Auburn University Contracts and Grants Accounting

Introduction to Contracts and Grants Accounting

Contracts and grants are important to Auburn University. Much of the research that Auburn faculty, staff, and students undertake is funded through contracts and grants. Money provided to support sponsored projects is a significant financial resource for the University and for individual departments.

Although the paperwork associated with contracts and grants often seems complex, all reports and other accounting documents need to be handled promptly and properly. These records are crucial to the University, to the agency providing the contract or grant, and to all people involved in administering the agreement. Accountability, making sure that money is spent correctly and on time, is an essential element of contract and grant management.

All contracts and grants must be carried out within budgetary and other guidelines that the funding agency and the University have approved. That is especially important since any unreimbursed expenditures will have to be paid by the department, school or college involved in the project. Expenditures need to be closely monitored and well documented.

The Contracts and Grants Accounting staff regularly offers workshops on managing the financial aspects of contracts and grants. The staff is also ready to answer any questions you might have, so please call the Contracts and Grants Accounting Office (844-4847) when you need assistance.

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General Terms

Extramural Funding: This is a general term for money that comes from outside the University that is used to support a program or project. It may come from federal, state or local governments, business, private foundations, or individuals.

Contract: In this context, a *contract* is generally an agreement to provide a product or service which is of direct benefit to the awarding agency. Contracts provide for payments to the University which cover allowable project costs or payment of a fixed price for satisfactory completion of the project.

Grant: A *grant* is an agreement to accomplish something for the public good in exchange for money, property or services. Most federal agencies use a grant document for research awards to universities.

Cooperative Agreement: A *cooperative agreement* is like a grant except that the federal government will be closely involved in the activity that is being funded, perhaps bringing government personnel to campus to work on the project.

Fixed-Price Contract: Payment for this type of contract is based on satisfactory performance. Payment is set and cannot be adjusted because of how much it costs to meet the terms of the agreement, whether more or less than the contracted amount.

Cost-Reimbursement Contracts and Grants: The sponsor will reimburse the University for any actual, approved project costs, within whatever variances the funding agency allows.

Budget: A *budget* identifies the types of costs and the estimated amounts needed to complete the project. The budget must be approved by the funding agency and Auburn University. This budget will be the basis for authorizing any expenditures on the project and the basis for seeking payment from the funding agency.

Generally, funding agencies recognize that there may be differences between the estimated and the actual expenditures for different elements of a project. The degree to which these variances are allowed may depend on federal regulations or on the specific terms of an agreement.

Direct Costs: These can be specifically identified with a particular project with a high degree of accuracy. If, for example, a person spent 50% of her time on a project, 50% of her salary and benefits would be direct costs. Travel, equipment, supplies or services used specifically for a project are examples of direct costs.

Indirect Costs: These are general costs that cannot be clearly identified with a specific project, but are nonetheless necessary to the project. For example, costs of maintaining a building, administrative expenses, or library expenses are types of indirect costs. Indirect costs, based on rates approved by the federal government, should be included in the approved project budget. These are then charged to specific contract/grant accounts in accordance with the terms of the agreement.

Cost Sharing: This refers to costs that the funding agency doesn't pay. It may be *Cash Cost Sharing, In-Kind Cost Sharing, Third-Party Cost Sharing or Indirect Costs*. These costs are generally borne by the University. In some cases, a third party may provide cost sharing support.

Total Project Costs: *Direct costs* plus *indirect costs*. This includes the granting agency's share, the University's share, and, in some cases, it may include a third party's share.

Program Income: This is income earned by the University that is directly generated by a supported activity or earned as a result of the contract or grant. Examples are registration fees for sponsored workshops or conferences and the sale of items fabricated under an award. See policies and procedures on Program Income associated with sponsored projects.

Duration: Every agreement should have specified beginning and ending dates. All expenditures must be incurred or encumbered during this period. If expenditures fall outside this period, they cannot be reimbursed or used as cost sharing. In some cases, pre-award costs may be approved by the sponsor or the Vice President for Research. Some aspects of this rule do not apply to fixed-price contracts.

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Research and Development Terms

Research: Systematic study that is undertaken in order to gain a fuller scientific knowledge or understanding of a subject.

Basic Research: Research for the purpose of gaining a fuller knowledge or understanding of a subject without seeking specific ways to put that knowledge to work in new processes or products.

Applied Research: Research that seeks knowledge or understanding so that recognized and specific needs might be met.

Developmental Research: Putting information gained from research to use to create new products or processes.

Note: Research and Development do not include training of scientific personnel, mapping and surveys, routine product testing, quality control, experimental production, and collection of general-purpose statistics that aren't part of a specific research and development project.

Classifications of Sponsored Projects by Their Major Functions

Organized Research: All research and development activities of an institution that are separately budgeted and accounted for by project. This includes specific research projects funded by Auburn University as well as extramurally-funded projects. **A-21 Code: OR**

Instruction: Except for research training, **instruction** includes all teaching and training, whether for credit toward a degree or certificate or on a non-credit basis. It includes:

(1) **Sponsored Instruction** is specific instructional or training activity established by a grant, contract or cooperative agreement. **A-21 Code: IN**

(2) **Departmental Research** is research, development and scholarly activities that are not organized research and are not separately accounted for by specific project. Departmental research is considered by A-21 to be a part of the Instruction function. **A-21 Code: IN**

Other Sponsored Activities: Programs and projects supported by outside sponsors which involve performing work other than instruction and organized research. University Outreach (previously called "Extension") is a part of this function. **A-21 Code: OS**

University Outreach sponsored programs and projects can include:

a. Non-credit instruction, training, and continuing professional education.

b. Credit instruction outside of the "traditional" academic setting, such as distance learning.

c. Cooperative Extension offerings.

d. Public presentations, professional meetings, community interest offerings, and youth activities.

e. Technical assistance and consultation.

f. Any other work that is not instruction or research.

