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Dutline

- Justification for Cost Recovery
- Definitions
- Money In: Determining and setting the charges for biospecimen services
- Money Out: NIH Restrictions on program income
- Tracking and reporting of program income
- Complicating factors/situations
- Recommendations and Concerns
- Source:
 - NIH Grants Policy Statement (10/11), Part II: Terms and Conditions of NIH Grant Awards, Subpart A: General, 8 ADMINISTRATIVE REQUIREMENTS, 8.3.2 Program Income.

LII Cost Recovery in ADCs — Why?

- Alzheimer's Disease Centers (ADCs) are funded to provide the infrastructure to support both Center-affiliated research projects and non-affiliated research projects.
- In general, Centers do not charge investigators for receiving biospecimens to the extent that NIH Center budgets cover these costs.
- Cores generate/justify budgets according to best estimates of future demands for their resources from other Center components (cores and projects), planned affiliations and collaborations, and on past experience (e.g. autopsy rate for the last 5 years).
- But...
 - Budgetary projections may not match reality of the demands placed on the Center. Tissue requests may be so large that an individual laboratory would be forced to abandon other Center duties in order to prepare the samples.
 - Proposed budget may suffer administrative cuts.
 - Unexpected changes in grant awards or renewal dates, philanthropic support, etc. can create gaps in financial resources

Cost Recovery is OK

- It is appropriate, allowable and recommended that Centers develop cost recovery policies when biospecimen sharing demands generate costs which exceed the NIA-budgeted support of the Center.
- A guiding principle is that no cost recovery program should diminish the essential goal of providing human biospecimens to fuel research into Alzheimer's disease.
- Such policies need not be limited to biospecimen sharing but may be applicable to other cores (e.g. data management, imaging).

Definitions:

- Program Income: "gross income—earned by a grantee, a consortium participant, or a contractor under a grant—that was directly generated by the grant-supported activity or earned as a result of the award.
- Net Program Income: The amount of program income earned and the amount expended must be reported on the annual financial report. Any costs associated with the generation of the gross amount of program income that are not charged to the grant should be deducted from the gross program income earned, and the net program income should be the amount reported.
- Cost recovery: refers to the recovery of the expenses of the labor, supplies, and services required to operate biospecimen programs that are **not** already included in the Center budget (prepare, document, ship, etc.) biospecimens. It does NOT refer to the sale of the specimen itself. There can be no overlap between specific expenses paid by the grant and expenses paid through program income/cost recovery.
- Accountability: The requirements for accountability for these various types of income under NIH grants are specified in the Grants Policy statement. Accountability refers to whether NIH will specify how the income is to be used and whether the income needs to be reported to NIH. The answer to both these questions is "Yes."
- Duration of Accountability: Unless otherwise specified in the terms and conditions of the award, NIH grantees are not accountable for program income accrued after the period of grant support.

Program income includes, but is not limited to:

- income from fees for services performed
- charges for the use or rental of real property, equipment or supplies acquired under the grant (for the most part equipment sales don't have to be reported if you are a university)
- the sale of commodities or items fabricated under an award
- charges for research resources
- registration fees for grant-supported conferences
- license fees and royalties on patents and copyrights. (Note: Program income from license fees and royalties from copyrighted material, patents, and inventions is exempt from reporting requirements unless otherwise specified in the terms and conditions of award. Income from inventions or patents must be reported to NIA but is not considered "Program Income")

NIH's 4 Possible Program Income Alternatives

Use and Applicability of Program Income Alternatives				
Program Income	Use of Program Income	Applicability		
Most common Additive Alternative	Added to funds committed to the project or program and used to further eligible project or program objectives.	Applies to all NIH awards unless there is a concern with the recipient or activity or the program requires a different alternative.		
Deductive Alternative	Deducted from total allowable costs of the project or program to determine the net allowable costs on which the Federal share of costs will be based.	Available for use by NIH programs on an exception basis.		
What we have Combination Alternative	Uses all program income up to (and including) \$25,000 as specified under the additive alternative and any amount of program income exceeding \$25,000 under the deductive alternative.	Available for use by NIH programs on an exception basis.		
Matching Alternative	Used to satisfy all or part of the non-Federal share of a project or program.	Available for use by NIH programs that require matching.		

|| NIA P50 and P30 Program Income Alternative = Combination

- The NIA P30 and P50 Alzheimer grant mechanisms dictate use of the combination alternative in their Notice of Grant Award under the section titled: "Treatment of Program Income."
- The combination alternative states that: General Program Income is to be treated as follows: The first \$25,000 under the Additional costs Alternative; the remainder under the Deduction Alternative.
- This statement means that with careful accounting and reporting,
 Centers may receive and retain payment for their biospecimen services up to \$25,000 after subtracting expenses not covered by the grant.
- Net Program Income (after subtracting expenses) received over that \$25,000 will result in the grant award being reduced by the amount over \$25,000.
- This limit (\$25,000) is a cumulative limit over the 5-yr budget period, not an annual amount (Printed slides state differently)

Your biggest challenge will be finding people at your institution who know how to handle program income under the add/deduct alternative!

