



ASPEN CENTER FOR PHYSICS
700 WEST GILLESPIE STREET • ASPEN, CO 81611

Fundamentals of Sponsored Projects Administration

Part 2

March 2014



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Today's Training Goal

Focus

This session will focus on understanding additional (more in-depth) topics in Sponsored Projects Administration and the process considerations that apply to award management at the Aspen Center for Physics (ACP).



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Today's Training Goal

Learning Objectives

- Understand specific sponsored project topics and high-risk considerations and how these are considered by Aspen Center for Physics
- Build a deeper understanding of issues impacting award management and appropriate ACP responses
- Understand overall roles and responsibilities across ACP as they impact these issues
- Identify opportunities to minimize risk and ensure processes are compliant



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Financial Management Roles & Responsibilities



Financial Management

Roles & Responsibilities

Stakeholder	Role
Principal Investigator	<ul style="list-style-type: none"> • Communicate with Administrative Staff to ensure expenses are posted to the correct sponsored award • Confirm expenses are allowable per sponsor and ACP regulations/guidelines • Communicate with Administrative Staff on changes in project scope or timelines <ul style="list-style-type: none"> – No Cost Extension requests – Award Continuations – Rebudgeting • Review and approve final project costs • Ensure that project-specific and technical deliverables have been completed



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Financial Management

Roles & Responsibilities

Stakeholder	Role
Finance Manager	<ul style="list-style-type: none"> • Ensure expenses are allowable per sponsor and institution regulations/guidelines • Confirm expenses are charged to the appropriate project • Assist PI with making changes to project scope or timelines <ul style="list-style-type: none"> – Submit award Continuation requests – Make appropriate changes to financial system • Prepare and submit accurate invoices and financial reports based upon sponsor mandated schedule in award document • Confirm that adequate payment has been received
Corporate Treasurer	<ul style="list-style-type: none"> • Review and approve high-risk cost transfers • Review and approve invoices and/or financial reports



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Cost Transfers



Cost Transfers

Definition

- A cost transfer is an after-the-fact reallocation of an expense, either salary or non-salary costs, associated with a sponsored program after the expense was initially charged to another sponsored program or non-sponsored program (account)
- Federal requirements for cost transfers require that they are timely, supported, reasonable, allocable, allowable, and that grant accounts must have adequate internal controls so they can be monitored
- Frequent, tardy, and inadequately supported transfers raise serious questions about the appropriateness of the transfers and the overall reliability of the Center's accounting system and internal controls



Cost Transfers

Roles & Responsibilities

Stakeholder	Role
Principal Investigator	<ul style="list-style-type: none"> • Ensure that costs posted to sponsored programs are appropriate and in accordance with sponsor requirements and ACP policies.
Finance Manager	<ul style="list-style-type: none"> • Identify when a cost transfer is required and prepare the necessary documentation/system transaction. • Ensure that transfers are made promptly and all required documentation is on file according to ACP's retention policy. • Ensure that data is available for verification during an audit.
Corporate Treasurer(?)	<ul style="list-style-type: none"> • Approve 'high risk' cost transfers as detailed by ACP policy.



Cost Transfers

Requirements

- Under no circumstances may a Cost Transfer be made with the sole intent of using up the unexpended balance in a federal account
 - The Federal Government questions the propriety of Cost Transfers on federally funded projects
 - Cost Transfers can cast doubt on ACP's accounting system and internal controls
 - The Government expects documentation and an authorization process for all Cost Transfers on federally assisted projects

The government expects that costs are charged appropriately at the time incurred and that significant adjustments should not be required if adequate financial management practices and policies exist.