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Some Important Federal Documents

Federal regulations require universities to be consistent in the handling of costs, regardless of the type of funds involved. Therefore, Auburn University applies the guidelines cited in these Office of Management and Budget circulars to all contracts and grants from all funding sources:

OMB Circular A-21 establishes the principles for determining costs applicable to grants, contracts and other agreements with colleges and universities. These principles are to be used as a guide in the pricing of fixed price agreements and apply to direct costs and indirect costs.

OMB Circular A-110 provides a public declaration of the standards to be used by federal agencies and colleges and universities in the administration of grants and other agreements. This does not include contracts that are administered under procurement laws and regulations.

OMB Circular A-133 states audit requirements and provides policy guidance to federal agencies and colleges and universities regarding the institutions' financial records, internal control structure, and compliance with applicable laws and regulations.

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GENERAL INFORMATION - QUESTIONS AND ANSWERS

I wish to submit a proposal. What are some of the considerations of which I need to be aware?

Any proposal that seeks funding from outside the University must be approved by the Vice President for Research before it is submitted to an outside agency.

You must send a copy of the proposal along with a *Cover Form for Extramural Programs* to be routed to the offices that are noted on the form.

Some financial points that must be carefully covered in the proposal and/or in any final agreement are: the project budget, the award amount, the beginning and ending dates of the project, whether payment is on a fixed-price or cost-reimbursement basis, and the method of obtaining payment from the sponsor.

If cost sharing is involved, clearly identify the proposed cost sharing amount, the source of cost sharing funds, and the method of cost sharing. This may include cash, in-kind, third party, or indirect costs. Keep in mind that any cost sharing identified in the proposal, whether mandatory or non-mandatory, has to be verifiable and auditable. Any direct costs to be provided by Auburn University must be charged to a cost sharing account.

Are there restrictions on the types of costs I can include in the budget for a sponsored project?

Yes. OMB Circular A-21.J. specifies types of costs which can and cannot be charged directly to sponsored project accounts. A-21.C.12. adopts Cost Accounting Standard 9905.505 (**CAS 505**), which states that unallowable costs ". . . shall be identified and excluded from any billing, claim, application or proposal applicable to a sponsored agreement."

Some of the restrictions depend on the purpose and circumstances of the products and/or services. A-21.C.11 adopts Cost Accounting Standard 9905.502 (**CAS 502**). Another A-21 reference is A-21. F.6.b. These regulations say that costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only. This applies to all funding sources, restricted and unrestricted.

A-21.f.6.b. states that the following should normally be treated as Indirect Costs. This means that they normally cannot be charged to contract/grant accounts, cost share accounts, or internal A.U. grant accounts.

1. Salaries of administrative and clerical staff
2. Office supplies
3. Postage
4. Local telephone costs
5. Memberships
6. Other costs of this general type.

Unless these costs can be justified as being uniquely beneficial to the sponsored project in circumstances unlike those for which these costs are normally incurred, they cannot be charged to the type of accounts noted above. For example, salaries for administrative and clerical staff cannot be prorated among sponsored projects just to support routine positions. Also, office supplies, postage and local telephone costs of a routine nature cannot be prorated among sponsored projects.

None of these types of costs should be included in proposal budgets unless they can be justified as having a direct benefit to the sponsored project in circumstances unlike those in which these services/products are normally purchased. Contracts and Grants Administration and Contracts and Grants Accounting can provide an interpretation of this regulation by the Office of Management and Budget (OMB) regarding situations where administrative and clerical salaries would be allowable on contracts and grants. Also, a form is available for obtaining approval for administrative/clerical salaries on contracts and grants.

We have received a contract or a grant. How is the financial paperwork handled?

Setting Up an Account

In order to spend money from a contract or a grant, you will need to set up a separate account. You must request an account through the Contracts and Grants Administration office of the Vice President for Research. This will be your "charge account" that pays for project costs.

To set up an account, you need to send a copy of the award document and a Budget Change Order along with a completed Cover Form for Extramural Programs to the Contracts and Grants Administration Office. Information needed to complete the "Field of Science" and "Type of Research" codes can be found elsewhere in this manual.

Note: *It is important that the project director's last name and two initials be typed on the cover form.*

Once the Contracts and Grants Administration office has accepted the award documents on behalf of the University, they will send a copy of the documents to the Contracts and Grants Accounting office to create the account.

The Contracts and Grants Accounting office will notify the dean and department of the new account number by E-mail. This account number should be viewed on AIMS screens ASL or AAS to identify the related contract or grant project.

After you have received an account number for the grant, you may begin charging project costs to the account. It is important that you quickly process Personnel Action Forms for salaries that are to be charged to the grant. Only approved personnel who are ***actually working on the sponsored project*** should be paid from the contract/grant account or the cost sharing account.

If the University is providing cost sharing funds to the project, you must also submit a Budget Change Order so that a Cost Sharing Account can be created. The Budget Change Order should include the account number that is providing the cost share funds.

We have received a verbal commitment, but have not received the award documents. Should we do any financial paperwork for the proposed project?

In some circumstances, the department head and dean may approve beginning work on a sponsored project before a fully-executed contract or grant document has been received from the sponsor. This is an option that has been approved by the University.

However, if you are going to spend money on a project, an account must be created specifically for that project. It is **extremely important** that you request a contract/grant account and not borrow any project money from your departmental account, another contract/grant account, or any other account.

If a project must be started (or continued) before all award documents have been finalized, you will need to follow the same basic procedures used in Setting Up an Account. However, the dean or department head must also send a memorandum along with the Cover Form for Extramural Funding which states that in the event the award is not received, the department, school or college will assume responsibility for any expenditures or obligations which have been incurred. This extra step will ensure that the department head and/or dean recognize that funds have not yet been formally obligated for this specific award.

After review and approval, the Vice President for Research will forward the request to Contracts and Grants Accounting for normal processing.

