



# Business Ethics

Responsible Conduct of  
Research at UT-Knoxville

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# Purpose of Training

- To ensure compliance with UT Fiscal Policies and Federal Regulations for the proper financial management of agency funds. This training is required for all individuals working on federal contracts subject to FAR 52.203-13.
- To ensure that UT and its employees are good stewards of external funds and conduct the financial management of the projects according to sound business practices.

# Meet Beth!



Beth, has an issue!

# “That’s really not my job, is it?”

As a bookkeeper, Beth was uncomfortable with some of the business decisions being made for a federally sponsored project in her department.

She was unable to convince a new principal investigator (PI), named James, that it was his responsibility to make decisions on allocating costs between sponsored projects. The last time Beth brought this up, James asked, “That’s really not my job, is it?”

Now, Beth was in a quandary. What could she do? She decided to approach her department head and was told not to upset the work of this important new PI and to “take care of all the administrative details” for him so he could focus on the research work.

# What is Beth to do?

Beth knew that she could not make good cost allocation decisions affecting the federally sponsored project because she was not involved with or knowledgeable about the technical work being performed.

Her job is really to ensure that the PI's decisions are implemented by appropriate entries into the accounting system. It is also her job to advise and assist her PI and department head in good business ethics and decisions.

They have to take responsibility, too!

Beth began to consider how this dilemma could affect not only her, but also the University. After much thought, she wrote three questions:

1. How does my responsibility as a bookkeeper and James' responsibility as a PI, and my department head's responsibility differ in terms of making sound fiscal decisions?
2. How does responsibility among us three differ in reporting infractions of the business ethics policy?
3. What are the major principles and procedures in UT fiscal policies that this new PI and my department head are missing?

Beth thought back to the time she had attended a research team meeting held by an upstanding department head. He stated three items that addressed her Questions:

1. **Know your responsibility in terms of UT Fiscal policies and Federal Regulations** and then follow through consistently.
2. **Encourage compliance and sound business ethics on your projects and in your department.** This will help new researchers learn the behavior that is now expected at major research institutions.
3. **Follow the “top ten” financial compliance rules** to protect the University, yourself, and others working on the projects.

But Beth thought, “What if this is beyond my job responsibilities? If I don’t have the support of my department head or this new PI, what could be the consequences to me? I’ve got to understand the specifics of this issue because my job is in jeopardy, as is my personal reputation—no matter what course I take!”

What should she do???





Wait a minute!

Beth remembered the former department heads mentioning a Compliance Officer in Sponsored Projects Accounting who was helpful. “Maybe James and my department head will listen to her.”

Beth called the Compliance Officer (CO) and explained the situation. The CO met with James and his department head and reminded them of their financial responsibilities and the business ethics expected by the Federal sponsor and the University.

She also gave them the list of “top ten” financial duties, which they promised to follow.

Beth has scheduled to meet with James on a regular basis to discuss cost allocation and other important financial decisions. They both want this sponsored project to be a success!

*This module will focus on the “top ten” principles regarding:*

## Federal Regulations and UT Fiscal Policies



- The “top ten” principles are not an exhaustive list. You should proactively read the award document and / or check with Sponsored Projects Accounting, Office of Sponsored Programs or the sponsor for sponsor-specific and award-specific financial requirements.

# By the end of this module, you will be able to:

1. Apply knowledge of the “top ten” financial principles.
2. Describe responsibilities of researchers in financial compliance and business ethics to create a culture of compliance on sponsored projects.
3. Evaluate the severity of a business ethics violation and know what to do when one occurs.
4. Identify UT resources for assisting project directors in financial compliance and business ethics.

# Action Objective One

**Apply knowledge of the “top ten” financial compliance principles.**

DEFINING THE “TOP TEN” BEST PRACTICES

# Summary of “top ten” principles

1. Spend the sponsor / donor funds as intended or proposed
2. Become familiar with regulations
3. Review monthly financial ledgers and charges
4. Meet basic costing requirements –reasonable, allowable, fall within time period of award, and allocable to the technical work performed
5. Ensure timely financial communications and actions
6. Avoid cost transfers
7. Ensure effort certification and payroll charges are accurate and timely
8. Closeout sponsored projects in a timely manner
9. Incur charges only during the project period
10. ONLY charge Direct Costs that are NOT normally included in the F&A rate

# Financial Compliance Principles

- **1. Spend as intended**

PIs are expected to be good stewards of the sponsors' or donors funds. All funds should be spent in the manner specified by the donor or proposed in the award from the sponsor. Deviations may require advance written approval.

Some sponsors require advance written approval for buying equipment, foreign travel, subcontracting, deviations from budget, changes in the scope of the technical work, etc.

