Funded Agreements Financial Management Policies

Policy number: 800-BA-9
Policy owner: Office of Sponsored Programs and Controller's Office

Date of initial publication: May 15, 2023
Date of latest revision: N/A

SECTION I. PURPOSE

The University of St. Thomas ("St. Thomas") maintains financial management systems and internal controls for grant and contract management that are consistent with the standards set forth at 2 C.F.R. §§ 200.302 and 200.303. This policy facilitates transparency and consistency in financial management processes relevant to St. Thomas' funded activities.

SECTION II. SCOPE AND APPLICABILITY

This policy applies to financial management systems and practices for treatment and recovery of costs on Funded Agreements, including federally funded agreements, cost-reimbursement contracts, and federal financial assistance agreements.

This policy is established within St. Thomas' Office of Sponsored Programs policy series, and is directly relevant to St. Thomas' finance policies. As such, St. Thomas' Office of Sponsored Programs and Controller's Office are jointly responsible for this policy. The Office of General Counsel is responsible for assisting with interpretation of Funded Agreement requirements.

SECTION III. DEFINITIONS

When used in this policy, the following term has the following meaning:

a. ***Funded Agreement*** means any agreement signed by St. Thomas that provides funding to the University, in whole or in part, from federal, state, or private funds and to which goods or services may be charged to fulfill its stated purpose. Examples of funded agreements include grants and federal procurement contracts.

SECTION IV. COST ALLOWABILITY AND COST ALLOCATION

A. Financial Management and Cost Center Accounting

1. St. Thomas accounts for costs related to Funded Agreements by consistent assignment of costs to benefiting cost centers as cost are incurred. Upon award of an agreement, a cost center specific to the agreement is created as a distinct account (index) in St. Thomas' financial management system.

2. Costs are treated as incurred and recorded in accordance with Generally Accepted Accounting Principles ("GAAP") and applicable federal cost principles. The financial data accumulated by cost center is used for grant and contract billing/reimbursement.

3. Direct costs, including allocated joint direct costs, are assigned to each cost center as set forth below. Indirect costs are recovered via a negotiated indirect cost rate agreement ("NICRA") as set forth below.

B. Cost Allowability

St. Thomas verifies the allowability of all costs charged to Funded Agreements, as required by 2 C.F.R. § 200.302(b)(7). Allowability is verified through layered controls. First, St. Thomas' purchasing and payables department reviews transactions in accordance with St. Thomas' ***Purchasing and Payables Policy***. Second, the Controller's Office reviews charges to Funded Agreements prior to seeking reimbursement (or any advance) for such expenses. The Controller's Office and finance staff involved in managing Funded Agreements are required to maintain familiarity with federal contract and grant restrictions on allowable costs, including the federal cost principles set forth at 2 C.F.R. Part 200, Subpart E, as applied to institutions of higher education ("IHEs").

C. Direct Personnel Costs

As described in St. Thomas' ***Compensation for Personal Services Charged to Federal, State, and Private Grants and Contracts Policy***, St. Thomas tracks effort attributable to Funded Agreements for purposes of allocating associated salary/wage and fringe benefit costs, consistent with 2 C.F.R. §§ 200.405 and 200.430(i). Such costs are generally allocated as follows:

1. Directly charged salaries/wages are allocated to Funded Agreements and other activities. Effort certifications are completed by all personnel whose time is charged, in whole or in part, directly to Funded Agreements at the end of each semester (fall, spring, and summer). Allocations of faculty Institutional Base Salaries ("IBS") and other staff salaries, or application of Extra Service Pay in accordance with St. Thomas' compensation policies, will be applied as appropriate to the circumstances and limitations of individual Funded Agreements.

2. Indirectly charged salaries/wages are accumulated in cost centers recovered via St. Thomas' negotiated indirect cost rate agreement ("NICRA"). In the uncommon circumstance in which personnel split time between direct and indirect cost activities, the time and associated salaries/wages are allocated between such activities via St. Thomas' timekeeping system.

3. Vacation, holiday, sick leave pay and other paid absences are included in the salaries and wages and are claimed on Funded Agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

4. Fringe benefits are charged using a rate(s) which are not shown in the Rate Agreement. Over/under recoveries from actual costs are adjusted in current or future periods. The directly claimed fringe benefits are listed as follows: FICA, Retirement, Disability Insurance, Worker's Compensation, Life Insurance, Unemployment Insurance, Health Insurance, Tuition Remission.