Examples: without program income

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Grant Income	Lab expenses	Grant fund balance	Result	
\$100,000	\$100,000	\$0	No carry-forward; no deficit	



#2

Grant Income	Lab expenses	Grant fund balance	Result
\$100,000	\$75,000	\$25,000	Carry forward



#3

Grant Income	Lab expenses	Grant fund balance	Result
\$100,000	\$150,000	(\$50,000)	Deficit



Appeal to benevolent Department Chair or Dean or use gift or other unrestricted funds to cover deficit.

Examples: with program income (expenses are charged to both grant & program income funds)

	Grant Income	Lab expenses	Grant fund balance	Result
	\$100,000	\$100,000	\$0	No deficit
#1	Program income	Lab expenses	Program income balance (net program income on FFR)	
	\$50,000	\$50,000	\$0	No deficit
	Grant Income	Lab expenses	Grant fund balance	Result
#2	\$100,000	\$100,000	\$0	No deficit
π ∠	Program income	Lab expenses	Program income balance (FFR)	
	\$75,000	\$50,000	\$25,000	Balance to be carried forward
	Grant Income	Lab expenses	Grant fund balance	Result
#3	\$100,000	\$100,000	\$0	No deficit
#3	Program income	Lab expenses	Program income balance (FFR)	
	\$100,000	\$50,000	\$50,000	Next NOA is reduced by \$25,000
	Grant Income	Lab expenses	Grant fund balance	Result
	\$100,000	\$100,000	\$0	
#4	Program income	Lab expenses	Program income balance (FFR)	
	\$30,000	\$50,000	(\$20,000)	Re-evaluate cost structure to recover losses in the next year

Money In: Price-Setting Principles for Cost Recovery

- Sound cost accounting principles should be employed when setting charges. Personnel costs (salary and fringes), supplies, shipping, equipment rental, and other services (e.g. genome sequencing) are examples of costs that can be considered when setting charges.
- Charges or fee schedules for biospecimen services should be based on fair estimates of the
 actual effort and costs associated with sharing tissue. These charges should include all costs
 associated with the service that are not covered by the grant award and should be reviewed at
 least annually (if not more frequently) and revised to assure that charges are covering excess
 costs.
- Overhead can ONLY be included in cost recovery charges when applied to services provided to an external client (not to users within your institution).
- A tiered system of charges may be considered. That is, the charge may depend on the funding source (federally funded, non-profit foundation or industry) of the research for which the biospecimens are requested. An example of such a system has been developed for the National Cell Repository for Alzheimer's Disease (NCRAD).
- Cost recovery may not be limited to the laboratory providing the specimen. Often the burden on data managers to identify appropriate samples based on complicated inclusion-exclusion criteria is significant and cost recovery may also apply to the Data Management Core.
- Determine what your standard level of service will be within the context of your aims and budget.
 What are you willing to do given your budget?

IIII Example - CSF

Total annual direct costs for laboratory budgeted in grant	\$150,000
The cost of collection, processing, basic analyses and banking are based on past experience and anticipated recruitment by the Clinical Core. The budget should be sufficient to cover these basic costs. If not, what you consider "basic analyses" may change (e.g. only $A\beta_{1-42}$ and tau, ptau but not all $A\beta$ species or other analytes).	These costs = \$100,000. Leaving \$50,000 to cover tissue sharing activities.
Estimate the expected tissue requests (number and size) using past history and any expected new demands (e.g. new project starting up).	Annual average of 30 CSF requests; Average size is 100 samples; Range is from 20 to 300; Standard deviation is 30; Mode or median values maybe be better estimates if there are outliers.
Estimate the expenses of tissue selection, preparation and processing for shipment. Typically this estimate includes labor, supplies, and other services (e.g. computer user group fees). Include the labor involved in billing and collection of fees. Get to a unit price based on a single action. This might be difficult because sometimes things are different prices if done individually versus bunched. Make assumptions.	Based on all of these items the cost of preparing a single sample of CSF to ship is \$20
Expected costs associated with tissue sharing (30 requests X 100 samples = 3000)	3000 X \$20 = \$60,000
Expected loss associated with tissue sharing	\$50,000 - \$60,000 = - \$10,000
We are able to cover 30 requests of ~80 samples within the grant budget. Estimate the program income needed to avoid losing \$10,000.	Decision: First 80 samples are free. Each sample over 80 will cost \$20/sample.
But what happens if you get 50 requests or 30 requests all over 80 samples? Re- evaluate the cost algorithm and decrease the number that are free, e.g. from 80 down to 50 [for example: 1 SD below the mean].	Revision: The first 50 samples are free. Each sample over 50 costs \$20/sample.

