

# Sponsored Programs Reference Manual

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[web.mit.edu/osp/](http://web.mit.edu/osp/)



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# Table of Contents

## 1. The Environment for Research

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**Introduction**

**The Research Team**

**Role of the Federal Government—The Need for Regulation**

**Types of Sponsored Agreements**

**Sponsored Projects**

**The Difference Between Gifts and Grants**

**Policy and Regulation—The Role of Audit and Research Compliance**

**Institute Policy and Federal Regulations**

**Compliance**

**COEUS—MIT's Management System for Sponsored Programs**

## 2. Sponsored Programs Basics

---

**Introduction**

**What is OMB Circular A-21?**

**Cost Principles**

**Cost Accounting Standards**

**Project Workflow**

**What is a Proposal?**

**Life Cycle of a Project**

**Preparation and Submission of the Proposal**

**Proposal Budgeting**

**Budget Preparation**

**Management of Project Expenditures**

**Special Requirements Related to Sponsor Notifications and Prior Approvals**

### **3. Direct Charging**

---

**Introduction**

**Flexibility through the use of “Expanded Authorities”**

**Direct Expenses**

**Salary Distribution and Certification**

**Other Salaries and Wages**

**Technical Materials**

**Telephone Toll Charges**

**Travel Costs**

**Service Center Charges**

**Subawards**

**Food and Beverages**

**Compliance with the Allocation and Documentation Standard**

### **4. Cost Sharing**

---

**Introduction**

### **5. Administrative Charging**

---

**Administrative Expenses**

**Administrative Expense Criteria**

**Allocation Accounts**

### **6. Cost Transfers**

---

**Introduction**

**Criteria for Cost Transfers**

**Transferring Expenses Off a Sponsored Project**

## **7. Equipment Purchase & Property Management**

---

**Major and Minor Equipment**

**Sponsor Terms and Conditions for Major and Minor Equipment**

**Purchasing Equipment on Sponsored Research Projects**

**Types of Equipment**

**Disposition of Equipment**

**Sponsor-owned Equipment and Property**

**Property Management**

## **8. Project Monitoring**

---

**Introduction**

**Overall Responsibility and Delegation of Authority**

**Pre-Award Costs**

**Spending**

**Late Expenses**

**No-Cost Extensions**

**Close-out**

**Record Retention**

**Audits and Auditors**

## **Appendix – Key References**

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## **Appendix – Terms and Definitions**

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# 1. The Environment for Research

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## Introduction

The Massachusetts Institute of Technology is a \$2 billion non-profit corporation. The Institute's revenue includes tuition and gifts, as well as a significant amount of funding from external research sponsors, including the federal government, industrial sponsors and foundations. The research enterprise can be characterized by a "cradle to grave" process. This process begins with a concept or idea that is turned into a proposal, followed by an award, the performance of the project, and several other steps that ultimately lead to the closeout process. Understanding the entire process will help you to become a more effective research administrator.

The Principal Investigator (PI) has overall responsibility for the technical and fiscal management of a sponsored project, including the management of the project within funding limitations, and assuring that the sponsor will be notified when significant conditions related to the project status change. While responsibility for the day to day management of project finances may be delegated to administrative or other staff, accountability for compliance with MIT policy and sponsor requirements ultimately rests with the PI.

## Proposal Preparation and Processing

The Office of Sponsored Programs (OSP) is the central administrative office responsible for submitting proposals

and accepting awards on behalf of MIT. Sponsored project proposals may only be submitted, and awards accepted, by individuals authorized in OSP to sign the necessary documents. Because proposals are submitted, and awards are granted to the Institute and not individual PIs, PIs and administrative staff are not authorized to submit proposals, accept grants, or execute contracts on behalf of the Institute. Questions in this regard may be addressed to the Director of OSP.

## Award Acceptance Process

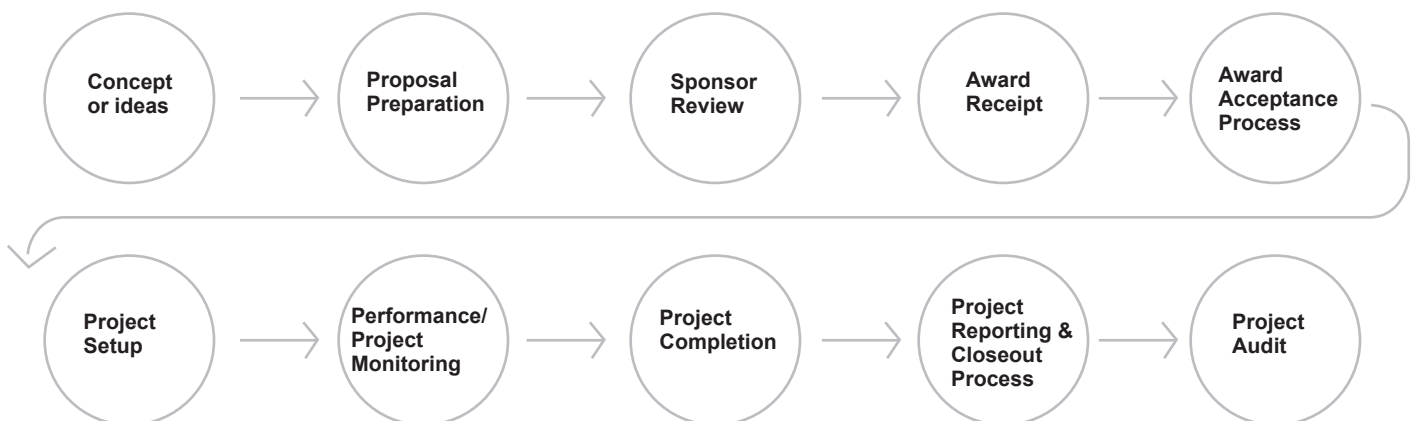
After a proposal has been accepted by OSP and submitted to a sponsor, and the proposal is selected for funding, the negotiation and acceptance processes begin. Awards are reviewed and, if necessary, negotiated by the appropriate Institute official to ensure the terms and conditions are acceptable. As appropriate, OSP will consult with the PI, department/laboratory/center (DLC) administrators, and other administrative offices, such as the Technology and Licensing Office or the Office of Intellectual Property Counsel. The negotiation process can take as little as a few days or a long as several months.

## Performance/Project Monitoring

This is the core of research administration. While the research is underway, the project is being administered and monitored. Expenditure statements are reviewed and reconciled. Effort and salaries are distributed and certified.

**Figure 1.1: Work Flow – Proposal to Closeout**

Each of the elements described in the overview below are described in more detail in subsequent chapters.



Activities such as subaward setup and monitoring and procurement of materials and supplies, need to be performed during the course of the research.

### **Project Completion**

At the end of each project, the Institute must go through the closeout process. It is important to submit all deliverables (including technical reports and patent/intellectual property reports) to sponsors in a timely manner, and to assist OSP and the Controller's Accounting Office (CAO) as requested, as all reports normally must be completed and submitted within 90 days of the end of the project.

### **Project Audit**

Every project's records must be kept a minimum of 3 years from project closeout for audit availability, and longer in certain instances. Audits may be performed during the life of the project or at completion, and any specific project may be selected randomly for a systems audit.

### **Your Responsibilities**

It is the job of those who approve financial transactions for the Institute to uphold the stewardship responsibilities delegated by the MIT Corporation. These responsibilities are fulfilled by assuring that the expenditures are:

- Allocable to the project based on benefit received.
- Reasonable and necessary for the performance of the project.
- Consistent with established Institute policies and practices.
- Consistent with sponsor or donor restrictions.
- Applicable to the work of the Institute, including instruction, research, and public service.

Everyone who authorizes the expenditure of Institute funds for any purpose must understand how MIT's accounting system (SAP) works, as well as the Institute policies and federal regulations which are implemented through the system.

OSP maintains a glossary of terms and conditions related to the research enterprise which is useful to an individual unfamiliar with the terms and new to research administration (this list appears on the OSP website, the link to which is in the Appendix). In addition, OMB Circular A-110 has an extensive list of federal definitions related to research.



**Key References** - See website links in Appendix and on the OSP home page

- ▶ MIT Policies and Procedures
- ▶ Procurement Department Policies and Procedures
- ▶ Personnel Policy Manual
- ▶ Controller's Accounting Office:
  - Financial Reports
  - On-line Systems
- ▶ Office of Sponsored Programs (OSP) Terms and Definitions
- ▶ OMB Circular A-110
- ▶ In the Public Interest: MIT Report on Access to and Disclosure of Scientific Information

### **The Research Team**

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There are a large number of ongoing, externally-sponsored research projects at MIT. These projects are accomplished by dedicated research teams typically composed of a principal investigator (PI), research staff, and students; department/laboratory/center (DLC) administration; and central administration.

The administrative responsibilities and roles of the research team can be described as follows:

#### **Principal Investigator**

- Has overall responsibility for all aspects of the research project.

#### **Departmental/Laboratory/Center Administration (DLC)**

- Ensures compliance with award terms and conditions, MIT policies, and sponsor requirements.
- Processes transactions to support research initiated by the principal investigator and his/her designee.

#### **School Administration**

- Reviews, advises and approves proposals.

### Central Administration\*

- Provides guidance, training, clarification and interpretation of policies, terms and conditions.
- Reviews, advises and submits proposals and purchases, and approves agreements.
- Represents the Institute on behalf of the MIT Corporation based on transactions initiated by the departments.

\* Central and Academic Administration includes the following offices that are involved in the administration of research: the Office of Sponsored Programs (OSP), the Office of the Vice President for Research, the Controller's Office, Procurement, Internal Audit, the Technology Licensing Office, the Intellectual Property Office and the Office of the Vice President and General Counsel.

Awards for research and other sponsored activities are made to MIT, not to individual researchers. However, the principal investigator (PI) is ultimately responsible for the design, conduct, and reporting with respect to the research project. Departmental, school, or central offices provide the infrastructure necessary to support the PI's work, **but ultimate responsibility lies with the PI.**



**Key References** - See website links in Appendix and on the OSP home page

- ▶ Office of Sponsored Programs
- ▶ Vice President for Research
- ▶ Technology Licensing Office
- ▶ Controller's Office
- ▶ Procurement Department
- ▶ Property Office
- ▶ Audit Division

## Role of the Federal Government— The Need for Regulation

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In FY05, MIT had expenditures of more than \$550 million in external research and sponsored program funds. A significant majority of these funds came from the federal government. In its role as a steward of the taxpayer's money, the government has a responsibility to provide principles for determining costs allocable to research and administrative regulations to augment the principles.

These principles and regulations are discussed in this manual's chapter on Sponsored Research Basics. The most significant for the research enterprise are the following:

- **OMB Circular A-21:** Cost Principles for Educational Institutions
- **OMB Circular A-110:** Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- **OMB Circular A-133:** Audits of States, Local Governments, and Non-Profit Organizations
- **Federal Acquisition Regulations:** Contracting Requirements

### Why do we have regulations?

Regulations serve to maintain the public trust; that is, trust in research results and outcomes; trust that human subjects and animals are given the best care and treatment; trust that public funds are spent for the benefit of all; and trust that scientific research is done responsibly.


Research administrators are charged with aiding the PI to ensure total compliance with regulations regarding research.

### What are the consequences of violations of policy or regulation which occur during the course of a sponsored project?

If a PI or his designate violated a regulation through a voluntary or involuntary act or omission, the individual and the Institute could face severe penalties which affect the entire research enterprise at MIT, not just that particular project.

Consequences would include some or all of the following:

- Increased scrutiny by sponsors and audit agencies,
- Corrective action plans,
- Additional regulations,
- Fines, penalties,
- Potentially disallowed costs,
- Harm to the health and safety of individuals,
- Harm to MIT's reputation.

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ OMB Circular A-21
- ▶ OMB Circular A-110
- ▶ OMB Circular A-133
- ▶ Federal Acquisition Regulations

## Types of Sponsored Agreements

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When the federal government or other entity decides to fund research or other sponsored activities, there are several different types of awards that can be used. Assistance awards (grants) allow the most flexibility. Procurement awards (contracts) tend to be more restrictive because they normally require specific deliverables. Other Transaction Agreements (OTAs) are used in limited circumstances and are not the ideal vehicle for support of Institute research.

### Assistance Awards

- **Grants.** A grant is defined as assistance bestowed without expectation of any tangible deliverables other than a final report. It is the appropriate agreement to use in a relationship between the federal government and a recipient whenever:
  - The principal purpose is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support, and
  - There is **no** substantial involvement anticipated between the government agency and the recipient during performance of the activity.
- **Cooperative Agreements.** A cooperative agreement is defined as assistance that substantially involves the sponsor in the outcome of the research results. It is the appropriate agreement to use in a relationship between the federal government and a recipient whenever:
  - The principal purpose is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support, and
  - There is **is** substantial involvement anticipated between the government agency and the recipient during performance of the activity.

### Procurement Awards

- **Contracts.** A contract is generally described as a procurement action. The sponsor is procuring research from the institution and acts as the technical overseer. It is the appropriate agreement to use in a relationship between the federal government and a recipient whenever:
  - The principal purpose of the agreement is for the government to acquire property or services for direct benefit and use of the federal government, and
  - There is **is** substantial involvement between the governmental agency and the recipient during the performance of the activity.

### Other Transaction Agreements

- **An Other Transaction Agreement (OTA)** is generally described by what it is not—that is, it is not an assistance or procurement award. It is the appropriate agreement to use in a relationship between the government and a recipient whenever:
  - Commercial technology is more advanced than military, innovative commercial products should be introduced rapidly, and non-traditional partnerships are most effective, and
  - The government determines that the activity requires that standard terms (particularly intellectual property) are inappropriate for the award.

The terms and conditions the Institute is required to follow varies widely among these different award types. COEUS, MIT's award management system, indicates the specific award type as well as a summary of the terms and conditions of that award.

Non-federal agencies are less precise in their classification of awards, but the Institute is still responsible for classifying these projects accurately in its accounting system.

## Sponsored Projects

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Characteristics of a sponsored project agreement include:

- Specific statement of work (or a set of specific aims);
- Detailed financial accountability and/or reporting;
- Disposition of property;



- Deliverables, including a final technical report, and
- Period of performance.

Sponsored projects are typically awarded to MIT in response to a proposal to accomplish a specific statement of work and commitment to a specified project plan. This statement of work is typically supported by both a period of performance and a budget, both of which are key to financial accountability. The written agreement typically includes detailed and complex financial accountability, including:

- Project budget, including F&A costs;
- Specified period of time in which project funds may be expended, usually defined as “start” and “end” dates;
- Requirement to return any unexpended funds at the end of that period, and
- Regular financial reporting and the possibility of audit.

## The Difference Between Gifts and Grants

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Grants are made to MIT to accomplish a specific purpose and the funds carry terms and conditions stipulated by the sponsor. Grants are exchange transactions which require MIT to provide something of value to the sponsor, typically a deliverable such as a report.

Gifts are contributions made to MIT for which the donor receives nothing in exchange. Gifts may be restricted to a specific purpose, or they may be unrestricted and used by the Institute for any purpose consistent with MIT’s mission and not-for-profit status. Other than restricting the purpose of the gift, the donor may not impose terms and conditions on the use of the gift funds or require deliverables from MIT.

Proper identification of gifts versus grants and appropriate classification of the purpose of gifts versus grants (i.e., as Instruction, Organized Research, etc.) of gifts and grants are important aspects of MIT’s fiduciary responsibilities and accountability for proper stewardship of Federal funds.

The Office of Sponsored Programs (OSP) is responsible for the administration of grants, contracts and cooperative agreements. The Recording Secretary’s Office, part of Re-

source Development, is responsible for the administration of MIT gifts. In situations where it is not clear whether funds coming to MIT represent a gift or grant, OSP confers with the Recording Secretary’s Office to determine the appropriate classification.


 **Key References** - See website links in Appendix and on the OSP home page

- ▶ Internal Orders and Non-Research WBS Elements
- ▶ Awards: Treatment as Gifts or Sponsored Contracts

## Policy and Regulation—The Role of Audit and Research Compliance

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Two very important infrastructure and support units to the research enterprise are the Audit Division and the research compliance activities of the Office of Sponsored Programs. The goal of these offices is to work with academic units to help them comply with the myriad of federal compliance regulations and with the requirements for appropriate expenditure of federal (and other) sponsored funds. These offices can provide direct consultation and support to units as they develop departmental level tools to help ensure compliance.

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ Audit Division
- ▶ Office of Sponsored Programs

## Institute Policy and Federal Regulations

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Sponsored projects are externally funded activities governed by terms and conditions specified in a written agreement between the sponsor and MIT, and they account for the **largest single source of revenue** to the Institute.

Funding for sponsored projects is comprised of both direct and F&A (Facilities and Administrative) costs.

### Direct Costs

- Expenses that are specifically associated with a particular sponsored project or activity and/or can be directly

assigned to that project or activity with a high degree of accuracy.

Example: On a sponsored project, examples of **direct costs** are technical staffing and project materials. One can directly associate the salary of a person working on a specific project and equipment and materials purchased and specifically used on the project.

### F&A Costs

- Institute expenses that cannot be specifically identified with a particular project or activity. Sometimes called “indirect costs” or “overhead,” these are the costs of administration, buildings, utilities, and the many other expenses necessary for the operation of the Institute.

Example: One example of an F&A cost is utilities because they benefit many activities in a building. Separate utility meters could be installed in every room in the building to track power and water use, but that would be extremely expensive and impractical and would not measure usage for specific projects. Because individual F&A costs cannot be assigned to projects, the Institute calculates a rate to determine the fair share of F&A costs each project should be charged and negotiates this rate with the government. The rate is then applied to all sponsored research projects-including federal and non-federal sponsors.

*MIT administrators, regardless of whether they work with sponsored projects, must understand the impact of sponsored programs and the related F&A recovery on MIT operations.*

### Your Role in Implementing Policy & Regulations

You have an important role in implementing MIT’s policies and federal regulations. Whenever you order supplies, authorize the payment of salaries, reimburse a student, fill out an expense report, receive cash or checks, or perform any of the many tasks involving MIT finances, you process financial data for the Institute. The Institute uses this information to manage its budget, and to be reimbursed for direct project costs and F&A costs from sponsors.

### MIT Recovers F&A Costs from Sponsors According to Federal Regulations

In 2005 the Institute **expended \$550 million** for campus activities from external sponsors to support the direct costs of sponsored projects. These funds **included \$149 million** from sponsors to pay for the Facilities and Administration (F&A) costs associated with those projects.

The federal government provides specific regulations regarding what costs are allowable and which are unallowable for reimbursement through direct and F&A cost recovery. Many of the Institute’s fiscal policies mirror federal cost regulations.

**All Institute expenses (costs), regardless of fund source, are sorted and categorized according to classifications included in federal regulations, so the calculation of the F&A cost rate can be correctly determined. The Office of Cost Analysis, part of the Office of Sponsored Programs, is responsible for the calculations of the F & A rate and the classification of MIT expenses into the A-21 categories.**

Consequently, each expense must be classified and coded properly according to the four cost principles (Allowable, Allocable, Reasonable, Consistent) as outlined in the chapter entitled “Sponsored Programs Basics,” which are incorporated in:

- Institute policy.
- Federal regulations which have been incorporated into Institute policy, such as OMB Circular A-21.
- The specific terms & conditions of each award.

### Compliance

Compliance is an area of increased federal government emphasis, both in the areas of financial and programmatic compliance. Financial compliance normally is seen in the context of financial audits, both of systems and individual grants and contracts. Programmatic audits cover a wide range of activities, as described in OMB Circular A-133. The Circular applies to all sponsored activities where funding is derived from federal sources and includes a compliance supplement which specifies the auditors’ areas of focus and the range of regulatory requirements placed on federal awardees.

Regulations affecting sponsored research programs may be imposed as a result of laws passed by Congress or policies set by executive agencies to achieve social or economic goals; they may provide protection and security to individuals and the country; or they may impact how science is performed.

The False Claims Act (31 U.S.C. §§ 3729-33) was enacted originally by the federal government during and after the Civil War to counteract fraud by government contractors. Its application has been greatly broadened and includes penalties for making a fraudulent statement to get a claim paid by the government. The False Claims Act also provides protection for employees who make “Whistleblower” claims against employers who make inappropriate charges to Federal programs. The impact on research in higher education is the potential for a false claims charge brought by an employee in connection with any invoice submitted to the government for payment. Financial compliance programs at universities are one response higher education is making to prevent inappropriate charges. In addition, the U.S. Sentencing Guidelines, 69 Fed. Reg. 28994, 29019 (May 19, 2004), provide that a viable and active training program is a mitigating factor in any settlement amounts imposed by the government.

On the programmatic side, there are a host of regulations which impose compliance requirements on recipients of funds for sponsored programs for research misconduct, including the falsification of research results. The institution that receives the funds is responsible for compliance, but in many instances the requirements for compliance lie with the principal investigator as well as, or in addition to the institution.

The National Council of University Research Administrators (NCURA), a professional development association for research administration professionals, has published [Regulation and Compliance: A Compendium of Regulations and Certifications Applicable to Sponsored Programs](#), available in the OSP office, which provides an overview of the range of compliance regulations applicable to sponsored programs. A few of the topics included are:

- Misconduct in Science
- Financial Conflicts of Interest
- Care and protection of animals used in research
- Care and protection of humans used in research

### **Misconduct in Science**

The federal government has adopted a formal statement on what constitutes misconduct in science (see 65 Fed. Reg. 22286), which the agencies are gradually adopting into their individual regulations. MIT’s implementation of the misconduct in science regulations appears in the Appendix and on the OSP home page.

### **Financial Conflict of Interest**

The National Science Foundation (NSF) and the National Institutes of Health (NIH) have adopted regulations on financial conflicts of interest by principal investigators and other key personnel responsible for proposing, conducting and reporting on the results of research. MIT’s implementation of both agencies’ regulations includes a requirement that the principal investigator and other key personnel provide information PRIOR TO THE SUBMISSION OF PROPOSALS on the extent (if any) of any financial holdings or income which meet the government’s thresholds (NIH and NSF thresholds are identical). Although any potential conflicts do not need to be resolved before submission of the proposal, disclosure in advance is required; resolution needs to be accomplished before any resulting award is available for expenditure. The OSP proposal routing sheet includes a place for the investigators to certify that they have provided such information. Further, and equally important, the Institute requires the submission of financial conflict of interest disclosures electronically. For more information, see page 3 of the OSP Summary Form.

### **Care and Protection of Animals Used in Research**

The Institute’s Animal Care and Use Committee is the entity which approves protocols for the use of animals in research. Information about how the committee operates and the requirements for protocol submission appear online on the CAC home page (see Appendix for link).

### **Care and Protection of Humans Used in Research**

Federal mandate (The Common Rule 45 CFR 46) and longstanding MIT policy requires that the Committee on the Use of Humans as Experimental Subjects (COUHES) review and approve ALL research involving human subjects that is performed under the auspices of MIT.

Types of research that must be reviewed by COUHES include investigation of new drugs and medical, radiological, engineering, physiological, behavioral, sociological, and nutritional studies. This includes projects involving human tissues, blood, or images, and questionnaires, interviews, and other procedures.

Federal guidelines (45 CFR 46) define “human subject” as: “A living individual about whom an investigator (whether professional or student) conducting research obtains:

1. data through intervention or interaction with the individual, or
2. identifiable private information.”

“Intervention” includes both physical procedures by which data are gathered (for example, drawing blood) and manipulations of the subject or the subject’s environment that are performed for research purposes.

“Interaction” includes communication or interpersonal contact between investigator and subject.

COUHES does not consider research to involve “human subjects” where the research uses only coded private data, specimens or cells, provided the data, specimens or cells were not collected specifically for the proposed research by an intervention with a living individual, and provided the researcher cannot identify the individual(s) from whom the data, specimens or cells were obtained (for example because the key to decipher the code has been destroyed or an agreement exists prohibiting the release of the key to the investigators). COUHES also takes jurisdiction over research involving blood, tissue or other specimens derived from human subjects.

