

Foundations: The Basics of Research Administration



March 2019

**DIVISION OF THE VICE-PRESIDENT,
RESEARCH & INNOVATION**

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- Sub-grants
- Disruptions to Research

Who are you going to call??

A Cheat Sheet



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Research Accounting vs General Accounting

This section will:

- Outline the differences between Research Accounting and General Accounting in key areas that should be kept in mind when administering Research Funding



Adhering to the Sponsor's Financial Policy and Restriction

- Important to understand the terms and conditions of fund use specified by the Sponsor of research funding which may at times contravene the policies outlined in the University's Guide to Financial Management
- **General rule of thumb** – Sponsor Policies and Guidelines override the University's Guide to Financial Management; stricter of the two policies must be followed



Adhering to the Sponsor's Financial Policy and Restriction

- Imperative that the approved budget within the Funding Agreement is followed
- Often the challenge lies in that the commitment line items within FIS do not mirror the budget categories found within the Research Agreement
- Budget categories within a Research Agreement are more granular than the commitment line items within FIS; a **shadow tracking system** is necessary to assist with financial reporting requirements

Adhering to the Sponsor's Financial Policy and Restriction

- At financial reporting time, ROCO often needs to ask assistance from the Business Officer with regards to mapping expenditures into the budget categories outlined in the Research Agreement to be able to prepare the financial report as required

Adhering to the Sponsor's Financial Policy and Restriction

- Another challenge arising from the budget category – commitment line item difference is with respect to **variance from budget**

Often sponsors have restrictions about the amount of variance allowed within budget categories. It is not until the mapping is done at financial reporting time that a problem may arise due to a variance that is outside the acceptable threshold.

This results in either asking the Sponsor for approval of a budget realignment or the removal of the excess expenditures

Adhering to the Sponsor's Financial Policy and Restriction

In cases where ineligible costs are charged to a Fund or overspending occurs, the costs may be moved to the PI's Fund Centre and may ultimately become a financial liability for the academic unit or Division.

It is extremely important to monitor expenditures as they are incurred for eligibility and budget restrictions

Adhering to the Sponsor's Financial Policy and Restriction

- Principal Investigators / Business Officers are strongly encouraged to consult with RSO / IPO staff in cases of **uncertainty about eligibility of expenses or budget line item flexibility** prior to taking action
- It is normally more difficult to get Sponsors to agree to budget adjustments after the expense is incurred.

Overspending

The Principal Investigator is responsible for ensuring costs incurred on their research award(s):

1. Fall within the Budget amount
2. Follow any specific budget line item maximums
3. Occur within the eligible period covered by the Research Award

Overspending

The Department and/or Division is ultimately responsible for all financial costs authorized for a research Fund by a PI or the PI's delegate. If no eligible sources of funding are available when overspending occurs, the Department and/or Division **must absorb the cost(s)**.

Overspending

Any overspending cost not absorbed or not transferred to the department/or division's fund centre, will be subject to the **autoclose** process, where the overspending costs are transferred to the PI's fund centre.

Sponsor Carryforward Policies

One of the key determinants in managing award expenditures is the Sponsor's Policy with respect to unspent award funds:

- At the end of the current award budget period (carryforwards)
- At the end of the award (residuals)

Sponsor Carryforward Policies

The approaches are summarized as follows:

- Full carryforward whereby all unspent funds may be carried forward for expenditure in the subsequent period – this may require prior approval by the Sponsor
- Partial Carryforward allowing carryforward only of amounts required to liquidate purchase order commitments
- No Carryforward

Sponsor Carryforward Policies

Principal Investigators should refer to the FReD or contact VPRI staff to obtain additional details on what specific **carryforward** rules may apply to a research Fund

The carryforward rules dictate how the funds are managed in future years so it is important that the rules are known both between budget years and at the end of the Research Award

Sponsor Carryforward Policies

What does the Carryforward Policy affect if there is NO or a Limited Amount allowed for Carryforward?

- Unspent funding is lost funding and, therefore it is critical to plan the research accordingly
- Under such a policy it is critical to ensure that all expenses to-date are reflected in financial reports by having all payments processed before the critical date, and where this is not possible, advising the relevant Research Accountant to accrue.