Consult with your business school for a better algorithm for projecting demand. If you are going to go through the hassle of collecting and tracking program income, try not to lose money. Even if it means your award notice maybe reduced.

Money Out: NIH Restrictions on Program Income

- NIH applies the additive alternative to all grantees, including for-profit entities, unless there is a concern with the recipient or activity and NIH uses special terms and conditions, or the program requires a different program income alternative.
- The Washington University Sponsored Projects Manager (responsible for program income oversight) stated that to her knowledge all NIH grants at Washington University were awarded under the Additive Alternative. Our P50 is the only "Combination Alternative" at Washington University of which she is aware.
- NIH may require a different use of program income if a grantee has deficient systems; if the PD/PI has a history of frequent, large annual unobligated balances on previous grants; or if the PD/PI has requested multiple extensions of the final budget period of the project period.
- Regardless of the alternative applied, program income may be used only for allowable costs in accordance with the applicable cost principles and the terms and conditions of the award. Each NoA will indicate the allowable treatment of program income.
- Cost recovery income should be directed toward support of the operations of the unit expending the effort, i.e. the income should not subsidize an unrelated function or laboratory (So if you use Ferraris to transport participants to the lab, they would be allowable?).

Unallowable Costs on Sponsored Projects (not just on program income funds, per OMB A-21)

- Advertising, public relations and promotional costs.
- Alcoholic beverages
- Alumni activities
- Bad debts
- Charitable contributions, donations or gifts (cash, services or property)
- Commencement and convocation expenses
- Contingency provisions (i.e., reserve for future unanticipated costs)
- Entertainment
- Ferraris
- Fines and penalties (i.e., costs resulting from violations of Federal, State, and local or foreign laws and regulations)
- Food costs for routine operations, working lunches/dinners, staff meals and/or lectures are not allowable.
- Fund raising and investment management costs
- First class or other non-coach class travel
- Housing and personal living expenses of University officers
- Legal fees May be allowable in certain instances; however, you should confer with SPA, RO or G&C, as applicable.
- Lobbying costs
- Losses (overruns) on sponsored agreements
- Marketing and selling of goods
- Malpractice insurance that does not involve human subjects (must be a direct charge)
- Membership in any civic or community organization, country club, social or dining club
- Personal use of goods or services
- Student activity costs

Tracking and Reporting of Program Income

- Perhaps the simplest method of tracking program income is creation of a program income fund where costs in excess of what the grant can cover (personnel, supplies, etc.) are charged and income from services rendered can be applied.
 - The balance at the end of the budget year will determine which "alternative" is used:
 Additional or Deductive.
 - The activity on this fund would be the basis of reporting program income on the institution's annual financial report to NIA.
 - If an ADC has more than one core laboratory generating program income or if a laboratory is funded for similar activities from multiple grants which stipulate different program income alternatives, tracking will be more complicated.
 - The \$25,000 limit on net income is for the entire grant
- The amount of program income earned and the amount expended must be reported on the appropriate annual financial report, currently the FFR. Any costs associated with the generation of the gross amount of program income that are not charged to the grant should be deducted from the gross program income earned, and the net program income should be the amount reported. Program income must be reported in the Program Income section of the FFR (lines 10 L O).

Examp. Federa

FEDERAL FINANCIAL REPORT

1. Federal Agency and Organizational Element to Which Report is Submitted

2. Federal Grant or Other Identifying Number Assigned by Federal Agency 5U19AG032438-3

NATIONAL INSTITUTE ON AGING

3. Recipient Organization (Name and complete address, including Zip code)

WASHINGTON UNIVERSITY | Brookings Dyne

FINAL

Cumulative

1 Brookings Drive Campus Box 1054 SAINT LOUIS MO 631304899

4a. DUNS Number
068552207
430653611A1
5. Recipient Account Number or Identifying Number
5883 / MORRIS
6. Report Type
Semi-Annual
Frank
7. Basis of Accounting
8. Project/Grant Period
From: (Month, Day, Year)
9. Reporting Period End Date
(Month, Day, Year)
12/31/2014

(Use lines a-c for single or multiple grant reporting)

Use lines d-o for single grant reporting)