When the project director or department head receives the award document, it is important that the document be immediately sent, through proper channels, to the Vice President for Research. It will then be sent to Contracts and Grants Accounting, who will then make any necessary adjustments to the account.

Since the University cannot normally request reimbursement until an award has been received and processed, proper follow-up at all levels is imperative. The Contracts and Grants Administration Office (844-4438) can provide you with additional information.

Changes have been made in our grant or contract. What needs to be done to inform the University of those changes?

When an award amount is revised or other changes are made, the amendment must be processed like a new award. Before making a commitment to the sponsoring agency for any changes, obtain the approval of the Contracts and Grants Administration office. Upon receipt of the modified contract or grant, a Cover Form and award document will need to be processed. If additional money is awarded, a Budget Change Order will also be required. An electronic Budget Change Order should be processed for increases to existing accounts. If the award amount is decreased, the same procedure should be followed.

What responsibilities do we have for financial reporting or monitoring during the grant itself?

Normal billing and financial reporting to the sponsors are handled by Contracts and Grants Accounting, with some variability from grant to grant or contract to contract. It is important that you carefully monitor the account each month to make sure that bills charged against the account are being recorded correctly and that the project is being carried out within its approved budget.

What do I need to do to finish up a grant or contract project?

Different agencies have different deadlines for completing financial paperwork. You will need to make sure that all project-related bills are paid within the time frame set by the funding agency. It is recommended that you carefully review the account about two months prior to the expiration date.

You will also need to inform the Contracts and Grants Accounting office when all bills are paid and all project paperwork has been completed.

I have overexpended my project budget. What do I do?

General University funds are not available to cover overexpenditures, audit disallowances, or any other costs that are not paid by the outside funding agency. These costs must be covered by the department, school or college responsible for the project. In such cases, expenditure transfers will be needed.

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Financial Management Responsibilities of the Principal Investigator

The **Principal Investigator** (sometimes known as the *Project Director* or *Responsible Person*) has primary responsibility for carrying out the project according to the rules and policies of the funding agency and of Auburn University.

Because of the personal responsibility involved, it is wise for the Principal Investigator to become generally familiar with all the financial policies and procedures for managing contracts and grants.

Section 1 - Getting Started on the Project

1. Follow the awarding agency's requirements, including rules on budgets and expenditures.

2. If there is an Auburn University cost sharing account, make sure that appropriate costs are charged to it. See the section on cost sharing for more information.

3. Ensure that Personnel Action Forms are processed at the appropriate time for any employees or students who are to be paid from the contract/grant or cost sharing accounts.

4. Process forms for non-work stipends. See elsewhere for instructions for handling non-work stipends.

5. Follow guidelines in the Faculty Handbook for processing supplementary compensation for University

faculty and staff.

6. Process consultant fees and honoraria for all non-Auburn University employees according to Travel Regulations set out elsewhere in this manual.

7. If Program Income will be received in connection with the sponsored project, see the Policies and Procedures on Program Income.

Section 2 - During the Project

1. Schedule expenditures to match the time frame of the program.

2. Ensure that funds are available for labor, travel and other items which do not require purchase orders.

3. Pay all bills promptly.

4. Check monthly Department Account Statements (FBM090 and FBM091). Report any errors to Contracts and Grants Accounting before month end. If you have questions about these statements, please call the Contracts and Grants Accounting office (844-4847).

5. Some fixed-priced contracts require invoicing by the principal investigator or the department. For these contracts, checks received by the principal investigator's department must be promptly sent to the Bursar's Office using a fully completed Collections Report/Receipts Voucher (UBO 40-01). Be sure to type the General Ledger account number (begins with a zero) on the form.

6. When the Contracts and Grants Accounting office does the invoicing, any checks received by the research department should be sent to the Contracts and Grants Accounting Office, along with a note that says which Auburn University account should receive the deposit.

7. If there are changes in personnel during the project, Personnel Action Forms should be processed before that month's Payroll deadlines.

Section 3 - Finishing Up the Project

1. Make sure that all purchase orders are paid before the deadline for the University's final billing and financial reporting. Deadlines for paying purchase orders are normally from 20 - 60 days from expiration of the contract or grant.

2. Before the end of the program, submit Personnel Action Forms to end all salary payments from the contract or grant account on or before the expiration date.

3. Inform Contracts and Grants Accounting when all project costs have been processed so that a final invoice or financial report can be submitted.

4. If a Fixed-Price Contract is being completed, see the section on Fixed-Price Contracts.

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Financial Management Responsibilities of the Dean, Director, or Department Head

Because of the personal responsibility involved, it is wise for Deans, Directors, and Department Heads to become generally familiar with the financial policies and procedures for managing contracts and grants.

1. Approve proposals and agreements for sponsored projects before they are submitted to the appropriate Vice President.

2. Make sure that cost sharing commitments are clearly defined in the written agreement and that authorized University contributions are made available to the Project Director.

3. Ensure that the program is carried out through an authorized unit of the University.

4. Ensure that the budget for the program is adequate for the work required.

5. Designate a contact person within the unit to handle the Contract and Grants Accounting office's inquiries.

6. Review and approve the following documents: Personnel Action Forms, Purchase Orders, Vouchers, etc.

7. If the account attributes (and notice of new accounts by E-mail) indicate that **DUPLICATE VOUCHERS** are required, send Contracts and Grants Accounting copies of any paperwork that records the expenditure of funds from the account. This includes records such as vendor vouchers, travel vouchers, internal transaction vouchers (along with copies of bills and receipts) and direct charge forms.

Note: Payroll reports and University Bookstore invoices will be obtained directly from those units by Contracts and Grants Accounting.

8. Ensure that the principal investigator or other designated personnel are monitoring the project so that expenditures are charged to the correct accounts and that Personnel Action Forms are promptly processed when employees start or stop working on a contract or grant.

