

SECTION 2: GETTING STARTED

1. NEGOTIATIONS

Prior to making an award, a Sponsor may wish to negotiate the terms and/or amount of the award. All sponsored projects negotiations are conducted by the pre-award offices: Office of Research Support for Org Units 04xx xxx xxx through 60xx xxx xxx/; and the Office of Grants and Contracts for Org Units 68xx xxx xxx. Please refer any questions pertaining to negotiations to your pre-award office.

2. PRE-AWARD COSTS

Some Sponsors, such as the National Science Foundation and the National Institutes of Health, allow for "90 days pre-award spending". If a Principal Investigator (P.I.) has received verbal notification from the Sponsor that his/her project has been funded, the P.I. may be able to request a Cost Object prior to receiving the award document. This can be done by the Departmental Administrator or P.I. writing a memorandum to the pre-award office stating the justification for pre-award spending. The memorandum should be cosigned by the P.I.'s Departmental Chairperson, or his/her designee, and should state that in the event that the funding does not materialize, departmental discretionary funding will cover costs incurred on the project. This request may be approved by the pre-award office provided that: (1) the Sponsor allows for Duke approval of such costs, (2) the approval is requested and granted prior to the incurrence of actual costs, (3) the advance funding is necessary for the effective and economical conduct of the project, and (4) the costs are otherwise allowable on the project. When approved by the pre-award office, the request for a Cost Object "in advance" is forwarded to the Office of Sponsored Programs (OSP) to establish a new Cost Object. The Financial Report indicates the anticipated start date of the award and not the date when the pre-award spending began.

If the Sponsor does not allow Duke to approve Pre-Award Costs, it may still be possible to obtain the Sponsor's approval during the negotiation process. Contact the pre-award office if the need for Pre-Award Costs exists. When a Sponsor approves Pre-Award Costs, the award document stipulates the amount of pre-award costs the project is authorized to incur.

3. REQUESTING A COST OBJECT

To ensure consistent and uniform application of the criteria followed in the establishment of new Cost Objects, authority to establish new Cost Objects is limited to specific offices or positions for each of the individual fund groups. A **Cost Object** is a unique number assigned to identify the accounting activities of a project. For a sponsored projects, the cost object is called **Project Definition** (reports) or **WBS Element** (Journal Vouchers). The authority to establish new 3XX Cost Objects, to modify, or close existing 3XX Cost

Objects is restricted to the Office of Sponsored Programs (OSP). However, OSP does not establish new Cost Objects until a formal written request is received from the Office of Research Support, the Office of Grants and Contracts, or the Medical Center’s Finance and Resource Planning Office.

After an award is formally accepted by Duke, the pre-award office attaches the award document to the proposal and forwards it to OSP with a formal request for a Cost Object. Award documents received by the Principal Investigator or Departmental Administrator must be sent through the pre-award office for a formal request for a Cost Object. Requests for Cost Objects for Medical Center non-hospital Intergovernmental Personnel Act (IPA) Agreements should be submitted through the Medical Center Finance and Resource Planning Office (681-8225). IPA agreements provide funds for the temporary assignment of personnel arranged under the provisions of the Intergovernmental Personnel Act of 1970. In addition, requests for Cost Objects for Medical Center, non-hospital 39X (non-governmental, non-reporting) Cost Objects that are funded by gifts must be submitted through the Medical Center Finance and Resource Planning Office for review and approval.

OSP reviews the documentation for completeness. **Your assistance in ensuring a complete project file is extremely important.** Any revised budgets submitted to the Sponsor or any attachments referenced in the award documents sent directly to the P.I. or Departmental Administrator by the Sponsor should be forwarded to the pre-award office. Missing documentation can cause an incorrect Cost Object to be set up or incorrect financial reports to be submitted.

