another sponsored program unless the costs are allowable and allocable for that particular program.

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Overexpenditures are, in fact, unbudgeted uses of college funds, and are detrimental to the campus. It is ASC policy to turn to other Org Units within a department for funds to cover any overdrafts that are not resolved.

XVII. MANAGING THE PROGRAM: REPORTING

A final financial report is required for most sponsored programs. While the exact deadline for submitting the report is agency specific, the typical range for submission is either 30, 60 or 90 days after the program termination date. Although certain agencies require that the principal investigator sign the financial report, OSP usually prepares and submits final financial reports to program sponsors. In order for OSP to complete the financial report in a timely manner, it is essential that all final invoices from vendors and subcontractors be paid promptly so that program expenses are reflected accurately.

In addition to the final report, some funding agencies require the preparation and submission of interim financial reports.

XVIII. SPECIAL TOPICS IN PROGRAM ADMINISTRATION

In accepting a sponsored program, principal investigators, program directors, departmental administrators, and ASC all agree to follow the Cost Principles defined in *Circular A-21*, and the Post-Award Requirements described in *Circular A-110*. This section of the chapter will examine three topics that can be particularly complex with respect to sponsored program administration as noted in the aforementioned circulars: cost transfers in part C.4 of *A-21*, and cost sharing and program income in Subparts C.23 and C.24, respectively, of *A-110*.

A. Cost Transfers

A cost transfer involves the recording of an expense in a sponsored program fund that had previously been charged elsewhere. ASC permits cost transfers since the college recognizes that, upon occasion, it may be necessary to transfer costs to a sponsored program fund from a different college fund due to an error, or because additional information becomes known after the charge is initially processed. Cost transfers should be considered “the exception, rather than the rule,” and must be kept to a minimum.

Note: Frequent errors in the recording of costs may indicate the need for improvements in accounting practices and the strengthening of internal controls at the departmental level.

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Costs being transferred to a sponsored program fund must meet the criteria for a direct cost. Thus, they must be allowable, timely, reasonable, consistent, of benefit to the sponsored program that is the recipient of the cost, and adequately documented. The mechanism for doing a cost transfer is completed by the OSP staff with sufficient signed documentation from the principal investigator that the transfer meets the above listed requirements.

1. Procedures for Doing Cost Transfers

There are six steps to doing a cost transfer:

1. Identify a cost that has been recorded incorrectly through the monthly review of Banner Budget Reports
2. Evaluate the cost transfer criteria i.e., proration, allocation
3. Prepare documentation to reallocate the cost transfer or payroll expenses transfer and submit to OSP
4. Review the monthly Finance System statements to verify the correct recording of the cost transfer transaction
5. Retain documentation pertaining to the cost transfer transaction.

Some of the steps listed above reflect basic fundamentals of sound financial management, while others pertain directly to cost transfers. The following section of the chapter will elaborate on those steps pertaining specifically to cost transfers.

a) *Evaluate the Criteria*

Prior to transferring a cost onto a sponsored program fund, **all** of the following direct cost criteria must be met. The cost being transferred must be:

1. Allowable
2. Reasonable
3. Allocable
4. Treated Consistently
5. In conformance with any limitations or exclusions set forth in *A21* or in the sponsored agreement
6. Timely
7. Beneficial to the program **and**
8. Adequately Documented.

b) *Prepare the Cost Transfer Documentation*

i) *Non-Payroll Cost Transfers*

For **non-payroll transfers** the following information must be included in the documentation:

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- A justification as to why the cost is being moved to this specific sponsored program Accounting String. The explanation must detail
 - The cause of the error (why and how the error occurred)
 - The need for the transfer
 - A description regarding how the cost being transferred was used on or provided a benefit to the sponsored program that is receiving the cost.

The detailed explanation contained is particularly important for accountability on the part of the college to sponsors and auditors.

ii) Payroll Cost Transfers

For **payroll cost transfers**, it is essential to provide adequate information concerning the reason for the transfer. This includes a justification as to why the cost is being moved to this specific sponsored program Accounting String. The explanation must detail

- the cause of the error (why and how the error occurred)
- the need for the transfer
- a description regarding how the cost being transferred was used on or provided a benefit to the sponsored program that is receiving the cost.

2. Examples of Cost Transfers

Principal investigators, program directors, and departmental administrators should charge expenses in a manner that matches the cost with the benefits received from the activity, thereby eliminating the need to move expenses at a later date. Recognizing, however, that legitimate reasons can exist for the adjustment of expenses, certain exceptions are permitted.

The material that follows provides an overview of

- a. Circumstances in which cost transfers are normally acceptable,
- b. Circumstances in which cost transfers may be allowable but which are likely to raise serious questions,
- c. Circumstances in which cost transfers are generally unallowable.

a) Circumstances In Which Cost Transfers Are Normally Acceptable

- correction of technical errors, such as a keypunch or transposition error

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- prorating or apportioning expenditures, on an after-the-fact basis, when an appropriate - and either self-evident or documentable - accounting technique is used to allocate the cost in accordance with the benefits
- redistribution of payroll from the previous pay period, when it is a one-time change from the individual's appointment
- transfers when prior written approval has been received from the sponsor of the award to be charged, and the sponsor is fully informed of all circumstances surrounding the transfer.

b) Cost Transfers That May Be Allowable, But Which Raise Serious Questions

- transfers of expense from a sponsored program fund that is in overdraft to a different sponsored program fund, when the expense being transferred does not appear to benefit directly the program receiving the charge
- transfers that only use up unexpended balance, but do not appear to be of benefit to the program that is the recipient of the charge
- transfer or correction of payroll distribution that was previously certified on a time sheet or on a Personnel Effort Report, or transfer or correction of payroll distribution for temporary hourly employees
- transfer of an expense that was previously transferred
- transfers after the end date of a program.

c) Cost Transfers That Are Generally Unallowable

- transfer of an unidentified expense or lump-sum expenses to an award fund. Each expense transferred to an award fund must be identified according to detailed invoice/journal entry number provided by Banner. In addition, each transfer must explain how the cost will benefit the activity of the fund receiving the charge.
- transfers that fail to indicate how the cost benefits the receiving fund, or that provide no explanation regarding why the cost was not correctly charged in the first place
- transfers for which expenditures are apportioned between funds, and the basis for determining the split is inappropriate or undocumented
- transfers of expenses that were not incurred during the program period, unless specifically allowed by the sponsor
- transfers of costs on the basis of available budget. For example, a transfers of costs during the last months of a program from one

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- program to a different a program that has unexpended funds - for the sole purpose of using up the available budget -is not allowed.
- transfers of costs from any fund in overdraft status to a sponsored program fund, for the sole purpose of eliminating the overdraft, are not allowed
 - random or regular rotation of costs, absent any information on actual use. i.e., arbitrary charging of pooled costs such as photocopies or lab supplies.

It is **never permissible** to transfer Revenue, Cash, or Facilities & Administrative expense either *from* a sponsored program fund or *to* a sponsored program fund.

3. Cost Transfer Monitoring by OSP

OSP prepares most cost transfers recorded in the finance system. OSP reviews the documentation of the cost transfer submitted by the principal investigator. When a potentially unallowable cost transfer is observed, the OSP staff contacts the principal investigator or departmental administrator for follow-up and resolution. If a determination is made that the cost transfer is unallowable, then OSP processes a journal entry to reverse the transfer.