D. Direct Costs Other than Personnel Costs

The following procedures are used to ensure that allowability and allocability are addressed in the course of routine workflow for purchases of property, contracted services, and other non-personnel costs charged to funded agreements:

1. Request for services in an amount equal to or exceeding $1,000.00 individually or in the aggregate and any order for the purchase of goods in an amount equal to or exceeding $10,000.00 individually or in the aggregate must be set forth in a purchase order or a statement of work. Written contracts are typically required when the amount of the purchase is more than de minimis ($1,000 or more).

2. Appropriate approvals, based on financial queues, occur at the time of purchase and/or payment. Authorized purchasers review purchase requests to verify the benefitting program(s) is accurately stated. Joint or shared costs for goods or services are distributed to benefiting final cost objectives in a manner that reflects relative benefits received by each cost objective.

3. Accounts Payable receives payment requests from departments through the eProcurement system, which shows any purchase orders and physical receipt records.

4. Following its review, Accounts Payable records payment of the expense to the appropriate account.

E. Indirect (Facility and Administrative Costs)

St. Thomas incurs indirect costs in the form of facility and administrative expenses. Indirect costs are allocated to all benefiting cost objectives consistent with St. Thomas' NICRA. When administrative or indirect costs are, from time to time, capped or excluded by particular agreements, such costs are still incurred to pertinent cost centers, but are excluded in the billing or drawdown process.

1. **Facility Costs.** St. Thomas has "on campus" and "off campus" rates. The applicable rate will be applied to an agreement based upon place of performance. When activities take place on the St. Thomas campus grounds, the "on campus" rate will be used, as it reflects inclusion of a facility component. Otherwise, the "off campus" rate will be used.

2. **Administrative Costs.** St. Thomas maintains a predetermined rate approved by the United States Department of Health and Human Services. The predetermined rate will be subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available.

3. **Covered Costs.** The administrative costs covered by the NICRA generally include costs which are frequently referred to as overhead and/or general and administrative ("G&A") expenses (for example, rent, utilities, accounting department costs, etc). By comparison, costs such as direct salaries and wages, fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award) are allocated to benefitting agreements as direct costs.

F. CAS Coverage and Disclosure Statement

St. Thomas complies with Cost Accounting Standards ("CAS") 501, 502, 505, and 506, and maintains a DS-2 disclosure statement with HHS Cost Allocation Services.

G. Unallowable Costs

St. Thomas maintains designated cost centers to accumulate costs that are, as a matter of federal policy, unallowable charges to federal grants and other funded agreements and contracts, such as certain advocacy and fundraising expenses. Personnel time and expenditures associated with such activities are allocated to this cost center to ensure they are not charged to federal agreements.

SECTION V. DRAWDOWN, INVOICING, AND FINANCIAL REPORTING FOR FUNDED AGREEMENTS

A. Background

Certain of St. Thomas's Funded Agreements call for payment by submission of invoices and certain of its funded agreements call for payment via electronic letter of credits systems, such as the Department of Treasury's ASAP system and Department of Health and Human Services PMS system. Processing payments through the electronic letter of credit systems is referred to generally as "drawdown" of funds.

B. Invoicing Process

For Funded Agreements for which invoices are required, the Controller's Office prepares invoices and supporting documentation in a manner consistent with the requirements of the particular agreement. Invoices are generally submitted quarterly for allowable and allocable expenses incurred and paid in furtherance of the work supported by the agreement.

C. Drawdown Process

St. Thomas's Controller's Office processes drawdowns in a manner consistent with 2 C.F.R. § 200.305, to include:

1. **Advance Payment Standards.** St. Thomas generally processes grant reimbursement drawdowns quarterly, only after expenditure of funds (*i.e.*, as "reimbursement"). In the rare instance that St. Thomas might process a drawdown of funds in advance, it will ensure compliance with timing and disbursement requirements of 2 C.F.R. § 200.305.

2. **Periodic Reconciliation.** To ensure that amounts drawn year-to-date are accurate, the Controller's Office reviews year-to-date draws by agreement against year-to-date expenses in corresponding cost centers to ensure that adjustments, such as those necessary due to internal reclassifications in the General Ledger, are accounted for. This continuous reconciliation ensures consistency (including prompt evaluation of any material variances) between St. Thomas's General Ledger (in particular, cost center profit & loss ("P&L") statements), drawdown values, and periodic and final FFRs.