Cost Transfers

Red Flags

- Auditors tend to focus on late cost transfers (over 90 days), because they are difficult to defend if not properly documented.
- Cost transfers that are particularly suspect:
 - Transfers to or between federal projects
 - Late transfers (greater than 90 days after discovery of error)
 - Transfers to a federal project occurring at the end of the project, thereby giving the appearance of utilizing funds inappropriately
 - Transfers with an inadequate explanation
 - Transfers between federal projects that clears an overrun on one of the projects
 - Payroll transfers that are recorded in the accounting system but not in the payroll system



Cost Transfers

Audit Focus: Transaction Characteristics

- Are cost transfers supported by documentation which adequately explains and justifies why the transfers were made and how the error occurred?
- Are cost transfers caused by work which is supported by more than one funding source?
- Are there cost transfers between projects which are in an overrun condition to those with unexpended balances?
- Are cost transfers which represent corrections of clerical errors made promptly after discovery?
- Are cost transfers dated?
- Are late cost transfers reviewed and approved by an oversight role? Is documentation readily available?



Cost Transfers

Audit Focus: Process Characteristics

- Is there a standard form (electronic or paper) for initiating cost transfers?
- Is there a defined process in place for approvals? Does this process allow proper separation of authority?
- Is there a process for reviewing late cost transfers?
- How many of these requests are approved?
- Does documentation exist?
- Is there training that addresses cost transfers?
- What is the total volume of cost transfers?



Cost Transfers

Financial Stewardship Strategies

- Document cost transfer policies and procedures
- Document roles and responsibilities for approving cost transfers, which clearly establish separation of authority
- Set a process for approving late or other high risk cost transfers
- Train investigators and administrators
- Develop cost transfer forms that promote justification of all transfers
- Document cost transfers regardless of age
- Establish ongoing monitoring of cost transfers to determine overall volume and root cause



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Overdrafts



Overdrafts

Overview

- An overdraft occurs on a sponsored award when the expenditures, both direct and indirect, incurred exceed the authorized budget provided by the sponsor.
- Some institutions use other terms:
 - Account Deficit or Deficit Account
 - Overspent Account
 - Budget Overdraft
- There are three common methods for determining if an overdraft/deficit has occurred on a sponsored award:
 - Total expenses less cash or revenue
 - Total expenses less allocated budget
 - Total expenses plus encumbrances less budget



Overdrafts

Monitoring & Management

- Overdraft spending on awards can put ACP at risk because, by definition, these costs are not covered by sponsored agreements and cannot be billed or reported to the sponsor.
- With proper approval, some accounts may incur temporary deficits due to the business nature of their operations or type of account.

Examples:

- Advance Account Set-ups: Typically do not have budget appropriated, thus any expense incurred will create a deficit.
- Program Income Accounts



Overdrafts

Monitoring & Management

- If an overdraft occurs, it is the responsibility of the Finance Manager and PI to quickly identify alternative sources of funding to cover the overdraft.
- The costs being transferred must meet the criteria of being allowable, appropriate, and reasonable to be transferred to the new source(s).
- For cost-reimbursable grants, specifically all federal awards, costs allocable to one project may not be charged to a different award solely based on funding availability.
- It is important to note that using funds from another sponsored project for the sole purpose of clearing and overdraft is prohibited.



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Cash Management



Cash Management

Billing & Payment Terms

- Terms and Conditions of the award provide important information related to billing and getting reimbursed for the expenses incurred on the award or for getting paid for the work done by ACP.
- Each sponsor will have their own billing and payment terms.
- Typical Billing Terms can include:
 - Cost reimbursable: Funds are paid to ACP only after disbursements (spending) has occurred
 - Advanced payments: Funds are paid to ACP in advance of starting the project (upfront payment)
 - Scheduled payments: Funds are paid to ACP on a schedule (e.g. every quarter) outline in the award documents
 - Performance based or milestone based reimbursement: Fund are paid only when specific achievements have been made and documented
 - Combined methods