B. Cost Sharing

Cost sharing refers to that portion of the costs of a sponsored program not borne by the sponsoring agency. Cost sharing frequently involves salary related to effort on the part of principal investigators or their staff. Cost sharing may also include non-salary items. Third-party-in-kind is another type of cost sharing that involves contributions to, or assistance with, a sponsored program in a form other than money. Examples of third-party-in-kind cost sharing include equipment, materials, or services - of recognized value - that are offered in place of cash.

To summarize, cost sharing takes place whenever the college allocates its own resources to a sponsored program, or participates in an in-kind cost sharing arrangement on a sponsored program.

COST SHARING REMINDER

All cost sharing must be documented as an expense that is **relevant to** and **concurrent with** the sponsored program.

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1. Types of Cost Sharing

There are three types of cost sharing: Mandatory Cost Sharing, Voluntary Committed Cost Sharing, and Voluntary Uncommitted Cost Sharing.

a) **Mandatory Cost Sharing**

Cost sharing, either in the form of a contribution of cash or in-kind match, is considered to be mandatory when it is required by the sponsoring agency as a condition of the award. Mandatory cost sharing occurs when ASC agrees to commit effort towards a particular program without claiming reimbursement from the sponsoring agency.

b) **Voluntary Committed Cost Sharing**

This type of cost sharing occurs when cost sharing is not required by the sponsoring agency as a condition of the award, but when ASC voluntarily commits to participate in cost sharing at the time the proposal is submitted to the sponsoring agency.

c) **Voluntary Uncommitted Cost Sharing**

This type of cost sharing occurs when the effort actually spent on a program by ASC employees exceeds the amount of effort committed to the program through either the mandatory cost sharing or voluntary committed cost sharing obligations stated in the award document.

2. Cost Sharing Criteria

Criteria for cost sharing are listed in Subpart C, Paragraph .23 of *A-110*. This states that all contributions, including cash and third party in-kind, are acceptable as part of the recipient's cost sharing obligation when such contributions meet ALL of the following seven criteria. Therefore, it is essential that all costs utilized for cost sharing:

1. Are verifiable from ASC records,
2. Are not included as a contribution for any other federally assisted program,
3. Are necessary and reasonable for proper and efficient accomplishment of the program's objectives,
4. Are allowable under the applicable cost principles,
5. Are not paid by the federal government under another award, except where authorized by federal statute to be used for cost sharing,
6. Are provided for in the approved budget when required by the federal awarding agency, *and*

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7. Conform to other applicable *A-110* provisions.

3. Cost Sharing Documentation

Cost sharing must be documented for the individual program. The principal investigator and the department are responsible for ensuring that **all** cost sharing obligations - including personnel, non-personnel, and third-party-in-kind - are identified and documented.

4. Non-Compliance

Since award recipients hold the responsibility for monitoring and reporting on program and financial performance - including all types of cost sharing - severe penalties can result from inaccurate, false, incomplete, or untimely reporting. Examples of penalties able to be imposed on the part of the awarding agency include, but are not limited to:

- temporarily withholding cash payments
- wholly or partly suspending or terminating the current award
- withholding further awards for the program
- pursuing other remedies that may be legally available.

A more comprehensive list of penalties can be found in *A-110*, Subpart C, Paragraphs .60 through .62.

C. Program Income

Program income refers to gross income earned by the recipient that is directly generated by an activity supported by the sponsored program or that is earned as a result of the award. Program income includes, but is not limited to, income from fees for services, the use or rental of real or personal property acquired under federally-funded programs, the sale of commodities or items fabricated under an award, license fees and royalties on patents and copyrights, and interest on loans made with award funds.

Note: Interest earned on advances of federal funds is not program income. Except as otherwise provided in federal awarding agency regulations, or by the terms and conditions of a specific award, program income does not include the receipt of principal on loans, rebates, credits, discounts, etc., or interest earned on any of these.

1. Disposition of Program Income

A110 states that program income earned during the program period is to be retained by the recipient, and should be used in a manner consistent with

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the program's intended purpose. According to federal awarding agency regulations or the terms and conditions of a specific award, program income should be used in one or more of the following ways:

1. Added to funds committed to the program by the federal awarding agency and recipient and used to further eligible program or program objectives
2. Used to finance the non-federal share of the program or program
3. Deducted from the total program or program allowable cost in determining the net allowable costs on which the federal share of costs is based.

2. Accounting for Program Income

At ASC, the typical practice relative to program income is for the department to deposit the program income directly into the Accounting String responsible for generating it. Questions concerning the correct account to use when recording program income should be directed to OSP. If departments prefer, they can forward program income checks to OSP for deposit.

Additional information about program income is available in Subpart C, .24 Post Award Requirements Financial and Program Management, Program Income A-110.

XIX. SUBCONTRACTS

Sponsored programs funded by agreements made with ASC are usually conducted within the physical boundaries of the college or at field sites used by college personnel. On occasion, a portion of the required effort may be provided by one or more third parties such as other institutions, companies, or entities that are to be responsible for a discrete part of the program. When the portion of effort performed by a third party constitutes a substantive component of the sponsored program, the third party is required to provide the resources and personnel necessary to conduct that portion of the work as an independent contractor. Costs normally associated with third party effort may include any or all of the following: labor, employee benefits, materials and supplies, travel, equipment, subcontracts, consultants, other direct costs, and facilities and administrative costs (indirect costs).

The subcontracting procedures contained in this section of *The Guide* address policies involved in subcontracting relative to *non-construction* activities. Should a program involve physical construction of new facilities or renovation of existing facilities, Facilities Services must be contacted prior to submission of the program

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proposal. Facilities Services facilitates compliance with Board of Trustees, college administrative procedures, and applicable state rules and regulations to ensure that necessary approvals are obtained.

A. *Subcontract Vocabulary*

Awarding Agency: Initial provider of the grant or contract.

Key Personnel: The principal investigator of the subrecipient. This individual is essential to the work performed under the subcontract, and the subrecipient may not substitute other personnel for the key personnel. In addition, no significant decrease in the level of effort by the key personnel may occur without notice to and approval by ASC.

Prime: The recipient of a grant or contract.

Prime Sponsor or Sponsor: Organization that makes an award directly to ASC.

Subaward: Document that OSP generates to formalize a third party relationship with another organization to perform substantive work based upon a *grant* or *cooperative agreement* award made to ASC.

Subcontract: Document that OSP generates to formalize a third party relationship with another organization to perform substantive work based upon a *contract agreement* award made to ASC.

Interagency Agreement: Document between government agencies and/or departments that defines cooperative work, services, or funding arrangements between agencies.

Memorandum of Understanding: A document with a third party to formalize mutual participation in a grant program outlining roles and responsibilities of each entity towards fulfilling grant requirements.

Subcontractor: Entity to which a *subcontract* is issued.

Subrecipient: Entity to which a *subaward* is issued.

Vendor: Entity that provides commercial goods and services.

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B. Subcontract Relationship

Central to the subcontract relationship is the amount of work to be performed on a program by the third party. For example, if the work being done on the program by the third party involves the performance of repetitive tests or activities requiring little or no discretionary judgment, then a consulting agreement or a purchase order - rather than a subcontract - would be issued using the college's procurement process. However, when the portion of the work being performed on the program by a third party is substantive, then a subcontract must be developed.

Technically speaking, the subcontract is called a *subaward* when the prime award is a grant or a cooperative agreement, and a *subcontract* when the prime award is a contract. The third party performing the work under a *subaward* is called the *subrecipient*, while the third party performing the work under a *subcontract* is called the *subcontractor*. To simplify the remainder of this chapter, the terms subcontract and subcontractor will be used as umbrella terms that also cover the terms subaward, subawardee, and subrecipient.

