Stewardship and Accountability

Principal Investigators and others involved in management of sponsored awards are stewards of these awards and are financially accountable for using University resources wisely and executing these responsibilities with integrity and ethical conduct. Every employee who conducts transactions that affect University funds must be in compliance with all University policies, applicable laws, regulations, and special restrictions.

The False Claims Act makes it a crime for any person or organization to knowingly make a false record or file a false claim with the government for payment. Those managing federal sponsored awards, especially Principal Investigators, are subject to the False Claims Act and can be criminally prosecuted for mismanagement of federal funds. Therefore, those managing these funds must take responsibility for understanding costing policies and the impact on their specific sponsored awards.

It is the Principal Investigator’s (PI) responsibility to conduct and complete the scientific and scholarly work, submit a satisfactory final report, meet the sponsor’s application guidelines, oversee all aspects of subagreements and certify that terms and conditions of the award are fully met. The PI is responsible for all financial aspects of the award including the resolution of unallowable expenditures or over expenditures. The PI also needs to ensure that all costs are reasonable, allocable, allowable and in compliance with sponsor requirements and regulations. This includes the confirmation of effort performed on the award, as well as justification of all costs charged to the award as required and part of the original proposal.

Costing Principles

Penn State’s cost policy is based in Federal policy, which we must agree to follow as a condition of receiving federal grants and contracts. Basic concepts included in federal costing principles are:

ALLOWABLE: Allowable costs are specifically related to the sponsored agreement, benefit the sponsored agreement in the proportion to the amount charged, and conform to the policies and procedures of Penn State. The costs must be necessary for the performance of the project. It is the PURPOSE of the charge, not necessarily the type of charge that determines allowability.

ALLOCABLE: Allocable costs are those that provide direct benefits to the project and can be specifically identified to that project with a high degree of accuracy. A cost may also be allocable to multiple projects. It is important that the costs be allocated appropriately across all projects which benefit. It is not appropriate to charge all of the cost of an item to one sponsored award, and a second to another – each cost needs to be allocated based on how it benefits the various projects.

REASONABLE: Reasonable costs reflect the actions a prudent person would take at the time the decision was made to incur the costs. Reasonable costs are those that are generally recognized as necessary for the success of the sponsored agreement and are consistent with the sponsor and Penn State policy.

In summary, the primary question to ask in making a determination as to whether a particular cost is allowable, allocable and reasonable is: Does the cost benefit the project?

Management of Multiple Awards: When a PI has multiple awards, there must be utmost care given to manage each award separately, and not to view the various sponsored awards as one large award pool. Generalized costs allocable to different awards cannot be paid on one award one time and a different award the next time – the costs need to be
allocated based on usage or another reasonable method for each incurred transaction. In other words, you cannot “rob Peter to pay Paul”. The University’s accounting system allows for the allocation of costs to multiple awards at the time of the transaction.

Direct vs. Indirect

**Direct costs** are those expenses that are essential to the conduct of sponsored institutional activities and which can be readily attributed and directly charged to specific individual projects. They include expenditures for such items as personnel (salaries and fringe benefits), supplies, equipment, travel and other direct costs necessary for conducting the sponsored activity.

**Facilities and administrative (F&A) costs** (also referred to as indirect costs or overhead) are those expenses that are essential to the conduct of sponsored institutional activities but which cannot be readily attributed and directly charged to specific individual projects. F&A cost rates are determined periodically from actual cost records through a detailed accounting procedure specified by federal cost principles. The rates are audited and approved by the federal government. Separate F&A cost rates are calculated for research and instruction, and on- and off-campus sponsored activities. [http://www.research.psu.edu/osp/documents/rates/Rates10-11.pdf](http://www.research.psu.edu/osp/documents/rates/Rates10-11.pdf)

Sponsored awards are expected to recover full F&A costs. Guideline RAG04 – Guidelines for Gifts, Grants and Contracts (The Funding Matrix) provides detailed guidelines regarding the recovery of F&A costs and includes a detailed information across the continuum of industry and private research funding. Failure to recover F&A from a sponsor places the recovery of those costs on other revenue streams such as tuition, endowments or discretionary funds.

**Cost Accounting Justification**: Determining if a cost should be included as a direct cost should be done at the proposal stage. There are certain departmental costs which are included as F&A, and therefore, should not be included as a direct cost. PIs should work closely with the Research Administrator to ensure that costs normally considered F&A are not included as direct costs in a proposal, unless there is a compelling reason to do so, and the reason is documented and approved through the [Cost Accounting Justification form](http://www.research.psu.edu/osp/documents/rates/Rates10-11.pdf). This form may also be completed at the time of purchase.

**Cost Sharing**

External funding solicitations can call for institutional cost sharing as a condition for an award. Whereas the University is firmly committed to assisting faculty in the pursuit of external funding for research initiatives and program development, the resources available for cost sharing are limited. All cost sharing must be approved by appropriate institutional officials who administer the sources of cost-sharing funds. All cost sharing must be documented in accordance with University and sponsoring agency policies.

Requests for cost sharing of F&A costs or for institutional cost sharing through the use of F&A costs must be submitted as detailed in [Policy RA06 – Cost Recovery for Sponsored Programs](http://www.research.psu.edu/osp/documents/rates/Rates10-11.pdf).

