All About Costs A Post-Award Primer

Philip Smith: The topics of discussion today are cost principles, administrative standards, audit requirements, grant award basics, award restrictions, responsibilities, accounting basics and monitoring basics. Next slide. To set the backdrop for our discussion today, we'll first cover federal requirements. Next slide. As part of HHS, NIH is subject to 45 CFR Part 75. This regulation establishes uniform administrative requirements, cost principles and audit requirements for all HHS federal awards. Next slide. First, we'll talk about cost principles. Here referenced are the cost principles applicable to the different types of institutions. As you'll see, for-profit institutions are subject to cost principles outlined in the federal acquisition regulation and state/local governments, Indian tribes, nonprofit organizations, hospitals and institutions of higher education such as the University of Maryland are subject to the cost principles outlined in 45 CFR Part 75. Cost principles apply to all NIH awards including modular awards and awards under SNAP with one exception, that exception being NIH fellowship awards. The allowable use of funds for those awards can be found in NIH Grants Policy Statement Section 11. When thinking about cost principles, it's important to keep in mind the four tests of allowability. Those tests are reasonableness, allocability, consistency, conformance. We'll take a deeper dive into these tests later on in our presentation. So, next slide. So what are cost principles? Cost principles establish principles for determining costs applicability for grants, contracts and other agreements. Cost principles define direct costs and indirect costs, or otherwise known as F and A. In the cost principles, you'll find a list of allowable and unallowable costs. If you're ever questioning the allowability of a cost, you may find it useful to look carefully at the general provisions for selected items of cost in Section 45 CFR 75 Subpart E. This covers allowable or unallowable cost items. Another useful place to find allowable costs and detail on allowable cost is within NIH Grants Policy Statement Section VII. There, we cover the allowability of cost activities. Next slide. Now we'll move on to administrative requirements. These requirements address the monitoring of funds to safeguard federal assets, ensure federal funds are used solely for the purposes authorized. All administrative requirements are very important, but for the purposes of our presentation today, we've referenced two on this slide, first being the preaward requirements which could be found in 45 CFR subpart C and next being the postaward requirements which are found in 45 CFR part 75 Subpart D. Next slide. The pre- and postaward requirements addressed items such as payment, matching or cost-sharing, accounting for program income, revision of budget and program plans, nonfederal awards and allowable costs. Additionally, they provide standards for financial management systems, property, procurement and reporting. Now let's take a look at audit requirements. Listed here, we have the different audit requirements for the different types of institutions. Please note that foreign organizations will follow the same audit requirements as for-profit organizations. When thinking about audit requirements for NIH awards, one key point to remember is that any institutions that expends over $750,000 or more are subject to audit requirements. Next slide. And here, we've provided a summary of the audit requirements. It's organized by recipient type. This summary also provides information on where you would submit your audit reports. Next slide. And here, we also have a summary on the federal requirements which we just covered. This table is also organized by recipient type and nicely summarizes the location of the appropriate administrative requirements, cost principles and audit requirements. Now I'll turn it over to Laura to talk about grant award basics.