C. Documentation and Monitoring Requirements for Subcontracts

When ASC issues a subcontract to a third party, it is a legally binding agreement.

1. General Compliance

Absent specific additional award requirements, the level of documentation necessary when issuing subcontracts should be consistent with good management practices. These practices normally include obtaining the following information from the subcontractor at the time of proposal or award:

- a scope of work to be completed by the subcontractor
- a subcontract budget that meets the requirements of the federal sponsor and the awarding institution
- an institutional signature indicating commitment to perform the scope of work proposed, assuring the accuracy and reasonableness of the budget, and agreeing to enter into a subcontract if the proposal is funded
- all required representations, certifications, and assurances.

The awarding institution is responsible for providing an appropriate level of review with respect to the subcontractor's scope of work and budget. The normal proposal review process of the institution usually fulfills this requirement.

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The awarding institution is also responsible for maintaining a system for monitoring the activities of subcontractors to ensure that they are complying with the terms of the subcontract agreement. Responsibilities include general compliance as described in *A-133* section 400(d)(3) and subrecipient audit compliance as noted in *A-133* section 400(d)(4)(5)(6)(7).

2. Audit Compliance

According to the requirements of *A-133*, OSP must obtain either a copy of the most recent fiscal year audit report of the subrecipient, or a written certification that there were no audit findings relating to federal awards that the pass-through entity provided.

Upon receipt of the audit report or certification, the Office for Finance and Governmental Relations does the following, as appropriate:

- issues a management decision on the audit findings within six months after receipt of the subrecipient's audit report, and ensures that the subcontractor takes appropriate and timely corrective action. This decision will be in the form of written documentation as to the analysis and follow up of any audit findings;
- considers whether subcontractor audits necessitate adjustment of the pass-through entity's own records;
- requires each subcontractor to permit the pass-through entity and the auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

D. Subcontracting Procedures

There are numerous procedures associated with subcontracting. A partial list of these include: subcontractor selection, the subcontract proposal, incorporating the subcontract proposal into the ASC proposal, establishing a separate Accounting String for the subcontract, preparing the subcontract, processing subcontract documentation, subcontract negotiation and execution, special consideration for small businesses, and advance payments to subcontractors.

1. Subcontractor Selection

The procedures involved with subcontractor selection vary depending upon whether or not the subcontract and subcontractor are specified in the proposal and funded by the award.

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a) *Subcontract and Subcontractor Specified in the Proposal*

When the subcontractor is specified in the proposal and the collaboration is funded, it is not necessary to comply with the procurement requirements for competitive bidding or sole source justification since the sponsor or peer review process already approved the subcontractor selection.

b) *Subcontract and Subcontractor Not Specified in the Proposal*

When subcontract information is not disclosed in the proposal, it is the shared responsibility of the ASC principal investigator, along with OSP, to comply with the procurement requirements of the sponsor as well as the procurement regulations of the college and state, in selecting a subcontractor.

2. Subcontract Proposal

Regardless of the method used in selecting a subcontractor, there must be adequate time provided between the receipt of a subcontractor's proposal and the due date for the sponsor's proposal, to allow ASC's principal investigator sufficient time to discuss and negotiate the statement of work.

A budget, itemized by major budget category - such as salaries and wages, employee benefits, supplies, equipment, travel, consultants, subcontractors and other direct costs - must be submitted by the subcontractor as part of its proposal. Greater itemization of certain categories may be needed if required by the sponsor's proposal guidelines or other requirements. Facilities and administrative costs (indirect costs) should be included as appropriate and allowed, and should be calculated using the subcontractor's current rates. A copy of the subcontractor's negotiated rate agreement must be provided to OSP as a means of verifying the costs requested, and supporting those costs in case of an audit. If the subcontractor uses a rate for employee benefits, a copy of that rate agreement must also be given to OSP.

The subcontractor's proposal must be signed by a designated official from the subcontractor's institution or organization who is authorized to commit the subcontractor's resources to the completion of the program.

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3. Incorporating the Subcontractor's Proposal into ASC's Proposal

The subcontractor's costs are included in ASC's budget for the program as a direct cost. During the processing of a proposal, the subcontract portion is reviewed by the Purchasing Office to ensure all required items have been incorporated.

4. Establishing a Separate Org Unit

A separate Org Unit usually is established to account for the expenditures of each subcontract.

5. Preparing the Subcontract

Typically, when a fully executed award from the prime sponsor is received, a subcontract with the proposed third party is prepared. The subcontract is usually a line item in the proposal budget for the prime award. Thus, the subcontract gets reviewed by the sponsor during the course of the proposal review. In this situation, the funding of the proposal normally indicates that the sponsor has

- approved the subcontract selection, and
- determined that the costs included in the subcontract are reasonable relative to performing the subcontractor's statement of work.

As stated in section 1. b) above, if subcontract information was not included in ASC's original proposal, sponsor approval typically is necessary prior to issuing the subcontract. In certain situations, sponsor approval may also be necessary even when the subcontract was proposed in the original proposal. In some very rare instances, it may be necessary for the sponsor to review and approve the proposed subcontract agreement before ASC gives it to the subcontractor for review and signature.

When preparing the subcontract, it is important to adhere to the prime agreement terms and conditions, and also to flow down the appropriate clauses.

6. Subcontract Processing Documentation

Documentation requirements for subawards on grants or cooperative agreements, and subcontracts on contracts, are described below:

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a) Documentation Required for Grant-Funded Subawards

The following documents are necessary in order to process a *grant-funded* subaward:

1. A scope of work completed by the subrecipient
2. A budget that meets the requirements of the federal sponsor and the awarding institution.
3. An institutional signature indicating commitment to perform the scope of work proposed, assuring the accuracy and reasonableness of the budget, and agreeing to enter into a subaward if the proposal is funded.
4. A copy of the subrecipient's F&A agreement, if applicable.
5. A copy of the subrecipient's fringe benefit rate agreement, or other relevant documentation, if applicable.
6. All required representations, certifications, and assurances (e.g., human subjects assurance).
7. Debarment and Suspension (E.O.s 12549 & 12689; *A-110*, Appendix A.8)
8. Byrd Anti-Lobbying Amendment (31 U.S.C. 1352; *A-110*, Appendix A.7).

b) Documentation Required for Contract-Funded Subcontracts

The following documents may be necessary in order to process a *contract-funded* subcontract:

1. A scope of work to be completed by the subcontractor
2. A budget that meets the requirements of the awarding institution and the federal sponsor, if applicable;
3. A copy of the subcontractor's F&A agreement, if applicable;
4. A copy of the subcontractor's fringe benefit rate agreement, or other relevant documentation, if applicable;
5. A copy of the sole source justification, if applicable;
6. All required representations, certifications, and assurances (e.g., human subjects assurance);
7. FAR 52.209-5 "Certification Regarding Debarment, Suspension, Proposed Debarment, and Other Responsibility Matters;"
8. FAR 52.203-11 "Certification and Disclosure Regarding Payments to Influence Certain Federal Transactions;"
9. FAR 52.223-1 "Clear Air and Water Certification" (not required for purchase orders issued under prime contractors awarded under solicitations issued on or after February 25, 2000);
10. A Certificate of Current Cost and Pricing if required as part of a prime contract and the value of the subcontract is \$550,000 or more;

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11. A Small Business Subcontracting Plan if required as part of a prime contract and the value of the subcontract is \$500,000 or more.