*If you are in doubt, ask someone –your departmental support staff or business manager, the Sponsored Projects Accounting office, or the Office of Research/Sponsored Programs. They can find out for you.*

**If UT manages the sponsors' and donors' funds well, we are more likely to attract additional funding.**

# Example

- 1. Spend as agreed

Halfway through his project with the U. S. Department of Agriculture (USDA), Dr. Jones spends a portion of his project funds on a \$7,000 specialized scientific camera and related software. This expenditure was unexpected and not in the proposal budget, but necessary because his old camera is broken and cannot be repaired. The new equipment will provide much better results for the USDA project. Dr. Jones is able to afford this because he had savings in other areas of the project, especially travel and supplies.

Questions:

- Is the cost of the camera and software properly charged to the USDA project?
- Should the PI have obtained prior written approval from the sponsor?

**Give these questions some thought on your own before moving on to the answers on the next page.**

# Answers to questions

- **1. Spend as agreed**
- Questions:
  1. Is the cost of the camera and software properly charged to the USDA project?
  2. Should the PI have obtained prior written approval from the sponsor?
- *It is probably OK to buy the camera, and the sponsor will undoubtedly realize its necessity for the completion of the project; however, it would be best if the PI checked with the departmental support staff or business manager, Sponsored Projects Accounting or the Office of Research/Sponsored Programs before the camera is actually purchased. They can read the sponsor and award document rules regarding re-budgeting and look for any requirement for prior approvals. If prior approval is required, then they can contact the sponsor's Award Specialist for the approval of the PI to purchase the camera.*



# Financial Compliance Principles

## ○ 2. Familiarization with regulations

Employees participating in sponsored activities must be familiar with all the rules:

- Specific award document clauses  
*You can get a copy from your departmental business manager, Sponsored Projects Accounting, or the Office of Research/ Sponsored Programs.*
- Sponsor rules are often listed in the grants policy guides on their web sites
- UT Fiscal Policies on the web [http://policy.tennessee.edu/fiscal\\_policy/](http://policy.tennessee.edu/fiscal_policy/)
- If your award is from the Federal government or if the award contains any Federal funds, then the Federal rules in the Office of Management and Budget (OMB) Circulars A-21, A-110, and A-133 are applicable. They are located at <http://www.whitehouse.gov/omb/circulars/>.
- Ask your departmental business manager, Sponsored Projects Accounting or the Office of Research/Sponsored Programs for assistance, if needed.

# Financial Compliance Principles

## 3. Review of monthly financial ledgers and charges

- Charges appearing on the monthly financial ledger must be reconciled to supporting documentation to ensure validity and accuracy.
- Make sure that the charges are correct and that they have been charged to the correct project. The technical work of the project must have directly benefitted from the particular charge.
- If you have questions, take immediate action by communicating with your departmental support staff or business manager and following up to ensure that the charge is corrected immediately.

| Date  | Amount    |
|-------|-----------|
| 10/20 | \$ 738.97 |
| 10/21 | 526.82    |
| 10/22 | 580.53    |
| 10/23 | 524.21    |
| 10/26 | 262.24    |
| 10/27 | 268.42    |

## Example

### 3. Review of monthly financial ledgers and charges

On January 7, Dr. Jones received a copy of the December monthly financial ledger for his USDA project from the departmental business manager. While verifying the detailed list of charges, Dr. Jones noticed a \$1,000 charge from Staples. He was positive that the charge did not belong on his project and immediately sent an email to the business manager asking her to remove the charge. On February 6, he received a copy of the January monthly ledger and it appeared the Staples charge had not been removed.

#### **What should he do?**

1. Don't worry about it. It is now the business manager's responsibility to fix.
2. Send a nice reminder email to the business manager.
3. Complain to the department head about the incompetence of the business manager.
4. None of the above.

**Think about what is right and what is wrong about each answer before you move on to the answer on the next page.**

### 3. Review of monthly financial ledgers and charges

#### Answers to questions

1. Don't worry about it. It is now the business manager's responsibility to fix.
2. Send a nice reminder email to the business manager.
3. Complain to the department head about the incompetence of the business manager.
4. **None of the above.**

4 is the correct answer.

While numbers 1 & 2 are both partially correct, the PI must do more. **The PI must take responsibility to make sure that the correction is made ASAP. This means the PI must work with the Business Manager to ensure the charge is removed immediately.** It is critical that the incorrect charge be removed immediately because the Sponsored Projects Accounting office has probably already incorrectly invoiced USDA for this charge. Complaints to the department head can wait.

# Financial Compliance Principles

## 4. Costing requirements

Employees must ensure that all expenditures on sponsored projects are:

- Reasonable
- Allowable
- Timely - Fall within the time period of the award
- Allocable to the statement of work being conducted using a reasonable method of cost allocation
- Necessary for the scope of work.