10. Transactions

Federal Cash (To report multiple grants, also use FFR Attachment):

 a. Cash Receipts
 0.00

 b. Cash Disbursements
 0.00

 c. Cash on Hand (line a minus b)
 0.00

ome on the ! (FFR)

k. Remaining re	ecipient snare to be p	107,003.00							
Program Incom	Program Income:								
I. Total Federal program income earned						0.00			
m. Program income expended in accordance with the deduction alternative						0.00			
n. Program income expended in accordance with the addition alternative 0.00									
o. Unexpended program income (line I minus line m or line n)					0.00				
11. Indirect	a. Type	b. Rate	c. Period From	Period To	d. Base	e. Amount Charged	f. Federal Share		

12. Remarks: Attach any explanations deemed necessary or information required by Federal sponsoring agency in compliance with governing legislation: Accepted by: Catherine Dooley 08/06/12. Accepted by: Catherine Dooley 04/10/2012. INCLUDING PRIOR PERIOD UNEXPENDED BALANCE OF \$6,073,251.00 PER THE PMS SYSTEM revised: due to receiving final subcontract invoice Certification: By signing this report, I certify that it is true, complete, and accurate to the best of my knowledge. I am aware that
any false, fictitious, or traudulent information may subject me to criminal, civil, or administrative penalities. (U.S. Code, Title 218, Section 1001) a. Typed or Printed Name and Title of Authorized Certifying Official c. Telephone (Area code, number and extension) Nikki Kathryn Sternau 314-935-7943 Lead Grants Specialist d. Email address nsternau@wustl.edu b. Signature of Authorized Certifying Official e. Date Report Submitted (Month, Day, Year) 07/31/2012 14. Agency use only:

g. Totals:

1,631,359.16

847,663.38

847,663.38

Complicating Factors (The Devil in the Details)

- Multicomponent grants net program income allowed for grant as a whole is the summation of net program income from all its parts, including subcontracts.
 - To avoid the subtractive alternative, net program income across all components cannot exceed \$25,000.
- What happens if the request involves special processing not mentioned in the grant? Is it still covered by Program Income policies?
 - Example: your biomarker laboratory offers Aβ, tau and ptau CSF values as a core function. However a request has been made to also analyze ViLIP1 in the same samples requiring a different assay, labor, etc. to meet the request.
- Laboratory is supported for similar services/activities by two different grants with differing alternatives (e.g. Additive versus Combination)
 - A reasonable plan for determining the distribution of program income between the grants should be developed. For
 example, if 70% of specimens come from participants enrolled in the grant using the additive alternative
- Grant that created core facility/services is no longer active?
 - Unless otherwise specified in the terms and conditions of the award, NIH grantees are not accountable for program
 income accrued after the period of grant support.
- What if you have a deficit in the program income account at the end of the budget year?
 - Your institution may permit you to carry a loss into the next budget year with adjustments to the fee structure to eliminate
 the loss in the next budget period. Some institutions (or even departments within the institution) may NOT permit this
 and will require 'pay back'.
- If you have justified your charges based on real costs, how do you justify charging industry more? It can't be based on real costs. ??

Recommendations

- As funding becomes tighter cost recovery will become a necessary practice.
- Start consulting with your sponsored projects accounting office about your institutional policies on program income.
- Begin to establish cost structures for the core/laboratory services you provide to achieve cost recovery (including billing and payment procedures).
- Your sponsored projects accounting office may also assist in developing tracking and reporting procedures for program income.
- Once you have working system, evaluate it regularly (annually at a minimum but even quarterly may be appropriate).

III Final Notes

- Cost recovery policies are subject to scrutiny and should be developed in accordance with Office of Management and Budget (OMB) Circular A21 principles. [See Note at end of section.] All institutions should work closely with their own Sponsored Projects Accounting offices and their NIH Grant Management Specialists in developing policies and procedures to comply with the NIH Grants Policy Statement.
- Note: At the time of preparing this document the OMB is preparing to release the Uniform Grant Guidance policy statement that establishes uniform cost principles and audit requirements for all Federal awards to non-Federal entities and administrative requirements for all Federal grants and cooperative agreements. Once this policy is released it will superseded the (OMB) Circular A21 principles. (Warning: it does not mention Ferrari anywhere...)

Reference: NIH Grants Policy Statement (10/11), Part II: Terms and Conditions of NIH Grant Awards, Subpart A: General, 8 ADMINISTRATIVE REQUIREMENTS, 8.3.2 Program Income.

III and Concerns

- From an earlier slide: "A guiding principle is that no cost recovery program should diminish the essential goal of providing human biospecimens to fuel research into Alzheimer's disease."
- But what effect will charging for biospecimen research services have on investigators requesting them?
 - Will we get fewer requests for our excellent resources?
 - Will the size of requests diminish to reduce cost and thereby affect the science negatively?
 - Will investigators shop around?
 - Have we turned ourselves into businesses such that we are competing with each other?
 - Will it discourage research from junior investigators who may not be well-funded yet?
 - Will it discourage research?