

**Principal Investigator
Compliance Education
St. Olaf College
Office of Government and Foundation Relations**

Good fiscal management results from a joint effort by the Principal Investigator, College Administrators, the Business Office, and the Office of Government and Foundation Relations.

PURPOSE OF COMPLIANCE EDUCATION

- Make Principal Investigators (PI's) aware of Federal policies governing sponsored projects.
- Provide PI's with tools and guidance in exercising contract or grant oversight.

For more details on information, please refer to the St. Olaf Government and Foundation Relations website, Grant Financial Management, and links to federal agencies and government circulars.

<http://www.stolaf.edu/offices/foundations/grantmanagement>

The material presented may not cover every situation or every granting agency's particular set of regulations; however, the materials are generally applicable to most Federal research grants and many other Federal and non-Federal awards.

Grant Administration Guide Websites:

NSF—www.nsf.gov/publications/pub_summ.jsp?ods_key=gpg

NIH—http://grants.nih.gov/grants/managing_awards.htm

USDOE (Edgar)—www2.ed.gov/policy/fund/reg/edgarReg/edgar.html

COMPLIANCE OUTLINE

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Role of the PI

The PI has first-hand knowledge of sponsor requirements, funding resources and work environment to:

- Correlate the application of costs and award related activities
- Judge if the application of costs is proper
- Know whether adequate resources exist for the performance and the completion of the required scope of work

What Every PI Should Know

- Direct Costs
- Time and Effort Certification
- Allowable/Unallowable Costs
- Procurement Guidelines
- Equipment Purchases
- Travel Expenses
- Cost Transfers
- Change of Scope
- Roles & Responsibilities

Direct Costs

- Costs must be related to the project charges. Direct attribution (linkage between cost and purpose of the project) must be established and demonstrated through supporting documentation. A readily identifiable cause-benefit relationship must exist between costs and the project. Example: Test tubes were purchased for a wet lab experiment involving fluid analysis (providing the project involved a wet lab).
- Costs must be reasonable - the prudent person test.
- Costs related to multiple programs must be allocated based on:
 1. Proportional benefit, where possible.
 2. Any reasonable basis, where necessary.
(Document basis for proportional decision.)
- Costs may **not** be assigned on fund availability, award expiration date or other inappropriate criteria.

Time and Effort Certification

- Employee effort certifications are signed by the Principal Investigator
- The PI certifies how time was actually spent, not how salary and wage costs were distributed although the two are generally related.
- For federal grants, federal approval is required for changes in effort of 25% or more of the budget.

Allowable/Unallowable Costs

- "Unallowable costs" is a Federal term denoting costs not reimbursable under Federal grants and cost reimbursable contracts.
- Federal regulations prohibit certain costs, most common being:
 - Entertainment
 - Alcoholic beverages
 - Air/rail fare in excess of lowest available
 - General office supplies (in most cases)
 - Clerical & administrative support (in most cases)
 - Telephone line charges

Procurement Procedures

(Because St. Olaf does not use a formal purchase order system and centralized receiving, the following procedures have been accepted by NSF as adequate mitigating controls).

- Vendors are chosen based on quality, reasonable pricing and product specifications.
- Consortium buying power is used whenever possible.
- PIs recuse themselves from purchasing decisions when a conflict of interest exists.
- Goods purchased in excess of \$1,000 require a second signature to verify that goods received match the invoice.
- Goods and service purchases of >\$5,000 require supervisor approval.
<http://www.stolaf.edu/offices/foundations/grant-management/Goods%20Approval%20Form.pdf>
- The EPSL (Excluded Parties List System) is checked before purchases >\$25,000 are made to be sure vendors are not on the Federal Government Suspension and Debarment list.

Equipment Purchases

- St. Olaf Definition of Capital Equipment: \$5,000 and useful life of 1+ years.
- Purchases during the last 60 days of terminal year may be problematic.
- St. Olaf tracks and capitalizes equipment.
- Planned dispositions and moves must be reported to the Controller.

