

Sponsored Projects Financial Management – FAQs

Welcome to the Research Financial Services LISTSERV series on “Sponsored Projects Financial Management” for answers to common questions. Sponsored project financial management requires the application of award terms and conditions along with Sponsor, Federal and Institutional policies and procedures. Note underlined sections are hyperlinks for further information.

(Previous FAQ editions [here](#))

Internal Controls



What are [internal controls](#)? [Processes](#) designed and implemented to provide reasonable assurance regarding the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting for internal and external use, compliance with applicable laws and regulations, and safeguarding of assets.

What do internal controls mean in layman's terms? To ensure the University complies with applicable policies and regulations, processes and procedures are established to standardize business activities as a preventive tool and detective measure to protect assets, ensure accuracy, promote efficiencies, achieve missions and goals, and ensure compliance. Processes and procedures range from Institutional to Departmental levels.

How do internal controls impact grant management? Recipients of sponsor funds are expected to establish and maintain effective internal controls. [Processes](#) and procedures are established to achieve financial integrity, and sponsor funds are used appropriately and solely to accomplish the scope of work. Internal controls are tested through audits to demonstrate strengths and weaknesses. Below are examples of internal controls for grant management:

- Financial transactions are properly recorded and accounted for.
- Financial transactions are regularly reviewed by the Principal Investigator.
- Financial reporting is occurring regularly, available, and reliable.
- Processes demonstrate knowledge and compliance with Federal regulations, sponsor award terms and conditions, and University policies and regulations.
- Institution and Department maintains and enforces policies to safeguard against unauthorized use or disposition of funds.

What does it mean to properly record and account for transactions? The process of managing sponsor funds ranges from approval procedures to monthly [reconciliations](#) to ensure financial transactions are accurate, contain proper supporting documentation, and erroneous transactions are identified and corrected timely. Properly accounted transactions are to have sufficient backup documentation maintained by the department. [Documentation](#) must be readily available and identify the benefit of the

expense to the sponsored project without further explanation or additional documentation (is self-explanatory). Examples below:

- An improperly recorded transaction is missing or lacks an explanation of the benefit or purpose to the project.
- An improperly recorded transaction has been posted to an incorrect cost object.
- An improperly recorded transaction can be an accelerated increase (spike in the cost reimbursement amount) or delayed posting (no or minimal cost reimbursement amount) of expenses. Sponsors monitor reimbursement requests, and irregular requests are at risk of a finding during an Institutional and/or Sponsor review. Abnormal activity can be perceived as an inability to appropriately manage sponsor funds and/or concerns about the ability to complete the scope of work.

Which policies and procedures are included in internal controls? There are many tiers of policies and procedures. The first tier is Federal guidelines, often referred to as Uniform Guidance. The next is the Sponsor's terms and conditions. The third is the University's BPM and Administrative and Governing regulations, and the final tier is Departmental processes. The combination of all the processes and procedures makes up the internal controls of grant financial management.

Who is responsible for overseeing internal controls? [Management](#) of internal controls is a responsibility for all personnel levels and is not a specific position or department. Principal Investigators (PIs) are tasked with being good stewards of sponsor funds. Departmental staff support is essential to a PI's success with this task. Clear communication between the PI and the department is a key element of grant management. Collaborative Grant Services is available as an additional layer of grant administration support. The University also has a role in assisting with financial management and compliance oversight.

What type of processes should be in place? Below is a sampling of topics that departmental processes and procedures should include for sound grant financial management. Unsound processes may result in expenses being considered unallowable.

- Budget – The Department monitors current budget availabilities against the progress in completing the scope of work and requests revisions as needed. This ensures expected expenses post and expenses without a budget are investigated timely.
- Data entry – Department procedures should validate that correct items are ordered, the correct GL account is chosen, that only persons working on the project are charging the grant, any missing payroll is identified and corrected timely, that personnel cost distribution percentages are correct based on the period and the volume of actual work performed, that personnel changes are tracked, and the correct grant (and fund) or cost center is charged.
- Travel – Tracking documentation that identifies who is traveling, why they are traveling, when the travel takes place and allowable travel arrangements are completed. Frequently, travel arrangements are made at varying times. Department oversight processes need to ensure that travel is well documented, that the planned travel occurs, that the purpose of the trip does not change, and that the cost distribution is the same across all the travel costs using a verifiable method.
- Purchase orders – Department should have a tracking method for placing orders. This includes creation of purchase orders, ensuring ordered items are reasonable and received or requested services are provided within the sponsored project budget period, and liquidating items not received.