9. Ensure that University policies and procedures are followed for all Fixed-Price Contracts.

10. Ensure that University policies and procedures are followed for all Program Income.

11. Generally oversee and control expenditures for extramural programs.

12. Provide funds to cover any expenses charged to contract/grant accounts that are not paid by the awarding agency/sponsor.

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Financial Management Responsibilities

of Contracts and Grants Accounting (Business Office)

Section 1 - Account Creation and Maintenance

1. Review budgets and other financial information in proposals and in pending agreements as requested by the Vice President for Research, Contracts and Grants Administration.

2. Create or modify contract or grant accounts and cost sharing accounts as authorized by the Vice President for Research and in accordance with regulations, policies, and procedures.

3. Provide new account number notification through E-mail to deans, departments, and Contracts and Grants Administration. Deans and departments are to provide names and E-mail addresses to Contracts and Grants Accounting. Information other than the new account numbers is available on the computerized accounting files.

4. Coordinate financial closing of expired contract/grant accounts. Delete closed accounts from the accounting files.

Section 2 - Indirect Costs

1. Maintain tables in the accounting computer files for mechanical indirect cost charges.

2. Maintain tables for indirect cost recoveries by department. This information is used for distributing general funds to departments and deans.

3. Distribute monthly indirect cost reports to deans.

4. Inform Budget Services on amounts to be budgeted to Indirect Cost Recovery Expenditure (ICRE) accounts each quarter.

Section 3 - Billing, Financial Reporting and Other Services During a Project

1. Following the terms of the agreement, submit invoices and financial reports to the awarding agency. Obtain any necessary information from the project director that may be required to complete these reports.

Note: *In cases where billing is based on factors other than expenditures incurred by Auburn University, billing and reporting might be processed by the project director.*

2. Receive and process checks from granting agencies. Process direct deposits to bank.

3. Review all Personnel Action Forms (PAF) for monthly employees with regard to beginning and ending dates of contract/grant accounts and salary transfers.

4. Distribute Personnel Activity Reports (PAR). Review and maintain records for compliance with the effort reporting requirements of OMB Circular A-21.

5. Review and approve Department Error Correction forms (DEC). Return form to department with notes if there are problems.

6. Consult with University personnel involved in extramural programs on the financial management of contracts and grants.

Section 4 - Audits

The Contracts and Grants Accounting Office will serve as liaison between the University and all auditors for post-award financial audits.

Note: *Refer all auditors of contract/grant accounts to the Director of Contracts and Grants Accounting before beginning a financial audit.*

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Payments of Fellowships and Stipends

Please see the Purchasing/Accounts Payable section for information on processing fellowships and stipends.

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Financial Management Responsibilities of Accounts Payable Office

1. Audit and approve all non-payroll invoices before payment. Enter expenditures into accounting system, issue checks, and maintain original document files.

2. Distribute monthly departmental account statements (FBM090 and FBM091) on or before the 10th day of each month.

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Cost Sharing

Granting agencies may require the University to bear some of the costs of a sponsored project, with a third party sometimes providing support. Support which is not provided by the primary granting agency is called "cost sharing."

Any cost sharing commitment must be approved by the department head, dean or director, and the appropriate vice president.

Generally, funds from the granting agency and cost sharing funds should be spent at about the same rate throughout the project: for example, when 10% of grant funds have been spent, 10% of cost sharing funds should have also been spent. This provides even support by both parties throughout the project and prevents some problems at the end of the project.

If the University does not provide the cost sharing amounts required in the agreement, a proportionate reduction is normally made in the granting agency's share. To provide the approved split of the costs, a portion of project costs will normally be transferred from the grant account to the cost sharing account.

Granting agencies may accept several methods for cost sharing. It is important that both **the method** and **the amount** of cost sharing are clearly stated in the written agreement.

Note: Any University employee who spends 5% or more of his or her time on a specific sponsored project should have that portion of his or her salary charged to the sponsored account or to a cost sharing account for that project.

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Methods of Cost Sharing

1. **Cash Cost Sharing** is a cash expenditure on a specific sponsored project. These expenditures are separately budgeted and accounted for in a cost sharing account. Cash cost sharing is the preferred method of cost sharing when University funds are used. Contracts and Grants Accounting will prepare cost sharing reports from the accounting records.

2. **In-Kind Cost Sharing** is identified by *OMB Circular A-110* as non-cash contributions. These may come from the University and/or third parties.

At Auburn University, "in-kind cost sharing" includes non-cash outlays as well as cash outlays by the University which are not separately budgeted or accounted for. Third-Party Cost Sharing is discussed in item 3.

In-kind cost sharing will be approved by the University only in rare circumstances.

Cash outlays that are not charged to a cost sharing account must be specifically identified on the *Certification of In-Kind Cost Sharing Form (UBO 70-01)*. Any non-cash cost sharing must be clearly identified and totaled separately on the form. This form must be signed by the project director and department head.

The department which is responsible for the project should keep detailed, auditable records for in-kind cost sharing throughout the project. The completed form should be sent to Contracts and Grants Accounting at the end of the project or at periods set forth in the agreement. Contracts and Grants Accounting will compute applicable indirect costs and include them in the cost sharing report.

3. **Third-Party Cost Sharing** may be cash or non-cash. Non-Cash contributions are the value of contributed goods and services directly benefiting the project.

Cash contributions should normally be processed through a Subledger 4 or 5 cost sharing account designated as 3rd Party Match. All non-cash contributions **must be verifiable**.

The written agreement should include information on any third-party non-cash contributions. Complete information (such as names, dates, hours worked) on such contributions should be submitted to Contracts and Grants Accounting at the end of the project or in the intervals required in the agreement.

4. **Indirect Costs**

If indirect costs are the approved method for University cost sharing, the indirect costs are forfeited, meaning that the University gives up the right to be paid by the sponsoring agency for these indirect costs.

No special account or certification is needed for this method of cost sharing. If a cost sharing report is required, Contracts and Grants Accounting will compute the forfeited indirect costs and prepare the report.