Based on the documentation received, OSP determines the first 3 digits of the Cost Object using the following guidelines from the Accounting Code Overview section of the General Accounting Procedures (GAP):

PROJECT DEFINITION/WBSE SUMMARY

3	0	3	1234
<i>TYPE</i>	<i>SOURCE</i>	<i>PURPOSE</i>	
Sponsored Projects are Current Restricted Funds <i>Always a "3"</i> <i>(R/3 Company Code 0010)</i>	0 - DHHS	1 - Instruction/ Dept. Res.	UNIQUE TO PROJECT
	1 - DOD	2 - Training	
	2 - DOE	3 - Research	
	3 - NSF	4 - Library	
	4 - Other U.S. Gov't: NASA, ED	5 - Student Services	
	5 - State & Other Gov't	7 - General Operation	
	6 - Duke Endow.	8 - Student Aid	
	8 - Non- Gov't	9 - Special Programs	
	9 - Non- Gov't, Non-Reporting		

1st digit---indicates TYPE of funds. Sponsored projects are designated as Current Restricted Funds.

Therefore, the first digit will ALWAYS be "3".

2nd digit---indicates the SOURCE of funds. If the award is a Subcontract, the SOURCE is the Sponsor subcontracting with Duke and not the Prime Sponsor.

30X - Department of Health & Human Services which includes Public Health Service awards from NIH, NIMH, etc.

31X - Department of Defense

32X - Department of Energy

33X - National Science Foundation

34X - Other U.S. Government Sponsors, such as NASA, Departments of Agriculture, Education, etc.

35X - State and Other Governmental Sponsors

36X - Duke Endowment

38X - Non-Governmental Sponsors Requiring Billings/Reports

39X - Non-Governmental Sponsors Not Requiring Billings/Reports

3rd digit---indicates the PRIMARY PURPOSE of the funding.

3X1 - Instruction/Departmental Research/Professorships

3X2 - Training Programs

3X3 - Sponsored Research

3X4 - Library

3X5 - Student Services

3X7 - General Operations

3X8 - Student Aid

3X9 - Special Programs

Duke is required to account for each project/award separately. Therefore, a new Cost Object is issued for every new award. An exception to this procedure is when a Sponsor, such as NIH, makes an award covering a specified "Project Period" (e.g., 5 years) but incrementally funds the project by a "Budget Period" (e.g., 12 months). If this Sponsor allows for the automatic carry-forward of funds from one Budget Period to another Budget Period (e.g., NIH grants under Expanded Authority), the project retains the same Cost Object for the period covered by the currently funded "Project Period". A new Cost Object is issued when the Sponsor awards a new Project Period (e.g., NIH, competitive renewal year). If the Sponsor does not allow for the automatic carry-forward of funds from one Budget Period to the following Budget Period, a new Cost Object is assigned every Budget Period. This practice assists both the Departmental Administrator and OSP in determining the total funds spent for each Budget Period. It also provides the Departmental Administrator with the exact amount available for requesting from the Sponsor authorization for carry-forward to the new budget period if the Sponsor so allows.

More than one Cost Object can be issued for one project. When this is the case, the first Cost Object in the series is called the “parent” and any additional Cost Objects associated with the project are called the “sub-codes”. This can occur when the project:

- a. contains several small sub-projects directed by different faculty members
- b. consists of sub-projects each with different F&A rates, e.g., on-campus and off-campus rates
- c. provides for several subcontract awards
- d. provides funding for a restricted purpose

Parent and sub-codes are also issued if OSP determines that separating the funds into sub-codes will greatly enhance the efficiency of the reporting accountability.

Other information, such as the effective dates of the project, department’s Org Unit number associated with the project, primary purpose of funding, and special mailing instructions for invoices, is determined at this time. OSP completes a "Cost Object Request" form, assigns the Cost Object and forwards the request to Accounting Systems and Procedures where the Cost Object is activated in the financial systems R/3. OSP notifies the Departmental Administrator by email or telephone of the newly assigned Cost Object. A copy of the “Cost Object Request” form is also sent to the pre-award office. Once the Cost Object is issued, an award folder is prepared and given to the appropriate Billing Supervisor.