Laura Gray: Thanks, Phil. So now, I'm going to speak about the grant basics, and so NIH Grant Award is the legal binding document and as such contains really important details and requirements as well as helpful information for you to reference while you're managing your project. Some of that information includes the funds that you're being awarded that year and in the future year, your start and end dates for your budget and project period, the names of your program officer and your grants management specialist that are listed on your notice of award, who you can contact with questions for that award and your terms and conditions of award. So I'm going to speak a little bit more about your terms and conditions of award now on this slide. So Section III of your terms and conditions of award for NIH awards incorporates by reference or directly 45 CFR part 75 which are the rules and requirements for all HHS awards as well as NIH Grants Policy Statement, which is a term condition of all awards. And then in Section IV, you have your specific awards that are the fine print, and it's particular for that particular award. So in that section, you will see restrictions potentially, and some of those restrictions you might be familiar with are sometimes at the end of the fiscal year, if NIH hasn't received an IRB approval from the recipient or applicant organization, you might see a restriction in your Section IV of your notice award that says, "No funds may be expended towards human subjects research prior to certification of IRB approval," and that means that no funds can be expended for that purpose until you receive a revised notice of award that doesn't have that restriction on it. On this slide, it notes that funds are usually not restricted in the payment management system, but if there is a restriction on your notice of award in Section IV, even if the system doesn't restrict you to pull down, that notice of award is something that you have to abide by, and so you are restricted from pulling down funds for that purpose even if in the system, it is not. Some other restrictions that you might see are based on the mechanism, so for example, if you have a K or career development award, you may have seen a restrictive term that says, "The principal investigator must commit 75 percent effort or 9 calendar months to this award," and that's something that you'll have seen in the funding opportunity announcement and you'll have to comply with it because it will be in your notice of award as well. There are also restrictions that the funding institute or center might have put on your award based on perhaps your institution falling behind on requirements for reporting. There could be special award conditions, and something else I just wanted to note was that while NIH provides the notice of award to the primary recipient, it's the primary recipient's responsibility to ensure that the subrecipient is following the terms and conditions of award as well. So with that, I'm going to hand it back over to Philip to talk about accounting basics. Philip?

Philip Smith: Thanks, Laura. So now, let's briefly dive into accounting basics. First, let's talk about administrative standards for accounting. As mentioned earlier, administrative standards are found in 45 CFR Part 75. These standards require that grantees establish, one, a separate account for each project, two, program income must be identified or accounted for by project, three, also program income should be used in accordance with the appropriate alternative. These alternatives include additive, deductive, combination and matching with additive cost being the most common of the four. You can find a description of these different program income alternatives within the NIH Grants Policy Statement Section 8.3. Next slide. Moving on, if you've ever experienced an audit, then you know that supporting documentation is key, and this goes double when managing federal awards. When managing your federal award, you'll want to ensure that costs are supported by appropriate source documentation. This means you'll want to have on hand documents like invoices, payroll slips, time sheets, justifications and explanations. Failure to maintain the supporting documentation for costs may constitute a material violation of the terms of award. Now I'll turn it over to Laura to cover monitoring basics.