When applicable, a detailed cost analysis using should also be included as documentation. Specific categories to address in this cost analysis are:

1. **Salaries and wages:** Include verification from the ASC principal investigator that the amount of effort or number of hours is reasonable to perform the program. If possible, also include hourly rates or salary rates.
2. **Fringe benefits:** In the absence of copies of fringe benefits rates, rates need to be verified with the cognizant federal agency, if applicable.
3. **Equipment:** Include copies of vendor quotes for items of equipment.
4. **Travel:** Include a breakdown of airfare, per diem, lodging, number of travelers, number of days, registration fee if applicable.
5. **Materials and supplies:** Include a catalogue or vendor quotes if available.
6. **Other direct costs:** Include a catalogue or vendor quotes if available. In addition, include a breakdown of categories by items of cost.
7. **Facilities and Administrative rates (a.k.a. Indirect Cost Recoveries):** In the absence of copies of F&A rate agreements, rates need to be verified with the cognizant federal agency, if applicable.

7. Subcontract Negotiation and Execution

Once the subcontract is prepared, an advance copy may be sent, unsigned, to the subcontractor for review. The subcontractor may want to negotiate changes or request clarification of the terms and conditions. The Principal Investigator negotiates and coordinates subcontractor-requested changes with department personnel and the principal investigator. Once the subcontract negotiations are complete, OSP executes the subcontract on behalf of ASC and forwards the three copies of the subcontract and all associated documents.

8. Purchasing Office and the Purchase Order

The Purchasing Office takes the subcontract documents it receives from OSP and incorporates them into a purchase order that will be sent to the subcontractor. The purchase order provides the mechanism through which subcontractor invoices can be paid by ASC. The Purchasing Office also

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assures that the subcontract, when issued, complies with all applicable State of Colorado purchasing rules and regulations.

E. Post Award Management of Subcontracts

After a subcontract has been issued, it is managed through technical and fiscal monitoring. Upon occasion, it becomes necessary to amend a subcontract.

1. Technical Monitoring

ASC's principal investigator is responsible for ensuring that all subcontractor work is conducted and completed in a timely manner. Progress reports must be reviewed by the ASC principal investigator and, when necessary, discussed with the subcontractor. These reports are usually incorporated into the overall technical reports submitted to the sponsor by the ASC principal investigator. OSP is responsible for obtaining any other reports, such as invention, property, and/or audit reports, required by the subcontract terms and conditions.

2. Fiscal Monitoring

The ASC principal investigator, or other authorized college personnel, must approve all subcontractor invoices and submit them to the OSP for payment. Invoice approval should include verification that direct costs were expended in accordance with the approved budget, and that the proper F&A and employee benefit rates have been applied. In addition, each subcontractor invoice should be checked to determine that the invoice number is correct, the costs are properly allocated, and the amount invoiced is within the estimated cost of the subcontract.

No invoice that exceeds the estimated cost of the subcontract will be approved for payment, even if the invoice has been approved by the principal investigator.

3. Amendment to Subcontracts

In most cases, the terms and conditions of a subcontract will remain unchanged for the duration of the program. However, during the course of a subcontract, it may become necessary to change or modify one or more of its terms and conditions. Changes to the subcontract, such as time extensions, rebudgeting, or fund changes are done through an amendment to the subcontract.

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Some changes, such as adjustments to the scope of work or changes to the principal investigator, may require sponsor approval before an amendment can be issued. Requests for changes should be submitted by the authorized official for the subcontractor, and also must be approved by the ASC principal investigator. Once these two conditions have been met, the ASC principal investigator requests sponsor approval for the subcontract amendment.

When a subcontract is amended, both the old and new text should be referenced. It also should be noted in any amendment that "all other terms and conditions of the original subcontract remain unchanged." If the amendment results in a change in the total estimated cost of the subcontract, then a revised budget must be incorporated with the amendment. The amendment is the vehicle that clearly states the changes and provides for the signature approvals of both parties.

F. Subcontract Close-Out Requirements

ASC's principal investigator requests the required reports from the subcontractor. Reports must be submitted within 60 days of the end date of the subcontract. The ASC principal investigator obtains the required final technical reports in accordance with the terms of the subcontract. The reports that follow may be required for subcontract close-out under the terms and conditions of the prime sponsor.

1. Close-Out Reports Required for Grant-Funded Subcontracts

The following reports are needed in order to close-out a *grant-funded* subcontract:

- Final Invoice* or Fiscal Report
- Final Technical Report, which should be obtained by the ASC principal investigator
- Final Inventory of Property if required by prime sponsor
- Final Statement of Inventions
- Final Audit Notification if the subcontractor is subject to *A-133*
- Other reports as required by prime sponsor.

2. Close-Out Reports Required for Contract-Funded Subcontracts

The following reports are necessary in order to close-out a *contract-funded* subcontract:

- Final Invoice* or Fiscal Report

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- Final Technical Report, which should be obtained by the principal investigator
- Final Inventory of Property, if required by prime sponsor
- Final Statement of Inventions
- **Small and Small Disadvantaged Business Report , if the subcontract is for \$500,000 or more**
- Final Audit Notification, if the subcontractor is subject to *A-133*
- Other reports as required by prime sponsor.

***Final Invoice:** OSP obtains a copy of the subcontractor's final invoice, and checks it to make sure that the amount is within the estimated cost of the subcontract. OSP also obtains verification from the ASC principal investigator that the work done by the subcontractor was performed satisfactorily. In addition, OSP completes a final analysis on the subcontract to verify that direct costs were expended in accordance with the approved budget and sponsor terms and conditions, and that the proper F&A and employee benefit rates have been applied.

XX. PROPERTY AND EQUIPMENT

Many sponsors permit the acquisition of non-expendable equipment with program funds provided the equipment is required in order to perform the program. When dealing with equipment in the context of sponsored programs, it is imperative to know who owns the equipment. The topic of equipment ownership is addressed in the sponsor's guidelines and/or in the property clause of the sponsored agreement. The information contained therein must be considered when preparing the proposal or when reviewing the award agreement because the property clause of the sponsored agreement or the applicable agency guidelines will specify the title-holder of equipment purchased with sponsored funds or of equipment received from the sponsoring agency.

It is the responsibility of the principal investigator to ascertain the specific requirements of the award from which the equipment is to be purchased *prior to ordering it.*

NO ACTION TO ACQUIRE, TRADE, SELL, TRANSFER, OR DISPOSE OF EQUIPMENT FUNDED BY A FEDERAL AWARD OR OTHER SPONSOR MAY BE INITIATED WITHOUT RECEIVING PRIOR APPROVAL FROM THE OFFICE OF FINANCE AND GOVERNMENTAL RELATIONS.

The Office of Finance & Governmental Relations has the primary responsibility for overseeing acquisitions, transfers, and disposals of all equipment *acquired with* federal award funds. In addition, SPA is the primary liaison with the federal government with respect to the receipt of, control of, and disposal of *government-owned equipment*. Government-owned equipment can exist at ASC in two ways:

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1. **Government Furnished Equipment**, in which an existing item of equipment that belongs to the government is provided to the campus for use on a

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A. Equipment Ownership

Nearly all grant agreements stipulate that title to equipment purchased with grant funds vests with the college upon acquisition. In most cases, the government retains certain rights to the equipment such as the right to direct disposition of the equipment at the end of the program, or the right to have the equipment transferred to another institution when the principal investigator leaves the college. Most contracts similarly stipulate that title to equipment vests with the college. However, every contract has the potential to contain specific language about title to equipment, and the contract language must be carefully reviewed by Finance & Governmental Relations.

