Accounting for Grants and Contracts in an Educational Institution

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ACCOUNTING FOR GRANTS AND CONTRACTS IN AN EDUCATIONAL INSTITUTION

The author describes a system devised at her school to satisfy the accounting needs of the university, the project directors, and the agency awarding the grant or contract.

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No college or university of any size in this country is without some grants and contracts from governmental and/or industrial sources. In many schools these grants and contracts represent a large percentage of the income and expense of the university's budget.

Accounting for these grants and contracts presents problems to the university not found in other sources of funds. As Assistant Controller in charge of the accounting for grants and contracts, this writer found that accounting for these funds in the standard fiscal year accounting system was far from satisfactory.

With the growth of these funds in number and amount, it was decided that an accounting system, separate from but compatible with the general accounting system, must be devised.

The Problem of the Project Period

Accounting for grants and contracts represents a problem in that seldom do the dates of the project match the fiscal dates of the university. As a result, in the budgeting sector, there have been two solutions to the problem (neither satisfactory). A budget for the full grant or contract amount can be set up in the current year (even if it is a three year budget), resulting in excess budgeting; then the unused balances are carried forward to the succeeding years. Or, a budget for only the portion applicable to the current year can be set up and the balances or overdrafts carried forward to the succeeding year and added to the next fiscal year's budget. This is a better solution but the budget account ledger sheets do not reflect

the complete picture of the grant or contract at any time.

There is the same problem with expenditures from these accounts. The expenditures are only accumulated until the end of a fiscal year when the books are closed and all expenditures removed from the accounts. Therefore, the project budget accounts will show the total disbursements to date only until the books are closed for the first year of the project. Thereafter, the current budget account only includes disbursements from the beginning of the fiscal year.

The grant and contract accounting departments have learned to live with these problems but the reporting is extremely difficult for the project directors to understand. As a result, they usually spend a great deal of their valuable research time struggling with the financial side of their projects and in most cases try to keep their own set of accounts.

Our New Approach

To alleviate these problems and to acquire the capacity of entering grant and contract application and award data into the computer, our university decided to set up a new accounting system—geared to the grant and contract periods but compatible with the fiscal year accounting.

We tackled the budgeting side of the problem first. A budget form was developed to give the computer the account coding and amounts per account as well as the dates of the project. A budget spread key was developed; by com-

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puter programming, the amount is spread over the applicable fiscal quarters of the project period. The fiscal accounting system picks up only the quarter amounts applicable to the current fiscal period, with the quarter amounts applicable to future quarters being stored to be picked up at the beginning of the new fiscal period.

The budget account ledgers for grants and contracts will show the full budget and applicable dates, while the fiscal budget will incorporate only that portion estimated for that fiscal period.

To prevent expenditures being removed from the grant and contract accounts before the end of the project period, these accounts are not closed at the end of each fiscal year but only when the project is complete. The fiscal accounting division closes their accounts at the end of the fiscal year as before.

To handle the grant and contract accounts in this manner involves a separate section of control accounts for budgetary accounts and expense accounts. The budget control accounts are modified as new budgets are set up or are cancelled. The expense control accounts are modified by the daily expenditures and by write off of total expenditures as projects are completed.

The only detail budget accounts written are those on a grant or contract period basis. Fiscal accounting uses only a trial balance of monthly totals for balancing purposes so no duplication of detail is made. Both systems are tied into the daily expenditure accounting stream so both are affected alike by all such transactions.

Committing of Salaries, Fringe Benefits, and Overhead

The grant and contract system includes a program to commit salaries, fringe benefits, and overhead on the basis of personnel appointment forms which show amounts to be paid and period of payments. It has been found that overdrafts on grants and contracts in almost all cases result from overcommitment of salaries rather than from excess expenditures in other categories. Why? Because of the difficulty of determining unused funds in the salaries budget at the time that appointments are made. By committing salaries when appointments are submitted for approval and compar-

ing the amount to the uncommitted balance in the budget, overcommitments can be caught before the appointment is approved. On the basis of salary commitments, the fringe benefits and overhead commitments are computed using the proper codes for the fringe benefit rate and overhead rate.