Laura Gray: Hello. So monitoring ... this image. Administrative statements require the monitoring of funds to safeguard assets to ensure that the funds are being used for the purpose for which they were authorized. So, for example, in 45 CFR part 75 Subpart D, you probably are familiar with the postaward requirements, and those detail, amongst other things, the financial and program management requirements, performance and financial monitoring reporting, and that is to ensure the proper financial management of the grant funds that you've been given for the purpose that you've been given them. So on the next slide, you'll see recipients must have accounting and internal control systems that provide for appropriate monitoring of grant funds to ensure obligations and expenditures are accurate and allowable. These systems must be able to identify large and obligated balances, accelerated expenditures, inappropriate cost transfers and other inappropriate obligation and expenditure of funds. And this next slide shows how monitoring activities must include comparing actual expenses to the budget that you were authorized to ensure that total funds on the grant have not been exceeded, so you're not spending funds that you don't have for that award, that total funds are being used appropriately, so they're complying with the four tests of allowability, that total funds for any cost category have not been exceeded. So, for example, if you have a restriction in your Section IV that says, "No costs may be expended on travel," that you're not, that you can monitor that appropriately to ensure that you're complying with that restriction. And all these restrictions may seem overwhelming, but it is simply to ensure that you are using the money appropriately in order to complete the science that you're authorized to do. So on the next slide, we talk about accurate charges, and costs are considered allowable or accurate if they meet the four tests of allowability, and the four tests of allowability are reasonableness, allocability, consistency and conformance, and I'm going to go into more detail in the next few slides with these tests. So what is reasonable? Well, a cost may be reasonable if a prudent person would consider that cost reasonable based on the knowledge that they have. So, for example, if I had a microscope for myself, and I had information about four different microscopes, and I knew that my son needed the specifics details of the microscope for his assignment in class, but all four microscopes had those abilities, and one was the cheapest, as a reasonable person, I would make a checkout for the cheapest microscope that fulfilled all of the requirements of his project, and I'm sure all of you would do the same. The question there is, are there extra costs that are reasonable? And if the extra costs aren't reasonable, is there an option for something else that is reasonable that fulfills everything? So the next test of allowability is allocability, and in allocability, you have to consider if things are benefiting that particular project. So for instance, you have to ask yourself, "Is this cost benefiting this National Cancer Institute award? Does it advance the work of this National Cancer Institute award?" And if it's not, then it's not allocable for that particular award, and it can't be, "Oh, it's allocable for another NIH award," even though there are multiple ICs and centers. It has to be allocable to that particular NIH award. So for the next slide, it talks about consistently applied, and for that test, you have to consider costs incurred for the same purpose in like circumstances. So that means that, for example, in appendix three of 45 CFR part 75, it details that office supplies must normally be treated as F and A, or indirect costs, and so consistently, your organization should be applying office supplies like postage and envelopes as indirect costs because they have a common purpose amongst various projects and would be an unlike circumstance in a specific term and condition of award in where an office supply wouldn't be considered indirect cost, but in general, they are indirect costs. And then for the next test, and the last test, is conformance, and a cost in conformance, it means that it is conforming to the limitations and exclusions set forth in the cost principles allocable for your particular organization, as Philip went over before with different cost principles, and it's conforming to the particular laws that govern your organization within your state, all those regulations. It also is conforming for different mechanisms, so for instance, conference awards. It's unallowable in NIH conference awards to charge for meals, so consistently, your organization should not be charging meals on conference award mechanisms, or, for instance, if you have an institutional policy that was more strict in general and said, "For any award that NIH provides or any award that any federal government provides, we won't charge meals for that award," you would have to conform with policy. It is more strict, but it is still ... As long as it's in compliance with your terms and conditions award, your institutional policy can be more strict, and you have to conform with that. So now I'm going to hand it over to Philip to test your knowledge and do the first case study. Philip?

Philip Smith: Thank you, Laura. All right. So for our first case study, we have Dr. Grant decided to host a very important departmental meeting at his home and serves beer, pizza and pizza hoping that everyone would attend. The purpose of the meeting was to discuss changes to NIH Grants Policy which affected the group of the entire department. Therefore, he decided to charge the cost of the beer and pizza to his grant especially since he was providing the use of his home. Is it okay to serve pizza and beer? Now let's go to the poll to see for your opinions on this question. So we'll give you about 30 seconds to provide a response. There's four possible answers listed here. All right. I think that's enough time, so let's see what the results are. All right. Great results. It looks like we have a large majority voted for option number two, which is the correct answer. That is exactly correct. Since the meeting is not for the purposes of disseminating technical information for the specific award, these costs would not be allowable. It is also important to note that generally, food is considered an entertainment cost which is unallowable and that alcohol is unallowable unless required as part of the study. So we'll move on to case study number two with Laura.

Laura Gray: Thanks, Philip. So in case study number two, it says, "Dr. Grant needed a specialized microscope for his research supported by NIH grant from the National Cancer Institute. When deciding on the model that would best suit his needs, he received several price quotes on various models that were all within the general price range. However, one microscope in particular appealed to him. It met all the necessary specifications plus many additional features. Although it was $10,000 more than the others, he ordered it. Is the purchase for the most expensive option allowable?" We're going to go to the poll and test your knowledge there. All right. Oh, that's great. Yes, it seems like an overwhelming majority of you said number two, and that is the best answer. We were looking for that one, and the answer for that, that most of you picked, was: No, this is not the only microscope available with the required capability, and the additional features are not necessary, which is key to complete the aims of the project, so the additional cost is not justifiable. And that's something to note, too, is there could be a reason why that microscope would be reasonable. Perhaps that's the only microscope that's available within a specified period of time, and although it's $10,000 more, it would set the project back a lot more if they didn't get that microscope now, and it was the only option. Then you would want to document that justification and put it in your file so that you have it for audit, but as you guys said, the most reasonable answer with the information that we had is that you wouldn't get that microscope because the other ones have the capabilities that you needed and with the information that we had, there wasn't a reason to justify that more expensive microscope, so a prudent person wouldn't have purchased that. So now, I'm going to go to Philip for case study number three. Philip?

