Star Course #7
Financial Management
Part A

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Accounting
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Extramural Funds Accounting

- Extramural Funds Accounting (EMF) is the accounting unit within Business and Financial Services responsible for external research funds & UC Programs
Topics

I. Direct Costs
II. Indirect Costs
III. Establishing Awards
IV. Budget Transfers
V. Cost Transfers
VI. Overdrafts/Credit Balances
I. **Direct Costs**

Covered in Several Polices:

- **Uniform Guidance** (formerly OMB Circular A-21, A-110, A-133)
  - Federal Policy
- **Business Finance Bulletin A-47**
  - U.C. Policy
- **Departmental Costing Guidelines**
  - UCSB Policy
Uniform Guidance: Direct Costs

- **Direct Costs** are those costs which:
  - can be identified with a specific sponsored project or institutional activity;
  - can be directly assigned to activities relatively easily with a high degree of accuracy;
  - costs incurred for the same purpose in like circumstances must be treated either as a *direct* or *overhead* costs.
Direct Costs

- Typical **Direct Costs**:
  - salaries & wages;
  - fringe benefits;
  - materials;
  - services from specialized facilities or other institutional service operations;
  - other items of expense necessary to meet the deliverables for the project.

- Must meet the **allowable**, **allocable**, and **reasonable** test stipulated in Star Class #2.
Three types of Direct Costs:

1. direct charge or payment of an original transaction (i.e. payroll);
2. an expenditure adjustment from an account originally charged; and
3. a recharge from an activity providing goods or services.

(Business Finance Bulleting A-47; III. Basic Direct Costing Guidelines: B. Types of Direct Costs or Charges)
Resources

- **U.C. Policy & Guidelines**
  - **Business Finance Bulletin A-47**

- **UCSB Departmental Costing Guidelines**

**Uniform Guidance (Federal policy)**
- [http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl](http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl)
II. **Indirect Costs (Definition)**

- Facilities & Administration (F&A) is the federal term for Indirect Cost or Overhead.
- The term **overhead** is usually used to group expenses that are necessary to the continued functioning of the business but cannot be immediately associated with the products/services being offered.
Indirect Costs (Costs Included) are most commonly incurred on awards using a MTDC Direct Cost base.

- **Base**: Modified Total **Direct Costs**, consisting of all salaries and wages, fringe benefits (excluding Tuition & Gship), materials, supplies services, travel and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract).
Indirect Costs (Costs Excluded)

- Modified Total Direct Costs shall exclude equipment, capital expenditures, charges for patient care, tuition remission, rental costs of off-site facilities, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of $25,000.
Indirect Costs: Excluded Object Codes

- Tuition Remission (8970); Partial Fee (8590)
- Graduate Student Health Insurance Program (8570)
- Equipment: equal or >$5,000 (9000)
- Subcontracts: Excess of $25K (7300)
- Rent (5000 &5100)
- Scholarships & Fellowships (7770)
Indirect Costs Charged to an award – Determined by **Base Codes**

- Base Codes are a group of **alpha** characters assigned to each account/fund that determines how to assess F&A. The codes will,
  - identify the **sub(s)** categories to be excluded from F&A; and
  - identify what **object codes** to be excluded.
Indirect Cost Rate Categories

- Costs that are in the F&A Rate Categories should not also be directly charged to contracts or grants.
- Unallowable & Typically F&A Object Code Listing is on the EMF homepage website:
- Information on Standard Reports are located on the Hyperion Home Page:
  - http://wh.isc.ucsb.edu/
Indirect Cost Rate

- Current Agreement is from 7/1/2015 – 6/30/2021.
- **On-campus** Organized Research Rate:
  - 7/1/2015 – 6/30/2017: 53.5%
  - 7/1/2017 – 6/30/2018: 54.0%
  - 7/1/2018 – 6/30/2020: 55.0%
  - 7/1/2020 – 6/30/2021: 55.5%
- **Off-campus** Rate:
  - 7/1/2015 – 6/30/2021: 26.0%
Indirect Cost Rate Categories