Travel Expenses

- Must comply with St. Olaf Travel Policy and Procedures.
<http://www.stolaf.edu/offices/treasurer/travelpolicy.htm>
- Must comply with Fly America Act on Federally funded foreign travel.
<http://www.tvlon.com/resources/FlyAct.html>
- Must be separately budgeted in the contract or grant account.

Cost Transfers

- Used to correct, reassign, or redistribute costs between accounts
- Project funds are **not** interchangeable
- Should be the exception, not routine
- Must be done on a timely basis, (no later than 45 days after incurrence and before final financial report is filed)
- Large number of cost transfers might suggest lack of internal controls, especially at end of grant
- Transfers must be supported by documentation that contains a full explanation of how the error occurred and a certification of the correctness of the new charge.
- An explanation that merely states “to correct error” or “to transfer to correct project” is not sufficient.
- “Any costs allocable to a particular research agreement... may not be shifted to other research agreements in order to meet deficiencies caused by overruns or other fund considerations...”

OMB Circular A-21, c.4.b http://www.whitehouse.gov/omb/circulars_a021_2004#c

Change of Scope

OMB Circular A-110, SubpartC.25 requires that any revision of the grant budget or program plans requires prior approval from the sponsor.

Under no circumstances should funds be utilized for purposes other than those covered in the grant scope of work.

In addition, written approval from the Sponsor’s Contracting Office is required in situations that are subject to interpretation.

Unless waived by the awarding agency, **prior written approval** is also required for any of the following:

- Change in the key person (PI).
- An absence for more than three months of the project director or the PI
- A 25% reduction in time devoted to the project.
- Transfer of amounts budgeted for indirect costs to absorb increases in direct costs, or vice versa.
- Certain budget transfers.
- The inclusion of costs that require prior approval in accordance with OMB Circular A-21.
- Unless described in the application and award, the sub-award, transfer or contracting out of any work under the award.
- Supervisor approval for goods and services in excess of \$5,000 (agreed by NSF for St. Olaf internal controls)

Roles and Responsibilities

- PI should know the responsibilities of:
 - Principal Investigator
 - Office of Government and Foundation Relations <http://www.stolaf.edu/offices/foundations/>
 - Business Office <http://www.stolaf.edu/offices/treasurer/booffice.html>

What Every PI Should Do

- Monthly Reconciliation of Accounting Reports, provided by Grants Coordinator – Post Award
- Review and Approve Effort Certification Reports
- Certification and documentation of Participant Eligibility.
- Reporting to Sponsor
- Two Compliance Questions

Monthly/Quarterly Reconciliation of Accounting Reports - provided by Grants Coordinator – Post Award

- Review monthly expenditures to certify compliance with Office of Management and Budget (OMB) Cost Principles, and to ensure that allowable expenditures are charged to the appropriate Sponsored Program.
- Review quarterly budget to actual reports to evaluate variances and prevent overspending.
- Review and analyze financial information monthly to aid in making personnel and other related decisions regarding the fulfillment of the requirements on the sponsored project.
- Compare project records to Lawson Web Access www.stolaf.edu/offices/treasurer/lawson/lawson.html

Review and Approve Effort Certification Reports

- Review Time and Effort Certification Reports on a quarterly basis to ensure that salaries and wages charged to sponsored programs fairly reflect the effort expended on these programs.
- Your signature conveys personal and institutional obligations and should not be taken lightly. Your signature attests that the effort reported is true and accurate.
- If information provided on the reports is correct, sign the Effort Certification Reports and forward to your designated school Effort Report Coordinator.
- If salary or wage information provided on the reports is incorrect, make the necessary adjustments on the effort report, sign and return the report.
- If corrections affect salary or wage amounts, have Human Resource forms initiated to make Payroll corrections.