Philip Smith: Yep. All right. So for case study number three, we have, "Dr. Scientist's lab was running low on office supplies. Since she couldn't wait any longer for her institution to provide the supplies, she purchased them and charged them to her NIH grant account. Is it allowable to charge office supplies as direct costs to an NIH-funded project?" Let's go to the poll possible answers here and see what everyone thinks. Next slide. Okay, great. I think that's enough time. Let's see what our results are. And again, looks like everyone, or a majority of everyone, is on point. The answer we were looking for is number one which is, no, office supplies are always indirect costs. So generally for institutions of higher education, items such as office supplies, postage stamps, local telephone calls are normally treated as indirect costs. If such costs are included in the direct cost claim, that cost would be constituted as double-dipping, which we frown upon. It's not allowable. You cannot pay for the same item twice using direct and indirect costs, so, everyone, appreciate your answer, and everybody was right on point with that one. Now I'll turn it over to Laura to talk about case study number four.

Laura Gray: Philip, so for case study number four, we have Dr. Pi, who's finally ... microscope has arrived, and he found that equipment funds for his National Cancer Institute grant was fully expended. Since the microscope was for use on an NIH award, he decided to charge the cost to another one of his NIH awards that was funded by the National Eye Institute, and the question is, is the cost of the equipment allocable to the NEI award? So now we're going to go to the poll and test your knowledge. Okay, and with the poll results, it looks overwhelmingly like you picked number one, and that is the correct answer, and I appreciate that you're making comments in the chat as well about your interpretation, but thank you for taking that poll. We would agree with you that since the microscope will be used on a National Cancer Institute grant, it is allocable to the National Cancer Institute grant, not to the National Eye Institute grant, and while they're both within the NIH, they have specific terms and conditions of award. They have specific cost authorized for those grants for which you have individual notices of award, and so you would have to question, like you did. Does that microscope benefit your NEI award? Does it advance the specific work of that NEI award? And if the answer is no to that, then it's not allocable to the NEI award. So thank you very much for all of your feedback and all of your responses. I just wanted to point out in this next slide, we have a general compliance inbox, and so if you have any questions that we're not able to get to in this presentation or during the virtual seminar, please do direct your questions to that inbox. It's regularly manned, and we answer those questions on a regular basis, and those would be a great place to go also if you don't time during the presentation to go to Slack. If you have time during the virtual seminar to go to Slack, Philip, myself and other colleagues in the Division of Grants Compliance and Oversight are manning our Slack channel and answering questions that we have the ability to, but always throughout the year, that inbox is available for you to reach out to, and please do feel comfortable doing that. With that said, now we're going to go to some questions and answers that you've provided to us during the presentation, and we'll get to as many of those as we can. So with that, we're going to hand it over to our moderator, Diane.

Diane Dean: Hi. So we did get a lot of very good questions, and let me pull out a couple of them that I think would be of interest to everyone. The first one is a question about preaward costs. Are preaward costs that are incurred 90 days prior to the beginning date of an initial budget period of a transfer grant allowable? Philip, would you like to take that one?

Philip Smith: Sure. So the 90-day requirement actually does not apply to the transfer grants. Those would be treated as if they were noncompeting awards, which are not restricted to the 90 days. With that said, I recommend that you consultant with your grants management specialist to ensure that you're in compliance with the terms and conditions of your specific award, which may have other requirements outside of the general policy on the preaward cost requirements.