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Instructions for Completing Certification of In-Kind Cost Sharing Form

The *Certification of In-Kind Cost Sharing Form* is used to report in-kind cost sharing to granting agencies. The form should accurately identify any expenditure from University accounts other than cost sharing accounts. It can also be used to certify non-cash contributions by the University if those contributions are identified in the sponsored agreement and are clearly identified on the form as non-cash contributions. Copies of this form may be obtained from Contracts and Grants Accounting.

Please see the "forms" section in the table of contents for an example of this form.

Please type in responses.

1. Contract/Grant Account Number: The six-digit account number assigned by the Business Office.

2. Contract/Grant Account Name: The short name of the account.

3. Period Covered: The beginning and ending dates of the sponsored agreement or, if appropriate, interim periods during the grant period.

Note: Any expenditures outside the grant period cannot be reported as cost sharing.

Salaries and Wages

4. Account Number and Subcode

5. Account Name

6. Employee Name

7. Month and Year: Include, on a separate line, every month (with year) that each employee worked on the project (e.g., "Jan. 1996," "Feb 1996").

8. % of Time: The percent of time devoted to this project during the month noted.

9. $ Amount of Salary Certified: Multiply the employee's monthly rate of pay by the percentage in item 8. This dollar amount corresponds to the amount of time that the employee spent on the project.

10. Total: This is the total dollar figure for all salaries and wages being certified on the project.

Expenditures Other Than Salaries and Wages

Note: This section should include employee benefits, if any. The actual amounts must be used, not a set percentage of salaries.

11. & 12. Account Number (and Subcode) and Account Name: Type the account number (and subcode) and account name from which the expenditures were actually paid.

13. Reference Number and Date: This may be found on the *Monthly Report of Transactions* (*FBM091*). The Reference Number is the 2nd Reference, Column 6. If the ATR screen (AIMS) is used, see the XREF column. The Date is Column 3 (include the year).

14. Description: Describe each expenditure ***in general terms*** (e.g., "supplies," "telephone," "postage," "travel," etc.).

15. $ Amount Certified: The dollar expenditure for each non-salary/wage item that was used on this project.

16. Total: The total amount of expenditures for all non-salary/wage items used

on this project.

17 - 20. Both signatures are required and each should be dated. If signatures are not legible, please print the name under the signature.

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Fixed-Price Contracts

Payment for a fixed-price contract is based on successfully providing the goods or services agreed to in the contract. A fixed-price contract is not adjusted when it actually costs more or costs less to complete the project than the price initially agreed upon. One of the greatest benefits of fixed-price contracts is the reduced amount of administrative burden for the University and the funding agency.

It is very important that all fixed-price contracts be clearly identified as such in the written agreement.

All projects costs, including indirect costs, are to be charged to the contract/grant account. Indirect costs, at Federally-approved rates, should be included in the proposal or contract budget and subsequently charged to the account.

In some cases, money may remain in an account after a fixed-price project has been completed, all bills have been paid, and all payments have been received from the sponsor. If the University's policies regarding project costs and indirect cost recovery have been met, the University may allow the administering department to use the remaining funds.

In order to do this, a request for extension of the contract/grant account should be sent to Contracts and Grants Administration. This request should state that the project has been completed. If more than 10% of the funds remain after completion, please explain why they were not needed. If the full recovery rate for indirect costs had not been used previously, adjustments will normally be made to recover those costs; that is, additional indirect costs will be charged to the account. Any additional expenditures will be subject to the full indirect cost rate. This policy will be followed consistently for all fixed-price contracts.

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Expenditure Transfers

It is extremely important that all expenditures be initially charged to the correct accounts. OMB Circular A-21 (Section C.4.B.) directs that:

> "Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience."

For this reason, the project director and others involved in administering awards should seek to ensure that expenditures are always recorded correctly.

If it does become necessary to transfer an expenditure from one account to another, if either of the accounts is a contract or grant account, these procedures should be followed.

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Salary and Wage Transfers

Please see the "forms" section in Table of Contents for an example of the Salary and Wage Transfer Form.

Salary transfers are very difficult to justify to auditors and granting agencies. Throughout a project, the project director and/or department head should make sure that all *Personnel Action Forms (PAF)* reflect current work assignments.

Note: Any employees who spend 5% or more of their time on a particular sponsored project should have a portion of their salaries charged to the award account or to a cost sharing account.

Salary Transfers: If a transfer is necessary to properly distribute salary, a *Salary/Wage Transfer Request and Effort Certification* should be submitted with the *Personnel Action Form*. The request must clearly explain why the *PAF* is being processed "after the fact" and should affirm that the personnel actually worked on the project.

The *Revised Personnel Activity Report* (*PAR*) in the bottom section of the transfer request must also be completed and signed by the appropriate person with ***first-hand knowledge*** of the work on the sponsored project.

See the example of the *Salary/Wage Transfer Request and Effort Certification Form*. The form itself contains guidance on how to complete it.

Wage Transfers: Wage transfers must be processed through the Payroll office. A *Salary/Wage Transfer Request and Effort Certification* form is required if the transfer is **to** a contract/grant account. If biweekly wages are being transferred to an account other than a contract/grant account, a memorandum may be used instead.

Also, a copy of the pertinent *Payroll Charges and Benefits Distribution Report* must be attached to the wage transfer request.

Transfer of materials, supplies, services and other operating expenditures

This type of transfer is used most frequently when an award account needs to be cleared of disallowed costs, overexpenditures, or late charges. These costs cannot be shifted to other sponsored agreements under the circumstances noted above. A *Department Error Correction Form* (*DEC*) should be completed for all non-payroll transfers.

Please see the "forms" section in Table of Contents for an example of this form.