3. **Drawdown Records.** All drawdowns are supported by records that show expenses for which the drawdown was made. Such records may be in the form of specific expense data at the transactional level or may be in the form of aggregate allowable and allocable expenses incurred in the relevant cost center to date, minus the total amount already drawn in the current year.

D. Financial Reporting

Funded Agreements generally require monthly, quarterly, and/or annual financial reporting. For federally funded agreements, "Financial Status Reports" ("FSRs") are generally required in Standard

Form ("SF") 425 format. St. Thomas timely files all required financial reports, to include the following responsibilities and steps:

1. The Controller's Office is responsible for ensuring financial reports are timely and accurate.
2. The information contained in financial reports must be supported by the data in St. Thomas's General Ledger, and further supported by supporting source documentation to the extent required by agreement terms.
3. The information contained in financial reports must be consistent with St. Thomas's drawdown records and/or periodic invoices.

SECTION VI. PROGRAM INCOME

A. Program Income Definition and Standards

To the extent revenue generated by St. Thomas is attributable to work supported by a federal grant or cooperative agreement governed by 2 C.F.R. Part 200 (other than the revenue received in the form of the grant funds), such revenue may constitute "program income" as defined at 2 C.F.R. § 200.1. Program income must be accounted for and managed in accordance with the requirements of 2 C.F.R. § 200.307 and supplemental guidance from the agency that made the related award.

B. Recording Program Income (If Any)

To facilitate proper management of program income (and associated financial reporting), when accounting for fees for services performed (or products sold) in the course of performing federal-grant-funded activities (if any), such revenue will be recorded in St. Thomas's General Ledger as generated in relation to the pertinent federal grant agreement.

C. Program Income Definitional Matters

Circumstances giving rise to "program income" are not always clear. Any questions regarding whether particular revenue may constitute "program income" attributable to one or more federal grants should be promptly referred to the General Counsel for guidance.

SECTION VII. PROCUREMENT OF PROPERTY AND SERVICES

St. Thomas maintains a separate ***Purchasing and Payables Policy***. The ***Purchasing and Payables Policy*** must be consulted with respect to required procurement processes. Such processes include detailed competition requirements for federally funded procurement actions.

SECTION VIII. PROPERTY MANAGEMENT

A. Equipment Definition

St. Thomas' capitalization threshold is $10,000. As such, St. Thomas applies the lower threshold of $5,000 when defining "equipment" for purposes of state or federal funded grant and cooperative agreement obligations. Items of tangible personal property with an acquisition value of $5,000 or more and a useful life of greater than a year are treated as "equipment" for federal award management purposes regardless of treatment on St. Thomas' balance sheet.

B. Federally Furnished/Owned and Federally Funded Equipment

1. **Federally Furnished/Owned Equipment.** In instances in which federally owned property is furnished to St. Thomas for the performance of agreements, St. Thomas maintains and manages the property in accordance with applicable agreement terms.

2. **Property Acquired or Improved with Federal Funds.** When federal agreements permit St. Thomas to acquire or improve equipment with federal funds, St. Thomas maintains such property in a manner consistent with the use, management, and disposition requirements set forth at 2 C.F.R. §§ 200.311-200.316.

3. **Special Terms Regarding Certain Research Equipment.** In some instances, federal agreement terms will permit St. Thomas to retain title to research equipment with no further obligation to the federal government pursuant to 41 U.S.C. § 6306. When agreement terms so provide, St. Thomas will clearly note the special treatment in equipment records and the agreement file.

SECTION IX. COST SHARE/MATCH

A. Types of Cost Share

Cost Share or "match" may be in the forms of (i) use of St. Thomas resources (including cash donations made to St. Thomas) in furtherance of Funded Agreements without reimbursement through the agreement (generally termed "cash match"), or (ii) use of in-kind resources provided by outside entities at no cost to St. Thomas in furtherance of Funded Agreements (generally termed "in-kind match").

B. Commitment of Cost Sharing

Cost share on Funded Agreements may be mandatory or voluntary.