**Advance Fund Numbers**

No work should be done and no expenses should be incurred on a project until the establishment of an account in IBIS which requires having either a fully executed award or a request for the “advance fund”. Beginning work and charging other funds, including general funds, is already assuming the risk of the project, so it is better to contain the costs where you anticipate them to reside eventually. **It is unacceptable to charge other accounts set up for other research projects with costs not associated with that particular project.**
General Cost Management Principles

All costs need to have adequate documentation to support their application to a sponsored award. The documentation must provide enough detail for a reasonable person to understand the purpose of the cost and how it benefited the sponsored award. These justifications must be documented in appropriate IBIS forms through the explanation, purpose, description and/or notepad. In certain cases, additional justification, such as the Cost Accounting Justification form noted above, or explanations for late transfers, may also be required, beyond the detail included within the expense transaction.

In addition, signatures on reports, including effort confirmation, are asserting a claim that the contents of the reports are accurate and appropriate. Review of reports, including effort confirmations, is critical before reports are signed to protect those signing. It is the responsibility of the PI to bring forward any questions regarding costs reported to the research administrator or Financial Officer before signing and certifying the costs. Knowingly signing an incorrect report regarding costs charged to a sponsored award is a false claim.

LABOR DISTRIBUTION

All departments distributing labor to federally sponsored projects must use the Pay and Effort system to perform the distribution, with the exception of the Defense-Related Research Units, which have their own audited labor distribution system. Distributions to restricted accounts through the Pay and Effort system are to be made only upon the direction of the Principal Investigator (PI) of the project or, for non-federal funds, the Budget Administrator of the account, or their authorized delegates. Wages must be directly charged and appropriately approved through the WAGC form.

It is the responsibility of the Principal Investigator or Budget Administrator to ensure that the amount of salaries charged to a particular account is appropriate given effort expended and the specific terms and conditions of the particular grant or contract. The Budget Executive, Budget Administrator or Principal Investigator or their authorized delegates are expected to review monthly clearing account vouchers for each account within the month following the pay date. If the effort distribution is not correct, the person reviewing the voucher must report the corrections by means of a memo, a notation on the voucher or by submission of an updated salary assignment sheet to the affected account’s Financial Officer.

EFFORT CONFIRMATION

The University is required by federal regulation to periodically report on 100% of the effort of employees who perform services chargeable to federal grants and contracts and/or who have a portion or all of their earnings chargeable as departmental administration on University general funds. Current practice is to charge effort monthly based on our Plan Confirmation labor distribution method and confirm effort annually (with exception of DRRU).

A summary for each account of salary amounts and related percentages to the total salary charged for each month is distributed to the administrators and/or Principal Investigators for confirmation of effort on an annual basis, and within 45 days after the end-date of each sponsored program. The Plan Effort Confirmation Statements will be produced after the end of the fiscal year for all accounts open during the fiscal year and must be signed and filed by September 30th each year. These statements will also be produced by the unit for individual accounts upon reaching the end-date of the sponsored program. These are to be signed by the Principal Investigator and Budget Administrator.

NON-PERSONNEL COSTS

Non-personnel costs must follow the basic costing principles of reasonable, allocable and allowable. All non-personnel costs charged to sponsored awards must comply with University policy, as well as with any specific sponsor requirements and federal and state laws and regulations.
There are very specific regulations related to sub-agreements, purchased services, external consultants and property and equipment. There are also special provisions for Travel, such as the Fly America Act, which requires the use of US Flag air carrier service for all international air travel.

Equipment should be purchased at the beginning of a project, to be able to get full benefit from the equipment use during the project period. **Equipment purchases will generally not be permitted in the last 6 months of a project (especially a multi-year project) and definitely not during the last 90 days.**

**Corrections to Costs (Transfers):** All sponsored award expenditures should be initially charged to the correct sponsored project. However, occasionally expenses are charged erroneously. When an erroneous entry affects a sponsored project, the correction must be made on a timely basis and sufficient information must be provided to allow for a clear audit trail back to the initially recorded expense. Documentation regarding what cost is being transferred and why the cost belongs on the sponsored award to which it is being transferred is required.

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**CLOSING SPONSORED AWARDS**

Awards are considered completed when all work is finished or on the date the award expires or terminates. If, at the end of the award period, the PI has not received a renewal or no-cost extension and one is not anticipated, closeout of the award must be initiated. The Corporate Controller’s Office requires the submission of the [Account Close or Extension (ACE) form](#) to close the award. The expectation is that **awards will be closed within 90 days of the award end date.** Closeout timelines and checklists are available in the full policy and can be reviewed with the research administrator and/or Financial Officer.

The Principal Investigator (PI) is responsible for checking the award document for all pertinent details about closeout procedures and dates as well as performing a full review of costs, including effort, to ensure all costs are reasonable, allowable and allocable. The PI is also responsible for preparing and submitting technical reports as well as patent reports, if applicable.

**Property and Equipment:** The PI should review all property and equipment acquired or fabricated under the award to determine ownership, appropriate tagging and inventory and delivery of any property or equipment which must be returned to the sponsor if required. There are requirements related to the continuing management of government-owned property which must be followed.

**Audits, Reviews and Investigations**

If a PI receives notice of an audit, review or investigation from any sponsoring agency, federal agency or independent auditor, the Corporate Controller’s Office must be notified immediately through the Financial Officer. PIs and others involved in a sponsored award should not discuss or respond to any inquiries related to an audit, review or investigation unless told to do so by the Corporate Controller’s Office.