7/1/2018 – 6/30/2020

<table>
<thead>
<tr>
<th>Facilities Components</th>
<th>OFF CAMPUS RATE</th>
<th>ON CAMPUS RATE</th>
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<tr>
<td>BUILDING DEPR</td>
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<td>UTILITY COST ADJUSTMENT</td>
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<tr>
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<td>STUDENT SERVICES</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>26.0%</strong></td>
<td><strong>55.0%</strong></td>
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</tbody>
</table>
AGGREGATE INDIRECT COST RECOVERY

Less: Bond Payments and Maintenance and Operation for Garamendi Projects (comes right off the top)

Equals: Adjusted Indirect Cost Recovery available for distribution

Off-the-Top Overhead Fund Contracts & Grant Overhead (69750) (19.9% of Total Pool)

Balance of Indirect Cost Recovery (80.1% of Total Pool)

General Fund per Agreement with State (55% of 80.1%) Offset to UC Operating budget

To University Opportunity Fund (07427) (45% of 80.1%)
Indirect Cost Rate Agreement

➢ **Rate Agreement website:**

✓ [https://www.bfs.ucsb.edu/sites/www.bfs.ucsb.edu/files/docs/extramural_funds/Federal_Indirect_Cost_Rate_Agreement_Signed_2017-10-04.pdf](https://www.bfs.ucsb.edu/sites/www.bfs.ucsb.edu/files/docs/extramural_funds/Federal_Indirect_Cost_Rate_Agreement_Signed_2017-10-04.pdf)
III. Establishing Awards

- Award Processing
- Chart of Accounts
- Request for Approval to Spend Funds (RAS)
Award Processing

- Awards are received in EMF (post award) via the Office of Research (pre award) database referred to as ORBiT.
- Award set up priorities in EMF are given to request for Approval to Spend (RAS) & New awards.
- New awards and existing awards with new agency award #’s are given a new fund number. Each award has its own unique fund number.
Award Processing

- **UCPath** is updated nightly for new accounts, new fund numbers, and awards extending the end date.
- **ORBiT** is updated by EMF with budget data, account, fund; then the information is disseminated to departments and principal investigators via an email.
- Budgets and account information (once established) are imported by EMF into the financial system’s **UCSB Chart of Accounts** via ORBiT. Departments are sent the award’s account-fund info by EMF so they can begin spending.
Chart of Accounts Hierarchy

Account = Department/Activity

Fund = Sponsor Agency

Subs = Expense Types

Object Codes = Expense Classifications
Accounts are designed to reflect specific institutional activities (i.e. instruction, research, public service, student financial aid, etc.). Assigned to a department.

Funds are established to ensure accountability and expenditure for designated purposes. Each fund is a separate entity requiring a self-balanced group of accounts, having its own assets, liabilities, revenue, expenditures, and balances. Assigned to a particular award.

Subs classify types of expenses by broad budget category. Extramural funds are established with the standard subs 2, 3, 4, 5, 6, 7, 8, and Y.

Object Codes are used for the classification of expenditures. It provides a more detailed breakdown than a sub & audited.
Request for Approval to Spend Funds (RAS)

- Circumstance when a principal investigator of a project request permission to spend funds in advance of the University’s receipt of an anticipated award in support of the project. Contact the designated Sponsored Project Officer for assistance.

- Training is offered in Star Class #3.

http://www.research.ucsb.edu/spo/award-administration/pre-award-spending/
IV. Budget Transfers

- There are instances when the budget submitted to the agency needs to be modified to reflect the actual costs incurred by the principal investigator.
- Agency approval may be required prior to incurring a specific cost.
- When doing a TOF, determine which costs are excluded from indirect costs. The excluded costs will affect the amount to be transferred.
- Budget justifications specified in the submitted award proposal are required from the principal investigators when costs are classified as Typically F&A but they want to directly charge for rare and unusual exceptions.
Transfers should be prepared when:

- Funds are transferred from a sub not affected by indirect costs to a sub that is, or vice versa.
- Funds are transferred between various accounts within the same fund number; then, all subs affected by overhead will need the appropriate amount of indirect costs adjusted.
- Funds spent more than the budgeted amount for object codes not subject to indirect costs (i.e. equipment 9000, etc.) vary from the amounts appropriated in the original budget.
- The budget should be adjusted if there is excess or a deficit in the indirect cost category (sub Y).
Sponsor prior approval required when:

- Budget changes that result with a major change from the approved goals or scope of a project.
- Check individual agency and specific award guidelines for budget restrictions.
- Purchase of general purpose equipment not listed in the budget.
- Deviations that are significant from the line item budgets.
Transfer of Soft Funds (TOSF) System

Transfer of Soft Funds (TOSF) is an enhancement to the current Transfer of Funds System (TOF) developed for specific soft funds (contracts and grants). The TOSF application is a department system used to prepare budget transfers. Contracts and Grants are considered SOFT funds, unlike PERMANENT funds. Contract & Grant funds are usually from outside sources and have a set begin and end date.
Contracts & Grants will need to use the TOSF application to submit budget transfers. Gifts and endowments are handled under the TOF system.