Diane Dean: Okay. Thank you, Philip. Let's see. Here's a good one. Why is the reasonable test referred to as the checkbook test? Laura, could you take that one?

Laura Gray: Sure. Thanks, Diane, and thanks for that question. Like I mentioned in the presentation, the reasonable test is one of the four tests to determine allowability, and some people refer to it as the prudent-person test. Some people refer to it as the checkbook test, and it all gets to the point that you have to consider in the first test of allowability is, would a prudent person, or would you be okay, with writing a check for that amount of money for that item with the information that you know? So does it fulfill your needed purpose, and is it reasonable, and you would write your personal check for that? So that's what the checkbook test is. It's one of the tests of allowability also referred to as the reasonableness or prudent-person test.

Diane Dean: Okay. Thanks. Laura, here's another one for you. I submitted a carryover request to the project officer and haven't gotten a response. What is the typical turnaround time for a carryover request?

Laura Gray: Well, thank you for your carryover questions. Carryover questions come up quite a bit. I believe I heard that you submitted it to your program officer, and so I just wanted to highlight the fact that carryover requests should be submitted to the grants management specialist on your award. That could be submitted through eRA Commons or through e-mail, and the e-mail should come from your authorized organizational representative, perhaps that's you, and be sent to your grants management specialist denoted on your notice of award, and that's because the grants management specialist handles the financial and administrative aspects of your award such as carryover.

Diane Dean: Okay, thanks. Oh, Philip, here is one that we get a lot. I'm going to give this one to you. Are visa costs allowable on NIH-funded grant awards?

Philip Smith: So, yes, we get this one quite often. So visa costs are allowable when it's a cost. NIH does allow them when it's a cost as a result of recruitment, so if you're an institution, and you're trying to recruit somebody from abroad, we would allow that cost, the visa cost, for those instances as long as there's a relationship in place between the individual and the institution and employee/employer relationship. Visa cost may also be allowable if the FOA, funding opportunity announcement, says that those costs are allowable. When in doubt, I also would like to refer you probably to the Section 7.9 where we address allowable costs, and in there, we have a more detailed explanation of the visa costs and what situations would be allowable, and then I also would like to refer you to your grants management specialist. Always consult with them and your Office of Sponsored Research also. You would want to consult with them also to ensure that you're following institutional policies and are in line with what your institution requires for visa costs.

Diane Dean: Mm-kay. Philip, thanks. Here is one for Laura. Does an FFR have to be approved prior to submitting a carryover request?

Laura Gray: Thanks for that question. Yes, an FFR is one of the essential documents that need to be submitted to OFM for approval prior to a carryover request. I do see some of you answering others' questions in the Q and A, and thank you for that, and also I do see a comment that carryover requests do take quite a while, and I understand that. It depends. Obviously, we're all very busy, and there's lots of things going on, but in order to streamline the response, like I mentioned, you definitely want to make sure that it's going to the correct individual, the grants management specialist, through eRA Commons or through e-mail from the authorized organizational representative that you have your FFR submitted and approved because that's one thing that holds up the process and then that it has all the required information on it like the grant number, the basic information that the grant management specialist is going to have to consider in order to review that carryover request.

Diane Dean: Thanks, Laura.

Philip Smith: I would like to add. I don't know if you mentioned, Laura, but you can now submit those requests via eRA Commons also, so that's also another good way to submit those requests to ensure that they get to the right hands. Even though you can submit it electronically, I also recommend following up with an e-mail to your grants management specialist if you do do it that way because sometimes, those notifications might be overlooked, so an e-mail is always prudent in that case.

Diane Dean: Thanks for that good tip. Philip, here's one for you. Are higher-education entities supposed to share indirect costs with the PI so that they are able to purchase such things as office supplies?