Normally, non-federal grants and contracts also stipulate that title to equipment purchased with program funds vests with the college upon acquisition. Similar to federally-funded equipment, in some cases, the sponsor may retain certain rights to the equipment such as the right to direct disposition of the equipment at the end of the program or the right to have the equipment transferred to another institution when the principal investigator leaves the college. In some cases, the award language states that title to the equipment vests with the sponsor until the end of the program, and then transfers automatically to the college.

B. Equipment Acquisition

Equipment can be acquired through a variety of methods including direct purchase, gift or donation to the college, fabrication or construction, transfers from another college or institution, and transfers from contract or grant sponsors. Because ASC must recognize and comply with all funding agency and sponsored agreement requirements relative to capital equipment - including those requirements involving a definition of capital equipment different from the one used by the ASC campus. **It is the responsibility of OSP to approve all capital equipment purchases made with sponsored**

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program funds *prior to the actual purchase, regardless of the method used to make the purchase.*

C. Equipment Management

ASC is responsible for the security and protection of all equipment in its possession. All federally-funded grants and contracts contain provisions requiring the college to properly care for and manage all government-owned equipment. This includes both equipment purchased with grant or contract funds, as well as equipment provided by the government to the college for use on the sponsored program. With respect to equipment purchased with federal funds, whether the equipment is federally-titled or college-titled, the following federal regulations outline the requirements for property control and reporting:

- Office of Management and Budget (OMB) Circular *A-21*
- OMB Circular *A-110*
- OMB Circular *A-133*
- Federal Acquisition Regulation (FAR) Part 45
- Defense Federal Acquisition Regulations (DFAR).

In order to satisfy the above regulations and accomplish effective equipment management, it is essential that all equipment-related tasks be carried out in an environment characterized by cooperation and shared effort. At ASC, responsibility for equipment management rests collectively with the following:

- departmental property managers
- Principal Investigators
- the Property Accounting Office within Finance & Governmental Relations

1. Responsibilities of Subcontractors for Equipment Management

Subcontractors, being under contract to ASC, are responsible for all equipment furnished to them by the college. This includes U.S. Government equipment in addition to college-owned equipment.

Subcontractor responsibilities include the proper care, security, and use of equipment. Subcontractors must be instructed to report instances of loss, damage, or destruction of any equipment furnished to them under the contract. Language concerning subcontractor responsibilities relative to equipment is incorporated into all subcontract agreements.

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The subcontractor must also make sure that equipment and inventory records in its possession are accessible for inspection by selected personnel from the U.S. Government and ASC at all reasonable times.

D. Equipment Disposal

OSP approval is required when disposing of any equipment that is purchased with sponsored program funds or provided by the sponsor to the college for use on the sponsored program. Departments or employees are not authorized to give away, sell, or otherwise dispose of any equipment without proper approval. The departmental property manager must report, in writing, any instance of improper equipment disposal to the head of the responsible department. If the item in question is federally-owned property, the departmental property manager must immediately inform the Finance & Governmental Relations Property Officer.

Note: OSP does not have to be notified about equipment that is returned to the vendor, such as a damaged item.

XXI. PROGRAM CHANGES

As with any sponsored agreement issue, the ability to modify the program is determined by the terms and conditions of the agreement. This section of the chapter will cover the following topics relative to program changes:

1. Officer Prior Approval
2. Change in Objectives or Scope of Work
3. Budget Deviation
4. Re-Budgeting
5. Change in Personnel
6. Transfer of the program effort to another organization through a subcontract
7. Transfer of the Principal Investigator to another institution
8. No-Cost Time Extensions.

A. Approval of Program Changes

1. Officer Prior Approval

Federal awards, and federal grants in particular, normally allow the college to approve internally certain budget deviations or other program

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changes. At ASC, the respective Officer is designed to serve two primary functions:

1. To demonstrate that the college has a system in place for monitoring award activity
2. To provide documentation that budget deviations are not the result of a change in the scope of work of the program.

All requests for budget or other program changes **must** be co-signed by the principal investigator's/program director's unit head or by another appropriate person who possesses adequate technical knowledge to understand and endorse the request. Once signed by the necessary individuals, requests should be forwarded to the Officer for approval. The request is then routed to the OSP for processing.

⇒ Since it is always possible for an individual award to have terms that are more restrictive than outlined above, *each award must be specifically reviewed* because, in certain circumstances, a particular agency may not unilaterally authorize pre-award costs or no-cost extensions. In such instances, the PI must seek approval directly from the funding agency, once the request has been approved by the Officer.

2. Changes Requiring ASC Approval that May Also Require Funding Agency Approval

The budget and other program changes described below not only require the approval of ASC, they may also require approval by the funding agency:

- purchase of any item of capital equipment with an acquisition cost of \$5,000 or more and having a useful life of one year or more
- purchase of any item of capital equipment that is general purpose in nature. Examples include computers, copy machines, furniture
- alterations and renovations
- travel expenditures exceeding the amount – generally 125% - indicated in the approved budget.

Funding agency approval is required whenever the change to a program involves an item that was not included in the budget as originally approved and funded by the awarding agency. Because each agency has its own set of rules, it may be necessary for the principal investigator to write a letter to the respective agency requesting approval for the change. Questions regarding whether or not agency approval is required for specific changes should be directed to OSP.

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3. Changes Requiring ASC Approval that *Always Require Funding Agency Approval*

The following budget or other program changes **always require** approval from the funding agency and, therefore, are not appropriate for ASC Officer approval.

- any change in the scope of work
- any significant change in the level of effort devoted to the program by the principal investigator or program director. Typically the variance is 25%.
- any prolonged absence from the program, usually considered to be three months or more, by the principal investigator or program director
- any subcontracting or consulting arrangements made with another party to do a substantial part of the work of the program, when the subcontracting/consulting arrangement was not included in the previously approved proposal budget
- any rebudgeting of participant support costs or trainee support costs into another budget category
- any budget changes affecting cost categories that are *restricted* in the sponsored agreement
- transfer of the Principal Investigator to another institution
- any reduction in the amount of cost sharing identified in the award budget.



If ANY of these events occur, they must be reported IMMEDIATELY to OSP and the principal investigator can request the appropriate sponsor approvals. All requests for program changes that require sponsor approval must be signed by the Principal Investigator and countersigned by an institutional representative.

B. Types of Program Changes

This section of the chapter covers some of the more frequently occurring program changes such as change in scope of work, budget deviations, rebudgeting, change in key personnel, and transfer of the principal investigator to another institution.

1. Change in Scope of Work

Any proposed change in the specific aims of the program as stated in the proposal or approved modifications, and/or any proposed change in the phenomenon(a) under study, requires approval from the awarding agency.

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When in doubt, it is best to err on the side of over-communicating with the program office. **Protect yourself in writing. For some sponsors, a change in scope of work may mean a budget reduction.**

2. Budget Deviation

A budget deviation is a process whereby funds available for spending on a particular program are permitted to be spent in a manner that differs from the original budget as approved by the agency. It is important for the original budget, as approved by the funding agency, to remain intact in the finance system so that actual expenditures can be compared accurately with the approved budget. A budget deviation does NOT result in any change to the budget for the program, nor does it result in any change to the budget as recorded in the Org Unit.

a) *Equipment-Related Budget Deviations*

While most awards allow for budget deviations, in certain instances the budget deviation also needs to receive internal approval from OSP. This is the case for all equipment purchases not in the budget originally approved by the agency. These **MUST** be processed through the respective Officer since, when the award was issued, the understanding on the part of the funding agency was that all equipment necessary to accomplish the work of the program was included in the proposal.