COUHES approval must be obtained BEFORE any human studies are begun. For research involving minimal risk, approval is granted for one year and must be renewed annually. For research involving more than minimal risk, renewal frequency will be determined by the Committee upon approval.

Ethical and legal guidelines for conducting studies involving human subjects are explained in an online training course on human subjects research hosted by the Office of Sponsored Programs.

**Federal regulations require that all personnel involved in any NIH sponsored research take and pass a training course on human subjects research before embarking on such research. MIT policy extends this requirement to all MIT personnel involved in any human subjects research.**

This requirement extends to all personnel who play a role in research involving human subjects including principal investigators, associate investigators, student investiga-

tors, study coordinators, visiting scientists, consultants, laboratory technicians and assistants. The requirements encompasses all types of interactions with human subjects including direct contact, indirect involvement, analysis of data and analysis of blood/tissue samples.

Principal Investigators are responsible for confirming that all study personnel have taken and passed the training course on Human Subjects Research, and are “certified” to participate in studies involving human subjects.

**All personnel involved in studies utilizing humans as research subjects must undergo recertification in human subjects research training every three years from the date of original approval.**

If you engage primarily in biomedical research then you must complete a specially designed web-based training course by following the link to Training for Biomedical Researchers on the COUHES website. You may also view a list of current trainees at this link. This course is hosted by the Office of Sponsored Programs at MIT.

If you engage primarily in social and behavioral research then you must complete a specially designed web-based training course by following the link on the COUHES website to Training for Social and Behavioral Researchers. This course is hosted by the CITI program at the University of Miami. (When registering, select only the Social and Behavioral modules and complete only the basic course.)

COUHES policies and procedures, definitions, and resources including an investigator quick guide and criteria for acceptance of studies can be found on the MIT COUHES website.

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ OSP Summary Form
- ▶ Procedures for Dealing with Academic Misconduct in Research and Scholarship
- ▶ Supplement to Academic Misconduct Policy
- ▶ Committee on Animal Care (CAC)
- ▶ Committee on the Use of Humans as Experimental Subjects (COUHES)
- ▶ Human Subjects Training, VP Research Memo

- ▶ Protection of Human Subjects, The Common Rule 45 CFR 46

## **COEUS—MIT's Management System for Sponsored Programs**

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MIT has created COEUS, the Institute's sponsored programs management system, to assist the Office of Sponsored Programs and DLCs in proposal development and pre- and post-award management. The purpose of the system is to simplify, and make more efficient, award acquisition and administration for all offices within the Institute. With its comprehensive proposal development module and post award functionality, COEUS is one of the first cradle-to-grave award management tools in the nation.

This software now makes it possible to prepare proposals, route them internally to obtain proper approvals, and submit them to sponsors electronically. The main modules in COEUS are Proposal Development, Proposals, Awards, Subcontracts, Negotiations, Person, Conflict of Interest and Report Tracking.

Individual administrators and units can download COEUS onto their desktop and use it immediately. Because of the modules within COEUS that are needed to prepare electronic research proposals, submit financial conflict of interest forms, manage awards and subawards, and track report requirements, it is important that all personnel supporting the research enterprise download and use COEUS.



**Key References** - See website links in Appendix and on the OSP home page

- ▶ COEUS web site

## 2. Sponsored Programs Basics

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### Introduction

The federal government issues awards using the following instruments:

#### Assistance

- Grants
- Cooperative Agreements

#### Procurement

- Contracts

#### Other Transaction Agreements

- Awards not subject to any of the standard federal requirements

For more detail on each of these types of awards, see Chapter 1, Types of Sponsored Agreements. The vast majority of awards to MIT are classified as assistance, although the greater dollar value resides in contracts received by MIT (including Lincoln Laboratory).

The Institute uses the following federal requirements in establishing its Institute procedures for administering all awards for research and other sponsored agreements:

- **OMB Circular A-21:** Cost Principles for Educational Institutions
- **OMB Circular A-110:** Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- **OMB Circular A-133:** Audits of Institutions of Higher Education and Other Non-Profit Institutions
- **FAR:** Federal Acquisition Regulations: Contracting Requirements

The provisions of the OMB Circulars and the FAR are applicable to all agencies that award federal dollars. MIT has translated these principles into its Institute policies.

### What is OMB Circular A-21?

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The Office of Management and Budget (OMB) is one of the agencies of the Executive Branch of the U.S. Government. OMB's predominant mission is to assist the President in overseeing the preparation of the federal budget and to supervise its administration in Executive Branch agencies. OMB evaluates the effectiveness of agency programs, policies, and procedures; assesses competing funding demands among agencies; and sets funding priorities.

Working cooperatively with federal agencies and non-federal parties, OMB establishes government-wide grants management policies and guidelines through circulars and common rules. These policies are adopted by each grant making agency and inserted into their regulations.

One of the OMB Circulars, designated as OMB Circular A-21, is titled *Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions*. The cost principles in Circular A-21 provide the general accounting "rules" for colleges and universities. These principles define those costs that are allowable and allocable to the federal government.

MIT receives funding from over 250 different sponsors, including federal agencies, foundations, not-for-profit institutions and for-profit companies. Each of these has the right to establish its own terms and conditions for its awards. In addition, each individual award may include specific terms applicable to that award.

The terms of an individual award take precedence over the general provisions of Circular A-21. For example, although travel is identified as an allowable cost in Circular A-21, a particular award may designate travel, or more likely, foreign travel, as unallowable. In that case, MIT may not charge those travel expenses to that project. A sponsor may also permit business class travel as appropriate for its award even though A-21 specifies that only coach class travel is normally allowable. Similar types of provisions may pertain to the acquisition of permanent equipment.

Some awards contain provisions for "pre-approvals" of specified expenses, particularly on contracts. Where required by the terms of the award, MIT **must** get the writ-

ten approval of the sponsor's OSP Representative before charging those expenses.

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ List of OMB Circulars
- ▶ Federal Acquisition Regulations
- ▶ Basics of Post-Award Sponsored Program Administration

## Cost Principles

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### Four Cost Principles: Allowable, Allocable, Reasonable, Consistent

1. A cost is **allowable** when:

- It serves an Institute business purpose, including instruction, research, and public service.
- It is permissible according to MIT policy and federal regulations (regardless of whether or not it is a sponsored project).
- It is permissible (for a sponsored project) according to the terms and conditions of the Sponsored Agreement.
- Rules for allowability are covered in OMB Circular A-21 and illustrated by CAO documents referenced in “Key References” found at the end of this section.

2. A cost is **allocable**:

- For a sponsored project the cost must provide “benefit” to the project.
- For a gift, it must correspond to the intent of the donor.

3. A cost is **reasonable** if a prudent person would purchase the item at that price. Determine whether a cost is reasonable by considering whether:

- The cost is necessary for the performance of the activity.
- Incurrence of the cost is consistent with established Institute policies and practices.

4. A cost is **consistent** when like expenses are treated in the same manner in like circumstances. For the sponsored projects, consistency means that sponsors pay for costs either as a direct charge or as an F&A cost, not both directly and indirectly. The Institute establishes policies that, if followed, ensure consistency.

### What costs are specifically unallowable?

For costs reimbursed by the Federal government and other sponsors, costs are specifically unallowable under two general conditions:

- 1) They are for an unallowable ACTIVITY (a function that is prohibited for reimbursement by Federal regulations and typically recorded in a separate cost object or identified by the department), or
- 2) They are for an unallowable TRANSACTION (something you buy, a line item general ledger code that is recorded in a cost object that is otherwise allowable).

#### Unallowable Activities Include:

- Alumni Activities
- Organized fund raising
- Lobbying
- Commencement and Convocation
- General public relations and alumni activities
- Student activities, e.g., intramural activities, student clubs.
- Managing investments solely to enhance income
- Prosecuting claims against the federal government
- Defending or prosecuting certain criminal, civil, or administrative proceedings
- Housing and personal living expenses of Institute officers
- Selling or marketing of goods and services (does not include selling goods or services internal to the Institute by its service centers)

All expenses in support of these activities are unallowable for Federal reimbursement. Unallowable activities are generally recorded in separate cost objects specifically designated for these purposes. The federal government will not reimburse the Institute for these costs. However, these activities may be entirely appropriate and permis-

sible Institute activities. In fact, many are necessary to the Institute's survival.

### Unallowable Transactions

In addition to the unallowable activities described above, certain costs are always unallowable, regardless of the activity they support. These "expressly unallowable" costs are listed in OMB Circular A-21. These costs are identified as unallowable by general ledger expense codes designed to segregate these costs from allowable costs. Expenses which are unallowable for federal reimbursement include the following:

- Advertising (only certain types are allowable)
- Alcoholic beverages
- Entertainment
- Fundraising or lobbying costs
- Fines and penalties
- Memorabilia or promotional materials
- Relocation costs if employee resigns within 12 months
- Certain recruitment costs, e.g., color advertising
- Certain travel costs, e.g., first-class travel
- Cash donations to other parties, such as donations to other universities
- Interest payments, except certain interest specifically coded as paid to outside parties and authorized by the Office of Finance
- Membership in civic, community or social organizations, or dining or country clubs (seldom reimbursable by MIT)
- Goods or services for the personal use of employees, including automobiles
- Insurance against defects in MIT's materials or workmanship

*NOTE:* Costs which are unallowable for federal reimbursement purposes may be allowable as a direct cost on a non-federal project with the explicit written approval of the sponsor.

Specific general ledger codes that are used to identify unallowable costs are as follows:

- 420080 Travel—Unallowable Cost

- 420166 Entertainment
- 420254 Non-Reimbursable Expense
- 420302 Promotion and Memorabilia
- 420304 Public Relations
- 420306 Publicity
- 420318 Recreation and Related Expenses
- 421205 Alcoholic Beverages
- 421584 Membership & Dues, Social
- 421000 Meetings - Food and Beverages

It is crucial to code and categorize expenses correctly to comply with MIT's obligation to the federal government for both direct and F&A (indirect) cost recovery. The Institute's ability to obtain federal grants and contracts is dependent upon its performance in meeting federal requirements.

The distinction between allowable and unallowable costs must be understood whenever Institute expenses are recorded. The integrity of the Institute's financial systems depends on the knowledge and skill of each of the individuals who process the thousands of daily financial transactions.

A particular concern at MIT is the classification of travel and meeting expenses. MIT's policy and procedures for charging such expenses appears on the OSP website and is entitled "Classification of Unallowables vs. Allowable Costs" (see Appendix for link).

In many cases the issue of determining whether a particular cost is allowable or unallowable is a complex matter. When in doubt, consult with your local fiscal officer or an OSP representative.

### Terms and Conditions of a Sponsored Project

**Unallowable** costs may also be identified in the specific terms and conditions of a sponsored project. These can be more specific than those outlined in OMB Circular A-21.

For example, if a sponsor specifies that international travel costs cannot be charged to a particular project, then those costs may NOT be charged to that project, even though MIT and federal regulation may allow them.



**Example A**

Costs unallowable for reimbursement by MIT and the federal government

A Senior Research Associate purchases a leather brief case and would like to use Institute funds to pay for the item. The briefcase costs \$400.

**Explanation:** The cost is not reasonable. It is not necessary for the performance of the person’s job and is not permitted by Institute policy because it is a personal item. It must be paid for by the individual.

**Example B**

Costs unallowable for reimbursement from the federal government but allowable for reimbursement by MIT

An important faculty member is retiring from MIT after 35 years of service to the Institute. A party is given in his honor.

**Explanation:** Although this is something the federal government should not pay for as a direct or F&A (indirect) cost, it may be an appropriate institutional expense. The expenditure must be classified in a general ledger account

type designated unallowable for reimbursement by the federal government.

**Example C**

Costs unallowable for reimbursement by the sponsor but allowable for reimbursement by MIT

Your grant explicitly states NO TRAVEL OUTSIDE OF MASSACHUSETTS. You would like to travel outside the state to present a paper about your research.

**Explanation:** The expense is **unallowable** as a direct charge to the sponsor per the award terms and conditions. If you do travel for this purpose, the expense must be charged to a source where the travel is Allowable, Allocable, and Reasonable.



**Key References** - See website links in Appendix and on the OSP home page

- ▶ Unallowables and Screening Process for Unallowables
- ▶ Meeting Expenses
- ▶ Post-award Basics

**Figure 2.1: Unallowable Costs Can Be**

<p><b>- Unallowable by MIT</b> [see Example A]</p>	<p><b>- Allowable by MIT - Unallowable for reimbursement by the Federal Government</b> [see Example B]</p>	<p><b>-Allowable by MIT -Unallowable by Sponsor</b> [see Example C]</p>
<p>Institute expenses that are</p> <ul style="list-style-type: none"> <li>■ NOT reasonable</li> <li>■ NOT necessary</li> <li>■ NOT allocable</li> <li>■ NOT permitted by Institute policy</li> </ul>	<p>Institute policy Institute expenses that are</p> <ul style="list-style-type: none"> <li>■ reasonable</li> <li>■ necessary</li> <li>■ allocable</li> <li>■ permitted by Institute policy</li> </ul> <p><b>but are unallowable for federal reimbursement</b></p>	<p>Expenses that do not conform to the sponsor’s terms and conditions and OMB Circular A-21 (if applicable), or are</p> <ul style="list-style-type: none"> <li>■ NOT reasonable</li> <li>■ NOT necessary</li> <li>■ NOT allocable</li> </ul>
<p>These expenses <b>will not</b> be paid for by MIT.</p> <p>If incurred, they must be paid for by the individual.</p>	<p>These expenses</p> <ul style="list-style-type: none"> <li>■ <b>can be paid for by MIT</b></li> <li>■ <b>must be coded as unallowable</b></li> </ul>	<p>These expenses will not be paid for by the sponsor.</p> <p>MIT may pay for the expenses; code as appropriate.</p>

- ▶ OMB Circular A-21
- ▶ Classification of Unallowable vs. Allowable Costs and Related Issues of Travel and Meeting Expenses

## Cost Accounting Standards

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In addition, MIT is required to describe to its federal auditors practices that the Institute employs in seeking reimbursement of costs associated with its sponsored projects to comply with Federal Cost Accounting Standards (CAS) included in OMB A-21. The four standards required of institutions of higher education are the following:

- **Consistency in estimating, accumulating and reporting costs**

- The purpose of this standard is to ensure that each educational institution’s practices used in estimating costs for a proposal are consistent with cost accounting practices used by the educational institution in accumulating and reporting costs.

- **Consistency in allocating costs incurred for the same purpose**

- The purpose of this standard is to require that each type of cost is allocated only once and on only one basis to any sponsored agreement or other cost objective. The objective of this standard is to insure that costs which are charged to sponsored agreements are either a direct cost or indirect cost.

- **Accounting for unallowable costs**

- The purpose of this standard is to facilitate the negotiation, audit, administration and settlement of sponsored agreements by establishing guidelines covering...the identification of costs specifically described as unallowable...to ensure that unallowable costs are not charged to sponsors.

- **Accounting period**

- The purpose of this standard is to provide criteria for the selection of the time periods to be used as cost accounting periods for sponsored agreement cost estimating, accumulating, and reporting.

## Project Workflow

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A sponsored project is composed of a number of individual activities or steps:

- Identifying the opportunity
- Preparing the proposal
- Reviewing and submitting the proposal
- Negotiating the award
- Establishing the cost object in the Institute’s accounting system
- Expending funds to carry out the activities for which the award was made
- Reporting and close-out
- Audit

Each of these activities is discussed in detail, but the basic workflow is presented here:

- Identifying the opportunity

Generally a PI is aware of funding sources for his/her research but needs access to the appropriate application forms. In some cases, a research opportunity for a contract appears on the website “Federal Business Opportunities” (see Appendix for link), formerly known as the Commerce Business Daily. In all cases, an agency is required to post its Notice of Research Opportunity in some format, generally as a web announcement. MIT maintains a subscription to “**ResearchResearch**,” (see Appendix for link) through which most federal and non-federal research opportunities can be accessed. At this site, individuals may register their fields of interest and receive daily tailored email messages of opportunities.

In addition, the federal government has developed a link to federal funding sources (see Appendix for link to Federal Funding Sources). Over time, all agencies will use this grants.gov portal to post federal research opportunities.

Individuals may also search for funding opportunities by clicking on the particular sponsor’s web site and searching within that agency.

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ Federal Business Opportunities
- ▶ Federal Funding Sources
- ▶ ResearchResearch
- ▶ Basics of Proposal Preparation
- ▶ Government Printing Office Access (GPO Access)
- ▶ Preparing the Proposal (Application)

## What is a Proposal?

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A proposal is a detailed request for funding prepared in accordance with the sponsor's instruction. A proposal must comply with Institute policies, as well as sponsor policies. It becomes an official offer and a record of what was promised by MIT to a sponsor. The Principal Investigator is responsible for preparing the proposal but normally does so in conjunction with an administrative or fiscal officer.

A proposal must contain, as a minimum, three components:

1. The OSP Summary Form. This form is for MIT use only and includes the following:

- Key information about the project, including the budget,
- Sponsor deadline,
- Confirmation that the proposal has been reviewed and approved in accordance with appropriate procedures,
- Certifications by the principal- and co-investigators.

2. Statement of Work

The Statement of Work is the “what” and “why” of the project. Why should the work be done? It also contains the “how,” “where,” “when” and “who” of the project. What is the plan of action? How will the work be done? Where will the work be done? Who will do the work?

3. Budget

The budget is the financial expression of the project and must include the following:

- Estimated costs for the entire project period broken into “Direct” and “F&A” costs.

- Justification for all costs, and especially administrative charges, when applicable.
- Separate budgets for all collaborating institutions or entities (“Subawardees”).

Often the budget is the most confusing portion of the proposal to prepare. The budget should include all direct costs and F&A costs required to carry out the activity. Normally, budget categories include the following:

- Personnel costs
  - Faculty
  - Other research professionals
  - Graduate student research assistants
- Employee Benefits and vacation accrual costs
- Equipment
- Materials and Services
- Travel
- Meeting Expense
- Subawards
- Consultants
- Allocation Costs (where rates have been approved)
- F&A Costs

The budget must also differentiate those direct costs that are subject to F&A costs and those that are not. Since F&A costs are applied on a modified total direct cost (MTDC) base, the non-F&A bearing costs in the budget must be identified so that project F&A can be calculated. Non-F&A “modifiers” include tuition, capital expenditures, equipment, and sub-award expenditures in excess of \$25,000.

**Note that MIT does not waive or reduce the F&A costs of any sponsored research project**, although DLCs may choose to use their unrestricted funds for the difference between the federally negotiated rate and the rate allowed by the sponsor.

The difference between the current negotiated F&A rate that MIT charges to a research project, and the rate that the project's sponsor is willing to pay, is referred to as underrecovery. For example, if MIT's F&A rate is 65%, and a sponsor agrees to pay only 50%, there is a 15% under-

recovery of full F&A. (See also the Underrecovery page on the Controller's Sponsored Projects Accounting website.)

■ **Reviewing and submitting the proposal**

Proposals, although prepared in the academic units, are submitted by the Institute and not by individual PIs. The OSP Summary Form is used to identify key elements of the proposal and to secure DLC and, as appropriate, school approvals before the proposal is routed to OSP.

PIs and departments should allow adequate time for proposal review. Note that OSP requests five business days in order to provide a full and comprehensive proposal review, and academic units may add review time to that. In addition, in the review process special approvals and requirements may be necessary. For example, training in the use of humans as subjects for NIH proposals, and financial conflict of interest disclosures for NIH and NSF proposals.

A key element in proposal submission is whether or not the sponsor requires a paper or electronic proposal. It is becoming far more common for institutions to submit electronic proposals, and sufficient time to prepare a proposal according to individual agency electronic guidelines is critical. Proposers should advise their OSP administrator when electronic submission is required.

■ **Negotiating the Award**

Awards are negotiated by OSP on behalf of MIT. PIs and DLC personnel are not authorized to negotiate on behalf of the Institute or to sign sponsored agreements.

In negotiating awards, OSP ensures that the terms and conditions are appropriate for the Institute and do not compromise the fundamental policies of the Institute. In certain circumstances, the Institute may not be able to negotiate acceptable terms and the award is refused.

■ **Establishing the cost object in the Institute's accounting system (SAP)**

Accounting services are provided via the Controller's Office using MIT's enterprise accounting system, SAP. Sponsored project awards are entered into SAP by OSP, normally within one working day of the receipt of an award or the negotiation of acceptable terms and conditions. Award information is fed from COEUS to SAP on a daily basis.

■ **Expending funds to carry out the activities for which the award was made.**

The principal investigator (PI) is responsible for the appropriate expenditure of funds, even when (s)he delegates that responsibility to others. At MIT, a primary responsibility of an administrator is helping the PI determine which costs are allowable, reasonable, and in accordance with the project budget, and which are not. It is important to recognize that the final responsibility, however, lies with the PI.

■ **Reporting and close-out**

COEUS includes information about project reporting and close-out requirements. Responsibilities for submitting documents to meet award terms and conditions are split at MIT, although ultimately the PI has the respon-

**Figure 2.2: Formal Submission Schedule**

Type of Report	Submitted By	Typical Submission Dates During Award Period			Final Reports
		Grant	Coop. Agree.	Contract	
Technical (Progress)	PI	Annually	Quarterly	Monthly	Within 90 days
Fiscal (Financial)	CAO or DLC	Quarterly	Quarterly	Monthly	Within 90 days
Property (Equipment)	Property Office (CAO)	Annually	Quarterly	Quarterly	Within 90 days
Intellectual Property (Invention)	OSP, based on information provided by the PI	Annually	Annually	Annually	Within 90 days

sibility for timely submission. Depending upon the type of award (grant, cooperative agreement, contract, other transactions), reports are due on a recurring basis during the life of the award (normally within 90 days of the final expiration date for all final documents). This information will be indicated in COEUS. There are generally four types of reports, and the responsibility for preparing those reports, along with the formal submission schedule at the Institute is described in Figure 2.2.

## Life Cycle of a Project

At MIT, the principal investigator (PI) has overall responsibility for the technical and fiscal management of a sponsored project. This includes the management of the project within funding limitations, and assurance that the sponsor will be notified when significant conditions related to the project status change.

This section addresses specific responsibilities involving the financial management of sponsored projects. Again, while responsibility for the day-to-day management of project finances may be delegated to administrative or other staff, accountability for compliance with MIT policy and sponsor requirements ultimately rests with the PI.

The life cycle of a project is depicted in Figure 2.3.

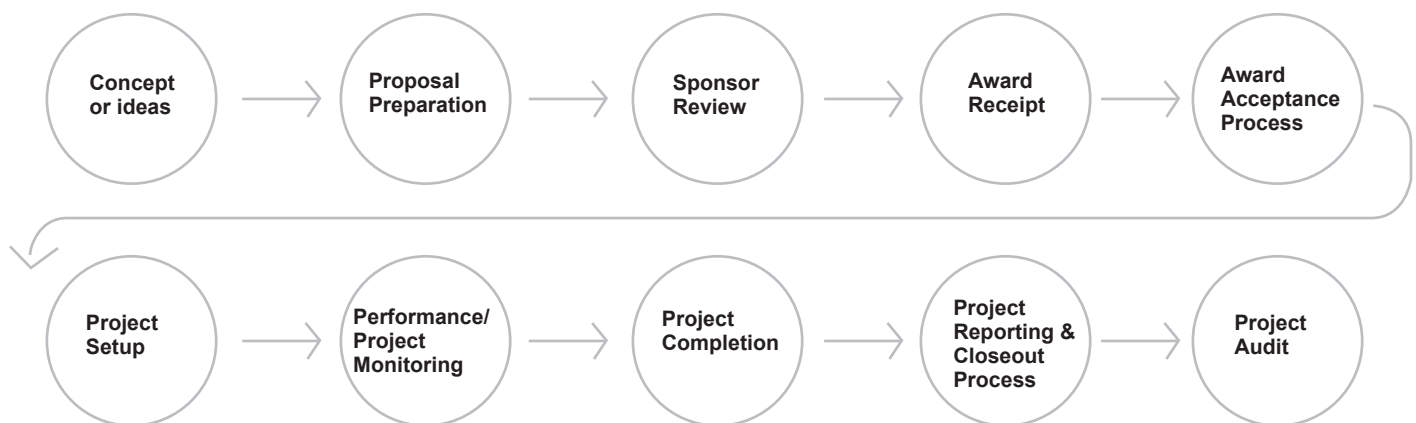
## Preparation and Submission of the Proposal

The PI carries primary responsibility for the preparation of a proposal to an outside sponsor. At MIT, generally the technical proposal is prepared by the PI, often with the help of other research personnel in the PI's laboratory. In large DLCs, the budget and administrative details of the proposal are generally handled by the Administrative Officer/Fiscal Officer or other support personnel. In all cases, however, the PI—who certifies to the accuracy of the proposal—is the formally responsible party.