UNREIMBURSED CONTRACT/GRANT COSTS: Federal regulations require that actual project costs in excess of the award amount cannot be transferred to an account with an A-21 code different from the contract/grant account. For example, "organized research" costs cannot be transferred to an "instruction" account. This applies to other types of unreimbursed sponsored project costs also. It does not apply to costs that have been charged to the contract/grant account in error.

Instructions for Completing the Department Error Correction Form (DEC)

The DEC form is the input document for transferring expenditures from one account to another. The form contains guidance on how to complete it. Read the form carefully and fill in all blanks and answer all questions. Information requested through item 4 is necessary to identify the original charge and transfer the expenditures you have designated to the correct account. Item 5. a, b, and c, if completed properly, should provide the justification for the transfer which is required by Federal regulations for all costs transfers involving contract/grant accounts.

Remember to attach a copy of the document (voucher, etc.) requiring correction(s) with all backup pertaining to the expenditure being transferred.

NOTE: Contract/grant expenditures should not be intentionally charged to departmental accounts or to other contact/grant accounts as a temporary measure. A separate contract/grant account (and cost sharing account, if appropriate) should be obtained before any contact/grant expenditures are incurred.

The Business Office requires approval at the originating department level only. Some colleges or schools may require other approvals. If a contract/grant account is involved, including cost-sharing accounts, the form should be forwarded to Contracts and Grants Accounting after the form has been approved at the college/school/department level(s). If no contract/grant account is involved, it should be sent to Financial Reporting.

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A-21 Personnel Activity Reports

Certification of Effort

For Salaries Charged to Contract/Grant Accounts

The University must review compensation for personal services that are charged to contract/grant accounts, including cost sharing accounts and federal appropriation accounts. These requirements are set out in *OMB Circular A-21*.

The certification of effort must be signed by someone who has first-hand knowledge that the salaries charged to a sponsored agreement are reasonable in relation to the work that was done on the project. Certification must be made by the principal investigator or department head. Please note that authority to sign the certification cannot be delegated to administrative or clerical assistants.

If the certified percentage of effort and the percentage of salary charged to an account differ by 5 percent or more, the salary distribution should be promptly corrected using a *Personnel Action Form*.

Here is a brief outline of the University's *A-21* personnel activity certification system. Please call the Contracts and Grants Accounting office if you have a question.

1. Each month an *A-21 Personnel Activity Report* is distributed for each contract/grant account or federal appropriation account from which current month salaries were paid. The report lists the employees and the current-month salaries that were paid from the project account during the month. Salaries **transferred that month** and **supplemental salaries for previous months** will not be listed.

2. Because of payroll deadlines, there is a possibility that a *Personnel Action Form* to change the salary distribution for the current month may not get processed before month end. When that happens, the printed *Personnel Activity Report* for that month will not include the corrected information. The department can manually correct the *PAR* before it is returned to Contracts and Grants Accounting, as long as there is a notation on the *PAR* that a revised *PAF* has already been submitted.

3. If salaries or wages must be transferred to or from a contract/grant or federal appropriation account,

please use the *Salary/Wage Transfer Request and Effort Certification Form*.

Note: When labor charges for biweekly employees are initially charged to an account, the payroll verification form serves as the certification. However, if wages are transferred to a sponsored agreement from another account, the effort must be certified on the *Salary/Wage Transfer Request and Effort Certification* .

Information on this form may be found elsewhere in this document. Copies of the form are also available from Contracts and Grants Accounting.

4. If an employee has more than one job or more than one monthly rate of pay, special treatment will be required. If you need assistance, please contact Contracts and Grants Accounting.

Records Retention

1. *BIWEEKLY PAYROLL TIME SHEETS* and the Auburn University *BIWEEKLY TIME REPORTS* for each employee paid from a contract/grant account (including cost sharing accounts) must be kept on file and accessible to auditors for four years after the contract or grant expires. The actual records retention requirements are three years from final payment of a contract or three years from submission of the final financial report on a grant. Therefore, four years from the contract /grant expiration date normally should cover contracts and grants. However, for long-running contracts and grants, please adjust the retention period accordingly.

2. *A-21 PERSONNEL ACTIVITY REPORT*.

a. Contracts and Grants Accounts

The original certified *PAR*'s are kept for ten years by Contracts and Grants Accounting for audit purposes. Deans and/or department heads should retain their copies for at least one year in order to incorporate correct information on employees' *Faculty Service Reports*. There should be no conflicting information on the *A-21 Personnel Activity Report* and the *Faculty Service Report* for an employee.

b. Federal Appropriations Accounts

A-21 Personnel Activity Reports are required for salaries paid with federal appropriations to the University. AAES and ACES will distribute, review, and maintain *PAR* files for accounts funded by Hatch, Regional, McIntire-Stennis, Smith-Lever, and any other federal appropriations. Federal regulations require that under normal circumstances all records be retained for audit purposes for three years from submission of the final expenditure report.

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Auburn University Policy and Procedures on Program Income Associated with Sponsored Projects

POLICY STATEMENT

It is the policy of Auburn University to use program income to support the program which produced the income (in compliance with OMB Circular A-110). Expenditure of program income will be for costs that further the objectives of the project for which the award was made and which are in accordance with the financial policies and procedures of Auburn University. A separate account will be established for processing the receipts and disbursements of program income for each sponsored project which has program income. Except for royalty income, program income is not to be mixed with other university funds.

DEFINITION OF PROGRAM INCOME

According to OMB Circular A-110, *program income* means income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under federally-funded projects, the sale of commodities or items fabricated under an award and, under certain circumstances, license fees and royalties on patents and copyrights.

TREATMENT OF PROGRAM INCOME

Program income earned during the project period shall be retained by the recipient and, in accordance with federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following.

1. <u>Additive</u>. Added to funds committed to the project by the federal awarding agency and recipient and used to further eligible project or program objectives.

2. <u>Deductive</u>. Deducted from the total project or program allowable cost in determining the net allowable costs on which the federal share of costs is based.