The material that follows provides excerpts from three different memos requesting permission to purchase equipment - in this case a computer - that was not in the budget originally approved by the agency for the program.

MEMORANDUM #1 - Poor Request and Explanation

Please approve the purchase of a computer on my NSF grant. I need it so a student can do the research.

MEMORANDUM #2 - Better Request and Explanation

Permission is requested to use my NSF grant funds (CHE-0299999, Program Number 1538888) to purchase a desktop computer costing \$2,300. The amount of data being generated by the program is greater than anticipated, and we have more students working on the program than planned. It is unworkable for the students to share the one computer available to them, so it would be useful to have another computer.

MEMORANDUM #3 - Best Request and Explanation

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Permission is requested to purchase a DataMax Model 400xe computer costing approximately \$2,300 using funds from my NSF grant (CHE-0299999, Program Number 1538888). The current data from this program is being analyzed on the single computer that is available to our student group. However, the amount of data being generated by the program is greater than we anticipated, and we have more students working on the program than we had planned. It is unworkable for the students to have to share the single computer available to them, so it would be useful to have another computer. This computer will be used solely for research purposes and will not be used for any administrative purposes.

b) Budget Deviations and Scope of Work

Most funding agencies believe that the principal investigator is in the best position to determine how to conduct the work, spend the funds, and identify adaptations that may become necessary during the course of the program. Thus, the primary concern on the part of the federal government relative to the budget deviation is that there is **no change in the scope of work associated with the program**. Consequently, it is imperative that the files retained by the principal investigator contain adequate information documenting that no change in the scope of work resulted from the budget deviation. In this manner, whenever a budget deviation might cause someone, such as an auditor, to question whether or not the budget deviation actually changed the scope of work for the program, the documentation is already in place.

The most important issue to address when explaining a budget deviation is that the budget deviation will cause **no change** in the scope of work for the program.

3. Re-budgeting

In contrast to a budget deviation, re-budgeting involves an actual reallocation of the funds available for spending on a program among budget categories. Since re-budgeting entails a change to the approved budget as established by the funding agency, only the funding agency can give re-budgeting approval. This approval must be in writing from an agency representative who is authorized to give such approval.

4. Change in Key Personnel

Whenever there is to be a significant change in the level of participation in the approved program by the principal investigator or program director, ASC's principal investigator must notify the awarding agency as soon as such information is known. Significant change in level of effort on the

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part of the principal investigator is defined as relinquishing active direction of the program either

- permanently *or* for a continuous period exceeding three months *or*
- through a 25 percent or more reduction in time devoted to the program.

Since approval of the program by the funding agency was based on the participation and qualifications of the key personnel named in the proposal and award, the awarding agency requires notification when key personnel changes. The awarding agency also has the option to approve or disapprove alternate plans for conducting the program. Once approval is obtained, a copy of the approval needs to be forwarded to OSP.

5. Transfer of the Program Effort to Another Organization Through a Subcontract, When the Subcontract is Not in the Original Budget

Transfer of a significant part of the research or substantive programmatic effort to another entity requires sponsor approval. The principal investigator must submit a justification, a description of the scientific/technical impact on the program, and a budget estimate to the awarding agency. Subcontracting arrangements that are disclosed in the proposal, or modifications thereto, usually do not require additional post award approval.

6. Transfer of the Principal Investigator to Another Institution

When a principal investigator transfers to a different institution, it is the policy and practice of ASC to retain the grants and contracts held by the principal investigator. In this manner, the sponsor will be notified of a change in principal investigator and can make the principal investigator change on the award. Because all grant and contract awards are issued to the college, (usually to the official name of the institution which is Adams State College), the college must submit an official request to the sponsoring agency in order for a principal investigator to be named.

In addition to the college, the funding agency also must approve the new principal investigator. Therefore, it is imperative that the principal investigator make contact quickly with the program director at the sponsoring agency to discuss the proposed change and any specific needs the sponsoring agency might have.

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7. No-Cost Extension

The award agreement issued by the sponsor establishes a program timeline, creates a schedule for the submission of reports and other deliverables, and states a program end-date. If a program will not be completed by the end-date indicated on the agreement, then an extension request must be completed by the principal investigator. If an extension is not requested, the college could be in breach of the agreement, which increases the risk of nonpayment or the potential for a lawsuit.

A no-cost extension offers an additional period of performance to complete the program and file reports, without the provision of additional funding by the sponsor. Requests for extensions must be submitted far enough in advance to allow proper processing prior to the original termination date of the program. The procedures used to request a no-cost extension vary depending upon the type of award and the sponsor.

a) Federal

ASC's principal investigators should work with the sponsoring agency when making a no-cost extension request.

Every request for a no-cost extension, regardless of the funding agency, must be submitted **prior to the termination date of the award** and must provide the following information:

- summary of progress-to-date regarding the work of the program
- summary of the work to be completed during the extension period
- justification for the extension, including a description of why the program could not be finished in the planned amount of time
- an estimate of the funds remaining in the program (both direct and F&A) and
- a description regarding the manner in which those funds will be spent during the extension period.

b) Non-Federal

For sponsors other than federal agencies, contact the sponsor directly to determine if extensions are allowed.

IMPORTANT REMINDERS ABOUT NO-COST EXTENSIONS

- Sponsoring agencies do not permit no-cost extensions solely for the purpose of spending the funds remaining in an award. All no-cost extensions require genuine programmatic justification.
- Each and every no-cost extension **MUST** be approved by respective Officer **before** the grant termination date. Additionally, ASC must send notice to the funding agency about the no-cost extension being approved within 10 days of such approval.
- After the Fact (after the program termination date) no cost extension requests

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XXII. CLOSEOUT

All funding agencies demand strict adherence to the deadlines and reporting requirements set forth in the award instrument. For example, for federal awards most final financial reports are due to the agency no later than 90 days after the program end date. In addition, *A-110* rules and regulations require that “unless the federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.” Implicit within these regulations is the assumption that the college has been a good steward of the sponsor’s funds as follows:

- all relevant program costs are recorded in the accounting system within the program period
- reported costs are allowable, allocable, and directly beneficial to the program
- expenses do not exceed the budgeted amount
- cost transfers, or error corrections, have been completed within the program period
- cost-sharing obligations have been fulfilled and documented.

Failure to adhere to deadlines and complete the tasks as described above subject the college to consequences which can include, but are not limited to:

- delay or withholding of payments on current programs
- delay or withholding of future funding by sponsors
- exposure to audit findings and disallowances
- cash management issues such as the withholding of payment on invoices
- revocation of the Expanded Authorities Agreement which affords the college latitude in the budgeting and management of federally awarded funds.

In order to assist in the reconciling and closing out of sponsored programs, the information presented in this section of the chapter is designed to expedite the closeout and reporting processes for sponsored programs.

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A. Closeout Procedures for Grants and Cost Reimbursable Contracts

Closeout procedures are designed to ensure conformance with federal rules and sponsor regulations by promoting prudent fiscal management of sponsored programs nearing their end date, and by streamlining the administration of sponsored programs that have already ended. Furthermore, these final steps in closing out a program are extremely important for ensuring complete recovery of costs.

