

# Contracts and Grants Accounting

## Introduction

Contracts and grants are important to Auburn University. Much of the research that Auburn faculty, staff, and students undertake is funded through contracts and grants. Money provided to support sponsored projects is a significant financial resource for the University and for individual departments.

Although the paperwork associated with contracts and grants often seems complex, all reports and other accounting documents need to be handled promptly and properly. These records are crucial to the University, to the agency providing the contract or grant, and to all people involved in administering the agreement. Accountability, making sure that money is spent correctly and on time, is an essential element of contract and grant management.

All contracts and grants must be carried out within budgetary and other guidelines that the funding agency and the University have approved. That is especially important since any unreimbursed expenditures will have to be paid by the department, school or college involved in the project. Expenditures need to be closely monitored and well documented.

The Contracts and Grants Accounting staff regularly offers workshops on managing the financial aspects of contracts and grants. The staff is also ready to answer any questions you might have, so please call the Contracts and Grants Accounting Office (844-4847) when you need assistance.

## General Terms

**Extramural Funding:** This is a general term for money that comes from outside the University that is used to support a program or project. It may come from federal, state or local governments, business, private foundations, or individuals.

**Contract:** In this context, a *contract* is generally an agreement to provide a product or service which is of direct benefit to the awarding agency. Contracts provide for payments to the University which cover allowable project costs or payment of a fixed price for satisfactory completion of the project.

**Grant:** A *grant* is an agreement to accomplish something for the public good in exchange for money, property or services. Most federal agencies use a grant document for research awards to universities.

**Cooperative Agreement:** A *cooperative agreement* is like a grant except that the federal government will be closely involved in the activity that is being funded, perhaps bringing government personnel to campus to work on the project.

**Fixed-Price Contract:** Payment for this type of contract is based on satisfactory performance. Payment is set and cannot be adjusted because of how much it costs to meet the terms of the agreement, whether more or less than the contracted amount.

**Cost-Reimbursement Contracts and Grants:** The sponsor will reimburse the University for any actual, approved project costs, within whatever variances the funding agency allows.

**Budget:** A *budget* identifies the types of costs and the estimated amounts needed to complete the project. The budget must be approved by the funding agency and Auburn University. This budget will be the basis for authorizing any expenditures on the project and the basis for seeking payment from the funding agency.

Generally, funding agencies recognize that there may be differences between the estimated and the actual expenditures for different elements of a project. The degree to which these variances are allowed may depend on federal regulations or on the specific terms of an agreement.

**Direct Costs:** These can be specifically identified with a particular project with a high degree of accuracy. If, for example, a person spent 50% of her time on a project, 50% of her salary and benefits would be direct costs. Travel, equipment, supplies or services used specifically for a project are examples of direct costs.

**Indirect Costs:** These are general costs that cannot be clearly identified with a specific project, but are nonetheless necessary to the project. For example, costs of maintaining a building, administrative expenses, or library expenses are types of indirect costs. Indirect costs, based on rates approved by the federal government, should be included in the approved project budget. These are then charged to specific contract/grant FOPs in accordance with the terms of the agreement.

**Cost Sharing:** This refers to costs that the funding agency doesn't pay. It may be *Cash Cost Sharing, In-Kind Cost Sharing, Third-Party Cost Sharing or Indirect Costs*. These costs are generally borne by the University. In some cases, a third party may provide cost sharing support.

**Total Project Costs:** *Direct costs plus indirect costs*. This includes the granting agency's share, the University's share, and, in some cases, it may include a third party's share.

**Program Income:** This is income earned by the University that is directly generated by a supported activity or earned as a result of the contract or grant. Examples are registration fees for sponsored workshops or conferences and the sale of items fabricated under an award. See policies and procedures on Program Income associated with sponsored projects.

**Duration:** Every agreement should have specified beginning and ending dates. All expenditures must be incurred or encumbered during this period. If expenditures fall outside this period, they cannot be reimbursed or used as cost sharing. In some cases, pre-award costs may be approved by the sponsor or the Vice President for Research. Some aspects of this rule do not apply to fixed-price contracts.

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## Research and Development Terms

**Research:** Systematic study that is undertaken in order to gain a fuller scientific knowledge or understanding of a subject.

**Basic Research:** Research for the purpose of gaining a fuller knowledge or understanding of a subject without seeking specific ways to put that knowledge to work in new processes or products.