3. <u>Cost Sharing or Matching</u>. Used to finance the non-federal share of the project or program.

For <u>RESEARCH</u> projects, the <u>ADDITIVE</u> method automatically applies unless the agency specifies otherwise.

For <u>ALL OTHER PROJECTS OR PROGRAMS EXCEPT RESEARCH</u>, the <u>DEDUCTIVE</u> method applies unless the terms and conditions of the award specify another method.

Departments anticipating program income should take care to secure agency approval of the appropriate method of disbursing program income in conjunction with award funds.

Section 22 (g) of A-110 requires: "To the extent available, recipients shall disburse funds available from . . . program income . . . before requesting additional cash payments." Project directors should keep this in mind when disbursing funds throughout the award period. <u>If unused funds remain in the program income account</u> when final reporting is submitted for the grant, this money will be used to reduce the federal share of project costs. Program income funds, as award funds and cost sharing funds, must be used for project costs incurred or encumbered within the award period and must be processed through the Auburn University accounting system prior to the deadline for final financial reporting.

Additional Provisions of A-110

Section 24 (e): "Unless federal awarding agency regulations or the terms and conditions of the award provide otherwise, recipients shall have no obligation to the federal government regarding program income earned after the end of the project period."

Section 24 (h): "Unless federal awarding agency regulations or the terms and conditions of the award provide otherwise, recipients shall have no obligation to the federal government with respect to program income earned from license fees and royalties for copyrighted material, patents, patent applications, trademarks, and inventions produced under an award. However, Patent and Trademark Amendments (35 U.S.C. 18) apply to inventions made under an experimental, developmental, or research award."

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GENERAL PROCEDURES

1. Information on the type of program income and the proposed treatment of the income should be submitted to the Vice President for Research along with the proposal. The request for the program income account should be processed along with the request to establish the award account.

2. If program income is anticipated during the period of the sponsored project, a separate account for program income should be requested. This account will be coded as a contract/grant account and will be set up on "Budget Bump." This means that the account will operate on a cash-received basis; when income is received and processed with a Collections Report, the budget in the expenditure account will be increased by the amount of the income processed.

If operating on Budget Bump will be a problem, a reasonable budget can be authorized based on a request from the department and approved by the dean, based on anticipated program income. Any cash deficit at the end of the project must be covered promptly so the program income account can be closed.

3. If funds are remaining in the program income account when final reporting is submitted for the grant, this money will be used to reduce the federal share of project costs, and the program income account will be closed.

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COLLECTION PROCEDURES

All money received as program income should be reported on Collections Report/Receipts Voucher (Form 40-01); See elsewhere for detailed instructions. Program income accounts will be in the subledger 4 or 5 account ranges. Fund additions (deposits) to these accounts will be to the general ledger account. For example, for subledger account 4-23456, the general ledger account is 0-23456. Fund addition subcode 4280 should be used for all program income receipts.

The person responsible for the sponsored project that produced the program income is responsible for ensuring that the program income is properly identified, collected and deposited in the program income account; this includes reconciling the monthly accounting reports to ensure that all deposit transactions have been properly processed.

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EXPENDING PROGRAM INCOME

The person responsible for the sponsored project that produced the program income is responsible for ensuring that program income funds are used for appropriate project-related costs.

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REPORTING PROGRAM INCOME

If the granting agency requires that reports be submitted for program income receipts and expenditures, the office of Contracts and Grants Accounting will prepare these reports based on the transactions processed in the program income accounts. The reports will be submitted along with the final financial reports, or at other times if required by the sponsored project agreement. The responsible person (project director) should notify Contracts and Grants Accounting of any special reporting requirements.

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PATENT AND COPYRIGHT PROCEDURES

The Auburn University PATENT POLICY and the COPYRIGHT POLICY are separate documents. Please see the Faculty Handbook for information on the patent and copyright policies.

Patent royalty income and copyright royalty income received should be reported on Collections Report/Receipts Voucher (Form UBO 40-01). See elsewhere for detailed instructions.

Distribution of patent and copyright royalty income is made by the Office of Bursar in accordance with University policy.

NOTE:Information was taken from OMB Circular A-110 and from U.S. Department of Education and U.S. Department of Health and Human Services regulations for some of the above statements.

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Field of Science and Engineering Codes

All contract/grant accounts (including cost sharing accounts) with an A-21 Code of "OR" - Organized Research should be assigned a "Field of Science and Engineering" classification from the list below. Also, all non-contract/grant accounts with an A-21 Code of "OR" should be classified. If assistance is needed, please call Contracts and Grants Administration, 4-4438.

AH1 Arts/Humanities*
CS1 Computer Sciences
ED1 Education*
EN1 Aeronautical/Astronautical Engineering
EN2 Chemical Engineering
EN3 Civil Engineering
EN4 Electronics & Electrical Engineering
EN5 Mechanical Engineering
EN6 Industrial Engineering
EN7 Textile Engineering
EN8 Other, Engineering
ES1 Atmospheric
ES2 Earth Sciences
ES3 Oceanography
ES4 Other, Environmental Sciences
LA1 Law*
LS1 Agricultural
LS2 Biological
LS3 Medical
LS4 Other, Life Sciences
MC1 Management/Commerce*
MS1 Mathematical Sciences
OM1 Other, Multidisciplinary
OS1 Other Sciences
PS1 Astronomy
PS2 Chemistry
PS3 Physics
PS4 Other, Physical Sciences
PY1 Psychology
SS1 Economics
SS2 Political Science
SS3 Sociology
SS4 Other, Social Sciences
VM1 Vet. Medicine, Agricultural
VM2 Vet. Medicine, Biological
VM3 Vet. Medicine, Medical

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*These non-science classifications will not be included in the annual NSF report.

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Type of Research Codes

All contract/grant accounts and non-contract/grant accounts with an A-21 Code of "OR" - Organized Research should be assigned one of the following classifications:

01 Basic Research
02 Applied Research
03 Developmental Research

Please see "Research and Development Terms" for definitions of Basic, Applied and Developmental Research.