The Q&A that comprises the Basics of Proposal Preparation and Review (see online resource noted in Appendix) is MIT's primer on preparation and submission of the proposal. Attention is drawn specifically to the following sections:

- What are the common components of a proposal?
- What certifications from MIT are required on proposals?
- What issues should be considered when preparing the proposal budget?
- Should cost sharing be included in the proposal?
- What is the MIT internal routing and review process?
- What MIT forms are used in the routing and review process?
- What special reviews may be necessary?
- Does the sponsor require electronic proposal submission?

Figure 2.3: Life Cycle of a Project



- What are MIT's procedures for review and resubmission of proposals?



**Key References** - See website links in Appendix and on the OSP home page

- ▶ OSP Summary Form
- ▶ OMB Circular A-21
- ▶ Basics of Proposal Preparation and Review
- ▶ Employee Benefit Rates
- ▶ Policy on Faculty Effort Reporting
- ▶ Underrecovery/Sponsored Projects Accounting

## Proposal Budgeting

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In proposing budgets for sponsored projects, the PI assures MIT and the potential sponsor that project finances are represented as accurately as possible. In addition, specific requirements, including cost principles as defined by the federal government in the Office of Management Budget (OMB) Circular A-21, must be adhered to at the proposal stage, as well as when funds are expended. It is important that actual project expenditures are consistent with the budget approved by the sponsor.

### A. Allowability

Proposals should not include expenses which the federal government (in OMB Circular A-21 or other regulations), or the sponsor has identified as unallowable. Similarly, expenses which are normally to be considered as F&A (indirect) expenses, e.g., administrative and clerical salaries, may not be proposed and budgeted as direct expenses, unless they meet the criteria identified in Exhibit C to OMB Circular A-21, and written justification is included in the research proposal.

### B. Commitment of Effort

Proposals should accurately represent the amount of time that key personnel are committing to the project. In preparing proposals, PIs must be careful not to over-commit themselves or others. Commitment of effort must take into account the time required for teaching and service.

Federal regulations require a commitment of some effort on the part of the principal investigator during each project year. This effort may be expended during the academic year or summer and may be charged to the project or paid by the Institute and treated as cost sharing.

This requirement does *NOT* extend to

- equipment grants
- dissertation support
- limited-purpose awards characterized as Other Sponsored Activities, including, for example, travel grants, conference support, etc.

MIT discourages faculty from identifying effort to a project during the academic year if no salary is to be charged. In some cases, the sponsor may require a specific commitment of effort even though salary is not requested by the PI. Otherwise, a general statement that the PI will support the project during the academic year, but makes no explicit commitment of effort, should be included in the proposal, for example, "MIT fully supports the academic year salaries of Professors, Associate Professors, and Assistant Professors, but makes no specific commitment of time or salary to this particular research project." (See MIT Policy on Cost Sharing.)

### C. Cost Sharing

Proposed budgets should delineate the complete committed cost of the project, identifying the amount requested from the sponsor, and other costs that MIT explicitly commits to pay. A commitment to use MIT resources to pay any portion of project costs that would otherwise be borne by the sponsor must be identified and tracked as cost sharing. At the time such awards are finalized, PIs must assure that adequate funds are identified and separately budgeted to pay for the cost sharing of expenses. Voluntary effort above and beyond what was committed does not have to be treated as cost sharing and tracked in MIT's accounting system. This effort is considered to be "voluntary uncommitted cost sharing" and is outside any effort that needs to be documented in the Institute's accounting system. (See OMB Cost Sharing Guidance Document dated January 6, 2001.)

## D. Estimating Methods

When estimating project costs, methods must be consistent with MIT accounting practices and must allow expenditures to be accumulated and reported consistent with the estimate.

## E. Budget Justifications

MIT is obligated to treat types of expenses consistently as either direct or F&A (indirect) costs. If a proposed budget includes the direct expenditure of project funds for costs that would normally be charged indirectly, e.g., clerical and administrative expenses, general-purpose equipment, or operations and maintenance, then those items must be supported in the proposal by an explicit written budget justification. In addition, when administrative and clerical costs are being proposed to a federal sponsor as a direct cost, the proposal must include an explanation of the activities and a justification which is consistent with the OMB A-21 description of "Major Project." (See Exhibit C to OMB Circular A-21.)

## Budget Preparation

The largest category of expense on any sponsored program budget is normally personnel expense. Care should be taken in budgeting personnel to use current salaries as a starting point, with increases of normal increments for additional years of proposed effort. This is also the expense area most closely reviewed by sponsors and auditors. Special attention should be paid to the following:

- Faculty effort, when requested, should be separated into academic year and summer effort. Note that when academic year effort is shown and not charged to the sponsor, this creates a cost-sharing obligation on the part of the Investigator and the Institute's department (See the MIT Policy on Faculty Effort Reporting and the MIT Cost Sharing policies for further information). MIT discourages faculty from making an explicit commitment of Academic year effort to a project unless it is required by the sponsor. This will avoid a commitment that must be treated as Cost Sharing.
- Employee Benefit and Vacation Accrual Costs. The OSP provides a table on Employee Benefit and Vacation Accrual rates on the OSP website for current and proposed rates which are the rates to use in any proposal (see link for Facilities & Administrative

Rates: Indirect Costs, in the Appendix). Particular attention should be paid to the method for including vacation time expenses in proposal budgets. (See link for Research Proposal Budgets and Vacation Time Expense in the Appendix). The basic policy is that for research staff, vacations are paid from the vacation accrual pool and not directly paid from the research award. Therefore, when budgeting research staff on a percentage of effort basis, the total projected salary should be reduced by the projected vacation time salary included in the total before applying the proposed percentage of effort. When budgeting for that same individual in terms of person months, only the person months to be spent at work should be committed in the proposal budget. The salary of 11 months plus one month of vacation will represent a total of 12 months.

### Example Equation:

(Annual Salary-vacation) % effort to project=Total  
(48K-4K) (.25) = 11K Total (reference table below)

% of Effort	Person Months
Projected 12 month salary: \$48K	# months = 12
Salary for 1 month vacation: \$4K	# months vacation = 1
Base 12 month salary requested: \$44K	Total person months budget = 11

Budgeted 25% effort of 12  
month effort: \$11K

### ■ Subawards

Subaward is the term used when MIT issues an award to another institution to help carry out the technical and scientific aspects of a project awarded to the Institute. Subawards are calculated with only the first \$25K of the subaward (agreement) subject to the assessment of MIT F&A costs. The proposed subawardee, however, includes its total costs (Direct Costs + F&A) in its submission to MIT for inclusion in the MIT proposal. (See link for Subawards in the Appendix). It is important to recognize that the subawardee must submit a full proposal to MIT, including the signature of the subawardee's authorized institutional official.

## ■ Allocation Costs

The lab/center allocation account process is unique to MIT and allocation rates are approved annually by DCAA/ONR (MIT's cognizant federal auditors and Administrative Contracting office). In this system, certain laboratories and centers at MIT have federally approved allocation rates which are included in every proposal and which cover the central costs of administering the laboratory or center's sponsored activities. Proposals submitted through allocation units typically have separate rates for salary and for materials and supplies (M&S). Allocated units must include these allocation rates (which are exempt from the application of F&A) in all proposals.

## ■ Direct Costs

Direct costs are expenses that can be identified specifically with a particular sponsored project or other direct cost objectives, such as Instruction, and can be directly assigned to such activities easily with a high degree of accuracy.

**Example: cost of materials required for the performance of a project**

## ■ F&A Costs

F&A costs are those that are incurred for common or joint objectives and therefore cannot be identified readily with a particular sponsored project. F&A costs are sometimes called indirect (IDC) or overhead costs. F&A costs are recovered from sponsors as a rate applied to grants and contracts.

Current and proposed future rates for F&A are available on the OSP website (see link for Facilities & Administrative Rates: Indirect Costs, in the Appendix). Costs which are similar in purpose and circumstance as the costs included in the F&A rate should not be budgeted as direct costs. You should contact the Office of Cost Analysis or your OSP Representative for more information.

**Example: costs of buildings or utilities**



**Key References** - See website links in Appendix and on the OSP home page

- ▶ Facilities & Administrative Rates (Indirect Costs)
- ▶ Research Proposal Budgets and Vacation Time Expense
- ▶ Subawards

## Management of Project Expenditures

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### A. Authorization of Direct Charges

To authorize the expenditure of funds to be charged directly to sponsored projects, the originating department must assure that:

- The estimated charge is reasonable and necessary for the performance of the project.
- The expenditure is allowable by the sponsor, OMB Circular A-21 and MIT policy.
- The expenditure is allocable to the project, i.e., provides benefit to the project, and is incurred within the period of performance.
- The funds are available within the authorized award amount and funding limitations.
- The justification for the expenditure is documented, including the relationship of the expenditure to the project.
- The method for distribution of costs is appropriate and documented.
- The charge is coded with the correct General Ledger code and charged to the correct award.
- The charge has been processed through the appropriate Institute offices, where applicable.

### B. Review of Project Expenditures

Monthly SAP Summary Statements are the official record of project expenses and the basis for cost reimbursements from the sponsor to MIT.

SAP Summary Statements for sponsored projects (including cost sharing cost objects) must be reviewed each month by a knowledgeable individual - i.e., the principal investigator or designee - so that adjustments can be made in a timely manner, and that rates of expenditures can be monitored to assure availability of funds. (See the Guidelines for Financial Review and Control issued by the Controller's Office.)

Any questionable charges must be brought promptly to the PI's attention, and if needed, corrected by an appropriate transfer. Transfers should be initiated as soon as possible after a need has been identified. Whenever expenses are moved to or between sponsored WBS elements, the PI must assure that the project which ul-



timely pays the expense is the project which benefited from that expense, and that there is adequate documentation to support the appropriateness of the transaction. These transfers must be in a timely way in accordance to policy. See section on cost transfers.

### **C. Substantiation and Verification of Project Expenditure**

Adequate explanation and documentation for all project charges must be maintained for three years after the submission of the final financial report. Where documentation and justification cannot be provided to confirm the allowability, allocability and reasonableness of any project expense, the sponsor may deny reimbursement or the expense may be questioned during audit. In this case, the PI, department, laboratory, center or school will be expected to cover the expense from unrestricted sources.

Each DLC must maintain a system to retain support documentation for expenditures where they are the office of record. The Controller's Office "Financial Review & Control" guidelines provide information as to which documents must be retained by the DLC, and the related retention periods. Difficulties regarding the timely certification of expenditures should be discussed with the department Administrative Officer/Fiscal Officer and the appropriate CAO or OSP representative.

### **D. Charging Salary to Projects**

Salary being charged to sponsored projects and committed cost sharing must be supported by documentation of corresponding appropriate level of effort. Appropriate certification with required documentation via the ESDS/DACCA is a requirement.

### **E. Charging of Vacation Accrual to Projects**

Direct charging of vacation to a sponsored project is not allowable. MIT accrues for the vacation of staff charged to sponsored research projects. When a staff member takes vacation, the cost of the salary is charged to the project. The project is then reimbursed by the MIT Vacation Accrual Pool for the time charged.

### **F. Charging Proposal Expenses to Ongoing Projects**

Proposal preparation costs may not be charged to sponsored projects unless the proposal is being prepared for submission to a current sponsor for non-competing ex-

ension or continuation of its ongoing project. In those circumstances, it is appropriate to charge those proposal development costs directly to current projects. Costs for development of proposals for submission to other sponsors, or for work that is not a continuation of an existing project is not allocable to current projects and may not be charged to those projects.

### **G. Monitoring of Funds Within Sponsor Funding Limitations**

PIs are responsible for the ongoing fiscal management of sponsored projects, including regular monitoring against project period budgets. Federal grants policy OMB Circular A-110 establishes the approved project budget as the financial expression of the project, and sponsors may evaluate the project against the budget at any time. Although sponsors allow certain flexibilities with respect to rebudgeting, unobligated balances, and preaward costs, both MIT and sponsors expect expenditures to be consistent with the approved project and budget. Some sponsors may question or restrict expenditures that appear inconsistent with the project plan and budget. PIs are obligated to request prior approval when budget and program plan revisions indicate a significant change in scope, change in PI or other key person or the absence of the principal investigator for more than three months. Indicators of a change in scope can include, for example, significant expenditures beyond the amount authorized on the award, or requests for additional funding.

It is MIT's expectation that projects will be managed within their established budgets. If, as a result of unusual circumstances or unanticipated project expenses, a cost object is in overrun upon expiration of the term of the sponsored project, and if additional funds are not available from the sponsor, the PI must identify an appropriate source of unrestricted funds (e.g., gift, endowment, or operating budget) to cover the excess expense.

Since charges to clear overruns reflect direct project costs, they must not be transferred to other projects or be incorporated into cost pools which lead to F&A (indirect) cost recovery. These dollars represent project costs being borne by MIT and, therefore, must be accounted for in the same manner as cost sharing. The responsible DLC must identify the source of funds to be used for the overrun to the Controller's Office or the Office of Sponsored Programs. The DLC may then initiate the necessary funding entry, using the GL account

“record project overrun,” 420314, to bring the project into balance.

The DLC, and ultimately the school, is responsible for the timely clearance of any such unfunded expenditures from within its resources.

## H. Project Close-Out

In addition, PIs are responsible for overseeing the proper close-out of sponsored projects, including the timely submission of all required reports (including final technical reports and data needed by OSP to file the necessary patent/intellectual property reports). While central offices prepare and submit final administrative reports, including financial and property reports, they do so on the basis of documentation created in the unit. PIs must assure that such documentation is accurate, adequate and readily available. In addition, some financial reports may require the PI’s signature.

If final technical reports are to be completed after the project end date, and funds from the project are available to pay these expenses, a No-Cost Extension should be obtained prior to termination from the sponsor to cover the expense of producing and distributing those reports. If funds are not available from the project, then the PI or the responsible DLC must identify unrestricted funds to pay the final report costs.

## Special Requirements Related to Sponsor Notifications and Prior Approvals

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Remaining in communication with sponsors and with MIT administrative offices is an important part of project management.

In all cases, required notifications or requests for prior approval of contract or grant actions, including those described in the sections below, should be made in writing or via an electronic request to both the administrative and technical officials in the sponsoring agency. **Such requests must be coordinated through the Office of Sponsored Programs.**

### A. Communication related to project and funding status

Separate regulatory requirements exist for notification to the sponsor in the case of federal contracts and in the

case of federal grants. In all cases, such notifications must be made on a timely basis, in coordination with the Office of Sponsored Programs, in order to allow sufficient time to arrange for and process additional funds, or for the reduction in spending and effort in order to phase out the program in an orderly fashion if additional funds are not available. The principal investigator’s department head and/or lab director and School Dean (or their designees) should also be informed, in advance, of potential funding problems.

### 1. Financial status of federal cost-type contracts

In the case of federal cost-type contracts (as opposed to grants), principal investigators must assure compliance with the Limitation of Funds and/or Limitation of Cost clauses which include the requirements that:

- a. The Contractor (MIT) notify the sponsoring agency in writing at any time that there is reason to believe the total cost to the Government for the performance of the project will be greater or substantially less than the estimated cost, and further,
- b. The Contractor (MIT) notify the sponsoring agency if, at any time, there is reason to believe that the costs which are expected to be incurred in the next succeeding 60 days, when added to all costs previously incurred, will exceed 75% of the amount allotted to date under the contract.

Failure to provide such notice may preclude MIT from receiving additional funding on that contract.

### 2. Project and financial status of federal grants

OMB Circular A-110 lists administrative requirements for federal grants and establishes that prior written approval by the sponsor is necessary in the following circumstances:

- a. Change in the scope or the objective of the project or program (even if there is no associated budget revision).
- b. Change in a key person specified in the application or award document (see discussion of changes in PI status below).
- c. Need for additional federal funding.
- d. Transfer of funds allotted for training allowances (direct payment to trainees including participant support) to other categories of expense.

Prior written approval must be requested of granting agencies when either a significantly accelerated rate of project expenditures, or expenditures that are significantly behind budget projections, indicates that the scope of the project has been changed.

In addition, the specific award notice or the agency's policy manual or administrative guide may also establish requirements for communication with the sponsor during the course of the project.

## B. Changes in Principal Investigator status

In addition, sponsors often have requirements regarding notification or prior approval of changes in availability of the principal investigator.

For FEDERAL CONTRACTS AND NON-FEDERAL PROJECTS, the terms and conditions of the particular agreement will govern.

For FEDERAL GRANTS, OMB Circular A-110 requires prior written approval from the awarding agency for either of the following circumstances involving the principal investigator or approved project director:

1. A reduction in time devoted to the project of 25% or more from the proposed and awarded level.
2. An absence from the project for more than three months.

**While OMB Circular A-110 provides general terms and conditions related to PI absences, some federal awards require sponsor notification and prior approval for PI absences of greater than 30 days. The PI and his/her DLC administrator should review each notice of award for special terms and conditions.**

The principal investigator, department head, lab director, or administrative officer should contact the Office of Sponsored Programs to coordinate securing required approvals in either of the circumstances above. If, in the original award, MIT had committed to fund some of the principal investigator's effort as cost sharing and the PI reduces the overall committed level on the project, OSP will also negotiate reductions in levels of the cost-shared component of effort, as appropriate.

In addition, when a Principal Investigator's faculty appointment will terminate prior to or during a project's period of performance, the PI and the PI's DLC must inform the Office of Sponsored Programs to initiate contact with the sponsor.

Questions about these sponsor notifications should be directed to the appropriate OSP representative in the Office of Sponsored Programs.

## C. Transferring an award: Change in Institution; Change in Principal Investigator

Sponsor notification and prior approval is usually required when a PI moves from one institution to another. In many instances, the sponsor will approve a transfer of the award. When a DLC anticipates the transfer of an award (either to or from an MIT PI), they should consult with their OSP representative for guidance in requesting approval from the sponsor. Typically a written request to transfer the award is made and a subsequent revised application (i.e., budget request and justification) is submitted by the new institution.

Occasionally, the sponsor may determine that for the success of the project, the work must take place at the original institution. When that occurs, it may be possible for the work to continue under the direction of a different PI.



**Key References** - See website links in Appendix and on the OSP home page

- ▶ Guidelines for Financial Review and Control
- ▶ Personnel Leave Policies

## 3. Direct Charging

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### Introduction

Direct charging of appropriate expenses to research awards is the normal process by which research expenses are incurred and the Institute reimbursed by the sponsor. Direct costs are those which can be identified readily and specifically with a particular sponsored project with a high degree of accuracy.

General categories of direct expense include:

- Personnel (faculty, graduate student research assistants, postdoctoral and research associates, project support staff)
- Employee Benefit and Vacation Accrual Costs
- Capital and minor equipment
- Materials and Services
- Travel
- Tuition for Graduate Student Research Assistants

and may include:

- Meeting Expenses – Food and Beverages (only if explicitly approved by the sponsor)
- Subawards
- Consultants
- Allocation Costs (for allocation units with approved rates)
- Service Center Charges

Each of these categories is more fully described further in this chapter.

Direct expenses charged to sponsored projects should be consistent with those included in the approved project budget. Direct charging of expenses at MIT is accomplished by incurring expenses and assigning these to the appropriate research cost object(s) (WBS element) in the Institute's accounting system, SAP. The expenses posted to WBS cost objects in SAP are the official source of research project costs at MIT. There are a number of quick references to MIT's SAP financial system and an explanation of each of the systems and how one accesses the system. First time users are advised both to review the Financial Systems

Quick Reference Guide and take introductory courses in the use of SAP. The SAP overview screen also has links to related MIT enterprise accounting systems and includes information on training in SAP.

### Flexibility through the use of “Expanded Authorities”

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One of the most advantageous changes in the last two decades is the adoption by the federal government of the so-called “expanded authorities,” whereby federal agencies, at their option, are authorized to waive cost-related and administrative prior written approval requirements stated in OMB Circulars A-21 and A-110. The expanded authorities give the PI greater flexibility to expend project funds. For example, agency waivers may include authorizing recipients to do any one or more of the following tasks without seeking approval from the sponsor:

- Incur pre-award costs (at the recipient's own risk) up to 90 days prior to award.
- Initiate one time extensions of the expiration date of an award of up to one year.
- Carry forward unobligated balances to subsequent funding periods.

Note that these permissions are included in A-110 and, thus, are not applicable to contracts. Further, agencies may decide not to allow any one of the above permissions if their regulations differ from these permissions. However, these requirements are the default in A-110 for research projects. If you are unsure as to whether the expanded authorities apply to any specifically funded project, you should check in COEUS or with your OSP administrator.

### Direct Expenses

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To authorize the expenditure of funds to be charged directly to sponsored projects, the originating department must insure that:

- The estimated charge is reasonable and necessary for the performance of the project and is incurred within the project's period of performance.

- The expenditure is allowable by the sponsor and, if charged to a federally-funded project, by OMB Circular A-21.
- The expenditure is allocable to the project, i.e., provides benefit to the project.
- The expenses do not exceed the authorized amount of funding on the award amount and adhere to other funding limitations.
- The method of allocation of costs is appropriate and documented.
- The charge is coded with the correct General Ledger identifier and charged to the correct WBS element.
- The charge has been processed through the appropriate Institute system.

Expenses of a technical nature should be charged directly to sponsored projects if the expense can be specifically identified and provides programmatic benefit as described in the project's scope of work. Direct charging of these costs may be accomplished through specific identification of the costs to the sponsored project or through service center charges, as appropriate under the circumstances. Examples of such expenses that may qualify as technical include the following:

- Salaries of principal investigator and related fringe benefits,
- Salaries of technical staff, and related fringe benefits,
- Stipends and tuition for graduate research assistants,
- Laboratory supplies (e.g., chemicals and materials),
- Telephone toll charges directly related to the project,
- Animals and animal care costs,
- Travel costs directly related to the project,
- Service center charges,
- Specialized health and safety supplies, training, and services,
- Subawards,
- Capital and minor equipment.

The above expenses shall be charged using the appropriate general ledger code described and contained in the most current Chart of Accounts.

**Note:** this list does not include administrative charges but does include technical staff. As described in the Administrative Charging section and in the next section of this chapter, clerical and administrative staff may be directly charged only where the project meets the requirements for a major project defined in A-21, F.6(b) and the expense is properly justified and included in the proposal budget and approved by the sponsor.

## Salary Distribution & Certification

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The largest category of direct project expense at MIT is salary and benefits. The principal investigator is responsible for reviewing salaries charged to projects. Percentages of salary charged to a project are validated and certified by the principal investigator.

**Salary Distribution and Certification.** When a principal investigator manages a lab with multiple ongoing projects, the distribution of salaries of the PI, research assistants, researchers and other staff to the various projects must be carefully considered. MIT's process for salary distribution and certification verifies that direct labor charges to federally sponsored agreements are reasonable, and reflect actual work performed. This is commonly referred to as effort reporting. This process shows the distribution of the effort of individuals among the various activities in which they work, as a percentage of total salary (not as a specified number of hours) devoted to benefit the project, either as a direct charge or committed cost sharing. For more information, see the effort reporting link in the Appendix or the OSP home page.

Charges for work performed on sponsored agreements during the academic year will be based on the individual's regular compensation for the continuous period which constitutes the basis of his salary. Charges for work performed on sponsored agreements during all or any portion of such period are allowable at the base salary rate. In no event should charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period.