Cash Management

Billing & Payment Terms

- OMB A-110, Subpart C:
 - (b) Recipients are to be paid in advance, provided they maintain or demonstrate the willingness to maintain: (1) written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient, and (2) financial management systems that meet the standards for fund control and accountability as established in Section _____.21.
 - (e) Reimbursement is the preferred method when the requirements in paragraph (b) cannot be met.
- **ACP requests all federally sponsored payments on a reimbursement basis only!**



Cash Management

Billing & Payment Methods: LOC

- Letter of Credit (LOC)
 - ACP uses its own funds to incur the expense and then requests reimbursement from the sponsor.
 - No physical invoice is sent to the federal agency.
 - Funds are received by ACP by requesting (“drawing”) funds.
 - Request is issued via a specialized payment website.
 - Funds are received via wire transfer.
 - Pre-determined draw limit specified in Notice of Award.
 - Draw amount executed for each individual award (NSF)
- The LOC mechanism is intended to minimize the time elapsing between the transfer of funds from the Federal Government and disbursement by ACP.
 - Also to minimize time between expenditure being incurred and when funds are transferred.
- ACP issues draw requests (approximately) quarterly.



Cash Management

Billing & Payment Methods: LOC

- LOC Draw amount:
$$\begin{aligned} & \text{EXPECTED DISBURSEMENT AMOUNT} \\ & - \text{FEDERAL CASH BALANCE ON HAND} \\ & \hline & = \text{TOTAL AMOUNT REQUESTED} \end{aligned}$$
- Draw requests should be reviewed to adjust for (remove) certain charges:
 - Un: allowable, allocable, reasonable, and necessary
 - Charges in excess of the approved budget
 - Charges incurred outside of the allowable budget period
 - Charges incurred where an official award notice as not been received



Cash Management

Billing & Payment Methods: LOC

- ACP is responsible for:
 - Monitoring accounts to determine when the Federal funds have been deposited into the bank account for each drawdown.
 - Ensuring that the funds are fully disbursed (spent) by the close of business the next work day after they are received
 - If a draw was in excess of disbursements to date
 - Immediately returning all undisbursed Federal funds to the sponsoring agency (with interest if required)

- LOC Best Practices:
 - Draw only up to the award amount and not overruns.
 - Draw actual expenditures rather than relying on estimates.
 - Reconcile letter of credit draws to reports sent to the government.



Cash Management

Billing & Payment Methods: Non-LOC

- Some agencies require an invoice for individual awards based on actual costs incurred.
 - Typical of non-federal sponsors
- Sponsors may require a specific billing format.
- If not, use a standard ACP invoice format.
 - The amount due should be easily identifiable
 - Each invoice should have its own unique identifying number for tracking purposes.
 - The remittance address should be easily identifiable to ensure checks get mailed to the appropriate location.
 - Other instructions, such as returning the remittance copy of the invoice with payment, should be clearly labeled.
- Frequency of invoicing can vary and may be set by the agency.
- Payment is typically made 1-2 months after the invoice is sent.



Cash Management

Billing & Payment Methods: Non-LOC

- Non-LOC Best Practices:
 - Standardize billing when possible.
 - Minimize special conditions during the negotiation stage.
 - Develop a process/tracking mechanism to verify ALL accounts have been billed.
 - Track the frequency of reporting, forms and special instructions.



Cash Management

Accounts Receivable

- Accounts Receivable Defined:
 - Accounts receivable (AR) is one of a series of accounting transactions that involve pursuing the collection of payments from sponsoring agencies for which costs were incurred or services were performed on the funds.