## Example –reasonable costs

Dr. Jones is attending a meeting with the sponsor in Atlanta. His budget includes 3 trips to Atlanta for himself and the project manager at \$200 per trip for transportation (UT motor vehicle and gas). He discovers that he can make this trip on the UT plane for \$600 and take his 2 research associates and 2 graduate students, too. This sounds like a good deal to Dr. Jones because he is still paying \$100 per person. He thinks that the meeting will be a good learning experience for his post-docs and students.

1. Is this a reasonable cost from the sponsor's perspective?
2. How can Dr. Jones be sure?
3. Does the high-profile nature of a chartered plane affect the decision?

**Think about each one of these questions before you move on to the answers on the next page.**

# Answer to Reasonable Costs question's

1. Is this a reasonable cost from the sponsor's perspective?
2. How can Dr. Jones be sure?
3. Does the high-profile nature of a chartered plane affect the decision?

**ANSWER:** *The PI should be very, very careful here. Review the agreement to ensure there is no required approval for altering trips. This is a situation where it would be a good idea to ask for the sponsor's approval in advance even if it is not strictly required. The sponsor may agree with the PI or not. They may care more about 3 separate trips to Atlanta than about more participants. The UT plane certainly attracts more public scrutiny than commercial transport, so it is even more important to be sure it is being used with the sponsor's approval.*

# Example –allowable costs

## 4. Allowable Costs

Since the quarterly meeting with his research staff to discuss the status of his USDA project concludes at 5 p.m., Dr. Jones orders 3 pizzas. Everyone hangs around an additional hour to eat pizza and celebrate the end of the semester.

Questions:

1. Is the pizza an allowable cost on the USDA project?
2. Explain your answer.

**Think about each of these questions before you move on to the answers on the next page.**



# Answers to allowable costs questions

Questions:

1. Is the pizza an allowable cost on the USDA project?
2. Explain your answer.

**ANSWER: No**, the pizza **cannot** be charged to the USDA project. Per OMB Circular A-21, Section J (15) and UT Fiscal Policy FI0205 “Sponsored Grants and Contracts”, entertainment costs are unallowable costs.

# Example – Timely Charges

## Costs within project time period

Dr. Jones' USDA project ended on 9/30. An employee is paid on the biweekly payroll that covered the period 9/20 to 10/3 and is paid on 10/10.

Questions:

1. How much of the employee's salary should be charged to the project?
  - a. All of it because it is very close to being accurate and the employee worked really hard on the project. Also, the department does not want to pay for any of the employee's salary.
  - b.  $11/14$  multiplied by the pay amount of \$1,000 = \$785.71
  - c. None of it because it was paid out after the end date of the project

**Think about what is right and what is wrong about each answer before you move on to the answer on the next page.**

# Answer to Timely Charges question

## Question:

How much of the employee's salary should be charged to the project?

- a. All of it because it is very close to being accurate and the employee worked really hard on the project. Also, the department does not want to pay for any of the employee's salary.
- b. **11/14-multiplied by the pay amount of \$1,000 = \$785.71**
- c. None of it because it was paid out after the end date of the project

**The correct answer is b.** *The portion of the salary expense that was incurred before the end date of the project is allowable, regardless of when it was paid.*

# Example –allocable

## A true cost allocation story

Dr. Jones is directing 5 projects with the following sponsors: USDA, NIH, Army, DOE and Homeland Security. He considers all of his research work to be the same because he is investigating the same basic problem. Therefore, he decides to put all of the charges on the USDA project first until it is totally spent, then move on to the NIH project and fully charge it, etc.

He is shocked one day to receive phone calls from his USDA and Army technical contacts who are questioning project costs. USDA wants to know why he spent the entire amount of the award in the first 3 months of a 12 month award. Army wants to know why they have not received an invoice for any costs even though the quarterly technical report shows that he has completed 25% of the work.

Dr. Jones realizes that he is in an uncomfortable predicament. Because he was unwilling to attempt to allocate costs between his projects, he has now overcharged USDA and undercharged Army, and cannot give them good answers. He is surprised to learn that they do not consider their work to be the same, even though he did. He is also surprised to learn that while they are impressed by his technical work, they are unlikely to give him future awards if they are not confident about the allocation of costs to their project.

# Financial Compliance Duties

## 5. Timely financial communications and actions

Employees must ensure that all charges, credits, effort certifications, and other accounting entries are performed in a timely manner as specified in fiscal policies.

Principal investigators will ensure that support staff are given information about charges to sponsored projects **immediately** so that accounting entries can be made. This includes information about who is working on projects, which projects should be charged for specific costs, and any changes expected.

*Support staff should not make these decisions based on availability of funds or any funding considerations. Costing decisions should be solely based upon the technical work that is performed on each project. These decisions must be made by the PI.*

***Communication between the PI and support staff is critical.***

# Financial Compliance Duties

## 6. Avoid cost transfers

Employees will endeavor to place charges on the correct sponsored project initially and will avoid using cost transfers except to correct errors. Errors should occur very rarely.