Further, charges for work performed by faculty members on sponsored agreements during the summer months will be determined for each faculty member at a rate not in excess of the base salary divided by the period to which the base salary relates. The base salary period used in computing charges for work performed during the summer months will be the number of months covered by

the faculty member's official academic year appointment. For example, if a PI works on a sponsored project for one month during the summer, the maximum amount of salary chargeable to the project is one-ninth of the academic year salary (assuming the academic year appointment is nine months).

If a principal investigator spends less effort on the project than proposed, then the PI and the responsible department should:

- Review and adjust salary charges.
- Review any cost sharing commitments.

In addition, for **federal awards**, the PI must notify the sponsor in writing if he or she plans to reduce his or her level of effort by any significant amount from the awarded level. This notification must be routed through OSP prior to submission to the Grant Officer.

**All communication with sponsors on other than exclusively technical matters should be coordinated with OSP!**

Such reductions may also involve cost sharing. If the PI's salary was being funded in part by the sponsor and in part by MIT, a reduction in effort must be coordinated with the sponsor for appropriate adjustments to cost sharing. If this is not properly coordinated, the sponsor may require MIT to meet its full original cost sharing commitment or reduce the level of project funding. Discuss any planned changes of this sort with the Office of Sponsored Programs (OSP).

A complicating factor in charging faculty effort is the NIH cap on salaries, which limits the salary directly charged to NIH awards to selected Federal Executive Pay Levels and which generally vary from year to year. General principles with regard to the NIH cap include:

- The salary cap applies to the rate of total institutional salary paid to the individual. If a faculty member earning more than the cap charges 50% of his/her salary to a project, the salary charge is 50% of the cap amount—not of the full salary. For example, if the individual's salary is \$200,000 per year and the individual spends 50% of his/her time on the project, and the NIH salary cap is \$150,000 per year, the charge to the grant is 50% of the capped amount (\$75,000) and the effort devoted to the project remains at 50%. The difference between the

NIH cap and the individual's regular salary (\$25,000) must be charged to unrestricted funds.

- An individual's total MIT salary is defined as the pay which an individual receives upon which benefits are calculated.
- Salary dollars above a salary cap level are **unallowable** costs and cannot be used to meet cost sharing commitments, but are tracked and accounted for as part of MIT's Organized Research Base by CAO.
- At the time the award is made, NIH will fund the salary up to the level of the salary cap in effect at that time. If, during the period of that award, the salary cap is increased, it is permissible to use rebudgeting authority to pay the salary at the higher level. NIH, however, will not award any additional funds for this purpose.

The amount of the NIH salary cap varies from year to year. Please consult with the Office of Sponsored Programs for current NIH salary cap amounts.

A summary of NIH salary cap rates can be found on the NIH Office of Extramural Research website (see Appendix for website link).

## Other Salaries and Wages

Salaries and wages of technical staff should be charged to research cost objects to reflect the individual's activity on the project. Salaries shall—for research staff—reflect the appropriate salary of the individual(s), net the appropriate vacation accrual charge. For example, for vacation-eligible staff, it is inappropriate to budget the equivalent of 52 weeks of salary in addition to the vacation accrual. Total annual salary and vacation accrual should not exceed 52 weeks. In cases where it is appropriate to budget salary at 52 weeks, appropriate documentation should be provided in the budget justification. Faculty and Graduate research assistants do not accrue vacation, and their salary charges should reflect the appropriate salary distribution for their activities on the project.

The following examples illustrate projects where direct charging of administrative expenses may be appropriate in that they require an extensive amount of administrative or clerical support that is significantly greater than the routine level of such services provided by academic departments. These examples are not exhaustive nor are they intended to imply that direct charging of administrative

expenses would always be appropriate for the situations illustrated in the examples. The A-21 examples of a major project describe those situations that are administratively intensive and are not necessarily reflective of the amount of funding for the project.

The purpose and circumstances of the project and the nature of the administrative functions that relate directly to the project are the criteria that should be used to determine if the project is “major” and that the administrative expenses may be direct charged.

OMB Circular A-21 provides examples of major projects, as follows:

- Large, complex programs such as a general clinical research center, program projects, environmental research centers that entail assembling, managing and coordinating teams of investigators from a number of institutions, or large numbers of child cost objects to manage, and many sub-allocations can make the project major. This is one of the few kinds of projects where it may be appropriate to charge all of the administrative costs directly to the project due to the complexity of the project.
- Projects that involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting. When data entry relates to the project and is a significant part of the scope of work, it is a major activity. The data entry activity may seem administrative, but in this case, it is a technical part of the project. The cost associated with this activity can be charged directly to the project, as long as the other criteria are met.
- Projects that involve extensive travel and meeting arrangements for large numbers of participants. In the case of a travel grant where the purpose of the award is to set up a meeting to discuss the technical aspects of a project, all of the administration associated with that project can be charged directly to the project, as long as the other criteria have been met.
- If only a portion of the project involves extensive travel and/or meeting arrangements, then only the administrative expenses associated with making the travel and meeting arrangements constitute a “major activity.” Only the administrative expenses associated with the “major activity” can be charged directly to the project.
- If the principal focus of a project is the preparation of a large report, manual, or website (excluding routine

progress and technical reports), it may be appropriate to charge administrative costs directly to the project.

- Projects that are geographically inaccessible. If a project conducted in the Antarctic requires administrative work, it is reasonable to have an administrator or a copy machine there to perform administrative tasks. In that case, it would be appropriate to charge those costs directly, as long as the other criteria are met.
- Coordination of project-specific database management, individualized graphics or manuscript preparation, multiple project-related investigator coordination, or a large number of human subject or animal protocols to track.

The following is an excerpt from OMB A-21, Exhibit C:

*“These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples.”*

Many of these administrative activities seem routine and similar to general administrative support costs that are included in the F&A rate. However, because of the nature of the project and the fact that these administrative activities contribute directly to the technical scope of the project, it may be appropriate to direct charge the administrative costs, as long as the other criteria are met (i.e., the costs are explicitly included in the proposal budget, are properly justified, etc.). The purpose and circumstances described here are different than routine administrative and clerical costs, which should be treated as indirect costs.

**Questions regarding appropriateness of administrative charges to WBS elements should be addressed to your OSP representative.**

## Technical Materials

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Technical material and supplies include

- Non-capital (“Minor”) equipment (any individual item of equipment costing less than \$3,000);
- Laboratory supplies;
- Other supplies and materials used for the project’s technical scope of work (for example: computer supplies, printing, lab notebooks).

This is a broad category of cost that contains all non-capital items as well as laboratory materials and supplies. The scope of work will determine the expenses in this category of cost. It is important to remember that when non-salary costs, normally considered to be indirect costs (per A-21, F.6(b)), are planned and used for the project's technical scope of work, the project does not need to be "major" for those costs to be charged directly. However, the expenses must be specifically identifiable and directly benefit the project.

### **MIT's Procurement Department**

Goods and services used for research (including technical materials) should be acquired using standard Institute policies and procedures. There are a variety of ways to order and receive materials used in research projects and "Purchasing on the Web: An Introduction" is a valuable resource for persons new to MIT's procurement policies.

## **Telephone Toll Charges**

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OMB A-21, F.5.b.(3) provides that telephone toll charges are an allowable direct expense to a sponsored project. However, local telephone costs (monthly charge for operating costs and equipment, installation, etc.) should be treated as F&A.

## **Travel Costs**

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In most cases, domestic travel costs are allowable expenses against sponsored project cost objects. For most research assistance awards (grants and cooperative agreements), foreign travel is allowable without specific written authorization from the agency, but typically must be approved by the sponsoring agency (by specific post-award request) when contracts are involved.

It is a requirement to use an U.S. flag carrier for all travel directly charged to federal awards (refer to the policy for exceptions). Also, the airfare must normally be at the lowest available coach class rate. MIT authorizes international travel to be paid at Business Class rates in certain situations, but the difference between coach and business cannot be charged to the sponsored program unless there is explicit approval by the sponsor. It is sometimes difficult—in these times of code-sharing between the United States and foreign airlines—to identify United States flag carriers because the domestic carrier may lease seats to a foreign carrier (and vice versa). The Controller's Office

describes the requirements for use of foreign flag carriers and describes how U.S. flag carriers may be identified on a ticket or ticket receipt; details can be found on the CAO website.

In determining whether any specific travel expense is a legitimate charge to a particular sponsored project, one must consider

- How does the travel benefit the project?
- Are there any travel restrictions in the terms and conditions?

Some sponsors may limit the amounts or types of travel which they will reimburse. Check the terms of the award in COEUS, or the sponsor's guidelines, for particular provisions on travel expenses, pre-authorizations for certain types of travel, or line-item budget restrictions related to travel. All travel must directly benefit the sponsored project. Documentation of the benefit to the project must appear in the remarks section of the expense report.

## **Service Center Charges**

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Service centers are units that are established to provide goods and services to other MIT departments, labs and centers and occasionally, external customers. These centers are essentially "small businesses" operated by a DLC, often to facilitate research activities. Charges from Institute-established service centers are allowable costs on WBS elements when they provide a direct benefit to the project. MIT's service centers accumulate the costs of providing goods/services and bill these costs, by means of user fees or equitable distribution methods, to DLCs, and often to sponsored research programs. Service center costs, therefore, may represent direct costs to MIT research programs.

A complete description of MIT's Service Center policy appears on OSP's home page.

## **Subawards**

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A subaward is an award made by MIT to another organization (usually, but not always, a university) to help carry out the scientific and technical work under an award made by a sponsor to MIT. When MIT is the recipient of a prime award the organization which MIT brings into the research program is known as the subrecipient and



the award to the subrecipient is a subaward. The technical language for such transactions appears in the federal regulations as follows:

A subrecipient is “the legal entity to which a subaward is made and which is accountable to the recipient for the use of the funds provided. The term may include foreign or international organizations at the discretion of the federal awarding agency.”

When another institution or entity performs a portion of the work scope of a research project for which MIT is the prime awardee, the Institute will incorporate in the proposal to the prime sponsor, the description of the work to be performed by the collaborating subrecipient along with the budget. MIT must also obtain a letter of commitment from the subrecipient’s authorized representative. Once the award is made to MIT, a subaward is issued by MIT to the collaborating institution.

At MIT, subrecipient agreements are executed by the Research Subawards Office in OSP. The OSP home page has information on how personnel in DLCs should prepare a request to have a subaward issued. It also explains the responsibilities assumed by the Institute for monitoring subawards, as required by the federal audit circular, OMB A-133, and the Compliance Supplement. See preparation of proposal budget in the chapter on Sponsored Programs Basics.

Remember that only the first \$25,000 of any subaward is subject to the assessment of Institute F&A. This is important for budgeting and charging purposes. The excess of \$25,000 is a modifier (i.e., excluded) from the Modified Total Direct Cost (MTDC) base and is therefore not subject to F&A for the life of the award/subaward. For subawards that exceed one competitive segment, consult with your OSP representative.

One of the complexities with research collaborators is determining whether the relationship is a subaward (subrecipient agreement) or a procurement (vendor) transaction. Characteristics of a subrecipient(as described in OMB A-133):

- Determines who is eligible to receive what federal financial assistance;
- Has its performance measured against whether the objectives of the federal program are met;
- Has responsibility for programmatic decision making;

- Has responsibility for adherence to applicable federal programs compliance requirements;
- Uses the federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity; and
- The subawardee’s principal investigator may be a co-author on publications or may seek patent protection for inventions.

Characteristics of a vendor (as described in OMB A-133):

- Provides the goods and services within normal business operations;
- Provides similar goods or services to many different purchasers;
- Operates in a competitive environment;
- Provides goods or services that are ancillary to the operation of the federal program; and
- Is not subject to the compliance requirements of the federal program.


It is important to recognize that any terms and conditions accepted by MIT flow down to recipients of subawards. Award terms and conditions do not flow down to vendors or consultants.

In addition to ensuring that subawardees abide by the terms and conditions of the MIT subaward, MIT is responsible for ensuring that the federal funds it provides to another organization are spent in accordance with applicable laws and regulations. These subrecipients are monitored by MIT, much as federal sponsors monitor the Institute. Additionally, any subrecipient is responsible to MIT (including sending required reports to us) in the same way MIT is responsible to the prime sponsor.

The Subawards Office within OSP is responsible for issuing subawards, at the direction and with the information provided by the PI or his/her designee. If the subaward needs to be modified, it must be done by the Subawards Office with a formal revision of the original agreement.

Some subawards, particularly those with commercial entities, may be very difficult to negotiate and may take considerable time. This is sometimes the result of the complexity of the subawardee entity, but often may be because the subawardee is a small business and not familiar with federal regulations. In such cases, MIT must be careful in

making subawards since MIT is responsible for reviewing the business practices of the subawardee for consistency with federal costing principles before the award is made.

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ OMB Circular A-133
- ▶ OMB Circular A-133 - the Compliance Supplement
- ▶ MIT's Service Center Policy and Procedures
- ▶ Life of an Award Definition
- ▶ Subaward Basics
- ▶ Subaward Agreement and Vendor Definition

## Food and Beverages

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The one circumstance in which local business meals might be directly charged is described in OMB A-21 under the heading "Meetings and Conferences." This section (J.32) states:

*"Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. This includes costs of meals, transportation, rental of facilities, and other items incidental to such meetings or conferences. But see section J.17 'Entertainment Costs'."*

Expenses for Food and Beverages must include documentation substantiating the business purpose of the meal. This would typically include the description of the nature of the discussion, and relationship to the sponsored project if applicable, an agenda, a list of attendees, etc.

Auditors routinely question local food costs, and unless they find adequate documentation to show that the costs were associated with a bona fide technical conference or meeting, they may be disallowed. It is important to document how the food charges specifically benefit the project. If the research administrator knows in advance that a conference or meeting on campus with food service is necessary, then the expense should be included as part of the proposal submission so that it may be approved by the sponsor.

Meals while traveling for a sponsored project are allowable; however, on-campus meals eaten at a local business are

rarely allowed on Federally sponsored projects. Food and beverage expenses are allowable only if they are explicitly identified in the approved budget or later approved by the sponsor.

When United States government officials visit campus, the research administrator should avoid directly charging costs for their meals. Typically, government officials are restricted from accepting meals and other benefits from recipients of federal funding. Most of MIT's federal sponsors who visit campus understand this rule, so they usually offer to pay for meals on campus, and it is appropriate to accept their payment.

## Compliance with the Allocation and Documentation Standard

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This chapter has emphasized the need to charge expenses appropriately to sponsored programs. That is the core principle for sponsored research projects (accounted for in WBS elements). However, OMB Circular A-21 identifies some flexibility which may be used under certain circumstances. Section C4d provides that

*"if an individual cost specifically benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If an individual cost specifically benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the cost may be allocated or transferred to benefited projects on a reasonable basis. This requires a methodology, documented at the time the cost is incurred, that allocates costs based on some common characteristic such as head count, square feet, or some other criteria that reflects the benefit received by the projects. The criteria shall be consistently applied regardless of the projects' available funding."*

This section of A-21 provides the PI with an opportunity to charge expenses to inter-related research projects using a method that is reasonable but less burdensome than specific identification. In all cases, the methods used to allocate costs should be documented. For example, if laboratory supplies bought in bulk benefit four of a PIs inter-related projects, these costs may be assigned to each project on some reasonable basis, for instance the cost may be assigned proportionately to each project's share of the total expenses for the inter-related project. If project #1

represents 30% of the aggregate expenses of the four projects, it would be reasonable to charge 30% of the laboratory supplies to project #1. Using this method, it wouldn't be necessary for the PI to track the precise amount of lab supplies used by each project.

When allocation expenses cross two or more interrelated projects, consult with your OSP representative for guidance.

## 4. Cost Sharing

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### Introduction

Cost sharing is defined as the portion of a project or program cost not reimbursed by the sponsor. For example, assume that the total cost of the project is \$150,000. The sponsor requires that MIT contribute 25% of the total project cost (\$37,500); the sponsor provides the balance (\$112,500). The \$37,500 contribution to the project constitutes cost sharing by MIT.

### Why does MIT cost share?

There are two reasons:

- **Mandatory Cost Sharing:** The sponsor requires cost sharing as a condition of the award.
- **Voluntary Cost Sharing:** The sponsor does not require cost sharing as a condition of the award but MIT offers cost sharing in the proposal budget.

**F&A costs associated with a voluntary cost sharing commitment must be borne by the DLC.**

Whether cost sharing is mandatory or voluntary, a commitment becomes binding once an award is made. For this reason, MIT strongly encourages limiting cost sharing to that which is mandated by the sponsor or is necessary to make MIT's proposal competitive.

### Who is responsible for identifying funds for cost sharing?

Identifying and providing resources for cost sharing of direct costs is always the responsibility of the Principal Investigator and this information must be included in the proposal budget. In the example above the PI would be responsible for identifying \$37,500 as MIT's contribution to the total cost of the project.

### How can I determine if the funds identified by the PI for cost sharing are eligible as cost sharing?

Administrative requirements – The administrative requirements for including cost sharing on federal grants and cooperative agreements are defined in OMB Circular A-110. Both in-kind and cash contributions by a recipient are acceptable as cost sharing when all of the criteria are met:

- Verifiable from recipient records,

- Not included as contribution for any other federally assisted program,
- Necessary and reasonable for proper and efficient accomplishment of project or program objectives,
- Allowable as a direct cost under applicable cost principles,
- Not paid by another federal award (except as authorized by statute),
- Provided for in the approved budget when required by the federal awarding agency,
- Conform to other provisions in OMB A-110 as applicable.

A list of the various sources of funds that can be used for cost sharing can be found in the [Cost Sharing Primer for DLC Administrators](#) (see Appendix or OSP home page for link). Cost sharing can be in the form of a cash contribution or in-kind contribution.

### Cash Contribution

MIT's cash outlay, including the outlay of money contributed by third parties. For example,

- MIT Tuition Subsidies for Graduate Student RA Effort (only identified as cost sharing when the research proposal explicitly makes a cost sharing commitment)
- Explicit commitment to cost share Salary/EB/F&A

### In-kind Contributions

Non-cash contributions – examples include services, equipment, supplies, or real property.

### Case Example

Professor Smith, from the Department of Applied Biomedical Sciences at MIT, is submitting a grant proposal entitled "Developing New Therapies Using Stem Cells" to NSF. The total estimated cost of the project is \$150,000. The RFP to which he is responding has a requirement that MIT cost share 25% of total project costs (\$37,500).

### Cash Contributions:

Professor Smith indicates that he will devote one month to the project over the course of the academic year. Wendy

Doolittle is one of Professor Smith's Research Assistants and will be working full time on this project.

■ **MIT Tuition Subsidies for Graduate Student RA Effort.** The Institute provides a 45% (FY07) tuition subsidy for RAs during the Academic Year (AY). This subsidy is paid for with MIT general funds which means this subsidy can be used for cost sharing on this project. In this case let's assume that tuition for the AY is \$33,400. MIT allows the use of 66% of the MIT provided tuition subsidy for cost sharing. Therefore, the cost sharing amount is \$9,920.

$$\$33,400 * 45\% = \$15,030 * 66\% = \$9,920$$

■ **Explicit commitment to cost share Salary/EB/F&A:** Professor Smith is committing one AY (Academic Year) month to the project. MIT AY faculty salaries are "hardened" meaning that the Institute funds faculty salaries from Institute funds. Therefore, Professor Smith's salary for this month and the Employee Benefits and Facilities and Administration costs associated with his salary can be used for cost sharing:

**Assumptions**

- AY salary (Professor Smith) = \$76,500
- Employee Benefits = 27%
- Facilities & Administration = 65%

Professor Smith's x 1 AY month .....	\$ 8,500
Employee Benefits @ 27%.....	\$ 2,295
Total Salary & EB.....	\$10,795
Facilities & Administration	
Costs @ 65% .....	\$ 7,017
Total .....	\$17,812

**In-kind Contributions**

Professor Smith needs to inject stem cells into mice and plans to send the stem cell reagents to Biocompare, Inc. in California. Biocompare, Inc. has agreed to provide the materials for the reprocessing free of charge. The cost of these materials and supplies is \$4,768. To further extend his work, Professor Smith needs a Multiplex Quantitative PCR for which he has a quote of \$10,000. This equipment will allow him to quickly quantify nucleic acids for studying gene expression and he has decided to include this in his proposal budget. Professor Smith has a balance of \$5,000 in a discretionary cost object. He has decided

to contribute these dollars to the purchase of the Multiplex Quantitative PCR.

- **Equipment Purchase:** The \$5,000 from Professor Smith's discretionary cost object towards the purchase of the Multiplex Quantitative PCR equipment purchase is cost sharing.
- **Donated materials:** Biocompare, Inc has agreed to provide materials required to process the stem cell reagents for Professor Smith's research. Ordinarily the charge for these materials would be \$4,768.

**Summary Of Cost Sharing Contributions**

Professor Smith- One month AY salary/EB & F&A	=	\$17,812
Wendy Doolittle – RA Tuition Subsidy	=	\$ 9,920
Biocompare – Materials and Services Donation	=	\$ 4,768
Equipment	=	\$ 5,000
Total Cost Sharing	=	\$37,500

While we have seen several examples of sources that can be used for cost sharing, at MIT, the preferred order for cost sharing is the following:

- **Tuition:** up to 66% of the MIT-provided tuition subsidy for graduate research assistants may be used for cost sharing. Exceptions to this must be approved in advance by the Vice President for Research.
- **Equipment**
- **Other expense categories**

**What kinds of items are not eligible for cost sharing?**

The following expenses CANNOT be offered as cost sharing commitments in sponsored proposals.

- **Other Federal Awards:** The PI may NOT utilize funds from one Federal award as cost sharing on another Federal award. The PI may utilize funds from non-federal awards as the source of cost sharing on federal awards when specifically allowed by the federal sponsor.
- **Use of MIT-Owned Equipment:** Cost sharing of equipment in MIT's current inventory *is not allowed*. The reason for this is twofold: (1) The sponsor is already paying for a portion of it through the F&A rate calcula-

tion and (2) the equipment was not purchased for use on this project.

- **Institute facilities such as laboratory space.** The use of MIT facilities is recovered from sponsors through the application of the F&A cost rate. Therefore, offering Institute space or facilities as cost sharing is not permitted as these costs are F&A, not direct costs.
- **Unallowable costs as defined in OMB A-21 Section J.** See Appendix or OSP home page for link.
- **Salary dollars above a regulatory cap.** As an example, NIH has a salary cap that limits the salary amount that may be awarded and charged to NIH grants and contracts. The Institute may pay an individual's salary amount in excess of the salary cap with non-federal funds. However, this differential cannot be used for cost sharing.

### Tracking Cost Sharing

DLC administrators must ensure that all cost sharing commitments (mandatory and voluntary) made as a condition of the award are met, properly recorded and documented. OSP creates a Project WBS with a cost object number 600000. The \$112,500 that NSF is funding will be tracked in this cost object along with the cost sharing commitment by MIT. To illustrate how this would work let's assume that Professor Smith's NSF proposal was funded. The award carries a \$37,500 cost sharing commitment. This commitment will be met as follows:

Professor Smith – 1 month salary/EB/F&A	=	\$17,812
Wendy Doolittle – RA Tuition Subsidy	=	\$ 9,920
Biocompare materials and supplies donation	=	\$ 4,768
Multiplex Quantitative PCR Equipment	=	\$ 5,000
		\$37,500

### MIT Funded Cash Contribution

The DLC is responsible for completing the cost sharing template. OSP will create a WBS child cost object. Funds for the faculty salary/EB and F&A will be transferred by CAO to the child cost object. The DLC is then responsible for changing salary distribution to the cost sharing child cost object.

### MIT Tuition Subsidies for Graduate Student Effort

The DLC should document the name of the student, his/her percent of effort, the period of effort on the project and total amount of the subsidy provided during the period.


### Donated Supplies and Materials

Because this is not an expenditure made by MIT, documentation from the sponsor which includes the value of the donated materials and supplies should be provided to OSP to substantiate that the commitment has been fulfilled.