- “Accounts Receivable” could refer to any one or a combination of the following:
 - A department or team (i.e. AR Department or Collections Team)
 - A process
 - A system such as a web-based billing and collection system for local units to bill and track received and outstanding payments



Cash Management

Accounts Receivable

- The purpose of Accounts Receivable is largely to:
 - Create and track invoices
 - Track collections activity
 - Run Receivables reports
 - Ensure timely payments
 - Identify risks to the institution's cash stream
 - Identify those sponsors who the institution may no longer want to do business with

- A large volume of ACP's sponsored AR is via federal LOC, therefore the process of monitoring and tracking unpaid receivables is limited:
 - Review status of open receivables
 - Create follow-up action plan for past-due balances
 - Escalate as needed



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Financial Reporting



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Financial Reporting

Overview

- A financial report is a statement of expenditures for any individual award as required by the sponsor.
- Reports are completed by the Finance Manager but usually require information or validation from the PI.
- Frequency and formats vary by sponsor.
- Reporting requirements are typically stated in the award documents but may be in the sponsors' published policy statement or terms and conditions.
- ACP has minimal financial reporting obligations.



Financial Reporting

Key Compliance Points

- Timely: Financial Reports must be filed in a timely manner!
 - Reporting deadlines are specified in the award documents.
 - May be due at the end of both the budget and project period within 90 days of the expiration date of the award.
 - More frequent reporting may be required.
- Allowable: Include allowable activity supported by system of record documentation
- Program Requirements: Follow program requirements specified in the award documents
- Policy: Adherence to ACP's policy for review and approval
- Reconciliation: Documented reconciliation of the financial reports to the general ledger



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Award Closeouts



Award Closeouts

Overview

- ACP ceases using the fund number
- Transactions no longer post to the fund
- OMB A-110: Closeout Requirements.
 - Submit all sponsor required reports and liquidate all obligations within 90 calendar days
 - Refund any balances of unobligated cash that was paid by the sponsor
 - Disclose information on any property acquired with funds or received from the sponsoring agency

Primary Objective:
TOTAL EXPENDITURES = TOTAL BUDGET = TOTAL CASH



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Award Closeouts

Risks to not Closing Awards

- Unallowable expenditures posted to the project that should have been removed.
- Debits or credits posted that were not captured on the financial report or final invoice.
- Sponsors may withhold incremental funding or final payments until all outstanding financial and progress or technical reports are received.
- Loss of carryover funds.
- Awards that are not closed out will continue to incur expenditures after funding is deobligated.



Award Closeouts

Key Steps

- Expenditure Review:
 - Ensure all expenditures are allowable and have posted to the award
 - Verify expenses were incurred during the budget or project period
 - Clear all encumbrances and commitments
 - Verify spending restrictions listed in the Notice of Grant Award were followed.
- Budget Review & Reconciliation
 - Verify the total award budget in ACP's financial system equals the total award budget according to the Notice of Grant Award.
 - If the award is not fully expended, reduce the total award budget to equal the final expenses.
 - If the award is over expended (budget deficit), transfer over expenditures to a non-sponsored fund.



Award Closeouts

Key Steps

- Review Accounts Receivable and Cash:
 - Confirm that cash collected was applied to the account and is equal to total, final expenditures.
 - If cash does not equal final expenditures, confirm if the funds were requested from the Sponsor or if a write-off is necessary.
- Submit Final Deliverables
 - Verify all required financial reports were submitted to the sponsor.
 - Confirm all non-financial reporting requirements are satisfied prior to closing the account.
 - i.e Final Equipment Report or a final Invention or Patent Report.
- Non-Financial/Miscellaneous:
 - Confirm the PI concurrence
 - Verify that all projects from prior years are closed with zero balances.
 - Review the Terms and Conditions of the award and confirm all requirements were met.



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In Summary....



In Summary....

Stewardship Strategies

- Establish a policy and procedure for clearing overdrafts
- Develop roles and responsibilities for monitoring expenditures and budget projections and reviewing financial reports for each award on a regular basis
- Develop a process for managing Accounts Receivable and escalation actions for past-due balances
- File financial reports in a timely manner according to specified sponsor requirements
- Develop a policy requiring review and written approval of financial reports
- Document reconciliation of the financial reports to the general ledger
- Establish an internal closeout procedure and checklist that is routinely followed, regardless of award type