Employee must have an activated LDAP (campus directory) account.

Employee must have an e-mail account.

Must be set up in “ALLN02” system with one of the following security groups: TOF-DB Viewer; TOF-DU Preparer; TOF-RL Approver

The TOSF transfers are not forwarded to Budget Office or EMF. They are directly submitted to the FTD by the departmental approver.

TOSF web site is: http://espresso.ucsb.edu/
<table>
<thead>
<tr>
<th>Status</th>
<th>Unprocessed Transfers</th>
<th>Period</th>
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<th>To February 2011-12</th>
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<td>Transfer</td>
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<td>Created By</td>
<td>Sent By</td>
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<td>Inbox Of</td>
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</table>

Total Transfers: 0
V. Cost Transfers

UCSB policy states that costs should be charged to the appropriate sponsored project when first incurred. There are circumstances in which it may be necessary to transfer expenditures to a sponsored project subsequent to the initial recording of the charge (ie, if award is delayed). Those transactions require monitoring for compliance with UC policy, Federal regulations, sponsor specific guidelines, and the cost principles that underlie fiscal activities on sponsored projects.
1. Relate to individual items of expenditures (payroll hour).
2. Contain reference to the invoice, payroll, or other disbursement that initiated the original direct charge.
3. Match the same expense amount originally recorded (or fraction thereof) in the general ledger.
4. Be explained, justified and approved by administrators that are knowledgeable about the original charge.
5. Must be recorded in the ledger by the appropriate form.
6. Transfers must be identified and processed expeditiously prior to 120 days.

Note: Escalation Process has been implemented for contract and grant cost transfers over 120 days for payroll & non-payroll transfers.
Transfer of Expense (TOE) online System

- Non-Payroll Expense Transfers
- The TOE application identifies if a transfer is 120 days or older and reject them if they include a contract and grant.
- Will not let transfer to process if one of the fund sources is not within it’s Period of Performance.
- TOE website: http://espresso.ucsb.edu/
Manual (paper) transfers are acceptable only for the following reasons:

- Transfers are not within the period of performance.
- Benefits posted to the ledger outside the PPS system.
- Mass transfers due to change of fund number.
- Award is closed/ended and charges still need to be moved.

Non-Payroll Expenditures Adjustment Request

(UFIN120:11/11 Revision)

<table>
<thead>
<tr>
<th>FROM (Debit)</th>
<th>TO (Debit)</th>
<th>Description of Transaction</th>
<th>GLO60 being Adjusted</th>
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</thead>
<tbody>
<tr>
<td>L</td>
<td>Account</td>
<td>Fund</td>
<td>S</td>
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</table>
Non-Payroll Transfers (UFIN120)

- UFIN 120 that include contracts/grants must be signed by the principal investigator, chair, or other academic official and in the Signature Authorization System.
- Object Codes must be valid with the sub.
- Document date must be within the period of performance to be valid or explain in detail and provide documentation to determine if the charge is valid.
- Reason - The four questions located on the UFIN 120 must be fully answered for transfers that include contracts & grants.
- Tardy Explanation: Attach a memo explaining in detail why the transfer is submitted over 120 days; signed by the principal investigator, chair, or other academic official and in the Signature Authorization System.
Payroll Transfers

- Transfers for payroll expenses generated in PPS must use the paper UPAY form. Get these in ASAP as they soon won’t be accepted by Payroll and system will be shut off.