### Equipment

The full procedures are documented in the Cost Sharing MIT Guidelines Table, pages 8 – 13 of the Cost Sharing Primer for DLC Administrators (see Appendix or OSP home page for link).

- Cost Sharing Primer includes information on the following:
  - OMB Circular A-110
  - Definition of Cost Sharing
  - Cost Sharing Criteria
  - Mandatory vs. Voluntary Cost Sharing
  - Cost Shared Effort—Committed vs. Uncommitted
  - Cost Sharing in Proposals
  - Procedures for Recording and Documenting Cost Sharing

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ Cost Sharing Primer for DLC Administrators
- ▶ Unallowable Costs as defined in OMB Circular A-21 Section J

## 5. Administrative Charging

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### Administrative Expenses

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#### Charging Administrative/Clerical Expenses

OMB Circular A-21 requires administrative and clerical expenses normally be treated as F&A costs, not as direct costs, except when the expenses are used to support a major project or activity. MIT requires that four criteria be met to direct charge administrative expenses to a sponsored project. (See Figure 5.1) The expense must be:

- Incurred for the performance of a major project or activity,
- Specifically identified in the proposal budget and justified as directly benefiting the project,
- Explicitly Budgeted and approved by the sponsor, and
- Supported by a written budget justification.

This is one of the few MIT policies that apply to federal awards only, unless a non-federal sponsor incorporates the rules of OMB A-21 into its award terms and conditions.

OMB A-21 provides examples of “major projects” where direct charging of administrative or clerical salaries may be appropriate:

- Large, complex programs such as a general clinical research center, program projects, environmental research centers that entail assembling, managing and coordinating teams of investigators from a number of institutions, or large numbers of child cost objects to manage, and many sub-allocations can make the project major. This is one of the few kinds of projects where it may be appropriate to charge all of the administrative costs directly to the project due to the complexity of the project.
- Projects that involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting. When data entry relates to the project and is a significant part of the scope of work, it is a major activity. The data entry activity may seem administrative, but in this case, it is a technical part of the project. The cost associated with this activity can

be charged directly to the project, as long as the other criteria are met.

- Projects that involve extensive travel and meeting arrangements for large numbers of participants. In the case of a travel grant where the purpose of the award is to set up a meeting to discuss the technical aspects of a project, all of the administration associated with that project can be charged directly to the project, as long as the other criteria have been met.
- If only a portion of the project involves extensive travel and/or meeting arrangements, then only the administrative expenses associated with making the travel and meeting arrangements constitute a “major activity.” Only the administrative expenses associated with the “major activity” can be charged directly to the project.
- If the principal focus of a project is the preparation of a large report, manual, or website (excluding routine progress and technical reports), it may be appropriate to charge administrative costs directly to the project.
- Projects that are geographically inaccessible. If a project conducted in the Antarctic requires administrative work, it is reasonable to have an administrator or a copy machine there to perform administrative tasks. In that case, it would be appropriate to charge those costs directly, as long as the other criteria are met.
- Coordination of project-specific database management, individualized graphics or manuscript preparation, multiple project-related investigator coordination, or a large number of human subject or animal protocols to track.


The following is an excerpt from OMB A-21, Exhibit C:

*“These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples.”*

Many of these administrative activities seem routine and similar to general administrative support costs that are included in the F&A rate. However, because of the nature of the project and the fact that these administrative activities contribute directly to the technical scope of the project, it may be appropriate to direct charge the administrative costs, as long as the other criteria are met (i.e.,

the costs are included in the proposal budget, are properly justified, etc.). The purpose and circumstances described here are different than routine administrative and clerical costs, which should be treated as indirect costs.

**Questions regarding appropriateness of administrative charges to WBS elements should be addressed to your OSP representative.**

 **Key References** - See website links in Appendix and on the OSP home page

► Direct Charging of Administrative and Clerical Costs


## Consistency

Costs which are incurred for the same purpose and in like circumstances must be treated consistently as either direct or F&A, and applied on a consistent basis throughout the Institute. Consistency can be achieved simply by following MIT's policies.

On projects where administrative costs can legitimately be charged directly, those expenses should be proposed (with justification) and, if awarded, charged as appropriate. The administrative costs charged directly to the project must be consistent with the proposed budget and reflect actual work performed on the project.

If the sponsor disapproves of what has been proposed as an administrative direct charge, then that expense cannot subsequently be made to that project, not even under Expanded Authorities.

This principle—of treating costs incurred for the same purpose and in like circumstances consistently—is a fundamental concept of the Cost Accounting Standards described in greater detail in Cost Principles: Preparing the Proposal Budget.

 **Key References** - See website links in Appendix and on the OSP home page

► OMB Circular A-21

## Administrative Expense Criteria

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As indicated in the previous section, four criteria must be met to direct charge administrative expenses to a sponsored project. These criteria are described below in greater detail:

### ■ Incurred for the performance of a major project or activity

The administrative expense is for the performance of one or more of the activities or projects listed in the A-21 examples of a major project. In order for the administrative activity(ies) to qualify for direct charging to federal sponsored projects, they must be significantly greater than the routine level of such services provided by academic units.

### ■ Specifically identified and directly benefiting the project

The administrative expense can be identified specifically with a particular sponsored project or activity, or can be directly assigned to the project or activity relatively easily with a high degree of accuracy, and provide direct benefit to the project.

### ■ Budgeted and approved by the sponsor

The administrative expenses are explicitly listed in the approved proposal budget and are not specifically disapproved in the award notice. NIH modular grants or similar grant instruments do not require line-item budgets. NIH modular grants are by definition small projects, therefore administrative and clerical costs should not be directly charged to these awards.

### ■ Supported by a budget justification

Explicit budget justifications for the administrative and clerical charges are included in the proposal. MIT does require an overall justification in the budget narrative that identifies the project as major and describes those aspects of the project that make it major.

If the administrative expense **does not** meet the criteria for direct charging as described above, the expense should not be proposed or charged as a direct cost to the project.



## Allocation Accounts

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MIT is unique in its concept of “allocation accounts” and has the approval of our cognizant federal agency, the Office of Naval Research (ONR) to use these accounts under certain circumstances in certain laboratories (but never in academic departments). The basic principle is that the expenses of an approved allocation unit’s central administrative group are distributed to all accounts within the laboratory using rates pre-approved by MIT’s cognizant agency and Federal auditors (ONR-DCAA).


The expenses which may be charged through the allocation process include salaries and wages (exclusive of employee benefits and vacation accrual) of the employees administering the laboratory (such as administrative, fiscal, and facilities officers) and materials and services necessary to support the central administration of the laboratory. There are three types of allocation rates:

- To allocate salaries and wages.
- To allocate materials and services.
- To allocate utilities (Haystack Observatory only).

Travel (except within the administrative group), equipment, meetings/lunches, and any unallowable costs may not be charged to the allocation account.

A complete list of laboratories and centers approved for allocation accounts and their allocation rates is available on the OSP web page (see Current Allocation Rates).

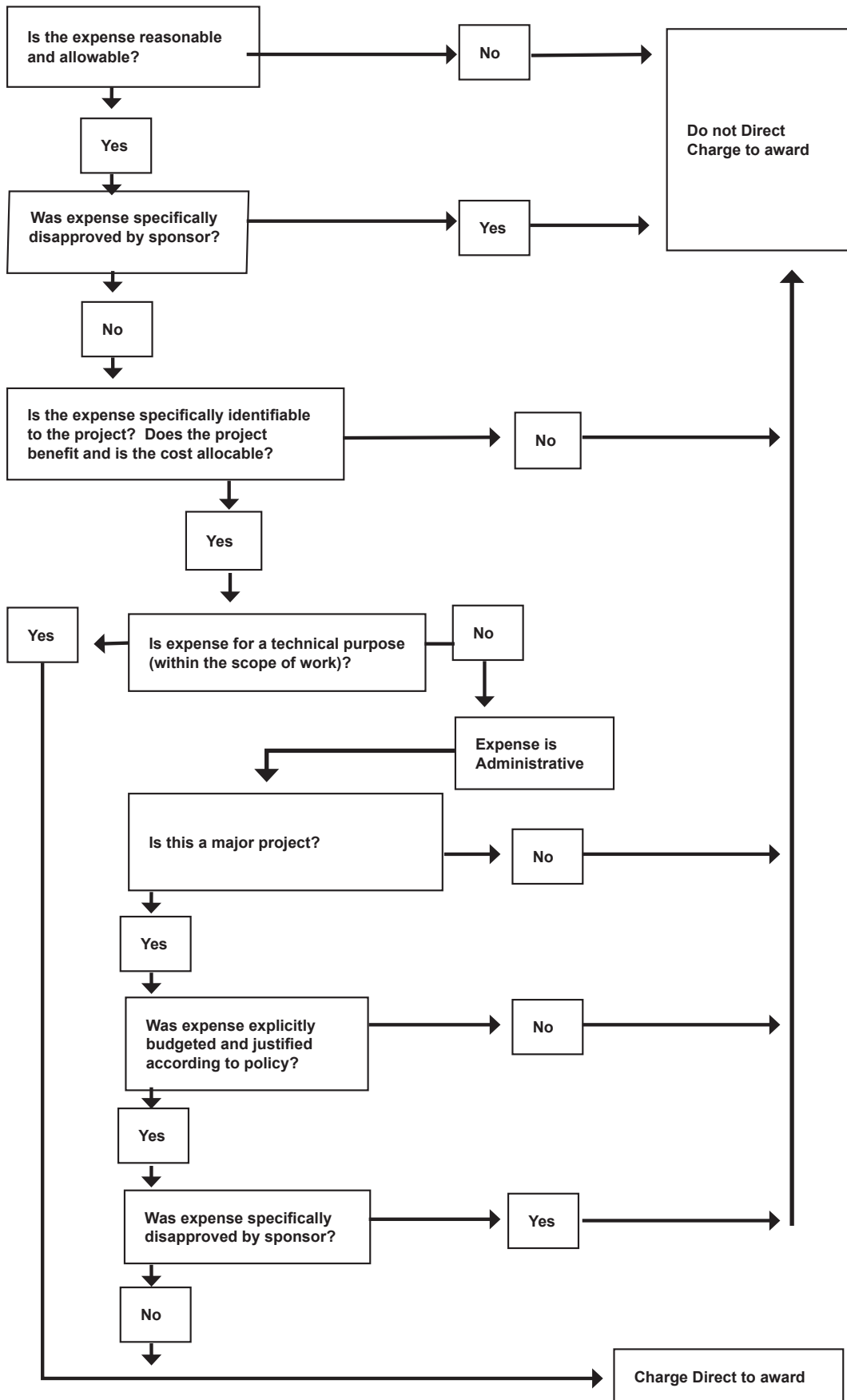
A complete description of the process for developing allocation account rates and receiving approval of those rates is available at General Rules of Laboratory Allocations.

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ Current Allocation Rates
- ▶ General Rules of Laboratory Allocations

**Figure 5.1: Charging Administrative and Clerical Expenses on Federally Funded Projects**

The flowchart below will help you determine whether you can charge administrative expenses on federally funded projects.



## 6. Cost Transfers

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### Introduction

A cost transfer is a reassignment (transfer) of charges within or between cost centers, internal orders, or WBS elements. They are created in departments, labs, or centers to bill inter-departmental costs, to adjust billing errors, or for other reasons associated with the department's regular financial operations. When cost transfers to move expenses involve sponsored projects it is critical that the transfer meets the rules for allowability, allocability, reasonableness and consistency (See Chapter 1: The Environment for Research).

A journal voucher is the SAP document used to process a cost transfer. Although costs should always be charged to the correct WBS cost object when they are incurred, cost transfers are sometimes necessary.

### When Are Cost Transfers Allowed?

MIT allows cost transfers involving sponsored projects only in special circumstances, including:

- Error correction.
- Transfers between cost objects of the same sponsored project (e.g., child to child, parent to child, child to parent).
- Costs benefiting more than one sponsored project.
- Transfer of retroactive expenses (including pre-award costs) on a project necessitated by a delay in finalizing contract negotiation.

*Any time you initiate a transfer, you invite the assumption that the transaction was not handled properly initially. If expenses are being transferred to a sponsored project, there will be considerable scrutiny of the reasons for the transfer, and the justification for moving those charges.*

If a project has an overrun, there's a presumption that any proposed cost transfer is to alleviate the overrun, and it would not be allowed - the barrier is very high for these types of transfers, and difficult to overcome the presumption. If you encounter this situation, please contact your OSP Representative for guidance. To bring the project into balance, a funding entry must be made, using the "record project overrun" GL account, 420314.

### Criteria for Cost Transfers

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#### What is the criteria for a cost transfer involving sponsored projects?

Cost transfers must be:

#### 1. Conform to Institute and sponsor policies (is it allowable, allocable, reasonable and consistent?)

#### 2. Timely

- Cost transfers should be prepared and submitted as soon as the need for a transfer is identified but no later than 90 days after the posting is made and/or within 30 days of the project end date, whichever comes first.
- Cost transfers exceeding this time frame will require additional documentation as to why the transfer request was not made on a timely basis.

#### 3. Fully Documented

Cost transfers must contain a justification that clearly shows:

- Benefit to the receiving project.
- Allowability and allocability to the new sponsored project.
- Reason for transfer.
- Systemic causes are corrected so they will not recur.
- The reason for any delay in the timely processing of the transfer if the transfer date exceeds the time frame in Item 2, above.
- It was reviewed by a knowledgeable person (PI).

A good justification will allow anyone reviewing the cost transfer to understand how the expense benefits the receiving sponsored project.

It should answer: **who, what, where, when, and why.**

It should be easily understood by anyone reviewing the journal voucher (think: "if I leave, will an auditor be able to understand this two years from now?"). It may include

documentation to support the justification. Some examples of documentation are:

- Allocation methodology.
- An invoice or packing slip.
- Notes on an expenditure statement, “per PI ...”

#### 4. Have appropriate approvals

### Cost Transfers: Examples

#### Example 1:

##### Inadequate

*“To allocate chemicals from department cost object to the appropriate WBS.”*

##### Adequate

*“Department X used a department general cost object to collect all department chemical charges. All charges to sponsored projects were proposed and approved consistent with MIT and sponsor policy and included in the proposal budget. Documentation, including allocation methodology, is in departmental files.”*

The inadequate justification does not address the questions of whether or not the chemical charges are allowable and allocable to the WBS to which they are being charged through the cost transfer.

The adequate justification states that the department is aware of the documentation requirements for these charges, attests that all requirements have been met, and states where the documentation records can be found. The length of a justification is irrelevant. A justification must include the pertinent facts, be succinct, and be easily understood by anyone who may read it now and in the future.

#### Example 2:

*Does this journal voucher explanation provide adequate justification?*

Lab A purchased \$600 in lab supplies in June, 2004. They processed a Journal Voucher in October 2004 for the supplies, stating in the remarks that “per a conversation with the PI, it was determined that these expenses were charged

to an old cost object in error. This journal entry is to transfer that expense to an appropriate WBS for a different project.”

*Would you accept this as adequate justification?*

- Did they state the original error?
- Is the expense allocable to the new WBS?
- Was the transaction documented and processed in accordance with policy?

*This journal entry would not be accepted as adequate documentation for this transfer for the following reason:*

- Based on the information provided, it is unclear how to evaluate the appropriateness of the transaction. (How did the PI know that those supplies benefited the other project? Did he review an expenditure statement? Project Budget?) Why is it important to have timely, well-documented and carefully justified cost transfers?

- 1) Any time a transfer is initiated, the assumption is that the transaction was not handled properly initially. If expenses are being transferred onto a sponsored project WBS element, there will be considerable scrutiny of the reasons for the transfer and the justification for moving those charges.
- 2) Frequent and poorly documented cost transfers may indicate problems in the management of research.
- 3) Federal auditors scrutinize more closely the allowability, allocability, and reasonableness of cost transfers.
- 4) Federal research sponsors are giving increased attention to the reason behind cost transfers from and to sponsored projects.
- 5) There is a significantly increased audit risk for cost transfers made beyond the approved guideline.

### Cost Transfers: Summary

When preparing a Journal Voucher to transfer an expense, review the transaction and the documentation provided to support it.

Have you clearly shown that:

- The expense directly benefits the receiving project.
- The expense is allowable on the receiving cost object (including Administrative Charges policy).
- There are no restrictions which preclude this transfer (e.g., restrictions on travel or equipment).
- The transaction meets all sponsor requirements.
- The transfer complies with all MIT policies.
- The reason the expense was charged incorrectly to the first cost object.
- The reasons for any delay in a timely processing of the transfer.
- Any systemic problems which might cause this problem to be repeated have been addressed.

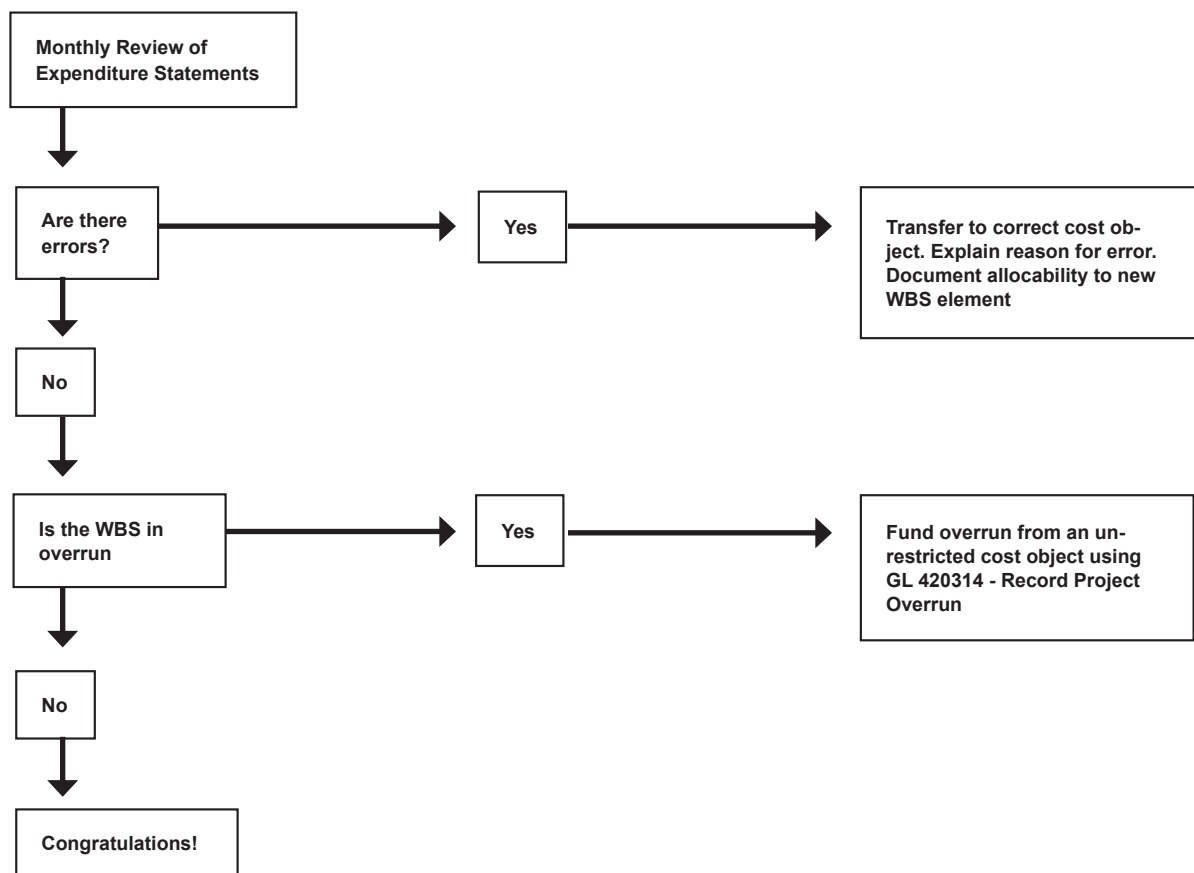
**Key References** - See website links in Appendix and on the OSP home page

- ▶ CAO Training Classes
- ▶ MIT Training
- ▶ Creating Journal Vouchers
- ▶ SAP Journal Voucher Uploads
- ▶ SAPweb

## Transferring Expenses Off a Sponsored Project

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Figure 6.1



# 7. Equipment Purchase & Property Management

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## Major and Minor Equipment

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Equipment is an article of nonexpendable tangible personal property. MIT further distinguishes between capital equipment (unit cost of \$3,000 or greater) and minor equipment (unit cost between \$500 and \$2,999).

In addition, equipment:

- Must have a useful life of more than one year; and
- Must be moveable, i.e., not be affixed to the building or structure. (Example: an air conditioning unit that you install into a window that can be removed and placed in another window would be capital equipment, but paying for ducting and vents and installing them into the roof/ceiling, etc. would be a renovation project, not equipment, because the building shell had to be modified.)

### Capital (Major) Equipment

Federal government regulations allow institutions to set their own capitalization threshold up to \$5,000. MIT's policy defines capital equipment as equipment with an acquisition cost of \$3,000 or more and a useful life of more than one year.

Additionally, the federal government does not allow capital equipment to be included in the Modified Total Direct Cost base. It is for this reason that F&A cannot be recovered on capital equipment charged to research awards.

### Minor Equipment

Minor equipment is defined as equipment with an acquisition cost between \$500-\$2,999. Minor equipment is included in the Modified Total Direct Cost base. Therefore, F&A is applied to minor equipment charged to research awards. Minor equipment is not subject to sponsor requirements governing capital equipment.

## Sponsor Terms and Conditions for Major and Minor Equipment

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**Purchases of capital equipment are subject to agency/sponsor regulations and award terms and conditions. Requirements associated with the purchase of minor equipment are consistent with those for materials and services.**

It is important to check the terms and conditions of any particular award for information related to the acquisition, ownership, and disposition of capital equipment. Some awards do not allow the purchase of particular types of equipment, general purpose equipment for example, while other awards are made specifically for the purchase of equipment and do not permit other types of expenditures. Some awards require pre-approval by the sponsor before equipment may be purchased. The appropriate terms and conditions appear in the Notice of Award; they can also be found in the COEUS Award Management System.

## Purchasing Equipment on Sponsored Research Projects

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Prior to purchasing any equipment for a sponsored project the following questions should be asked:

- Is the equipment necessary for the performance of the project?
- Is this equipment allowable? (according to sponsors terms and conditions)
- Is equipment purchase reasonable?
- Is this equipment purchase allocable to the project?
- Is the timing of the purchase consistent with the period of performance? (i.e. not purchased at the end of the project)

### Is this equipment allowable?

Equipment that is purchased on a sponsored project must be necessary for the performance of the project and be consistent with Federal regulations, the requirements of

the sponsor and the terms and conditions of the award to which the equipment will be charged.

When it is anticipated that the performance of a sponsored project will require acquisition of equipment, the PI and DLC administrator should review the program announcement, solicitation, sponsor's policy, etc. to ensure that the equipment is allowed on the project prior to submitting the proposal. In some situations the sponsor will require a detailed listing and written justification for all equipment purchases.

Prior to making any equipment purchases, the PI and DLC administrator should review the terms and conditions of the Notice of Award from OSP to make sure that there are not any sponsor provisions that precludes the equipment purchase without sponsor approval. Here are a few examples of sponsor clauses regarding equipment purchases:

- Equipment may be purchased without approval.
- General purpose items may not be purchased without prior approval.
- All equipment purchases require prior approval.
- Equipment may not be purchased.

### **Is the equipment purchase reasonable?**

The purchase of equipment must be reasonable with respect to timing and cost. If equipment is necessary for the performance of a project, it is anticipated that the equipment will ordinarily be purchased in the initial stages of the project, not at the end of the project. The purchase of equipment should also be reasonable with respect to cost. While it may be impossible to precisely budget for the acquisition cost of equipment at the time the proposal is submitted, under normal circumstances the actual purchase price of equipment should approximate the amount in the approved award budget.