Philip Smith: So, yes. Indirect cost should be used typically for office supplies. I did see in the chat earlier that somebody mentioned that during our case study, we said, "always," and I guess there are instances where you may charge office supplies as direct costs, but those are very rare in circumstance especially with things like office supplies, but in those cases, it would have to be specifically attributable to the grant in whole, so that would be very difficult especially with things such as pens and paper. But, yes, the indirect costs are to be shared with the direct projects throughout the institution to satisfy their need for items such as office supplies.

Diane Dean: And I'll just jump in and add a little bit to that as well. The costs, as Philip said, are really costs that the institution is recovering. They've already spent money on their indirect cost expenses such as supplies and electricity and things like that, so it's a cost recovery to the institution, so the institution then determines how that cost recovery is spent, whether they want to allocate portions of it to the PI or whether they determine that they're going to use it in some other way. That's up to the institution to decide how to expend that. Okay. Let me see if I can find another one here. Is there a chance that a full carryforward request amount may not be approved, and if so, why?

Laura Gray: So the short answer to that ... Oh, sorry. I'll speak up, and please feel free to jump in, Diane and Philip, is: Yes, carryover requests can be denied, and it would be ... It's on a case-by-case basis based on the information provided. For example, if a carryover request is requesting to carry over funds for activities that were not authorized in the notice of award, and you're just saying, "Well, we have more funds, so can we do X, Y and Z?" even though X, Y and Z wasn't authorized in the notice of award, your carryover request would be denied because it's not being used for the authorized purpose of that project. That's one example.

Philip Smith: Yeah, I'd like to add to that, Laura. Quite often, institutions may have their carryover request denied if they're simply submitting just to move the funds from one budget period to the next. There has to be a need for the funding, so quite often, institutions will submit carryover requests for funding, but you will see in their management system that there are still funds available, and the justification provided in those carryover requests may not clearly show an immediate need for the funding, so in those instances, the GMS has the discretion to determine that there actually isn't an immediate need, and they may deny it in whole or in part.

Diane Dean: Okay. Thanks, Philip. I think we have time for one more quick question and see if we can get one more in. When one of the PIs, PD/PIs, on a multiple-PI award transfers to another organization, how is it determined whether the award is transferred or remains at the current organization? Philip, would you like to take that one?

Philip Smith: I'm sorry, Diane. I was distracted by the chat. I missed the question. Could you repeat it for me?

Diane Dean: Yes. When a PI that's on a multiple-PI award transfers to another organization, how is it determined whether the award is transferred or remains at the current organization?

Philip Smith: So that is really up to the parent institution to decide where it would remain. So I'm assuming in this case, the multiple-PI award has all the PIs located at the same institution, and one of those PIs moves to a different institution. So then it would be upon the discretion of the institution to decide if they would like to transfer that award to the new institution in which the PI is relocating to. However, the new institution would also have to want to take on that administrative role for the grant, so I hope that helps you with your question.

Laura Gray: Yeah, and just to jump in and add to Philip's great response, it's important to note that the awards aren't being given to a principal investigator even if there's only one principal investigator on the award. The award from NIH is being gifted to the recipient institution, so that's usually an institution of higher education, for example, University of Maryland, and it happens that principal investigator John Doe is on that award, and he is moving the science and technical aspects forward, but it's not awarded to him. It's awarded to the University of Maryland, and so if he goes to the University of California Davis, the award is at the University of Maryland, but if the University of Maryland determines that they cannot do the work without him and that they want the work to move forward, and the University of California Davis says that they want to support that award as well, and they have staff to support John Doe, then they can ask for that to be transferred, and the University of Maryland can request for that to be transferred.

Diane Dean: Okay, I think that we've gotten to as many of the questions that we can fit into today's session. Thank you all very much for your great questions. Any questions that they didn't get to, as we talked about in the beginning, you can send to this Grants Compliance mailbox at this address that's showing on your screen for questions, and we thank you very much.