

Chapter 1: Introduction

Overview - Chart of Accounts

The SAP system consists of several modules, each of which is based on a different type of accounting. For example, the FI ledger is a full accrual GAAP accounting ledger with the primary purpose of generation of year-end financial statements, while the FM ledger is budgetary accounting. The CO module is full accrual GAAP accounting for revenue and expense only. Each of these modules uses different terms to represent what, in essence, is the same thing. So, for example, what is a *G/L account* in the FI ledger, is a *commitment item* in the FM ledger, and a *cost element* in the CO ledger.

Because the purpose of this manual is to provide users with the information they need to reconcile their accounts, we will not focus on explaining how postings occur in the various modules. We will present the information in an easy to understand format without extensive detail regarding how transactions post to different modules. For university reporting, we can focus almost exclusively on two ledgers; FM for non-sponsored activity and GM for sponsored activity.

The table below provides an overview of SAP terms used to represent cost collectors. Readers should have a basic understanding of these terms before proceeding.

Cost Object	General Ledger Chart of Accounts
SAP Name	SAP Name
<input type="checkbox"/> sponsored program	<input type="checkbox"/> commitment item
<input type="checkbox"/> funded program	<input type="checkbox"/> cost element
<input type="checkbox"/> internal order	<input type="checkbox"/> g/l account
<input type="checkbox"/> fund center	
<input type="checkbox"/> cost center	
<input type="checkbox"/> wbs element	

Overview - BW Reports and Posting Conventions

At the outset of the HopkinsOne project, the decision was made to use “true accounting” signs in reports, meaning debits are displayed as positive numbers, while credits display as negatives. Furthermore, deficit balances will display as positives, while surpluses will display as negatives. Some calculated fields exist in BW where true account numbering conventions may differ, so be aware of this possibility.

So in SAP reports, a surplus will be displayed as \$(25,000) or -\$25,000. This convention also has significance when reviewing transaction detail for your cost objects. When a purchase order is created, or salary is allocated to a cost object, the commitments/encumbrances post to the cost object as positive numbers (debits). When salary, or an invoice, is paid, commitments are cleared by crediting the commitment, and debiting the expense G/L.

The Importance of Reconciliation

What is Reconciliation?

- Reconciliation is a monthly review of expenses being charged to a cost object (cost center or internal order) to ensure that those expenses have been appropriately charged. This includes reviews for compliance with external guidelines, internal policies and procedures, and reviews to ensure that expenses are charged to the correct cost objects. Review of revenue and cash collected should be part of the monthly reconciliation process.
- While review and reconciliation of expenses is typically performed by the Administrative staff in the department, the Principal Investigator is ultimately responsible for the expenditures related to their research. Therefore, in addition to monthly financial reconciliation and review, a documented quarterly review of expenditures on sponsored awards by the Principal Investigator is suggested.

Why Reconciliation is Important

- For sponsored internal orders, reconciliation is important to ensure that expenses charged are in accordance with Federal guidelines, University policies and procedures, and the accompanying terms and conditions related to those grants.
- For non-sponsored cost objects, reconciliation is important to ensure the appropriateness of the charges per the University and donors’ guidelines. In addition, reviews need to take place to ensure costs have been charged to the correct general ledger account codes.

Overview of Federal Guidelines

History

To receive federal grant funds, compliance with the applicable uniform administrative requirements, or the agency's interpretation of those requirements, is mandatory. Many of the requirements the University follows are set forth in the Uniform Guidance 2 CFR Part 200 issued by the U.S. Office of Management and Budget. This document provides guidance to the recipients of federal funds.

The goal of compliance is for the University to ensure proper accounting methodology, techniques and policies are adopted and followed. This manual specifies policies and procedures required for reconciliation of university sponsored and non-sponsored cost objects. University policies for these procedures are based upon federal regulations for sponsored research, which are defined in OMB Uniform Guidance 2 CFR Part 200. The Office of Hopkins Internal Audits (OHIA) will review your account reconciliation procedures as they pertain to these regulations. Deviations will result in audit findings.

The legitimacy of an expense charged to a sponsored award can be evaluated on the determination of allowability, allocability and reasonableness. These principles are explained in OMB 2 CFR Part 200 Subpart E - Cost Principles.

**JHU
follows
OMB
Uniform
Guidance 2
CFR Part
200**

OMB Uniform Guidance 2 CFR 200 Subpart E - Cost Principles Allowable Costs

Per OMB Uniform Guidance 2 CFR 200.403, Factors Affecting Allowability of Costs, "The tests of allowability of costs under these principles are:

- they must be reasonable;
- they must be allocable to sponsored agreements under the principles and methods provided herein;
- they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances;
- and they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items."

OMB Uniform Guidance 2 CFR 200.405 - Allocable Costs

Per OMB Uniform Guidance 2 CFR 200.405, "A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such

cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if:

- ❑ it is incurred solely to advance the work under the sponsored agreement;
- ❑ it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or
- ❑ it is necessary to the overall operation of the institution and, in light of the principles provided in the Uniform Guidance, is deemed to be assignable in part to sponsored projects.”

OMB Uniform Guidance 2 CFR 200.404 - Reasonable Costs

Per OMB Uniform Guidance 2 CFR 200.404, “A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:

- ❑ whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;
- ❑ the restraints or requirements imposed by such factors as arm's length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions;
- ❑ whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and,
- ❑ the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.”

OMB Uniform Guidance 2 CFR 200 Subpart B - Post Award Requirements

OMB Uniform Guidance 2 CFR 200 Subpart B “Post Federal Award Requirements Standards for Financial and Program Management” prescribes standards for achieving consistency and uniformity in the administration of federal grants to non-federal entities. OMB Uniform Guidance 2 CFR 200 Subpart B addresses standards of documentation.

Uniform Guidance 2 CFR 200.302(b) requires “Recipients' financial management systems shall provide for the following: (3) ...expenditures, income and interest and be supported by source documentation.”

Uniform Guidance 2 CFR 200.333 states “Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency. Copies of original records may be substituted for the original records if authorized by the Federal awarding agency.”

Note that while JHU follows Uniform Guidance 2 CFR 200, our policy for records retention extends beyond the three years stated in 200.333, to a period of seven years from the date of submission of the final expenditure report

OMB Uniform Guidance 2 CFR 200 Subpart F - Single Audit Requirements

Uniform Guidance 2 CFR 200 Subpart F implements the Single Audit Act. Non-profit recipients of federal funding in excess of \$750,000 are required to have an independent audit performed annually. Financial statements, the system of internal controls, financial records and expenditures are among the documents and processes examined during the Single Audit.

A random sampling of sponsored projects are selected by the auditors for review during our Single Audit. The auditors then review expenses and policies and procedures to ensure they meet the criteria of allowability, allocability, reasonableness and consistently treated. We must meet the criteria on many levels:

- Compliance with OMB Uniform Guidance 2 CFR 200
- Meet the Sponsor’s Requirements from the Notice of Award
- Compliance with established Internal Controls
- Follow Generally Accepted Accounting Principles (GAAP)