**It is important for the PI to review the sponsor policy and terms and conditions of the award before using funds approved for equipment purchases for other purposes, or to use other award funds to purchase equipment. Sponsor policies and award terms and conditions vary in the amount of flexibility that the PI has in rebudgeting award funds between various cost categories.**

### **Use of Equipment During and After the Period of Project Performance**

The PI and DLC administrator should review the sponsor policy and award terms and conditions to determine what restrictions, if any, exist for the use of equipment. The primary use of equipment purchased on a federally sponsored project should be for the performance of that sponsored project. However, federal regulations include a "hierarchy of use" that permits the equipment to be used for other federal projects; first on other projects funded by the agency that paid for the equipment and next on projects funded by other federal agencies.

After the period of performance there is typically no restriction on MIT's use of sponsor-funded equipment if MIT retains title. When the sponsor retains title to the equipment it has funded or furnished, the sponsor's policies and award terms and conditions should be reviewed to determine the appropriate use and disposition of the equipment.

For questions regarding inclusion of equipment items in proposals, contact your OSP Contract Administrator (see Appendix or OSP website for unit list). For questions regarding equipment purchases, tagging and recording, contact the Property Office (see Appendix or Reference Manual on OSP website for website link).



**Key References** - See website links in Appendix and on the OSP home page

- ▶ OSP Contract Administrator List (by Unit)
- ▶ Property Office

### **Types of Equipment**

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**Special Purpose Equipment** is equipment used only for research, medical, scientific, or other technical activities.

**General Purpose Equipment** is equipment, the use of which is not limited only to research, medical, scientific, or other technical activities. Examples of general purpose equipment include office equipment and furnishings, reproduction and printing equipment and motor vehicles.

Similar to the rules for the direct charging of administrative expenses, a parallel requirement for adequate budget justification exists whenever "general purpose" equipment is charged to a project. Federal regulations stipulate that

the cost of multi-use equipment used for general purposes should not be direct-charged to sponsored projects. Multi-use general purpose equipment should be purchased using unrestricted funds. If general purpose equipment is necessary for the performance of the sponsored project, the budget justification should include detailed information linking the equipment acquisition to the technical work of the project.

**Fabricated Equipment** - Many research projects include the design, development and building of equipment that is not available commercially. Equipment that cannot be purchased “off the shelf”, and is built by the research team, is fabricated equipment. (There are instances where the whole research project is the fabrication of equipment.)

#### **Characteristics of Fabricated Equipment**

- Unique, specialized equipment.
- Not commercially available.
- Useful life of more than 1 year.
- Aggregate cost of materials and services is \$3,000 or more (excluding labor costs).
- May require sponsor approval.

For example: The act of putting together a CPU, monitor, and keyboard does not meet the definition of a fabrication, since the computer system is not unique.

#### **Establishing a Fabricated Equipment Cost Object**

Fabricated equipment costs are held in a special child cost object until the completion of the fabrication. To establish a fabricated equipment cost object, the research administrator provides the Property Office with the following information:

- A description and diagram of the fabricated item to be constructed,
- Parent WBS cost object,
- Total budget estimate of allowable costs including description, quantity, unit cost and vendor(s) (if known),
- Estimated **useful life** of the fabrication when complete,
- Location of the equipment during fabrication, location of the completed fabrication and name of the responsible person.

See the CAO website for allowable general ledger codes for fabricated equipment cost estimates.

The Property Office will in turn:

- Determine if the request complies with the requirements to have a fabricated equipment cost object and if so;
- Contacts OSP to review for compliance with the terms and conditions;
- Requests that OSP create a child WBS element.

Note that no F&A is charged to fabricated equipment cost objects since the item will ultimately be classified as capital equipment. However, fabrications that extend beyond their estimated completion dates with no significant progress toward completion will be disallowed and the child cost object terminated. All costs will revert to the parent cost object and F&A will be assessed accordingly.

The Property Office website contains additional important information on the request, management and closeout of fabricated equipment cost object.

## **Disposition of Equipment**

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Disposition of equipment occurs when the equipment is no longer needed for the sponsored project; in most cases, this occurs as the project nears completion. Disposition activities include reutilization, transferring equipment to other awards or institutions, selling, or returning the equipment to the sponsor. If equipment is broken or obsolete, it may be eligible for disposal as scrap. DLCs must coordinate equipment disposition with the Property Office.

The Property Office is responsible for generating property management reports required by government agencies and sponsors including financial, equipment status, and closeout reports.

## **Sponsor-owned Equipment and Property**

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In some situations a sponsor may provide award funds for the purchase of equipment or property but may retain ownership of the asset. Property which is owned by the sponsor may have acquisition and reporting thresholds that differ from MIT's, so the award terms and conditions must be reviewed for specific requirements related to acquisition, use, maintenance, and disposition of equipment.



A sponsor may also furnish equipment to be used in the performance of a sponsored project. Again, the award terms and conditions should be carefully reviewed to ensure compliance with sponsor requirements.

### **Responsibilities for Sponsor-Funded/Owned Property**

MIT is responsible for the control of sponsor-funded/owned property provided under the terms of sponsored project contracts and certain sponsored project grants. The Institute delegates the direct control, maintenance, and accountability of sponsor-funded/owned property used in connection with a contract or grant to the Principal Investigator and his/her DLC.

Institute policies and procedures on control of sponsor-funded/owned property are established by the Property Office to insure compliance with contractual requirements. The Institute delegates oversight of sponsor-funded/owned property to the Property Office.

## **Property Management**

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The performance of sponsored projects may require the acquisition of equipment by MIT. The equipment may be purchased by MIT using Institute or DLC funds, or the equipment may be budgeted as a direct cost of the project and paid for with sponsor funds. In some situations the equipment may be donated by third parties or furnished by the sponsor. The requirements associated with the management of equipment and other property acquired by MIT vary depending on the dollar value of the acquisition, the source of funding and the method of acquisition.

### **Roles and Responsibilities**

#### **MIT Property Office**

The MIT Property Office (see Appendix or MIT Property Office website link) is responsible for the accounting and asset management for both MIT-owned, sponsor-owned and donated equipment. The MIT Property Office has information on specific procedures, policies, and instructions for acquiring, controlling, shipping, moving, and disposing of sponsor-funded, sponsor-owned and Institute property (including loaned and donated property.) The Property Office conducts a physical inventory of Institute property, including equipment, on a biennial basis. Inventory results must be reconciled to the MIT property system and reported by project to the sponsor.

### **Departments, Labs and Centers**

DLCs are responsible for equipment purchased on their sponsored projects regardless of the equipment is located (i.e., on campus, off-campus or at a subrecipient site). The DLC must ensure that equipment is managed appropriately, and that MIT staff, students, and subrecipients follow approved property procedures.

### **Federal Agencies**

MIT's equipment inventories and property management systems are evaluated and approved by the Defense Contract Audit Agency (DCAA), the Defense Contract Management Agency, and the Office of Naval Research (ONR), MIT's cognizant government agency.



**Key References** - See website links in Appendix and on the OSP home page

- ▶ Property Office
- ▶ Fabricated Equipment Policy
- ▶ MIT Capitalization Policy

# 8. Project Monitoring

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## Introduction

This chapter addresses a variety of issues which arise during the performance, completion and close-out phases of a sponsored project. If you have not read the chapter on Sponsored Programs Basics, sections entitled “Preparation of the Proposal Budget,” “Management of Project Expenditures,” and “Special Requirements Related to Sponsor Notifications and Prior Approvals,” you should do so before reading this Chapter.

## Overall Responsibility and Delegation of Authority

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Responsibilities for Institute funds are delegated from the Corporation to a number of Institute officers. General responsibilities are described below.

### 1. General Responsibility

The Institute has delegated to deans, department heads, lab directors, principal investigators (PIs) and other Institute officers the responsibility for management of funds. Specifically, PIs have been delegated the responsibility for the management of funds in cost objects they supervise. The PIs have the authority to expend funds to accomplish their responsibilities, and are responsible for assuring that expenditures charged to their cost objects are:

- Reasonable and necessary.
- Consistent with established Institute policies and practices.
- Applicable to the work of the Institute including research, instruction, and public service.
- Consistent with sponsor or donor expenditure restrictions.

### 2. Overall Responsibility for Sponsored Programs

At the Institute, the PI has overall responsibility for the technical and fiscal management of a sponsored project. This includes the management of the project within the funding limitations of the sponsored award, and assurance that the sponsor will be notified when significant

conditions related to the project status change. While responsibility for the day-to-day management of project finances may be delegated to administrative or other staff, accountability for compliance with Institute policy and sponsor requirements ultimately rests with the PI.

### 3. Delegation of Authority

Authority to create and approve transactions for the purchase of services and materials on a project cost object may be delegated by the PI. The PI retains accountability for prudent control of the project cost object and may place limits on the dollar level and the types of expenditures for which authority is delegated.

### 4. Limitations on Delegation of Authority

- Expense Reimbursement: No person may approve his or her own expense reimbursement, or the expense reimbursement of an individual to whom he or she reports either directly or indirectly. Expense reimbursements, which require two signatures, must have the signatures of the person incurring the expense and the person responsible for management of the cost object or a properly delegated agent.
- Salaries: No person may authorize any HR or payroll transaction that affects his or her own salary, or HR or payroll transactions that affect the salary of an individual to whom he or she reports either directly or indirectly.
- Conflict of Interest: No person may authorize a payment to a business or individual where there is a conflict of interest.

**REMEMBER**, when authorizing direct charges to a sponsored project, the originating DLC must assure that:

- The estimated charge is reasonable and necessary.
- The expenditure is allowed by the funding source and, if a charge to a federally funded project, by OMB Circular A-21.
- The expenditure is allocable to the project, i.e., provides benefit to the project.

- The funds are available within the authorized award amount and funding limitations, and the authorized period of performance.
- The justification for the expenditure is documented.
- The method of allocation of costs is appropriate.
- The charge is coded with the correct general ledger code and charged to the correct WBS elements.
- The charge has been processed through the appropriate Institute system.

## Pre-Award Costs

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### Does the project need a project cost object established in Pending status?

#### EXAMPLE: Are there problems with this scenario?

An award is expected in two months. A graduate student currently working in this area needs to be funded. The PI asked you to “charge the student to another project and then transfer the costs when the real award comes in.”

#### Problem

The student’s effort should NOT be charged to any project which does not benefit from that effort. If the student is working in an area that does not relate to the project being charged, then the charge cannot be allocated to that project.

The charge is both unallowable and unallocable, and cannot be approved, even if the charges will be transferred later.

**REMEMBER, sponsored project cost objects are not to be used as clearing accounts!**

#### Solution

If the sponsor allows pre-award costs, MIT will create a project cost object in Pending status provided that the DLC will assume financial responsibility. Be aware that some sponsors on some awards may not allow pre-award costs or may limit the period of time in which such charges may be incurred. Check sponsor guidelines and confer with your OSP representative before incurring such expenses.

### When and how should a DLC request to have a new project cost object created in Pending status?

- If you know an award is forthcoming, review sponsor guidelines regarding pre-award costs. Certain agencies, programs or award types (such as contracts) may have specific rules governing pre-award expenses. Some sponsors may limit the dollar value of such charges, or may set time limits for their expenditures. Confer with your OSP representative if you need assistance understanding sponsor guidelines.
- With the designation of an unrestricted source of back-up funding, the DLC may authorize OSP to create a new WBS element in Pending status (not billable to sponsor). In such circumstances, the DLC must assume all financial risk associated with the possible inability of MIT to negotiate or receive an acceptable fully executed award from the sponsor. The request for a cost object in Pending status must be submitted in writing by the DLC and be endorsed by an individual authorized to commit the source of back-up funding.

**REMEMBER,** Setting up a new project cost object where appropriate can save time and trouble in the long run. Any time charges are being transferred into a sponsored project cost object, as they would be if you were “clearing” early expenses and transferring them to the proper WBS element, careful documentation and justification will be required. It is easier to place the charges where they belong from the beginning!

## Spending

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### When should expenses be reviewed and corrections be processed?

SAP Summary Statements, prepared and issued by the Controller’s Office, are the official record of project expenses and the basis for cost reimbursements to MIT.

Expenditure statements for sponsored project and cost sharing cost objects must be reviewed each month by a knowledgeable individual, i.e., the PI or a designee, so that adjustments, if necessary, can be made in a timely manner. To be considered timely, monthly expenditures must be reviewed and adjustments made within two months of the end of the month being reviewed. MIT’s Financial Review

and Control guidelines describe the process to be used for this review.

Any questionable charges must be brought promptly to the PI's attention and, if needed, corrected by an appropriate transfer. Transfers should be initiated as soon as possible after a need has been identified. Expenses may be transferred to an appropriate Cost Center or Internal Order. Whenever expenses are moved to or between sponsored cost objects, the PI must assure that the project which ultimately pays the expense is the project which benefited from that expense, and that there is adequate documentation to support the appropriateness of the transaction.

**REMEMBER**, when correcting project expenses:

- Make corrections in a timely manner.
- Explain carefully and completely the reason for the transfer.

### **When is sponsor approval or notification required?**

Federal grant policy OMB A-110 establishes the approved project budget as the financial expression of the project, and sponsors may evaluate the project against the budget at any time. Although sponsors allow certain flexibilities with regard to rebudgeting, unobligated balances, and pre-award costs, MIT and sponsors expect expenditures to be reasonably consistent with the approved project and budget. Sponsors may question or disallow expenditures that appear inconsistent with the project plan and budget. PIs are obligated to request prior approval when budget and program plan revisions indicate a significant change in scope.

For federal grants, advanced written approval by the sponsor's grant officer (not program officer) is required for:

- Change in project scope.
- Reduction in PI level of effort by 25% or more.
  1. If a principal investigator spends less effort on the project than proposed, then the PI and the responsible department should:
    - a. Review and adjust salary charges.
    - b. Review any cost sharing commitments.
  2. In addition, for **federal awards**, the PI must notify the sponsor in writing if he or she plans to reduce his or her level of effort by any significant amount from

the awarded level. This notification must be routed through OSP prior to submission to the Grant Officer.

- PI's absence from the project for more than 3 months.

In addition to prior approval requirements for any change in project scope or effort of key personnel, for federal cost-type contracts, PIs must assure compliance with the Limitation of Funds and/or Limitation of Cost clauses which include the requirements that:

- The Contractor notify the sponsoring agency in writing at any time that there is reason to believe the total cost to the government for the performance of the project will be greater or substantially less than the estimated cost, and further.
- The Contractor notify the sponsoring agency if, at any time, there is reason to believe that the costs which are expected to be incurred in the next succeeding 60 days, when added to all costs previously incurred, will exceed 75% of the specified estimated cost.

**All approval, prior approval requests or notifications should be written by the PI and endorsed and submitted by OSP.**

## **Late Expenses**

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### **Are late expenses allowable?**

Expenses including salaries, may not be charged to a project after the project end date unless the effort was provided or the goods or services were acquired and consumed during the project period. An exception may be made if specific written approval was received from the sponsor.

#### **Question**

How late in a project is it "safe" to order technical supplies or other project materials?

#### **Answer**

Any time, as long as the materials will be **ACQUIRED AND CONSUMED** during the project period.

If a requisition is submitted before the project end date, but the materials are received after the project end date, the expenses will be considered unallowable and unallocable to that project.

Committed dollars for an expense does NOT mean that the item was USED during the project period. Common sense would say that, if you order a new computer on the last day of a project period, it is not likely that the computer will be used for project performance.

**Example**

Are either or both of these project costs allowable?

Equipment Acquisition	Final Report
<ul style="list-style-type: none"> <li>• \$30,000 oscilloscope ordered, received and used during the life of the project</li> <li>• Invoice received and paid after project end date</li> </ul>	<ul style="list-style-type: none"> <li>• Project budget includes funds to pay for technical preparation of final reports</li> <li>• Reports are written and produced after project end date</li> </ul>

**Equipment Acquisition example**

Equipment costs are allowable to the project, as long as there is documentation that the equipment was actually ordered, received, and used specifically on the project during the project period.

**Final Reports example**

Costs to prepare final reports are NOT allowable to the project, even if budgeted and adequate funds remain, if they are not incurred and charged during the project period.

**Solution**

- If the final report cannot be produced during the original project period, and there are sufficient funds left in project cost objects, request a No-Cost extension from the sponsor. This will allow the expenditure of project funds after the conclusion of the project for the purposes specified in the extension request.

**No-Cost Extensions**

**Does the project need a no-cost extension?**

A no-cost extension extends the project period beyond the original project end date. There is no additional funding, as the phrase “no cost” suggests. A no-cost extension

should be requested by the PI when all three of the following conditions are met:

- Funds are left in the project budget AND
- There is a programmatic need AND
- The end of the project period is approaching.

**The sponsor always retains the right to say “no.” Examples of reasons to say no might include:**

- An extension may not be granted just because there is money left over. A programmatic benefit must be justified.
- Funding may have come from a prior year’s appropriation and cannot be extended.
- The amount requested in the extension request appears excessive to the sponsor.

Because of this reality, it is always a good idea to request the extension in enough time to manage an orderly accomplishment of project work, and to have a contingency plan in case the sponsor does not approve the extension.

Written requests for no-cost extensions should be prepared by the PI and then endorsed and submitted by OSP. Some sponsors are developing electronic systems to handle no-cost extension requests and approvals. Systems vary—call your OSP representative if you have questions.

**No-cost extensions and OMB A-110**

**Expanded Authorities**

Some federal sponsors have delegated the authority under grant awards to approve a one-time no-cost extension not to exceed 12 months to MIT. DLC’s should review instructions in COEUS, under “Terms: Other Approval/Notification Requirements” to determine whether expanded authority has been granted under the award terms. If authorized, an internal no-cost extension request should be made at least 30 days in advance of the project end date to OSP. The extension, although approved by MIT, must be requested by the PI. The Office of Sponsored Programs will notify the sponsor of the approved extension.

If the no cost extension does not come under the expanded authorities, the PI must get the approval of the department head/lab director before making the request to OSP.

## Close-out

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### What happens at project expiration?

The Controllers Accounting Office (CAO), Sponsored Accounting Office reviews sponsored projects at closeout to ensure that costs are allowable, allocable, reasonable and consistent. Good project management over the life of an award will help to eliminate any problems after the award has ended and during the closeout. All expenses must be complete and posted to the WBS element no later than 60 days after the project end date. CAO Sponsored Accounting will then prepare the final financial report and submit it to the sponsor typically within 90 days of the close date. Sponsors have up to three years after the official closeout date to conduct a closeout audit and all records must be retained during that period.

Generally, no costs incurred after the end date are allowable. Ongoing correction of incorrectly charged expenses is preferable to adjustments in the last month of a project.

These guidelines apply to project closeout:

- After the end date of a project, a cost overrun may not be cleared to another WBS element. Such cost overruns should be treated as Recorded Project Overruns charged to a discretionary cost object.
- Unspent balances at the close of the project must, in most cases, be returned to the sponsor. Notable exceptions are fixed price contracts and sponsored agreements allowing carry-forward of funds.
- If a disallowance is identified during preparation of the final fiscal reports, and approval which makes the cost allowable has not been received, the cost must be transferred to a DLC unrestricted cost object.

Full details about financial closeouts are available online (see the Appendix and the OSP home page). In addition, specific information about unallowable costs and the Institute's reviewing policy for unallowables is also available on the web (see the Appendix and the OSP home page). The Office of Sponsored Programs coordinates the submission of all final reports to the sponsor. Final reporting requirements are identified in COEUS. These reports might include the following:

- Financial Reports.

- Technical Reports: Technical reports are the responsibility of the PI. Some agencies permit technical reports to be submitted online; most, at this point, do not. In the latter case, a copy of the report or a copy of the transmittal letter should be sent to OSP.
- Invention Reports: OSP will submit the final invention report to the sponsor, based on information provided by the PI.
- Equipment Inventory Reports: These reports are prepared by the Property Office.

**REMEMBER**, Sponsors can and do suspend funding in cases where progress or final reports are not submitted in a timely fashion. It is critical, therefore, to submit all reports per the reporting schedule that appears in the notice of award and COEUS.

The following is a handy closeout checklist for PIs and DLCs:

#### Technical Reports

Does my report include:

- Grant or contract number, PI's name, project title, and performance period, including authorized extensions?
- Significant results of the project?
- Examples of project?
- Technical difficulties and solutions?
- List of publications, including articles in progress?
- If the award contains "objectives and/or deliverables," does the report discuss each of these?

#### Financial Reports

- Have all project expenditures been posted, i.e., have they appeared on monthly expenditure statements?
- Have I reviewed all project expenditure statements?

#### Invention Reports


- Have I disclosed all new technology to the Technology Licensing Office?

#### Property Reports

Have I identified all materials and equipment acquired under this award, including property that was

- Provided by the sponsor?

- Acquired by the department?
- Purchased by a subrecipient?
- Has all equipment been properly tagged?

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ Sponsored Projects Accounting-Closeouts Policies and Procedures
- ▶ Sponsored Projects Accounting-Unallowables Policies and Procedures

## Record Retention

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### How long should financial records be retained?

Retaining financial records serves two purposes. In the short term, it provides those responsible for the management of cost objects with the means to monitor transactions and resolve problems. In the long term, it enables the Institute to comply with Federal Acquisition Regulations, Internal Revenue Service regulations, and other federal, state and local regulations governing the auditability and retention of records.

#### 1. Responsibility

- a. Online transactions – When the source documentation for a transaction is online, the central administrative office responsible for maintaining the online application is responsible for retaining the online transaction record.
- b. Paper documents – When the source documentation for a transaction is paper, the office of record is responsible for retaining it. In many cases, a central administrative office (such as Payroll or Accounts Payable) is responsible for the retention. (See record retention guidelines published by the Institute Auditor and the Archivist, link listed in Appendix.)
- c. Justification for transactions, either online or paper, should be maintained by the DLC, as appropriate.

#### 2. Retention times

Legal and Audit Requirements – When requirements for long-term retention of records overlap, the responsible office should retain records for the maxi-

imum period needed to meet legal and audit requirements. A-110 specifies the following:

- a. **Direct charges to contracts and grants:** Three years following the date CAO, Sponsored Accounting considers the project to have been formally closed by the sponsor, unless an audit or litigation is underway.
- b. **All cost objects included in F&A cost rate:** Three years following the final sign-off for that year by the federal government. Contact the Office of Cost Analysis in the Office of Sponsored Programs for further information.

Longer retention times apply to certain documents retained by central offices. For information on a specific document or category of documents, the office responsible for processing the type of transaction should be consulted.

MIT's complete Record Retention policy is available online (see the Appendix and the OSP home page).

 **Key References** - See website links in Appendix and on the OSP home page

- ▶ MIT Record Retention Policy

## Audits and Auditors

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### What are audits and who are the Institute's auditors?

Auditors and audits are necessary components of the research administration function. Webster's Dictionary defines the noun "audit" as "a methodical examination and review." As a verb, it means "to examine with intent to verify." The fact is, audits of one type or another are a regular part of the administrative process. No matter where you work at MIT, you can expect to encounter audits. The ability of faculty and DLC staff to contribute efficiently and effectively will play a big role in the outcome.

There are several different groups of auditors here on the MIT campus. They include:

- MIT Audit Division

- PricewaterhouseCoopers (PwC), MIT's certified public accounting firm
- Defense Contract Audit Agency (DCAA), MIT's cognizant federal audit agency

Federal auditors perform both systems audits and contract-specific audits as well as F&A and other compliance audits. The majority of external systems audits are performed to comply with the requirements of the federal audit circular, OMB Circular A-133 and its compliance supplement. The Institute engages PricewaterhouseCoopers (PwC) to perform Institute-wide financial and compliance audits.

In addition, MIT has an active Audit Division, whose mission is to deliver audit services Institute-wide through a risk-based program of audit coverage, including compliance assessments and financial, operational, and information technology reviews and audits. A full description of the Audit Division's Audit Process is found on the web. The Audit Division has prepared a series of Frequently Asked Questions concerning the audit selection, process, and reporting mechanisms.

The best way to assure that audits go smoothly is to create and maintain good records. MIT relies on central data bases and records whenever possible. However, often the information needed, e.g., the back-up documentation for an expense transfer or the certification of a monthly expenditure statement, resides in a DLC, and complete, orderly records can prove the truth of the old saying "An ounce of prevention is worth a pound of cure."