1. Allowable Expenditures Near the End of the Program

As stated in *A-21* for federally-funded programs, and in most award agreements for programs supported by other sponsors, the principal investigator may charge the program only for allowable costs that directly benefit the work of the program and that result from obligations incurred during the funding period for the program. In other words, goods must be *delivered* and *used* for the benefit of the program during the program period. When a large number of purchases are made towards the end of the program, it gives the appearance that the budget balance available for the program is being spent - not for the work of the program itself - but for the purpose of stockpiling goods for future use. Auditors are quick to review this type of expenditure activity at the end of the program period.

If additional time is needed to complete a program and spend the associated program funds, the principal investigator must prepare an extension request and submit it to the funding agency and a copy to OSP well in advance of the scheduled termination date for the program.

2. First Notice from OSP to the Contact for the Program

At the nine-month budget review, OSP will remind the principal investigator and/or designated contact about the end date of the award and that paperwork for expenditures on the current award must be turned in 30 days prior to a program's end date. Although the "end date" typically refers to the termination date of a program, it could also be the end date of a budget period. The departmental administrator and principal investigator should carefully review programs that are ending with respect to the following in preparation for the closing process:

- recurring charges that need to be stopped
- personnel appointments that need to be terminated or moved to an alternate funding source
- outstanding encumbrances that need to be resolved

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- standing purchase orders that need to be cancelled or revised so as to no longer charge the sponsored program fund
- overdrafts that need to be corrected
- subcontracts that need to be reconciled and closed.

If the program has been granted an extension, is in the midst of a re-budgeting request, or has received additional funding, it is imperative that the OSP accountant for the respective program be notified so that the closeout procedures can be adjusted accordingly.

Departments should start reviewing their sponsored program funds for charges processed against the program long before the end date. By the time the program ends, it could be too late for timely posting of expenses to the departmental/institutional funds.

3. Second Notice from OSP to the Contact for the Program

Approximately 30 days after the end date for the program, OSP begins reviewing programs that have ended. Of particular concern during this review process are the following:

- over-expenditures
- budget deviations
- outstanding encumbrances that need to be resolved
- overdrafts that need to be corrected
- recurring charges that need to be stopped
- final indirect cost charges

OSP will send an e-mail to the principal investigator and designated contact for the program to advise them about specific items of concern pertaining to their respective program. The departmental administrator or principal investigator will be expected to complete the necessary transactions to correct the items noted by OSP. Examples include:

- resolving over-expenditures
- ensuring expenses are recorded in the appropriate account
- removing unallowable expenses
- supplying documentation in support of required matching funds
- providing information for correction of accounting errors.

Timeliness is essential when doing the transactions in preparation for program closeout, particularly where cost transfers are concerned. A cost transfer is a journal entry done for the purpose of correcting errors on a program. When a cost transfer is made within 30 days of the original charge, federal auditors have historically considered the transaction to be a valid correction and do not normally require an extensive explanation.

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However, when a cost transfer is made beyond the 30 day period, a detailed explanation is required. Furthermore, cost transfers made in excess of 90 days after the initial charge will not be permitted except with the most compelling and substantially documented justification, and a detailed explanation for the delay in making the transfer.

If, due to extenuating circumstances or problems outside the department's control, the closeout tasks cannot be completed, a detailed justification must be submitted to the respective OSP accountant within 30 days of the second notice.

4. Third Notice from OSP to the Contact for the Program

If the problems highlighted in the second notice are not resolved within a period of 30 days, the department chair - in addition to the designated contact and the principal investigator - will be alerted. The e-mail sent to the aforementioned parties will instruct them that:

- over-expenditures must be removed, or documentation must be provided demonstrating that additional funding has been awarded
- questionable expenses must be removed, or justification must be provided that shows they are allowable within the terms of the program
- documentation must be provided that an extension has been awarded thereby delaying the due date for the final reports
- documentation must be provided supporting that outstanding encumbrances are valid and will not cause an over-expenditure in the program.

5. Last Resort

If, after 30 days from the date of the third e-mail contact, the outstanding issues still have not been resolved, the department receives notification that the OSP will complete the necessary corrections to clean up and close out the program. Copies of the journal entries used to make these corrections will be sent to the contact, the principal investigator, and the department chair of the respective program.

Sponsored Program Org Units that remain open beyond the program date can be hit with inappropriate charges after the program end date. Thus, if the program's work is done, it is imperative for the closeout process to be completed in a timely fashion so that the Org Unit can be closed and not be liable for late charges.

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B. Closeout Procedures for Fixed Price Contracts

When an award is issued as a fixed price contract, the full value of the contract will be paid to the campus in exchange for the full performance of the work. Upon program completion, both deficit and surplus balances on a fixed price agreement must be transferred to a non-sponsored program Accounting String.

If the actual expenditures are less than the amount of the contract, the extra funds may be transferred to the department. A sponsor may require return or partial return of unexpended funds based on the ratio of grant vs. cash match in the grant contract. The approval of the Vice President for Finance and Governmental Relations is required prior to doing the transfer because the transfer of the extra funds to the department is permissible only when:

- evidence exists that full performance of the program work on the contract is done and that the work is satisfactory to the funding agency
- the campus has received full payment from the funding agency
- the amount of the residual funds is not extraordinary in amount
- there is no evidence that the proposal budget was inappropriately estimated
- neither the department nor the principal investigator has outstanding budget deficits on any other programs
- the principal investigator is not delinquent on any technical reports.

On the other hand, if program costs exceed the funding level at program completion, OSP will take one or more of the following steps until all program costs are covered:

- write a memo to the principal investigator requesting an alternative unrestricted fund source to absorb the overrun
- contact the department chair or other contact person at the college level for an unrestricted account to absorb the cost overruns
- charge the cost overruns directly to the departmental Org Units. Copies of the journal entry recording this charge will be sent to the contact, the principal investigator, and the department chair.

C. Reports

When a sponsored program ends, the filing of certain reports is required. While these requirements vary by sponsor, the following reports generally are necessary for most programs:

1. Final Technical Report
2. Final Inventory of Equipment
3. Final Financial Report (including cost-sharing, if appropriate).

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The principal investigator should consult the program regulations governing his/her particular award to ensure that all award-specific reporting requirements are met during closeout. As stipulated in *A-110*, for federally-funded sponsored programs, the award recipient is expected to submit all final reports within 90 days after the end of the funding period. *A-110* does provide for an extension of this reporting deadline, but such an extension must be *requested in writing* and *approved in advance* of the end of the 90 day period. The college and the principal investigator are obligated to complete final reports as quickly as possible. Failure to do so reflects adversely on the college and could negatively affect future funding.

This section of the chapter describes the respective responsibilities of the principal investigator and OSP relative to the reporting requirements associated with sponsored programs.

1. Technical Reports

The principal investigator is responsible for the preparation and timely submission of all technical reports and deliverables. This includes any periodic technical progress reports, deliverables involving technical results, as well as the final technical report. The sponsor usually indicates the format and deadline for these reports.

Most funding agencies withhold payments and will not approve subsequent awards to the program director, department, or college if technical deficiencies, such as late or inadequate technical reports, occur.

2. Property and Equipment Reports

OSP and the principal investigator will collaborate for the preparation and timely submission of all property and equipment reports.