1. **Mandatory Cost Share.** Generally, mandatory cost share requirements are set forth in funding opportunity announcements ("FOAs")/solicitations issued by funding agencies. Failure to provide mandatory cost share (example, the "non-federal share") will generally reduce the corresponding federal contribution to the project (example, the "federal share").

2. **Voluntary Cost Share.** Generally, voluntary cost share is cost share proposed despite no requirement to do so for a particular opportunity in the FOA/solicitation issued by the funding agency. For purposes of this policy, it includes both (i) cost share voluntarily proposed to funding agencies and accepted by those agencies as a binding agreement term, as well as (ii) project costs that a grant or contract will not cover, but which St. Thomas intends (as reflected in internal budgets) to pay without necessarily notifying the funding agency. Failure to provide voluntary cost share that has been adopted by a funding agency as a binding agreement term will generally have the same effect as failure to provide mandatory cost share. Failure to provide voluntary cost share that is not adopted as a binding term of the agreement will generally have no direct financial consequence but may jeopardize project success or competitiveness on future opportunities. The appropriateness of proposing voluntary cost share varies among federal agencies and projects. In some instances, consideration of proposed voluntary cost share is prohibited in agency award decision-making. Agency policy guidance should be consulted in preparation of proposal budgets that may include voluntary cost share.

3. **St. Thomas Coordination of Cost Share.** Available internal resources for cost share may be limited. Voluntary cost share should be proposed only sparingly and must be approved by the chair and dean as they review the budget for internal approvals. For all cost share requests, proposed projects must be consistent with the academic mission and short-, medium-, and long-range strategic goals of the academic home of the Principal Investigator in particular and the University of St. Thomas as a whole.

C. Forms of Cost Share and Supporting Records

For mandatory cost share (and for voluntary cost share "counted" toward program accomplishment under an agreement), permissible forms of cost share, as well as valuation and documentation standards are set forth at 2 C.F.R. § 200.306. To the extent that unrecovered indirect costs may be identified as a potential source of cost share for a particular agreement, they must be approved by the awarding agency.

SECTION X. ANNUAL AUDIT

A. Single Audit Act Audit (*aka* "Subpart F Audit") Requirement

St. Thomas expends more than $750,000 in federal award funds each fiscal year. As such, pursuant to 2 C.F.R. Part 200, Subpart F, St. Thomas engages an outside auditing firm to conduct an annual audit of its financial statements and certain aspects of its grant management activities each fiscal year. St. Thomas uses a qualified accounting firm, selected in a manner consistent with 2 C.F.R. § 200.509.

B. Auditee Pre-Audit Responsibilities

St. Thomas annually prepares its financial statements and "Schedule of Expenditures of Federal Awards" ("SEFA") in advance of the audit.

C. Auditor Coordination

St. Thomas' AVP of Finance and Controller serves as St. Thomas' primary point of contact with audit firm staff. During the audit firm's field work, audit firm staff will be provided a designated workspace and direct access to the Finance Department for questions. If any apparent weaknesses in systems or documentation are identified in the course of the audit, they are to be promptly addressed.

D. Review and Comment Upon Draft Audit Report

The Controller's Office and Chief Financial Officer will review the draft audit report and provide feedback to the auditors, including providing additional information, commenting on the report, or providing corrective action plans as needed.

E. Presentation of Final Audit Report

The audit firm will present the final audit report to the Audit Finance Committee of the Board of Trustees.

F. Final Audit Report Submission

The final audit report is to be submitted to the Federal Audit Clearinghouse no later than nine months after the end of St. Thomas' fiscal year, *i.e.* March 30th. It must be submitted on time, with submission confirmed by the audit firm. Failure to submit the audit report on time will generally result in a “high risk auditee” designation in the following audit period.

SECTION IX. RETENTION OF FEDERAL GRANT AND CONTRACT RECORDS

St. Thomas’ document retention periods under its records retention policy generally provide sufficient retention periods for compliance with Funded Agreement documentation retention requirements. Nonetheless, to avoid any doubt, consistent with 2 C.F.R. § 200.334, it is St. Thomas’ policy to retain all documents relating to performance of federal grants and contracts for a period of not less than that required by pertinent grant or contract terms. For grants, the retention period will be no less than seven years after the filing of the final financial report to which the records pertain. If any costs are questioned by a federal agency or auditor, the records pertaining to such matter will be retained until the matter is fully resolved.