- Service Centers – Some Service Centers or billable items are not approved for posting to grants and should be validated by the requesting party before ordering products/services. Service must be completed within the budget period, and the current approved rate is charged based on actual usage.
- [Reconciliations](#) – The monthly process of reviewing and ensuring that transactions posted meet costing principles, unallowable expenses are removed, encumbrances are accurate, and any follow-up on outstanding items is completed. Any unresolved reconciling items identified from previous reconciliations must be included in the current reconciliation, and additional follow-up is completed. Reconciliations are to be completed on all funding sources including cost-share funds.
- Tracking – A method of logging and tracking outstanding items such as purchases, payroll changes, and cost transfer JVs.
- Communication – Processes need a clear method of communication between staff involved in grant financial management and those knowledgeable (aka PI or key personnel) about the project. Communication extends from meetings, emails, and calls to departmental forms. Communication matters range from applications, budget management, and expenditures to financial reviews.

What if our department has staff vacancies? Personnel vacancies are not an allowable reason for exemption from internal controls. Area Colleges, Centers, and Departmental staff should devise a coverage plan to ensure there are no gaps within grant financial management.

How do internal controls relate to grant setup? Work should not begin before a grant is authorized by both the Sponsor and the Institution. When delays in award receipt, completion of award negotiations, and other necessary approvals occur, an expected (e-status) grant account should be requested. Costs for performing work before a grant account is established are at risk of being denied when a cost transfer JV is submitted. The same risk applies to pre-award work. Work with OSPA and CGS to determine if an e-status account is needed or if pre-award costs are allowable.

How do internal controls affect payroll costs? Payroll cost distributions are a representation of the work performed. Regularly monitoring individuals working on the project against actual postings with the PI is essential for timely and accurate CDEM allocations or changes. Payroll corrections via Z4 cost transfers include an evaluation of department internal controls, and ECC statement confirmation delays could be a cause for additional reviews.

How do internal controls affect cost transfer JVs? Cost transfer JVs are subject to denial when internal controls are not followed or are lacking. An [untimely](#) discovery of errors could be an indication of inadequate internal controls and financial management. Recurring and frequent errors are also an indication internal controls need enhancement.

What are the risks of inadequate internal controls? There are four primary effects of inadequate internal controls.

- Incorrect reporting of expenditures, fund usage, and budget availability
- The Sponsor and/or University could impose a corrective action plan. Corrective action plans involve an increase in financial management requirements via changes in procedures and additional personnel being responsible.
- Current funding could be terminated, and future awards could be denied by the Sponsor or University.

- An audit finding raises the University’s risk assessment rating which could prohibit obtaining sponsor funding for any department and an increased number and level of audits and financial reviews.

What tools are available? The following tools are available to assist in grant financial management:

- [Business Procedures Manual](#) contains information on various subjects and related procedures.
- SAP reports from the University’s official accounting system are available. Information includes budgets, actual expenditure postings, encumbrances, payroll cost distributions, and more.
- Tableau reports use data from SAP. General financial reports are available and can be customized.
- Business officers, Area Fiscal Officers, Department staff and PIs have varying levels of financial information and report access in SAP and [Tableau](#).
- PI Reports are [Tableau web reports](#) designed for Principal Investigators. The reports include budget and expenditure information in detailed and summarized views. Although designed for PIs, they are available to Department staff also.
- [University Financial Services \(UFS\) website](#) is a central location for University service areas with guidance, procedures, forms, and frequently asked questions.

Additional Resources:

- RFS: <https://www.uky.edu/ufs/research-financial-services>
- OSPA: <https://www.research.uky.edu/office-sponsored-projects-administration>
- CGS: <https://www.research.uky.edu/collaborative-grant-services>
- BPM: <https://www.uky.edu/ufs/business-procedures-manual>
- Sponsored Project Bits & Pieces Presentations: <http://www.uky.edu/ufs/sponsored-projects-bits-pieces-presentations>
- Uniform Guidance (UG): <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>

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