4. REVIEWING THE AWARD DOCUMENT

The Billing Supervisor reviews very closely all award documents, guidelines, and/or terms and conditions. For each funded project the Supervisor must determine the following:

- a. Amount awarded or obligated by Sponsor (if the obligated amount is less than the awarded amount, the obligated amount is used)
- b. Budget categories approved by the Sponsor (including cost-sharing)
- c. F&A rate(s), Theoretical and Allowable.
- d. Departmental Cost Object credited with F&A Costs recovered and/or charged with unallowable expenses or overdrafts
- e. Sponsor Restrictions - e.g., no foreign travel, no equipment
- f. Sponsor Limitations - e.g., rebudgeted amounts cannot exceed 5% of budgeted categories, consultant fees cannot exceed a specified amount
- g. Prior Approval Requirements - e.g., all equipment purchases, all foreign travel
- h. Title to Equipment - Duke or Sponsor
- i. Reports Required - e.g., financial, patent, property, etc.
- j. Submittal Requirements - due dates, format, distribution

It is at this point that it becomes crucial for OSP to have the most current budget information. If a revised budget bypassed the proper channels (pre-award office), OSP could possibly be referring to an

incorrect budget. Consequently, the amounts listed in R/3 in the ITD (Inception To Date) Plan would be incorrect. In addition, if the total amount awarded does not equal the proposed budget, OSP may not be able to allocate the award until the proper revised budget is received from the department.

Some Sponsors (e.g., Department of Defense) make awards that stipulate an **“Award Amount”** (e.g., \$100,000) and an **“Amount Obligated”** (e.g., \$30,000). This means that the Sponsor intends to fund the award amount (e.g., \$100,000), but, at this time, is making available only the amount shown as obligated (e.g., \$30,000). **Therefore, if a Sponsor obligates an amount less than the award amount, only the obligated amount may be spent.** As additional funds are obligated, OSP updates the ITD Plan in R/3. If OSP does not have a budget that equals the obligated amount, the budget categories in the ITD Plan will indicate the “Award Amount”. However, since the Sponsor obligated a lesser amount, the amount not yet obligated is restricted by using G/L Account 99800 in the ITD Plan column of the financial report. Thus, the total awarded amount is reduced to equal the obligated amount without changing the individual budget categories. Please be aware that in this situation, even though each budget category indicates a balance, if total expenses exceed the total obligated amount a bottom-line overdraft will occur.

CATEGORY	AWARD AMOUNT	OBLIGATED AMOUNT (NO BUDGET)	ITD PLAN
Restricted			(108,000)
Salaries	100,000		100,000
Fringe	23,000		23,000
Supplies	37,000		37,000
Other	40,000		40,000
F&A Costs	108,000		108,000
TOTAL	\$308,000	\$200,000	\$200,000

Since one of the major responsibilities of the Departmental Administrator is to assist the Principal Investigator in administering his/her sponsored project, it would be of great advantage to the Departmental Administrator to review the award document in the same detail as OSP. Appendix 5 - TERMS OF AWARD (revised) is provided to assist you in summarizing restrictive details of a sponsored project.

5. BASIS OF FUNDING

a. Cost-Reimbursement

An award made on a **Cost-Reimbursement** basis refers to an award where the Sponsor makes a commitment to award/obligate a specified amount but the actual money is not received by Duke until after the Office of Sponsored Programs (OSP) bills for the expenses incurred on the project. On a Cost-Reimbursement award the Principal Investigator may spend the amount awarded/obligated and should not be concerned with the timing of when the actual money is received. For 30X through 38X Cost Objects, the amount awarded/obligated will be indicated in the ITD Plan column of the financial report. With the exception of 39X Cost Objects that do not require financial reports by OSP, OSP has both the responsibility of requesting payment (reimbursement) and monitoring the timely receipt of those payments. It should be noted, however, that Sponsors have been known to withhold payment because of non-submittal of technical reports. If this occurs, the Departmental Administrator will be notified by OSP and/or the pre-award office of his/her responsibility to ensure proper payment by monitoring the proper submittal of the delinquent technical report.

