

8. Project Monitoring

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

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

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

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

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

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

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

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

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