- Transfers for payroll expenses generated in UCPath must do SCTs in the UCPath online system.
Payroll Transfers (PPS - UPAY)

- Reason A or B Code is selected; documentation is required.
- Reason C or D (other) is selected; the four questions must be answered.
- UPAYS that include contracts/grants must be signed by the principal investigator, chair, or other academic official and in the Signature Authorization System.
- Pay period must be within the period of performance of the award.
- Cannot transfer payroll with an LXRX.
Payroll Transfers (UCPath)

- Salary Cost Transfers (SCTs) / Direct Retros that include contracts/grants:
  - Must answer the 4 Questions on the Questionnaire
    - Explain how the error occurred and why the transfer is being requested. If partial transfer, explain the basis for proration and/or split
    - Who approved the transfer of funds? (e.g. Name of PI, Department head/chair)
    - How does the transfer benefit or impact the new funding source being charged?
    - Explain the untimeliness if transfer is: > 120 days after original transaction date, and/or > 90 days after the fund end date.

Print a paper copy for your dept records which must be signed by the principal investigator, department head / chair, or other academic official and in the Signature Authorization System. Retain in dept. files for auditors.

- Pay period must be within the period of performance of the award.
Late Cost Transfer Escalation Procedure for Contracts and Grants

✓ Prepare the manual UFIN (non-payroll) or Direct Retro in UCPath (payroll)
✓ Follow the “Late Cost Transfer Escalation Procedure” for contract and grant cost transfers over 120 days.
  ▪ Prepare the Late Cost Transfer Exception Signature Form. **Submit with paper UFIN or as an attachment to your Direct Retro/SCT in UCPath.** Make sure you have signatures from the form preparer, Principal Investigator, & your Department Head/Chair!
  ▪ [http://www.bfs.ucsb.edu/sites/www.bfs.ucsb.edu/files/forms/EMF120DayExceptionForm_0.pdf](http://www.bfs.ucsb.edu/sites/www.bfs.ucsb.edu/files/forms/EMF120DayExceptionForm_0.pdf)
Escalations will not be granted in the following situations:

- Failure of staff to prepare cost transfers in a timely manner.
- Failure of Principal Investigators to inform department administration of needed cost transfers.
- A transfer from one sponsored fund to another sponsored fund if not approved.
- A transfer from an unrestricted fund into a sponsored fund if not approved.
Transfers with the following situations do not fall under the escalation requirement (You do not need to complete the Escalation Memo):

- Cost transfers between subs within the same fund.
- Cost transfer correcting object codes within the same fund.
- Transfers from a contract or grant fund to a non-contract.
Cost Transfer Question #1: Explain why the expense was not originally charged to the appropriate fund and why the expense was charged to the account/fund from where it is now being moved.

☑ Explain fully if it is an error and how it occurred?
☑ Charged correctly and now the principal investigator is requesting the transfer.
☑ Explain in detail when answering this question.
Cost Transfer Question #2: Describe how the cost benefits the award to which the cost is being transferred to. What makes the expense appropriate to the account now receiving the expense?

✓ Indicate if the principal investigator requested the transfer and the reason for the transfer.
✓ Explain who requested the transfer other than the principal investigator and how did the person know what award to charge.
✓ Explain in detail the benefit to the award.
Cost Transfer Question #3: How does this cost contribute to achieving the project's objectives?

✓ Explain what mechanism tracked the charge to the contract/grant being charged.
✓ What source documents and what code identified the project being charged.
✓ Any information identifying the cost to the project.
✓ Identify in detail the objectives being achieved.
Cost Transfer Question #4: What action is being taken to eliminate future need for cost transfer of this type?

- Explain in detail what procedure or process is being implemented to eliminate this type of cost transfer.
- Explain fully why this type of error cannot be eliminated.
- Explanations should be in detail for audit review.
VI. Overdrafts/Credit Balances
OMB Circular A-21, Section C.4.b. states: “Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.”
What is an overdraft?

When expenditures exceed the amount of appropriation (budget).

$246.78 OD
Transfer of expense (TOE) to clear overdrafts

✓ Transfers must remain in research (do not transfer to a 40XXXX instruction account).
✓ Transfers must be allowable, allocable, and reasonable.
✓ Overdrafts must be transferred before the award closing.
Contract & Grant Credit Balances After Award Closes

- **Credit balances** should be cleared as soon as possible. All expenses must be on ledger within 90 days of end date!

- **Publications costs** must be incurred or have a written estimate from vendor within the project period of performance.

- The **balance** of the award should equal to zero within a reasonable amount of time (i.e. 0-90 days after End Date).