3. Financial Reports

OSP is responsible for the preparation and timely submission of all financial reports. OSP, however, cannot submit the final financial report until the principal investigator has taken care of the following:

- removed unallowable expenses from the program
- resolved over-expenditures
- corrected accounting errors
- ensured effort has been certified
- verified and documenting cost sharing.

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D. Closeout Conclusion

Programs are considered to completed or “closed out”, when the sponsor receives and approves all reports as required by the terms and conditions of the award, and notifies the college of its acceptance and closure of the program. Keep in mind, however, that even after a program has been declared “closed”, its financial records remain subject to future audit, and *cost disallowances may occur at any time.*

XXIII. RECORDS

Record retention is critically important where sponsored programs are concerned because, under the legal terms of awards to the college, auditors have the right to access all official college records allocated with a program. Furthermore, the college is obligated to make such records readily available for examination. Circular *A-110* governs the retention and disposition of records pertaining to federal awards. According to *A-110*, 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 submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the federal awarding agency. The only exceptions are the following.

- If any litigation, claim, or audit is started before the expiration of the three year period, the records shall be retained until all litigation, claims or audit findings involving the records have been resolved and final action taken.
- Records for real property and equipment acquired with federal funds shall be retained for three years after final disposition.

The record retention regulations relative to a particular agency or a specific award may differ from those stated in *A-110*. In such circumstances, the record retention regulations pertaining to the respective agency or award must be followed.

XXIV. AUDITS

When the college accepts funds from outside organizations for sponsored program activities, those organizations presume that the college will expend the funds according to the purpose stated in the program proposal, as well as in accordance with all terms and conditions set forth in the award document. In addition, where federal awards are concerned, the federal government has an obligation to taxpayers to assure that recipients of federal funds are providing proper stewardship of those funds. Audits are one piece of the overall sponsored program administrative process, and provide the important functions of ensuring

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compliance with pertinent rules and regulations, and protecting both college and sponsor assets and interests.

A. Auditors

Auditors at can be grouped on the basis of their organizational affiliation as follows:

- federal auditors
- other sponsor auditors
- external auditors hired by the state

1. Federal Auditors

Federal agencies have legitimate audit interests which are defined in the provisions of award documents. These audits tend to be aggressive efforts to determine whether the college is managing its grants and contracts in accordance with federal laws and regulations.

2. Auditors from Other Sponsors

Upon occasion, program sponsors other than those associated with the federal government send auditors to the ASC campus for the purpose of determining whether the college is complying with sponsor rules and regulations in the management of its programs.

3. Independent Public Accountants

The State of Colorado's Office of the State Auditor is responsible for conducting all required audits and any other financial audits desired by the college. As a result, contracts are entered into with external independent public accounting firms for the purpose of performing several types of audits. Some of these audits are required by federal or state regulations, and some are carried out by, or in conjunction with, federal auditors.

B. Types of Audits

Audits performed on sponsored programs can be grouped into one of three distinct types:

1. Claimed Cost Audits
2. Compliance and General Controls Audits.

At ASC, approximately 90% of sponsored program funding comes from federal agencies, either directly or in the form of a subcontract from another college or organization. Thus, the information that follows addresses financial audits by

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the federal government, since these are the audits in which the college would most likely participate with respect to sponsored programs.

1. Claimed Cost Audits

Sponsors may request their auditors to verify the allowability, allocability, and reasonableness of the direct costs that have been charged and billed by the college, especially in connection with cost-reimbursable grants and contracts.

2. Compliance and General Controls Audits

Adams State College is required to comply with a large and constantly changing array of government rules and regulations. Auditors of all types depend on the college's internal controls to achieve compliance, and they periodically undertake separate audits to test the effectiveness of these controls. The college's independent public accountants, (as contracted by the state), annually conducts a single federal compliance audit as required by the provisions of OMB Circular *A-133, Audits of States, Local Governments, and Non-Profit Organizations*.

C. The A-133 Audit

A-133 requires an annual external audit of non-profits that receive more than \$500,000 in federal funds for sponsored programs. During an *A-133* audit, a sample of federal awards and their respective transactions are selected for review. Auditors examine transactions to make sure that they are in accordance with federal regulations, sponsor terms and conditions, and college policies. In addition to examining specific transactions, auditors also study the college's business processes to make sure they adequately monitor and control expenditures.

During the course of studying transactions and documentation, auditors may look at specific transactions, effort reporting, cost transfers, program income, cost sharing, equipment use, financial and non-financial reporting, sub-recipient monitoring, and the F&A rate application. Auditors typically review existing financial records, and often request additional information about the transactions being examined. This may involve personal interviews with college personnel, written responses to questions posed by the auditors, or the provision of other documentation. Although auditors usually select small samples of transactions for testing, they may program any errors identified within the small sample to the entire population of expenses. Thus, the disallowance of even a minor cost can have substantial financial impact.

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Auditors look for a number of things during the course of their work. In almost every *A-133* audit, auditors look for evidence to answer the following three questions:

1. Are the costs allowable?
2. Are the costs allocable?
3. Are the costs reasonable?

1. Allowability

Allowability for costs related to government-funded sponsored programs is determined by the provisions of the respective sponsored agreement, or by cost principles established by the federal government in [OMB Circular A-21](#). For example, *A-21* defines certain types of expenses, e.g., alcohol, lobbying, or entertainment, as being categorically unallowable. Other costs may be unallowable according to the specific terms of an award. Examples include unapproved foreign travel or administrative costs. Also keep in mind that a cost which is appropriate according to state fiscal rules or college policy may be unallowable on a particular sponsored program.

Auditors are always alert to the possibility that unallowable costs might have been charged to a sponsored program, and may devote considerable energies to testing specific transactions to determine whether the costs charged are allowable. Therefore, it is imperative that the principal investigator and departmental administrator know the regulations and restrictions associated with each and every award.

2. Allocability

An expense is allocable to a program only if the material or service being charged directly benefits that program. Allocability is not the same as allowability. For example, an otherwise allowable cost, such as salary or travel, may be unallocable to a particular program if that program did not directly benefit from the cost.

3. Reasonableness

Reasonableness is a subjective quality that requires application of the "prudent person" test. An auditor may legitimately question a cost that is clearly allocable and not otherwise unallowable if, in the auditor's judgment, the cost exceeds what a reasonable person would have paid for the item or service in similar circumstances.

SPONSORED PROGRAMS

The *A-133* audit is often seen by federal and non-federal sponsors as a “report card” regarding the manner in which the college spends award monies. *A-133* findings are reported to the federal government and, as a result, become a public record that is distributed to all federal agencies through a clearing house. Thus, it is imperative that departments receiving federal funds for sponsored programs be able to demonstrate that each and every reported expenditure is appropriate according to the terms and conditions of the award.

D. Audit Findings and Resolution

When an audit is completed, the auditors issue a report setting forth their findings. The findings may range from broad comments about the adequacy of college systems relative to ensuring sound sponsored programs management, to specific disallowances of costs deemed improper. In some cases, the federal agency will extrapolate findings from a small audit sample to sponsored programs expenditures in their entirety, a practice that can have significant financial implications.

The college reviews the draft audit report, and has an opportunity to correct misconceptions and respond “for the record” when the college and the auditors cannot agree on the appropriateness of accuracy of a finding. While the college negotiates vigorously with the auditors regarding the appropriateness of their findings, sometimes it is necessary to repay previously expended funds. *The financial liability for such audit disallowances, other than for those resulting from deficiencies in the college’s policies and procedures, rests with the department, school, or center having primary responsibility for the program on which the costs are questioned.*