b. Fixed-Price

A few sponsors award **Fixed-Price** Contracts. This type of award stipulates a fixed amount usually paid when the deliverables are received and accepted by the Sponsor regardless of the actual expenses incurred. In the event that a minimal unexpended balance is left at the end of a Fixed-Price Contract and payment in full has been deposited, OSP, during close-out procedures, transfers the unspent balance to the department's designated discretionary Cost Object unless otherwise notified in writing by the Departmental Administrator.

c. Advance Payment

Some Sponsors, usually private, enclose a check with their award document or make **Advance Payments** based on a payment schedule specified in the award document. Many Sponsors, however, require the return of any unspent funds left at the end of the project.

6. INVESTMENT OF FUNDS

When advance payments are received, the award document may contractually obligate Duke to invest the funds. If this is the case, OSP notifies the Departmental Administrator and the Endowment/Investment Office of this requirement. The Endowment/Investment Office automatically invests the funds according to Duke investment policies. OSP is responsible for informing the Endowment/Investment Office of the Cost Objects involved. On a monthly basis the Endowment/Investment Office credits the investment income to the Cost Object. If there are sub-codes associated with the award, they are netted with the parent Cost Object for

investment purposes. The investment income is credited to the parent Cost Object. If the General Ledger does not indicate investment income, please contact OSP immediately.

Please note that only the awards with a contractual obligation to invest the advance funds are handled automatically by the OSP and the Endowment/Investment Office. The Departmental Administrator is responsible for investing any other funds that the department may have. Any questions about Duke's investment policy should be directed to the Endowment/Investment Office staff (668-0880).

Funds advanced by the Federal Government do not earn investment income within the Cost Object. However, Duke is required to pay the Federal Government interest earned on the advanced funding. Both the computation and the processing of the payment for the interest earned on advanced Federal funds is the responsibility of OSP and does not affect the Departmental Administrator or the sponsored project.

7. DEPOSITS

OSP is responsible for the reporting/accounting of revenue received for a restricted Cost Object (3XX). The actual deposit is done by either the Bursar's Office (Governmental Cost Objects) or through Alumni & Development Records (Non-Governmental Cost Objects). If you receive a check that needs to be deposited to a sponsored project, it is critical that you indicate the purpose of the check, e.g., grateful patient gift, reimbursement for expenses incurred on G/L Account 6XXXXX, payment for sales or services, advance payment of grant. OSP determines the Cost Object the check is deposited to.

When a Cost Object is established for a particular project funded by a specifically named Sponsor, funds received from other than the named Sponsor cannot be deposited to that Cost Object. Occasionally a 39X-XXXX Cost Object is established for a particular project or laboratory that will be funded from various sources. Only in this case can checks received from various Sponsors be deposited to the same Cost Object. For more information, refer to *GAP 200.026 Deposits to the University*.

8. PROGRAM INCOME

Program Income is gross income earned by a sponsored project from activities, part or all of which are borne as a direct cost by the sponsored project. Examples of Program Income include:

1. Fees earned from services performed under the project, such as those resulting from laboratory drug testing.
2. Rental or usage fees, such as those earned from fees charged for the use of equipment purchased with sponsored project funds.
3. Funds generated by the sale of commodities, such as tissue cultures, cell lines, or research animals.

Most Federal Sponsors require that program income be used for the purpose of the project and be reported. In some cases (e.g., PHS grants), any anticipated Program Income must be disclosed in the

Application (proposal). For more detailed information, refer to the *GAP 200.290 Program Income - Federal Grants and Contracts*.

Some Sponsors consider income as Program Income only during the life of the project. For these Sponsors, once the project terminates, income derived is no longer considered Program Income. Therefore, it need not be reported and it may be credited to a discretionary account. Other Sponsors, however, consider revenues received after the termination of an award to be Program Income. Consequently, it is critical to carefully review the terms of the award.