**Applied Research:** Research that seeks knowledge or understanding so that recognized and specific needs might be met.

**Developmental Research:** Putting information gained from research to use to create new products or processes.

**Note: Research and Development** *do not include* training of scientific personnel, mapping and surveys, routine product testing, quality control, experimental production, and collection of general-purpose statistics that aren't part of a specific research and development project.

## Classification of Sponsored Projects by Their Major Functions

**Organized Research:** All research and development activities of an institution that are separately budgeted and accounted for by project. This includes specific research projects funded by Auburn University as well as extramurally-funded projects. **A-21 Code: OR**

**Instruction:** Except for research training, **instruction** includes all teaching and training, whether for credit toward a degree or certificate or on a non-credit basis. It includes:

- (1) **Sponsored Instruction** is specific instructional or training activity established by a grant, contract or cooperative agreement. **A-21 Code: IN**
- (2) **Departmental Research** is research, development and scholarly activities that are not organized research and are not separately accounted for by specific project. Departmental research is considered by A-21 to be a part of the Instruction function. **A-21 Code: IN**

**Other Sponsored Activities:** Programs and projects supported by outside sponsors which involve performing work other than instruction and organized research. University Outreach (previously called "Extension") is a part of this function. **A-21 Code: OS**

**University Outreach** sponsored programs and projects can include:

- a. Non-credit instruction, training, and continuing professional education.
- b. Credit instruction outside of the "traditional" academic setting, such as distance learning.
- c. Cooperative Extension offerings.

- d. Public presentations, professional meetings, community interest offerings, and youth activities.
  - e. Technical assistance and consultation.
  - f. Any other work that is not instruction or research.
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### **Some Important Federal Documents**

Federal regulations require universities to be consistent in the handling of costs, regardless of the type of funds involved. Therefore, Auburn University applies the guidelines cited in these Office of Management and Budget circulars to all contracts and grants from all funding sources:

**OMB Circular A-21** establishes the principles for determining costs applicable to grants, contracts and other agreements with colleges and universities. These principles are to be used as a guide in the pricing of fixed price agreements and apply to direct costs and indirect costs.

**OMB Circular A-110** provides a public declaration of the standards to be used by federal agencies and colleges and universities in the administration of grants and other agreements. This does not include contracts that are administered under procurement laws and regulations.

**OMB Circular A-133** states audit requirements and provides policy guidance to federal agencies and colleges and universities regarding the institutions' financial records, internal control structure, and compliance with applicable laws and regulations.

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### **Field of Science and Engineering Codes**

All contract/grant FOPs with an A-21 Code of "OR" - Organized Research should be assigned a "Field of Science and Engineering" classification from the list below. Also, all non-contract/grant FOPs with an A-21 Code of "OR" should be classified. If assistance is needed, please call the Office of Sponsored Programs, 4-4438.

- AH1 Arts/Humanities\*
- CS1 Computer Sciences
- ED1 Education\*
- EN1 Aeronautical/Astronautical Engineering
- EN2 Chemical Engineering
- EN3 Civil Engineering
- EN4 Electronics & Electrical Engineering
- EN5 Mechanical Engineering
- EN6 Industrial Engineering
- EN7 Textile Engineering

EN8 Other, Engineering  
ES1 Atmospheric  
ES2 Earth Sciences  
ES3 Oceanography  
ES4 Other, Environmental Sciences  
LA1 Law\*  
LS1 Agricultural  
LS2 Biological  
LS3 Medical  
LS4 Other, Life Sciences  
MC1 Management/Commerce\*  
MS1 Mathematical Sciences  
OM1 Other, Multidisciplinary  
OS1 Other Sciences  
PS1 Astronomy  
PS2 Chemistry  
PS3 Physics  
PS4 Other, Physical Sciences  
PY1 Psychology  
SS1 Economics  
SS2 Political Science  
SS3 Sociology  
SS4 Other, Social Sciences  
VM1 Vet. Medicine, Agricultural  
VM2 Vet. Medicine, Biological  
VM3 Vet. Medicine, Medical

\*These non-science classifications will not be included in the annual NSF report.

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### **Type of Research Codes**

All contract/grant FOPs and non-contract/grant FOPs with an A-21 Code of "OR" - Organized Research should be assigned one of the following classifications:

01 Basic Research = Program Code 2000

02 Applied Research = Program Code 2002

03 Developmental Research = Program Code 2004

Please see "Research and Development Terms" for definitions of Basic, Applied and Developmental Research.

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**NOTE:** Information was taken from OMB Circular A-110 and from U.S. Department of Education and U.S. Department of Health and Human Services regulations for some of the above statements.