### **What information does the Institute make available to auditors?**

MIT will provide, on a reasonably timely basis, government auditors with access to all documents and data that are relevant to government audit purpose, including:

#### **Electronically maintained accounting information**

The Defense Contract Audit Agency has been provided with online access to relevant Institute accounting and sponsored projects records and may access these data freely for the purpose of audit engagements that have gone through the appropriate opening procedures.

#### **Online documents**

DCAA has Internet access through which DCAA and other government auditors may freely access the most

up-to-date version of Institute policy and procedure documents.

#### **Other published Institute documents**

MIT will provide government auditors with copies of all published (i.e., available to the general public) documents upon verbal request. The Institute will also endeavor to provide DCAA with hard copies of important published Institute reports that are not available online.

#### **Unpublished Institute documents**

MIT will provide government auditors with copies of all relevant unpublished Institute documents, except those deemed by the Institute to be legally privileged or protected. Questions about whether a particular document (including special data analyses) might be deemed to be privileged or protected should be directed to the OSP (for DCAA) or Audit Division (for PwC) before that information is provided.

#### **Interview information**

Government auditors may interview Institute personnel in connection with any audits that have gone through the appropriate opening procedures. OSP will set up these interviews upon request by government auditors. It is normal for OSP staff to be present at all such interviews.

### **What should I do if I am asked to speak with an external auditor?**

Before an audit is begun by any external auditors at MIT, the external auditors will be asked to communicate with the OSP Office of Cost Analysis. Audits concerning research projects should be coordinated with the OSP Office of Cost Analysis. Normally there will be an opening audit conference with the external auditors to discuss the scope, goals, and timing for the planned audit engagement. Other Institute personnel who might be expected to be involved in the planned audit will be invited to this opening conference. After an understanding has been reached as to the scope of the proposed audit, and presuming it is deemed to be relevant, the external auditors may initiate procedures to seek information and documents from MIT.

MIT personnel who are contacted directly by external auditors should contact the OSP Office of Cost Analysis. If MIT personnel are unsure whether an external audit has been approved, or have any other questions about an ongoing audit, they should communicate with the appropriate members of the OSP Office of Cost Analysis (for DCAA) or Audit Division staff (for PwC).



Note that the above protocol might not be followed in the case of special government investigations. In such cases, government investigators may decide to initiate contacts without first informing the Institute. Although this is permitted, MIT personnel who are contacted by government investigators also have specific legal rights. They should always phone the OSP Office of Cost Analysis immediately.

**REMEMBER**, when talking with external auditors:

- Know with whom you are talking.
- Understand the focus of the audit.
- Have someone with you from OSP or the Audit Division, as appropriate.
- Limit answers to the questions you are asked.



**Key References** - See website links in Appendix and on the OSP home page

- ▶ Audit Division home page
- ▶ OMB Circular A-21, Cost Principles for Educational Institutions
- ▶ OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- ▶ OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations

# Appendix - Key References

Find Key References as links at <http://web.mit.edu/osp/>

## Key Home Pages

- ▶ Audit Division- <http://web.mit.edu/audiv/www/>
- ▶ Controller's Office- <http://controllers.mit.edu/>
- ▶ Office of Sponsored Programs- <http://web.mit.edu/osp/www/>
- ▶ Procurement Department - <http://controllers.mit.edu/procurement/>
- ▶ Property Office- <http://controllers.mit.edu/site/property>
- ▶ Technology Licensing Office- <http://web.mit.edu/tlo/www/>
- ▶ Vice President for Research- <http://web.mit.edu/vpr/www/>

## Section 1 - The Environment for Research

### MIT websites

- ▶ Awards: Treatment as Gifts or Sponsored Contracts- [http://web.mit.edu/osp/www/gift\\_grant.pdf](http://web.mit.edu/osp/www/gift_grant.pdf)
- ▶ COEUS web site- <http://coeus.mit.edu/index.html>
- ▶ Committee on the Use of Humans as Experimental Subjects (COUHES)- <http://web.mit.edu/committees/couhes/>
- ▶ Committee on Animal Care (CAC) - <https://web.mit.edu/comp-med/Restrict/CAC/index.html>
- ▶ Controller's Accounting Office (CAO):
  - Financial Reports- [http://controllers.mit.edu/site/reports\\_publications](http://controllers.mit.edu/site/reports_publications)
  - On-line Systems- [http://web.mit.edu/cao/www/cao\\_index\\_online\\_sys.html](http://web.mit.edu/cao/www/cao_index_online_sys.html)
- ▶ Humans as Experimental Subjects Training, VP Research memo- [http://web.mit.edu/osp/www/memo-2006gast\\_hum\\_subj.pdf](http://web.mit.edu/osp/www/memo-2006gast_hum_subj.pdf)
- ▶ In the Public Interest: MIT Report on Access to and Disclosure of Scientific Information- <http://web.mit.edu/faculty/reports/publicinterest.pdf>
- ▶ Internal Orders and Non-Research WBS Elements- <http://web.mit.edu/osp/www/internalorders.htm>
- ▶ MIT Policies and Procedures- <http://web.mit.edu/policies/>
- ▶ Office of Sponsored Programs (OSP) Terms and Definitions- [http://web.mit.edu/osp/www/terms\\_definitions.htm](http://web.mit.edu/osp/www/terms_definitions.htm)
- ▶ OSP Summary Form- [http://web.mit.edu/osp/www/prop\\_sum\\_form.pdf](http://web.mit.edu/osp/www/prop_sum_form.pdf)
- ▶ Personnel Policy Manual- <http://web.mit.edu/hr/policy/>
- ▶ Procedures for Dealing with Academic Misconduct in Research and Scholarship- <http://web.mit.edu/policies/10.2.html>
- ▶ Procurement Department Policies and Procedures- [http://controllers.mit.edu/site/procurement/policies\\_procedures](http://controllers.mit.edu/site/procurement/policies_procedures)

- ▶ Supplement to Academic Misconduct Policy- <http://web.mit.edu/vpr/www/misconsup.html>.

### **Government websites**

- ▶ Federal Acquisition Regulations- <http://farsite.hill.af.mil/>
- ▶ OMB Circular A-21- [http://www.whitehouse.gov/omb/circulars/a021/a21\\_2004.html](http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html)
- ▶ OMB Circular A-110- <http://www.whitehouse.gov/omb/circulars/a110/a110.html>
- ▶ OMB Circular A-133- <http://www.whitehouse.gov/omb/circulars/a133/a133.html>
- ▶ Protection of Human Subjects, The Common Rule 45 CFR 46- <http://www.hhs.gov/ohrp/humansubjects/guidance/45cfr46.htm>

## **Section 2 - Sponsored Programs Basics**

### **MIT websites**

- ▶ Classification of Unallowable vs. Allowable Costs and Related Issues of Travel and Meeting Expenses- [http://web.mit.edu/osp/www/unallowable\\_allowable\\_costs.doc](http://web.mit.edu/osp/www/unallowable_allowable_costs.doc)
- ▶ Employee Benefit Rates- <http://web.mit.edu/osp/www/empben.htm>
- ▶ Facilities & Administrative Rates (Indirect Costs)- <http://web.mit.edu/osp/www/indirect.htm>
- ▶ Funding Opportunities for MIT: ResearchResearch- <http://www.researchresearch.com>
- ▶ Guidelines for Financial Review and Control- [http://controllers.mit.edu/general\\_ledger\\_operations\\_reporting/policies\\_procedures/financial\\_review\\_and\\_control](http://controllers.mit.edu/general_ledger_operations_reporting/policies_procedures/financial_review_and_control)
- ▶ Meeting Expenses- [http://controllers.mit.edu/general\\_ledger\\_operations\\_reporting/policies\\_procedures/general\\_accounting/meetings\\_expense](http://controllers.mit.edu/general_ledger_operations_reporting/policies_procedures/general_accounting/meetings_expense)
- ▶ OSP Summary Form- [http://web.mit.edu/osp/www/prop\\_sum\\_form.pdf](http://web.mit.edu/osp/www/prop_sum_form.pdf)
- ▶ Personnel Leave Policies- <http://web.mit.edu/hr/policy/4-12.html>
- ▶ Policy on Faculty Effort Reporting- [http://web.mit.edu/osp/www/Fac\\_Effort\\_Reporting.pdf](http://web.mit.edu/osp/www/Fac_Effort_Reporting.pdf)
- ▶ Post-award Basics- [http://web.mit.edu/osp/www/Basics/basic\\_postaward.html](http://web.mit.edu/osp/www/Basics/basic_postaward.html)
- ▶ Preparing the Proposal (Application)- [http://web.mit.edu/osp/www/pre\\_prop.htm](http://web.mit.edu/osp/www/pre_prop.htm)
- ▶ Proposal Preparation and Review, Basics of- [http://web.mit.edu/osp/www/Basics/basic\\_propprep.htm](http://web.mit.edu/osp/www/Basics/basic_propprep.htm)
- ▶ Research Proposal Budgets and Vacation Time Expense- [http://web.mit.edu/osp/www/vacation\\_accrual\\_costs.htm](http://web.mit.edu/osp/www/vacation_accrual_costs.htm)
- ▶ Subawards- [http://web.mit.edu/osp/www/Basics/basic\\_prop\\_subawards.htm](http://web.mit.edu/osp/www/Basics/basic_prop_subawards.htm)
- ▶ Unallowables and Screening Process for Unallowables- [http://controllers.mit.edu/sponsored\\_projects\\_accounting/policies\\_procedures/unallowables](http://controllers.mit.edu/sponsored_projects_accounting/policies_procedures/unallowables)
- ▶ Underrecovery/Sponsored Projects Accounting- [http://controllers.mit.edu/site/sponsored\\_projects\\_accounting/policies\\_procedures/underrecovery](http://controllers.mit.edu/site/sponsored_projects_accounting/policies_procedures/underrecovery)

### **Government websites**

- ▶ Federal Acquisition Regulations- <http://farsite.hill.af.mil/>
- ▶ Federal Business Opportunities- <http://www.fedbizopps.gov/>
- ▶ Federal Funding Sources- <http://www.grants.gov/search/searchHome.do>

- ▶ Government Printing Office Access (GPO Access)- <http://www.gpoaccess.gov/fr/index.html>
- ▶ OMB Circular A-21- [http://www.whitehouse.gov/omb/circulars/a021/a21\\_2004.html](http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html)
- ▶ OMB Circulars list- [http://www.whitehouse.gov/omb/grants/grants\\_circulars.html](http://www.whitehouse.gov/omb/grants/grants_circulars.html)

### **Section 3 - Direct Charging**

#### **MIT websites**

- ▶ Effort Reporting- [http://web.mit.edu/osp/www/Fac\\_Effort\\_Reporting.pdf](http://web.mit.edu/osp/www/Fac_Effort_Reporting.pdf)
- ▶ Life of An Award Definition - [http://web.mit.edu/osp/www/Implementation\\_of\\_fixed\\_rate.htm](http://web.mit.edu/osp/www/Implementation_of_fixed_rate.htm)
- ▶ Subaward Agreement and Vendor, Definition- <http://web.mit.edu/osp/www/Subaward-Vendor-Definition.pdf>
- ▶ Subaward Basics- [http://web.mit.edu/osp/www/Basics/basic\\_prop\\_subawards.htm](http://web.mit.edu/osp/www/Basics/basic_prop_subawards.htm)
- ▶ Service Center Policy & Procedures- [http://web.mit.edu/osp/www/OSP\\_Booklet\\_2005/service\\_centers.htm](http://web.mit.edu/osp/www/OSP_Booklet_2005/service_centers.htm)

#### **Government websites**

- ▶ NIH Salary Cap Rates- [http://grants1.nih.gov/grants/policy/salcap\\_summary.htm](http://grants1.nih.gov/grants/policy/salcap_summary.htm)
- ▶ OMB Circular A-133- <http://www.whitehouse.gov/omb/circulars/a133/a133.html>
- ▶ OMB Circular A-133, Compliance Supplement- [http://www.whitehouse.gov/omb/circulars/a133\\_compliance/04/04toc.html](http://www.whitehouse.gov/omb/circulars/a133_compliance/04/04toc.html)

### **Section 4 - Cost Sharing**

#### **MIT websites**

- ▶ Cost Sharing Primer for DLC Administrators- [http://web.mit.edu/osp/www/cost\\_costsharing.htm](http://web.mit.edu/osp/www/cost_costsharing.htm)

#### **Government websites**

- ▶ Unallowable Costs as defined in OMB Circular A-21 Section J- [http://www.whitehouse.gov/omb/circulars/a021/a21\\_2004.html#j](http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html#j)

### **Section 5 - Administrative Charging**

#### **MIT websites**

- ▶ Current Allocation Rates- [http://web.mit.edu/osp/www/allocation\\_rate.htm](http://web.mit.edu/osp/www/allocation_rate.htm)
- ▶ Direct Charging of Administrative and Clerical Costs- <http://web.mit.edu/osp/www/directcharging.pdf>
- ▶ General Rules of Laboratory Allocations- [http://web.mit.edu/osp/www/cost\\_allocation.htm](http://web.mit.edu/osp/www/cost_allocation.htm)

#### **Government websites**

- ▶ OMB Circular A-21, Appendix A- <http://farsite.hill.af.mil/reghtml/regsfar2afmcfars/fardfars/far/farapndx1.htm#P3354.625171>

## Section 6 - Cost Transfers

### MIT websites

- ▶ CAO Training Classes- [http://controllers.mit.edu/calendar\\_schedules/training](http://controllers.mit.edu/calendar_schedules/training)
- ▶ Creating Journal Vouchers- <http://web.mit.edu/sapr3/docs/webdocs/finop/jv/foJV.html>
- ▶ MIT Training- <http://web.mit.edu/training/>
- ▶ SAP Journal Voucher Uploads- <http://web.mit.edu/sapr3/docs/webdocs/finop/jv/foJVUP.html>
- ▶ SAPweb- <http://web.mit.edu/sapweb/>

## Section 7 - Equipment Purchase & Property Management

### MIT websites:

- ▶ Fabricated Equipment Policy- [http://controllers.mit.edu/property/policies\\_procedures/fabricated\\_equipment](http://controllers.mit.edu/property/policies_procedures/fabricated_equipment)
- ▶ MIT Capitalization Policy- [http://controllers.mit.edu/property/policies\\_procedures/policy\\_and\\_procedure\\_manual/5\\_0\\_capitalization\\_policy\\_for\\_equipment](http://controllers.mit.edu/property/policies_procedures/policy_and_procedure_manual/5_0_capitalization_policy_for_equipment)
- ▶ OSP Contract Administrator List (by Unit)- <http://web.mit.edu/osp/www/unit.htm>
- ▶ Property Office- <http://controllers.mit.edu/property>
- ▶ Property Office- <http://web.mit.edu/property/www/>

## Section 8 - Project Monitoring

### MIT websites

- ▶ Audit Division home page- <http://web.mit.edu/audit/www/>
- ▶ MIT Record Retention Policy- <http://libraries.mit.edu/records/financial-records.html>.
- ▶ Sponsored Projects Accounting-Closeouts Policies and Procedures - [http://controllers.mit.edu/sponsored\\_projects\\_accounting/policies\\_procedures/journal\\_vouchers/closeouts](http://controllers.mit.edu/sponsored_projects_accounting/policies_procedures/journal_vouchers/closeouts)
- ▶ Sponsored Projects Accounting-Unallowables Policies and Procedures - [http://controllers.mit.edu/sponsored\\_projects\\_accounting/policies\\_procedures/unallowables](http://controllers.mit.edu/sponsored_projects_accounting/policies_procedures/unallowables)

### Government websites

- ▶ OMB Circular A-21, Cost Principles for Educational Institutions- [http://www.whitehouse.gov/omb/circulars/a021/a21\\_2004.html](http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html)
- ▶ OMB Circular A-110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations- <http://www.whitehouse.gov/omb/circulars/a110/a110.html>
- ▶ OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations- <http://www.whitehouse.gov/omb/circulars/a133/a133.html>

# Appendix - Terms and Definitions

## **A-21**

A circular from the Executive Office of the President of the United States, Office of Management and Budget, entitled “Cost Principles for Educational Institutions.” It defines the costs allowable as charges to contracts and grants.

## **A-110**

A circular from the Executive Office of the President of the United States, Office of Management and Budget, entitled “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher education, Hospitals, and Other Non-Profit Organizations.” It sets forth the standards for obtaining consistency and uniformity among Federal Agencies in the administration of grants and agreements with Institutions of Higher education, Hospitals, and Other Non-Profit Organizations.

## **A-133**

A circular from the Executive Office of the President of the United States, Office of Management and Budget, entitled “Audits of States, Local Governments, and Non-Profit Organizations.” It sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards.

## **AAALAC**

American Association for the Accreditation of Lab Animal Care.

## **Accrual accounting**

The practice of recording an expense when it occurs, rather than when it is paid.

## **Acquisition**

Per FAR, means the acquiring by contract with appropriated funds of supplies or services (including construction) by and for the use of the Federal Government through purchase or lease, whether the supplies or services are already in existence or must be created, developed, demonstrated, and evaluated. Acquisition begins at the point when agency needs are established and includes the description of requirements to satisfy agency needs, solicitation and selection of sources, award of contracts, contract financing, contract performance, contract administration, and those technical and management functions directly related to the process of fulfilling agency needs by contract.

## **Allocable Costs**

Those allowable costs that actually benefit the project funded by the grant or contract to which they are being charged. For example, allocable costs include the cost of the effort of employees applied to the project supported by the award.

## **Allowable Costs**

Those categories of costs that can be charged to an award, such as salaries and equipment. Certain types of costs, such as the cost of alcoholic beverages, are not allowable. Costs must be reasonable, allocable and consistent with terms of the award.

## **Audit**

A formal examination of the accounts of an organization, an individual, or a financial situation. An audit may also include an examination into compliance with applicable terms, laws, and regulations.

**Authorized Total**

The total amount obligated under a sponsored agreement that a sponsored project is authorized to spend in a given period.

For example, suppose the budget for a particular proposal is \$3,000,000, the period of performance is three years, and the proposal is fully funded. Does this mean that you have \$3,000,000 available to spend? That depends on the Authorized Total that the sponsor has stipulated. If the sponsor has set \$1,000,000 for the first year of the award as the obligated amount, then you can spend up to \$1,000,000 during that first year. The sponsor will also obligate a given amount that you can spend for each subsequent year.

**Awards**

Funds that have been obligated by a funding entity for a particular project. Awards include grants, contract, cooperative agreements and other agreements in the form of money, property or service.

**Basic research**

Per FAR, that research directed toward increasing knowledge in science. The primary aim of basic research is a fuller knowledge or understanding of the subject under study, rather than any practical application of that knowledge.

**Broad agency announcement**

Per FAR, means a general announcement of an agency's research interest including criteria for selecting proposals and soliciting the participation of all offerors capable of satisfying the Government's needs.

**Budget**

The detailed statement outlining estimated project costs to support work under a grant or contract. (See also Rebudget.)

**Budget Period**

The interval of time, usually twelve months, into which the project period is divided for budgetary and funding purposes.

**CAO**

Controller's Accounting Office

**CAS**

Cost Accounting Standards. Federally mandated accounting standards intended to ensure uniformity in budgeting, spending and reporting of funds.

**CASB**

Cost Accounting Standards Board.

**CBD**

Commerce Business Daily.

**CDC**

Centers for Disease Control and Prevention.

**CFDA**

Catalog of Federal Domestic Assistance.

**CFR**

Code of Federal Regulations.

**Change Order**

Under Federal contracts containing a Changes clause, a written unilateral contract modification signed by the contracting officer, directing the contractor to make changes in project specifications. The Changes clause allows the contractor to submit a proposal for costs associated with the required changes.

**Classified Contract**

Per FAR, means any contract in which the contractor or its employees must have access to classified information during contract performance. A contract may be a classified contract even though the contract document itself is unclassified.

**Classified Information**

Per FAR, means any knowledge that can be communicated or any documentary material, regardless of its physical form or characteristics, that -

- (1)(i) Is owned by, is produced by or for, or is under the control of the United States Government; or (ii) Has been classified by the Department of Energy as privately generated restricted data following the procedures in 10 CFR 1045.21; and
- (2) Must be protected against unauthorized disclosure according to Executive Order 12958, Classified National Security Information, April 17, 1995, or classified in accordance with the Atomic Energy Act of 1954.

**Close Out**

The process of completing all the internal procedures and sponsor requirements necessary to terminate or complete a project.

**COEUS**

Electronic system developed at MIT to assist OSP and DLCs in proposal development and electronic submission as well as pre- and post-award management.

**COGR**

Council on Governmental Relations.

**Commerce Business Daily (CBD)**

Per FAR, means the publication of the Secretary of Commerce used to fulfill statutory requirements to publish certain public notices in paper form.

**Competing Proposals**

Proposals that are submitted for the first time, or unfunded proposals that are resubmitted. Both types must compete for funds via a review process established by the sponsor. Ongoing projects must compete again if the term of the original award has expired.

**Consortium Agreement**

An Agreement written for multi-sponsor support of a sponsored program. Each sponsoring organization executes the same Agreement, becoming a consortium member.

**Continuation Project (Non-Competing)**

Applicable to grants and cooperative agreements only. A project approved for multiple-year funding, although funds are typically committed only one year at a time.



At the end of the initial budget period, progress on the project is assessed. If satisfactory, an award is made for the next budget period, subject to the availability of funds. Continuation projects do not compete with new project proposals, and are not subject to peer review beyond the initial project approval.

**Contract**

A mechanism for the procurement of a product or service with specific obligations for both sponsor and recipient. Typically, a research topic and the methods for conducting the research are specified in detail by the sponsor, although some sponsors award contracts in response to unsolicited proposals.

**Contract Administrator**

An OSP Representative.

**Cooperative Agreement**

(Federal) A Form of Federal Assistance. This award anticipates substantial sponsor involvement in research once the award has been made. The sponsor's staff may be actively involved in proposal preparation.

**Co-PI**

The co-principal investigator.

**COS**

Community of Science. An organization that shares information about scientific expertise, funded scientific research, and funding opportunities for research.

**Cost Accounting Standards (CAS)**

Federally mandated accounting standards intended to ensure uniformity in budgeting, spending and reporting of funds.

**Cost Object**

A collector of expenses and revenues for a specific project or purpose. In SAP, cost objects include cost centers, internal orders and Project WBS elements.

**Cost-Reimbursement Type**

A contract or grant for which the sponsor pays the full costs incurred in the conduct of the work, up to an agreed amount.

**Cost Sharing**

A portion of a project or program cost not reimbursed by the sponsor. Cost sharing represents a commitment by the Institute.

Cost sharing may be required by the sponsor as a condition of the award (mandatory) or it may be offered by the Institute in excess of mandatory cost sharing requirements (voluntary). Whether cost sharing is required by the sponsor or is offered by the Institute or PI voluntarily, and proposed cost sharing is a commitment once an award is made. In other words, they represent binding obligations on the Institute. The Federal regulations and the MIT policy governing cost sharing are summarized on the OSP web site. See Policy for Cost Sharing and Matching Funds on Sponsored Projects.

**COUHES**

MIT Committee on the Use of Human as Experimental Subjects.

**CRADA**

Cooperative Research and Development Agreement. A written agreement between a private company and a government agency to work together on a project. By entering into a CRADA, the Federal government and non-Federal partners can perform research by sharing the costs of this research.

**Date of Completion**

Per OMB Circular A-110, means the date on which all work under an award is completed or the date on the award document, or any supplement or amendment thereto, on which Federal sponsorship ends

**DFAR**

Department of Defense supplement to the Federal Acquisition Regulations (FAR). DoD contracts will include both FAR and DFAR clauses.

**Debarment**

Per FAR means action taken by a debarring official under 9.406 to exclude a contractor from Government contracting and Government-approved subcontracting for a reasonable, specified period; a contractor that is excluded is “debarred.”

**Deficit/Overrun**

A financial condition in which expenditures exceed the funds available.

**Direct Costs per OMB A-21**

Costs that can be identified specifically with a particular sponsored project, or can be directly assigned with a high degree of accuracy.