Sponsor Carryforward Policies

What does the Carryforward Policy affect if there is NO or a Limited Amount allowed for Carryforward?

- The Research Accountant will record the expense for financial reporting/invoicing purposes only (not in FIS) to maximize use of funding
- However it is **critical** that these accruals actually get posted to the Fund subsequently to ensure FIS records match the financial report/invoice for audit purposes

Sub-grants

A Sponsor may permit a transfer of a portion of the research **award** to a co-investigator for their efforts on the funded project.

Transferring funds is **facilitated** by a formal inter-institutional agreement between UofT and the co-investigator's institution/organization, and is only initiated based on direction from the Principal Investigator to VPRI staff.

Sub-grants

Two Methods for Transferring Funding to a **Sub-grantee**. The method of advancing funding is determined by the other institution/organization's eligibility to hold the Sponsor's funding.

Sub-grants

If the other institution/organization is eligible to hold the Sponsor's funding the following method is used:

1. Advance of Funding

This involves advancing funds to the co-investigator's institution/organization via a cheque

As this method is a "transfer of funding" – responsibility for the disbursement of funds is with VPRI

Sub-grants

Implications for Financial Reporting for Advance Funding

As all Sponsors require a financial report on the expenditure of their funds, it is necessary to consolidate expenditures incurred both at UofT and the other institution/organization

Typically the Inter-institutional Agreement includes terms that require the subgrantee to provide financial reports to UofT coordinating with the reporting periods requested by the Sponsor

Sub-grants

If the other institution/organization is not eligible to hold the Sponsor's funding the following method is used:

2. Cost Recovery

This involves the other institution/organization submitting an invoice for costs incurred for which they are reimbursed

As this method is a "reimbursement of **expenses**" – responsibility for the paying of the invoice lies with the Department/Division

Sub-grants

Implications for Financial Reporting for Cost Recovery

As all Sponsors require a financial report on the expenditure of their funds, it is necessary to consolidate expenditures incurred both at UofT and the other institution/organization

As the other institution/organization has submitted an invoice for costs incurred, details needed for consolidation of expenditures is already gathered upon submission of invoice

Sub-grants

Posting of Subgrantee Payments

As a part of the budget is typically assigned to a co-investigator, a commitment line item is set up to ensure that these funds are not spent by the UofT Principal Investigator

All payments paid to the subgrantee, whether as an advance or cost recovery of expenses should be posted to the commitment line assigned to that subgrantee

Sub-grants

Financial Reporting

Method #1 – Advance of Funding

For financial reporting purposes, the payment of the invoice posted to the commitment item must be broken down by budget category to ensure proper consolidation. This is done typically on an excel spreadsheet which will support the financial report submitted.

For this reason the final balance on the financial report may not agree to the balance in FIS due to the **sub-grantee** not spending all the funds advanced

Sub-grants

Financial Reporting

Method #2 – Cost Recovery

For financial reporting purposes, the payment to the subgrantee is backed out of total expenditures, and the expenditures actually reported by the subgrantee are consolidated with those incurred at U of T.

As we only reimburse the subgrantee for actual expenses incurred, the final balance on the financial report will always agree to the balance in the Fund in FIS.

Disruptions to Research

Research does not always go smoothly. Circumstances may arise which have a significant adverse effect on the research activity funded by a sponsor or may be perceived having a potentially significant adverse effect such as:

- Temporary absence of the PI due to sabbatical or sick leave
- Transfer of the PI to another institution
- Funding problems association with an industrial partner

Disruptions to Research

As a general rule, there should be no further expenditure of award funds until all parties involved, including VPRI, are consulted for next steps.

There may be financial consequences that will ultimately become the responsibility of the Department if they are unresolved.

In Summary:

Typically the financial administration of research awards is straight forward, and goes according to plan....

However in some cases, things don't **always** go quite so smoothly....or the award is not so simple....

Be sure to attend our 'When the Going Gets Tough' session where we address those issues encountered in more complex research awards