In order to identify Program Income properly, the following G/L Accounts must be used: 349400 - Sundry Revenue used when revenue is received from non-Duke sources; 752500 - Program Income used when revenue is received from Duke Cost Objects. Departments must ensure that these G/L Accounts are properly used to record Program Income. Isolating Program Income in a distinct G/L Account allows it to be accurately reported.

9. ALLOWABILITY OF COSTS

The costs of a sponsored project are comprised of the **allowable** direct and F&A Costs incident to the project's performance. Costs charged to a sponsored project are normally allowable if (a) they are reasonable, (b) they are allocable to the sponsored project, (c) they are given consistent treatment, and (d) they conform to any limitations or exclusions set forth by the Sponsor. **Direct costs** are those costs that can be identified specifically with a particular sponsored project. Refer to *GAP 200.320 Direct Costing on Sponsored Projects*. **F&A Costs** (Facilities & Administrative Costs) are those costs that are incurred for common or joint objectives and, therefore, cannot be identified readily or specifically with a particular sponsored project (OMB Circular A-21). Refer to *GAP 200.330 Facilities and Administrative (Indirect) Costs on Sponsored Projects*. **Unallowable costs** are those costs that may not be charged to a sponsored project due to Sponsor and/or Duke regulations or restrictions.

Since most, if not all, transactions originate at the departmental level, it is the Departmental Administrator's responsibility to ensure that unallowable costs are not charged to sponsored projects. It is OSP's responsibility to assist the Departmental Administrator in reviewing for unallowable costs. OSP determines allowability by reviewing the G/L Account used in the transaction. In the event an unallowable charge is made to a sponsored project and another appropriate source of funding is not identified by the department, OSP is authorized to transfer the unallowable charge from the sponsored project to the departmental current allocated fund (45X Cost Object).

Duke has many systems in place which assist the Departmental Administrator in ensuring that unallowable expenses are not charged to a sponsored project. However, "the integrity and reliability of the data collected by any accounting system particularly one in which many different people generate input to the system, is dependent upon the consistent application of established approved guidelines and procedures.

This principle is especially true for the complex accounting system that exists today at Duke. Enough cannot be said about the importance of each of us being conscious of our responsibility to help ensure that we maintain the integrity and reliability of our accounting data....Using the correct revenue or expense classification within the correct fund code for each and every transaction is of the utmost importance in maintaining the integrity and reliability of the accounting system at Duke.”¹ If, after referring to the **General Accounting Procedures**, you have questions regarding the correct G/L Account to use, contact Accounting Systems and Procedures (684-2752).

10. PRIOR APPROVAL

In some instances the Sponsor's prior approval is required to authorize an expense on a project. Requests for project modifications should be sent through the pre-award office. After reviewing the award document and Sponsor guidelines, the pre-award office determines whether the authorization can be obtained internally or whether written Sponsor approval is required. If Sponsor approval is needed, in most instances, only the Contracting Officer/Grants Officer (or his/her designee) has the authority to give Sponsor approval. Take care not to confuse the Program Officer/Technical Officer with the Contracting Officer/Grants Officer. Normally, a Program/Technical officer deals with the programmatic or technical issues of a project, and, only the Grants/Contracting Officer has the authority to modify an award document (including the scope of work). However, if the project has mandated close contact with the Program/Technical Officer, it might be prudent to discuss the proposed change with the Program/Technical Officer before processing the formal request to the Contracting/Grants Officer. Many Contract/Grants Officers consult with the Program/Technical Officer before approving proposed changes to a project.

If Sponsor approval is required, the pre-award office transmits the request to the Sponsor. Once the approval is received, the pre-award office forwards a copy to OSP and the Departmental Administrator. OSP makes the necessary changes on the ITD Plan and/or Master Data.

¹ Memorandum dated May 31, 1991, to Officers, Deans, Chairpersons and Recipients of Monthly Detailed Financial Statements, from John F. Adcock, Vice President and Corporate Controller