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Policy to Facilitate Contract/Grant Account Closeout

Deans' Cost Share Accounts
for Unreimbursed Contract/Grant Costs

And Completed Fixed-Price Accounts
with Balances less than $100

Effective September 1, 1997

Deans' Cost Share Accounts. OMB Circular No. A-21, Cost Principles for Educational Institutions, requires that any direct costs on sponsored projects, whether paid by the sponsor, a third party or by the University, be captured in the appropriate major function: Organized Research, Instruction, or Other Sponsored Activities. Therefore, any project costs charged to the sponsored account which are unreimbursable must be transferred to another account within the same major function; that is, to another account with the same A-21 code as the sponsored account. For example, unreimbursed project costs on an organized research "OR" account cannot be transferred to an instruction "IN" account. Unreimbursed costs normally are project costs in excess of the award amount, project costs incurred after the expiration date, and specific costs disallowed by the sponsor. Unreimbursed project costs must be accounted for as cost sharing. (This does not apply to costs which are charged to a sponsored account in error.)

In order for each department to have access to an account in the appropriate major function, three accounts (hereinafter referred to as the Deans' cost share accounts) will be created for each college--for Organized Research, Instruction, and Other Sponsored Activities. These will serve as "cost share accounts," but <u>will not replace the normal cost share accounts</u> <u>specifically required for some projects</u>. Unreimbursed project costs can be transferred to the appropriate dean's account when there is not another appropriate account identified.

If the sponsored account has a companion cost share account, any project costs which are in excess of the award amount, but which are otherwise allowable, should be transferred to the project cost share account. If there is not a project cost share account, or if the expenditures are not allowable on the sponsored project, the overexpenditures should be transferred to the Dean's cost share account.

These accounts will not be given an original budget. The departments transferring project costs to one of those accounts should process a Budget Change Order transferring funds to that account to cover the transferred expenditures. Each Dean should assign someone in his/her area to monitor this process to ensure that the departments cover all their costs that are transferred to the Dean's cost share account. The monthly "Report of Transactions", FBM091 for the Dean's account will show the contract/grant account involved--see the column titled "J.E. Offset Account." If the Dean wishes to handle the budget deficit in another way, he/she may do so; however, the budget deficits resulting from the expenditure transfers must be covered in a timely manner.

To facilitate the closeout of contract/grant accounts with internal problems only (not involving the sponsor), the office of Contracts and Grants Accounting is authorized to process expenditure transfers to the Deans' cost share accounts for any unreimbursed costs remaining on the contract/grant account more than 90 days after the account expiration. These costs must remain on the Deans' cost share account and be funded by University unrestricted funds; they cannot subsequently be transferred to other accounts.

These accounts will be classified as "cost share accounts" and will be named as follows, for example:

ENGIN COST SHR-OR	AGRIC COST SHR-OR
ENGIN COST SHR-IN	AGRIC COST SHR-IN
ENGIN COST SHR-OS	AGRIC COST SHR-OS

Completed Fixed-Price Accounts. When fixed-price accounts are completed and all payments have been received, sometimes a cash balance remains in the account. The University's policy provides that under certain circumstances, the end date will be changed to "indefinite" and the responsible department can spend the remaining funds on related expenditures. After most of the funds are expended, some accounts with very small balances remain open for several years. Contracts and Grants Accounting periodically notifies departments regarding completed Fixed-Price accounts with small balances and requests that they close out the accounts as soon as possible; however, many of these accounts remain on the accounting system for years.

Contracts and Grants Accounting will now be authorized to close out accounts with balances less than $100 which remain 60 days after notification. The department responsible for the account will forfeit the balance.

Policy to Facilitate Final Billing and Reporting for Contracts and Grants

Effective September 1, 1997

Contracts and Grants Accounting is responsible for the preparation and submission of invoices and financial reports to the agencies that provide funding for sponsored projects. These financial documents are prepared based on information in the University's accounting records and on special requirements of the sponsors. After the expiration date of a sponsored project, the University has a specified number of days to submit the final invoice or final financial report. A late submission could result in a loss of money to the University. The deadline for final reporting on Federal grants normally is 90 days from expiration. For contracts (Federal or non-Federal) the specific deadline for final financial reporting is given in the agreement; common deadlines are 30 days, 45 days, 60 days, or 90 days from expiration. The deadlines for cost share accounts are the same as for the sponsored accounts.

If the final financial reporting deadline is 90 days after expiration, all project costs must be processed through the accounting system with 60 days after expiration.

If the final financial reporting deadline is 60 or 45 days after expiration, all project costs must be processed through the accounting system within 30 days after expiration.

If the final financial reporting deadline is 30 days after expiration, all project costs must be processed through the accounting system within 2 weeks after expiration.

In order to comply with sponsors' financial reporting deadlines in an orderly and efficient manner, recipient departments should pay all bills promptly, particularly near the end of the project. The financial manager in each department should be aware of the expiration dates and deadlines for each sponsored project in the department and should make any needed adjustments in a timely manner. If any orders are placed near the end of the project, the department should notify the vendor of the deadlines involved to ensure delivery of the products and receipt of the invoice within the time available. (Normally, all products should be delivered while the sponsored project is still in process; otherwise, the costs could be disallowed since they were not received in time to benefit the project.) If salaries and wages are being charged to the contract/grant account, the departments should ensure that steps are taken to reassign employee salaries and wages to other accounts, as appropriate, when the project is over.

Under this policy, Contracts and Grants Accounting is authorized to submit final invoices and financial reports based on the deadlines noted above for processing projects costs through the accounting system. It is, therefore, critical that the recipient departments pay all project costs within these deadlines to ensure that the University is reimbursed for all allowable project costs. Please note that unreimbursed project costs must be covered by the college/school/department involved.