Reporting to Sponsor

- Prepare Technical Status Report
- Prepare Progress Report
- Prepare Invention Statements
- Inventory and Document Project Related Equipment

Two Compliance Questions:

1. Have I lived up to my fiscal stewardship responsibilities through diligent oversight of my sponsored project?
2. How would this transaction be perceived if it were reported in the newspaper?

Key Points:

- Grant expenditures should be charged directly to the grant, never “parked” in another account. This practice distorts the true grant expenditures reported to the sponsor.
- If spending needs to begin before the award is granted, consult with the Grants Coordinator – Post Award, never charge expenses to a departmental or gift account.
- As a general rule we request reimbursement from the sponsor based upon expenditures. If the expenditure is not in the grant account, it will not be billed or reimbursed. This has a negative effect on St. Olaf cash.
- Ensure that costs reflect the work performed on the project.

Potential Compliance Issues

- Unauthorized or inappropriate charges
- Unallowable costs
- Overruns or large unexpended balances
- Assignment of costs based on fund availability or project expiration
- Cost transfers (frequent, delinquent, poorly documented, etc.)
- Equipment purchases near end of project
- Undocumented In-Kind cost share
- Eligibility criteria not met
- Violation or inaccurate Time and Effort reporting

Non-Compliance... What's at Risk?

- Withholding of future awards
- Audit findings/cost disallowances
- Criminal/civil/administrative penalties
- Loss of administrative flexibility (exceptional status: rigorous oversight)
- Damage to reputation of college, individuals
- Risk of extrapolation of audit finding to all Federally Sponsored Awards

Non-Compliance Consequences

- **University of Minnesota**
 - Misuse federal grants
 - \$2.5-32M
- **University of Michigan**
 - Chief Urologist charged with Conflict of Interest
 - \$100,000 penalty

- 1 year probation
- **Northwestern University**
 - Effort Reporting
 - \$5.5M
- **University of Wisconsin**
 - Fraudulent Application
 - PI Jail Time
- **New York University Medical Center**
 - Inflated research grant costs
 - \$15.5M
- **Stanford University**
 - Inflated research overhead costs
 - \$1.2M
- **Johns Hopkins, Harvard, Yale**
 - Miscellaneous Scientific Misconduct
- **University of Chicago**
 - Research fraud and abuse
 - \$650,000
- **University of Connecticut**
 - Training grant issues
 - \$1.3M
- **Medical College of Georgia**
 - Theft of research funds
 - \$10M, PIs Jail Time

Contact Information

If you are not sure about the applicability of a particular provision to your project, check with your department chair, and the Office of Government and Foundation Relations.

Test Your Knowledge

Following are several questions to test your knowledge of the information presented.

Question 1: The main responsibility for the financial oversight of a contract or grant rests with:

1. Principal Investigator
2. Government and Foundation Relations
3. Business Office
4. Administrative Assistant
5. All of the above

Answer to Question 1

The main responsibility for the financial oversight of a contract or grant rests with the Principal Investigator.

Question 2: For costs to be charged to a Federal Contract or Grant Account, they must be...

1. Related to the project
2. Reasonable
3. Both of the above

Answer to Question 2

For costs to be charged to a Federal Contract or Grant Account, they must be both related to the project and reasonable.

Question 3: By signing the effort certification report the Principal Investigator certifies...

1. That the listed employees were paid from the indicated accounts.
2. How time was actually spent, not how salary and wage costs were distributed.

Answer to Question 3

By signing the effort certification report the Principal Investigator certifies how time was actually spent, not how salary and wage costs were distributed.

Question 4: Cost Transfers...

1. Are used to correct, reassign, or redistribute costs between accounts.
2. Are an exception, not a routine.
3. Must be done on a timely basis.
4. Must be justified & documented.
5. All of the above.

Answer to Question 4

Cost transfers are used to correct, reassign, or redistribute costs between accounts, are an exception, not a routine, must be done on a timely basis, and must be justified & documented.