Accounting for Overhead

Overhead under the old system was done manually and was charged monthly on the basis of billings or only once a year (on annual reporting projects). Since several hundred of the grants reported on an annual basis are on a letter of credit with the federal government, this meant the collection for overhead costs was always a year behind. This can cause serious cash problems in these times of tight money. The new system charges overhead monthly by computer and puts the system on a current basis.

Format of Monthly Budget Accounts

Two types of budget accounts are written monthly for the grants and contracts. The first is a summary by project showing the name of the fund, project period and current period dates and amounts, name and address of project director, and the university code number assigned to that project. The following information is given for each project: the amount of budget; expenditures to date; encumbrances; salary, fringe benefit, and overhead commitments; and unused balances of the budgeted amounts.

The second set of budget accounts are the detail listing of that month's transactions in each account in that project. This gives the project director the complete fiscal picture of his project—he can use the summary or the detail as needed. A listing of the project summaries by departments is sent to the department head, the dean of the college, and the research administration office for their information.

New Reports and Statistics Available

As part of this system we have also set up a series of forms to enter into the computer the information from applications submitted to various agencies and awards received from those agencies.

This information includes:

(1) Agency name and address
(2) Project director's name and address
(3) College and department
(4) Subject of project
(5) Dates of project period and current period
(6) Amounts of application and award for project period and current period
(7) Amount of future support committed by agency
(8) University cost sharing amount and percentage
(9) Overhead code
(10) Amendment codes, date changes, and amount changes

By capturing this information chronologically on tape, we can get an historical readout of the project when requested.

With this information, studies can be made of the percentage of award by various agencies to applications to that agency. This can be valuable in the decision as to where applications should be submitted. These applications take many man hours and the effort should not be wasted.

An infinite variety of reports can be prepared to the desires of the users in almost any type of format. By preparing a series of programs for the most desired reports, they can be prepared on request or periodically as needed.

Plans have also been made to gather information for annual financial reports required by some agencies as well as for billing via computer listings on a monthly basis on certain contracts.

We feel we now have a system that meets the most vital needs of grants and contracts. This is a new system and only time will tell how well we anticipated our needs. However, we have had one vote of confidence. One of our project directors who has a large number of contracts told me "Now I can throw away my set of books."

CORPORATE MODELS: THE NEXT STEP?

put each time the model is run. File management, of course, should include capabilities for adding new data, deleting old data or modifying existing data in the files.

Somewhat akin to file management for entering data into the model is a report writing capability for extracting data from the model. The report writing system should be able to generate routine reports on user request. In addition, the system should have the capability for producing special purpose or "one time" reports through the use of simple-to-use report specification cards.

Flexibility in Design

A final consideration in corporate modeling is flexibility of design. Corporate models—like the companies they represent—should be evolutionary in nature. Accordingly, the system should be designed to facilitate change. A model must obviously be able to accommodate the addition of new divisions, new plants, etc. It should also be capable of operating with an expanded time horizon if longer looks into the future are desired in special situations. Models should be designed with sufficient capacity to permit the addition of new variables and processing techniques in the future and should, of course, be able to adapt to changing taxation, accounting and other regulations.

It is important that these and other data processing principles be adequately addressed in the design and implementation of a corporate model. The most brilliantly conceived model will be doomed to failure if it is implemented in a poor data processing framework.

Conclusions

Corporate models, although relatively new in concept, are achieving rapid acceptance among forward-thinking companies. They afford an excellent vehicle for aiding top management in determining the best strategies for achieving corporate goals. Because of the pressures of competition, corporate models will become far more commonplace during the 1970s. More sophisticated models—using probabilistic and optimizing techniques—will evolve. It stands to reason that companies gaining early experience in the use of corporate models will fare significantly better than those who simply follow the trend.