**Disallowed Costs**

Per OMB Circular A-110, means those charges to an award that the Federal awarding agency determines to be unallowable, in accordance with the applicable Federal cost principles or other terms and conditions contained in the award.

**DoDGARS**

Department of Defense Grant and Agreement Regulatory System. A system of policies and procedures to guide DoD grants and cooperative agreements. It also governs other non procurement transactions, where provisions so indicate.

**Draper Fellow**

An R.A. appointment for an MIT student to do work for Draper.

**Drug-free Workplace**

Per FAR, means the site(s) for the performance of work done by the contractor in connection with a specific contract where employees of the contractor are prohibited from engaging in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance.

**EB Employee Benefits/Fringe Benefits**

Employee benefits paid by the employer (for example, FICA, Worker’s Compensation, Withholding Tax, Insurance, and so forth). For more information, see Employee Benefit Rates.

**EEO/AA**

Equal Employment Opportunity/Affirmative Action.

### **Effort Reporting**

A procedure mandated by the federal government to verify that direct labor charges to federally sponsored agreements are reasonable, and reflect actual work performed. Effort reporting shows the distribution of the effort of individuals among the various activities in which they work. For more information, see effort reporting on the OSP website.

### **Electronic and Information Technology (EIT)**

Per FAR, has the same meaning as “information technology” except EIT also includes any equipment or interconnected system or subsystem of equipment that is used in the creation, conversion, or duplication of data or information. The term EIT, includes, but is not limited to, telecommunication products (such as telephones), information kiosks and transaction machines, worldwide websites, multimedia, and office equipment (such as copiers and fax machines).

### **Electronic Commerce**

Per FAR, means electronic techniques for accomplishing business transactions including electronic mail or messaging, World Wide Web technology, electronic bulletin boards, purchase cards, electronic funds transfer, and electronic data interchange.

### **Electronic Data Interchange (EDI)**

Per FAR, means a technique for electronically transferring and storing formatted information between computers utilizing established and published formats and codes, as authorized by the applicable Federal Information Processing Standards.

### **Electronic Funds Transfer (EFT)**

Per FAR, means any transfer of funds, other than a transaction originated by cash, check, or similar paper instrument, which is initiated through an electronic terminal, telephone, computer, or magnetic tape, for the purpose of ordering, instructing or authorizing a financial institution to debit or credit an account. The term includes Automated Clearing House transfers, Fed wire transfers, and transfers made at automatic teller machines and point-of-sale terminals.

### **Equipment**

Per OMB Circular A-110 means tangible nonexpendable personal property including exempt property charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with recipient policy, lower limits may be established. See Property Office Site for MIT definition.

### **ERA (Electronic Research Administration)**

ERA broadly encompasses the application of computer systems to serve the needs of all phases of research administration, from identifying funding opportunities to post-award administration. COEUS supports ERA.

### **FastLane**

An interactive real-time system used to conduct official National Science Foundation business over the Internet. FastLane is the submission system for the NSF, providing electronic templates for proposals, annual reports, final reports, extension requests, etc. For more information, see Fastlane. <https://www.fastlane.nsf.gov/fastlane.jsp>

### **Facilities and Administrative (F&A) costs**

Per OMB Circular A-21, means costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with “indirect” costs. For more information, see OSP’s site on F&A costs.

**F&A Facilities and Administration Rate**

A rate that MIT charges to a sponsored project for the use of Institute facilities and administration (overhead).

**F&A Underrecovery**

The difference between the current negotiated F&A rate that MIT charges to a research project, and the rate that the project's sponsor is willing to pay, is referred to as underrecovery. For example, if MIT's F&A rate is 65%, and a sponsor agrees to pay only 50%, there is a 15% underrecovery of full F&A. (See also the Underrecovery page on the Controller's Sponsored Projects Accounting website.)

**FDA**

Food and Drug Administration.

**FAR – Federal Acquisition Regulations**

The primary regulation used by all federal executive agencies in their acquisition of supplies and services with appropriated funds.

**Federal Awarding Agency**

Per OMB Circular A-110, means the Federal agency that provides an award to the recipient.

**Federal Contract**

The appropriate agreement to use in a procurement relationship between the federal government and a contractor. A federal contract applies whenever the principal purpose is for the federal government to acquire property or services for its direct benefit and use.

**Federal Grant**

A form of Federal Assistance where the principal purpose of the award is the transfer of money to accomplish a public purpose. With a federal grant, there is no substantial involvement anticipated between the governmental agency and the recipient during the period of performance.

**Federally Funded Research and Development Centers (FFRDC's)**

Per FAR, means activities that are sponsored under a broad charter by a Government agency (or agencies) for the purpose of performing, analyzing, integrating, supporting, and/or managing basic or applied research and/or development, and that receive 70 percent or more of their financial support from the Government; and-

- (1) A long-term relationship is contemplated;
- (2) Most or all of the facilities are owned or funded by the Government; and
- (3) The FFRDC has access to Government and supplier data, employees, and facilities beyond that common in a normal contractual relationship.

**Fellowship**

An award made directly to an individual in support of specific educational pursuits. The individual cannot be an employee of the granting organization. Can be a graduate or postdoctoral appointment. (Not an R.A.) (Traineeships differ from fellowships; check the award conditions on training grants for service and/or pay-back requirements.)

**Final Report**

The final technical, property, intellectual property or financial report required by a sponsor to complete a project.

**Fiscal Year (FY)**

Any twelve-month period for which annual accounts are kept. The fiscal year at MIT is July 1 to June 30. The Federal fiscal year is October 1 through September 30.

**Fixed-price Contract**

A contract providing for a set lump sum payment upon satisfactory performance of the terms of the contract.

**F.o.b**

Means free on board. This term is used in conjunction with a physical point to determine-

- (1) The responsibility and basis for payment of freight charges; and
- (2) Unless otherwise agreed, the point where title for goods passes to the buyer or consignee.

F.o.b. destination means free on board at destination; i.e., the seller or consignor delivers the goods on seller's or consignor's conveyance at destination. Unless the contract provides otherwise, the seller or consignor is responsible for the cost of shipping and risk of loss.

F.o.b. origin means free on board at origin; i.e., the seller or consignor places the goods on the conveyance. Unless the contract provides otherwise, the buyer or consignee is responsible for the cost of shipping and risk of loss.

**FOIA**

Freedom of Information Act.

**Fringe Benefits**

Employee benefits paid by the employer (for example, FICA, Worker's Compensation, Pension, Insurance, and so forth).

**FTE**

Full-time equivalent. For example, two half-time employees represent one FTE.

**Full and open competition**

Per FAR, when used with respect to a contract action, means that all responsible sources are permitted to compete.

**Fund Accounting**

The accounting system used by the universities to identify revenues and expenses according to purpose of use and the source of funds. Separate records are kept for assets donated to an organization and restricted by donors to certain specific purposes or use.

**Funding Cycle**

The period during which a sponsor accepts proposals and awards funding. If a sponsor has standing proposal review committees (or boards) that meet at specified times during the year, application deadlines correspond with those meetings.

In the case of NSF, proposals that are received too late to be considered in the current funding cycle may be held over for the next cycle.

**FY**

Fiscal Year. Any twelve-month period for which annual accounts are kept. The fiscal year at MIT is July 1 to June 30.

**Gift**

An award that does not involve deliverables or elaborate reporting requirements (although informal reports or verbal communication do further good donor relations). A gift does not require separate accounting, nor does the donor receive detailed financial accounting. A gift may be provided for the stated area of research or activity. No intellectual property rights are provided. A gift does not require the return of unexpended funds, and it has no period of performance.

**GPG**

Grant Proposal Guide. The proposal guidelines for the National Science Foundation.

**Human subject**

a living individual about whom an investigator (whether professional or student) conducting research obtains

- (1) Data through intervention or interaction with the individual, or
- (2) Identifiable private information.

Intervention includes both physical procedures by which data are gathered (for example, venipuncture) and manipulations of the subject or the subject's environment that are performed for research purposes. Interaction includes communication or interpersonal contact between investigator and subject.

Private information includes information about behavior that occurs in a context in which an individual can reasonably expect that no observation or recording is taking place, and information which has been provided for specific purposes by an individual and which the individual can reasonably expect will not be made public (for example, a medical record). Private information must be individually identifiable (i.e., the identity of the subject is or may readily be ascertained by the investigator or associated with the information) in order for obtaining the information to constitute research involving human subjects.

**IACUC**

Institutional Animal Care and Use Committee.

**In-kind Contribution**

A service or item donated in lieu of dollars.

**Indirect Costs**

See F&A costs.

**Industrial Agreement**

An award from a for-profit entity that funds an MIT research activity or other activity. An industrial agreement may involve interaction and collaboration with the sponsor, and it often requires extensive negotiations. MIT has a standard research agreement for industry, including provisions for dissemination of information and rights to intellectual property. See the OSP website for more information.

**Inspection**

Per FAR means examining and testing supplies or services (including, when appropriate, raw materials, components, and intermediate assemblies) to determine whether they conform to contract requirements.

**Instruction**

Per OMB Circular A-21, means the teaching and training activities of an institution. Except for research training as provided in organized research, this term includes all teaching and training activities, whether they are offered for credits toward a degree or certificate or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions, such as a summer school division or an extension division. Also considered part of this major function are departmental research, and, where agreed to, university research.

- (1) Sponsored instruction and training means specific instructional or training activity established by grant, contract, or cooperative agreement. For purposes of the cost principles, this activity may be considered a major function even though an institution's accounting treatment may include it in the instruction function.
- (2) Departmental research means research, development and scholarly activities that are not organized research and, consequently, are not separately budgeted and accounted for. Departmental research, for purposes of this document, is not considered as a major function, but as a part of the instruction function of the institution.

**Internal control**

Per A-133, means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of financial reporting; and
- (3) Compliance with applicable laws and regulations.

**IO**

In SAP, an Internal Order.

**IRB**

Institutional Review Board. A body, required under Federal regulation, which oversees research involving human subjects.

**Key Personnel**

The personnel considered to be of primary importance to the successful conduct of a project. The term usually applies to the Principal Investigator(s), but may extend to other senior members of the project staff.

**Matching Funds**

See cost sharing. Financial contribution by the university required by a granting agency as a condition for receiving a contract, grant, or award. A form of cost sharing at a significant level, for example, two Federal -to-one non-Federal or one Federal to one non-Federal.

**MTDC**

Modified Total Direct Costs. Per A-21, the base of costs to which the negotiated F&A rate is applied.

**NACUBO**

The National Association of College and University Business Officers. Here is the contact information:

One Dupont Circle, NW, Suite 500

Washington DC 20036

(202) 861-2500

<http://www.nacubo.org>

**NASA**

National Aeronautics and Space Administration.

**NCRR**

National Center for Research Resources. Part of the National Institutes of Health (NIH).

**NAS**

National Academy of Sciences.

**NCURA**

The National Council of University Research Administrators. Here is the contact information:

One Dupont Circle, NW, Suite 220

Washington, DC 20036

(202) 466-3894

<http://www.ncura.edu>

**New Award**

An award not previously awarded, or a renewal or continuation award treated as a new award by the sponsor and given a new agency number.

**New and Competing Proposals**

Proposals submitted for the first time and thus competing for funding, or ongoing projects that must re-compete for funding prior to the expiration of the original award.

**NIH**

National Institutes of Health. <http://www.nih.gov/>

NCI - National Cancer Institute. Part of the National Institutes of Health (NIH).

NEI - National Eye Institute

NHLBI - National Heart, Lung, and Blood Institute

NHGRI - National Human Genome Research Institute

NIAAA - National Institute on Alcohol Abuse and Alcoholism

NIAID - National Institute of Allergy and Infectious Disease

NIAMS - National Institute of Arthritis and Musculoskeletal and Skin Diseases

NIBIB - National Institute of Biomedical Imaging and Bioengineering

NICHHD - National Institute of Child Health and Human Development

NIDCD - National Institute on Deafness and Other Communication Disorders

NIDCR - National Institute of Dental and Craniofacial Research

NIDDK - National Institute of Diabetes and Digestive and Kidney Diseases

NIDA - National Institute on Drug Abuse

NIEHS - National Institute of Environmental Health Sciences

NIGMS - National Institute of General Medical Sciences

NIMH - National Institute of Mental Health

NINDS - National Institute of Neurological Disorders and Stroke

NINR - National Institute of Nursing Research

NLM - National Library of Medicine



**No-cost Extension**

An extension of the period of performance beyond the expiration end date established in the terms of the award to allow the principal investigator to finish a project. No additional funding is provided.

**Non-Competing Renewal**

A renewal applied to a continuing project, i.e., one that need not compete with other projects for funding.

**OED**

Office for Organization and Employee Development.

**Organized research**

Per OMB Circular A-21, means all research and development activities of an institution that are separately budgeted and accounted for.

- (1) Sponsored research means all research and development activities that are sponsored by Federal and non-Federal agencies and organizations. This term includes activities involving the training of individuals in research techniques (commonly called research training) where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.
- (2) University research means all research and development activities that are separately budgeted and accounted for by the institution under an internal application of institutional funds. University research, for purposes of this document, shall be combined with sponsored research under the function of organized research.

**OSP**

Office of Sponsored Programs.

**Other sponsored activities**

Per OMB Circular A-21, means programs and projects financed by Federal and non-Federal agencies and organizations which involve the performance of work other than instruction and organized research. Examples of such programs and projects are health service projects, and community service programs. However, when any of these activities are undertaken by the institution without outside support, they may be classified as other institutional activities.

**Overhead**

See F&A costs.

**Pass-through entity**

Per OMB Circular A-133, means a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.

**Peer Review**

A system of technical evaluation of competitive proposals submitted for funding. A peer review uses reviewers who are the professional equals of the principal investigator or program director responsible for directing or conducting the proposed project. Peer review is a form of objective review. It is legislatively mandated in some programs, and administratively required in others.

**Period of Performance**

In a sponsored award, the time period during which the proposed work will be completed and the funds awarded are available for expenditure by the recipient.

**PHS**

Public Health Service.

**PHS 2590**

An application for the continuation of a PHS grant (National Institutes of Health).

**PHS 398**

An application form for a PHS grant (National Institutes of Health).

**PHS 416-1**

An application form for an NRSA (fellowship or training grant).

**PI (Principal Investigator)**

The individual responsible for the conduct of research or other activity described in the proposal for an award.

**Post-differential Allowance Expenses**

Expenses authorized for employees based abroad to provide additional compensation for services as a recruitment and retention tool. When the allowance is authorized, the employee's base salary is increased accordingly.

**Post-doc**

Postdoctoral Associate or Fellow

**Pre-award Costs Authorization**

Authorization to incur allowable expense (sometimes up to a specified limit) on a project within a limited period before the award is made by the sponsor.

**Pre-doc**

Predoctoral (graduate student)

**Preliminary Proposal**

see "Pre-proposal."

**Pre-proposal**

A brief description (usually 2-10 pages) of a research plan and estimated budget. The pre-proposal is sometimes submitted to determine the interest of a potential sponsor prior to submission of a formal proposal. A pre-proposal is also known as a preliminary, initial or Phase I proposal.

**Prior Approval**

Per OMB Circular A-110 written approval by an authorized official evidencing prior consent. Prior approval is required to significantly change aspects of the program from those originally proposed and approved and to meet other requirements specified in the agreement terms.

**Priority Score**

A score derived from the rating given to a research proposal by each member on a review committee. The score is used to help determine which approved proposals will be granted awards, based on funds available.

**Program Announcement**

A document describing a research opportunity from a funding agency. It may describe new or expanded interest in a particular extramural program, or it may be a reminder of a continuing interest in an extramural program.

**Program Income**

Per OMB Circular A-110, means gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award.

**Program/Project Officer/Technical Representative**

An individual designated by a sponsor as responsible for the technical, scientific, and/or programmatic aspects of a particular award. A program/project officer serves as the sponsor's counterpart to the principal investigator or project director of the grantee and contractor organization. He or she deals with the grantee or contractor organization staff to assure programmatic progress. He or she is not authorized to change the terms of the award—these actions require an award modification executed by the Grant or Contract Officer.

**Progress Report**

Scheduled reports required by a sponsor summarizing progress to date. Technical, fiscal, and invention reports may be required.

**Project Period**

Per OMB Circular A-110, the period established in the award document during which Federal sponsorship begins and ends. The project period may consist of one or more budget periods. (See also Budget Period.)

**Property**

Per OMB Circular A-110, unless otherwise stated, real property, equipment, intangible property and debt instruments.

**Proposal**

An application for funding that contains all the information necessary to describe a project's plans, staff capabilities, and the funds requested. Formal proposals are developed by a principal investigator and are officially approved and submitted by an organization.

**Proposal Summary Form**

This is an OSP proposal form used to facilitate and document the routing and review of proposal. For more information, see Proposal Preparation.

**RA**

Research Assistant (graduate student). Could also be Research Administrator or Research Administration

**Rebudget**

The act of amending a budget by moving funds from one category or line item to another; also called Budget Adjustment.

**Recipient**

Per OMB Circular A-110, means an organization receiving financial assistance directly from Federal awarding agencies to carry out a project or program. The term includes public and private institutions of higher education, public and private hospitals, and other quasi-public and private non-profit organizations such as, but not limited to, community action agencies, research institutes, educational associations, and health centers. The term may include commercial organizations, foreign or international organizations (such as agencies of the United Nations) which are recipients, subrecipients, or contractors or subcontractors of recipients or subrecipients at the discretion of the Federal awarding agency. The term does not include government-owned contractor-operated facilities or research centers providing continued support for mission-oriented, large-scale programs that are government-owned or controlled, or are designated as federally-funded research and development centers.

**Research and Development**

Per OMB Circular A-110, means all research activities, both basic and applied, and all development activities that are supported at universities, colleges, and other non-profit institutions. “Research” is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. “Development” is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.

**RFP (Request for Proposals)**

A request by a sponsor for proposals for a given objective.

**RFP (Request for Payment)**

RFP is also a request for payment handled through the MIT Controllers Accounting Office.

**RFQ (Request for Quotations)**

A standard request for price quotations from competing procurement sources.

**RSO (Research Subaward Office)**

The MIT office that oversees research subawards.

**S&W (Salaries and Wages)**

Payments made to MIT employees for work performed.

**SAP**

Systems Applications Products. MIT’s online financial administrative software; also the name of the company that developed it.

**SBA**

Small Business Administration.

**SBIR (Small Business Innovation Research)**

The Federal Small Business Innovation Research (<http://grants.nih.gov/grants/funding/sbir.htm#sbir>) program promotes research and development by domestic small businesses.

**Scope of Work**

The description of the work to be performed on a project.

**Senior Personnel**

Professional personnel who are responsible for the scientific or technical direction of project.

**Sole source acquisition**

Per FAR, means a contract for the purchase of supplies or services that is entered into or proposed to be entered into by an agency after soliciting and negotiating with only one source.

**Solicitation**

Per FAR, means any request to submit offers or quotations to the Government. Solicitations under sealed bid procedures are called “invitations for bids.” Solicitations under negotiated procedures are called “requests for proposals.” Solicitations under simplified acquisition procedures may require submission of either a quotation or an offer.

**Sponsor**

The organization that funds a project via award of a contract, grant or cooperative agreement, or other agreement.

**Sponsored agreement**

Per OMB Circular A-21, means any grant, contract, or other agreement between the institution and the Federal Government.

**SRA**

Society of Research Administrators. Here is the contact information:

1901 North Moore Street  
Suite 1004  
Arlington, VA 22209  
(703) 741-0140  
Info@srainternational.org

**Stipend**

A payment made to an individual under a fellowship or training grant in accordance with pre-established levels. A stipend provides for the individual's living expenses during the period of training. Does not incur E.B.

**STTR (Small Business Technology Transfer)**

The Federal Small Business Technology Transfer (<http://grants.nih.gov/grants/funding/sbir.htm#sbir>) program promotes research and development by domestic small businesses in cooperation with institutions of higher education.

**STIS (Science and Technology Information System)**

an on-line search system of the National Science Foundation.

**Subaward (also called subcontract or subgrant)**

A secondary award directed to cooperatively working with a third party to carry out the program for which a primary award has been granted. In other words, a subaward agreement allows an additional party to complete a portion of the work described in the proposal for a primary award.

Under a sponsored project a recipient also needs to acquire goods and services in order to carry out the project for which funds have been granted. This is a vendor relationship, and is not characterized by a cooperative effort to carry out the objectives of the project, but does require the acquisition of goods and services by the recipient. Using these definitions, for example, consulting contracts are vendor-type relationships and handled by the Procurement Office.

In most cases, distinctions between these two types of activities are relatively easy to make. For example, in a subaward agreement:

- The Subawardee has its performance measured against its portion of the scope of work of MIT's program;
- The Subawardee has responsibility for programmatic decision making;
- The Subawardee has responsibility for adherence to applicable program compliance requirements (i.e., OMB Circulars, regulations of Federal and Not-for-Profit Entities, etc.);
- The Subawardee uses the funds to carry out a portion of the scope of work of MIT's program as compared to providing goods or services for MIT's program; and
- The Subawardee's principal investigator/project director may be a co-author on publications or may seek patent protection for inventions.

For more information on subawards, visit OSP's web site detailing policies and procedures for Research Subawards.

**Subcontract (also called subaward)**

An agreement or secondary contract in which a third party agrees to perform some of the activities defined in the proposal for an award. A subcontract relationship is generally described at the time of proposal submission but not consummated until after the award has been made to the organization submitting the primary proposal.

**Supplemental Proposal**

A request to the sponsor for additional funds for an ongoing project during the previously approved performance period. A supplemental proposal may result from increased costs, modifications in design, or a desire to add a closely related component to the ongoing project.

**Suspension of an award**

Per OMB Circular A-110, an action by a Federal awarding agency that temporarily withdraws Federal sponsorship under an award, pending corrective action by the recipient or pending a decision to terminate the award by the Federal awarding agency.

**Taxpayer Identification Number (TIN)**

Per FAR, means the number required by the IRS to be used by the offeror in reporting income tax and other returns. The TIN may be either a Social Security Number or an Employer Identification Number.

**TDC**

Total Direct Costs. The total of all direct costs of a project. See Direct costs.

**Termination**

Per OMB Circular A-110, means the cancellation of Federal sponsorship, in whole or in part, under an agreement at any time prior to the date of completion.

**Terms of Award**

All legal requirements imposed on an agreement by the sponsor, whether by statute, regulation, or terms in the award document. The terms of an agreement may include both standard and special provisions that are considered necessary to protect the recipient's and sponsor's interests.

**Testbed**

An experimental proof of concept, technology demonstration, or pre-prototype.

**Third party in-kind contributions**

Per OMB Circular A-110, means the value of non-cash contributions provided by non-Federal third parties. Third party in-kind contributions may be in the form of real property, equipment, supplies and other expendable property, and the value of goods and services directly benefiting and specifically identifiable to the project or program.

**TLO (Technology Licensing Office)**

The Institute's TLO manages the patenting, licensing, trade marketing, and copyrighting of the intellectual property developed at MIT, Lincoln Laboratory, and the Whitehead Institute. The TLO serves as an educational resource on intellectual property and licensing matters for the MIT community.

**Total Project Costs**

The total allowable direct and indirect costs incurred by an organization to carry out an approved project.

**Unallowable cost**

Per FAR, means any cost that, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract to which it is allocable.

**Underrecovery**

(see F&A Underrecovery).

**Unexpended balance**

The portion of the funds authorized by the awarding entity that has not been expended by the recipient and is determined by deducting the cumulative expenditures from the authorized total.

**Unsolicited Proposal**

A proposal submitted to a sponsor that is not in response to an RFP, RFA, or program announcement. (See also Investigator-Initiated Proposal.)

**Vacation Accrual**

See Employee Benefit Rates.

**Vendor**

Per OMB Circular A-133, means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program.

**WBS Element**

A WBS (Work Breakdown Structure) element is a cost object in SAP that collects expenses and revenues related to sponsored projects. Many projects have several WBS elements associated with them, forming a WBS hierarchy.