Cost transfers will not be used to move costs from overspent projects to underspent projects or for any other reason of convenience or for funding considerations.

Auditors are very suspicious of cost transfers and may disallow these costs automatically. They are most critical of excessive transfers, transfers that occur near or after the end of a project's time period, transfers from an overspent project to an underspent project, and transfers that do not have adequate documentation of the benefit of the cost to the project's technical work.

***Support staff should not make these decisions based on availability of funds or any funding considerations. Costing decisions, including transfers, should be solely based upon the technical work that is performed on each project. These decisions must be made by the PI. Documentation of technical benefits of cost transfers must be provided by the PI.***

## 6. A true cost transfers story

Florida International University paid \$11.5 million for disallowed cost transfers. It is estimated that the true cost to FIU is more than \$50 million after including attorneys' fees, consultants' fees, loss of future funding, and loss of reputation.

February 2005

Major finding –cost transfers

- Incomplete cost transfer documentation
- Grant used as a clearing account
- Cost transfers after the end date of the project
- “The University Controller's Office repeatedly protested practice” (*Miami Herald*, August 15, 2005)

# Financial Compliance Duties – Effort Reporting

## 7. Accurate and timely effort certification and payroll charges

Salaries represent the largest costs on most sponsored projects; therefore, financial compliance is critical. Consistent with federal regulations, salaries charged to sponsored projects must equal actual effort expended by the individual on that project, as documented via the effort certification process.

- Employees will ensure that effort certification accurately reflects the actual percentage of work effort devoted to a sponsored project.

***As with all costing decisions, support staff should not make these decisions based on availability of funds or any funding considerations. Costing decisions should be solely based upon the technical work that is performed on each project. These decisions must be made by the PI.***

- Effort must be certified within 30 days of the sponsored project end date.
- Anticipated changes in future effort percentages are changed in the payroll cost distribution system promptly. Inform support staff immediately of changes.
- Sponsors may want to give prior approval for significant changes in a PI's level of effort, such as a decrease or increase of 25% or more from the proposal. Some awards contain minimum effort requirements, such as NIH K awards.

**Contact your campus Office of Research/Sponsored Programs or Sponsor if you have questions.**



# Financial Compliance Duties

## 8. Timely closeout of sponsored projects

All charges must be finalized on the project within 60 days of the project end date so final financial reports can be submitted to the sponsor on time.

PIs will receive an email notification approximately 45 days before the end date of the award. At that time, the PI should begin finalizing the costs on the project. Or, the PI may want to request a time extension from the sponsor. In any case, the PI should communicate intentions to the support staff in the department, campus Office of Research, and campus business office.

# Financial Compliance Duties

## 9. Incur charges only during project performance dates



Sponsored projects may not be used as an interim funding source when other awards are late in arriving or when other sponsored accounts expire.

Inapplicable charges must be charged to a non-sponsored account. This may be a discretionary gift account or the departmental unrestricted operating account.

# Financial Compliance Duties

## 10. Charge Only Direct costs not normally included in the F&A rate

Charges for items normally included in F&A recovery can only be charged to sponsored projects if specifically approved by the sponsor (either in the original proposal or post-award approval) **These “basic support” costs normally include:**

- Administrative and clerical salaries
- Office supplies
- Basic local telephone service and cell phones
- Routine copying charges
- Memberships, journals, and subscriptions
- Desktop computers

# Yale University makes headlines!

## **Improper cost transfers and effort certification at Yale:**

“Yale University paid \$7.6 million to the federal government to settle charges that its personnel mismanaged grants from 2000 to 2006 by improperly charging expenses to certain grant accounts before the grants expired.

Yale, which had been investigated for alleged violations of the False Claims Act, did not admit wrongdoing as part of the settlement but said it has since improved its grant-accounting procedures.”

# Financial Compliance Duties

## Quick test from Yale University settlement:

“The investigation focused on allegations involving two types of mischarges to federal grants. Both types arose as violations of the basic principle that recipients are allowed to charge only ‘allocable’ costs, which are costs that relate to the specific objectives of that grant project.

The first allegation involved cost transfers and the requirement that costs transferred to a federal grant account must be allocable to that particular grant account. The settlement resolved allegations that some Yale University researchers improperly transferred charges to a federal grant account that were not allocable. Researchers allegedly were motivated to carry out these wrongful transfers when the federal grant was near its expiration date and they needed to spend down the remaining grant funds.”

**Which of our “top ten” compliance principles did Yale allegedly violate?**

- A: Costs are not reasonable**
- B: Costs are not allocable to a particular project**
- C: Cost transfers are made based on funding considerations**
- D: Cost transfers are not supported by adequate documentation describing the benefit of the cost to the technical work performed.**

# Answer!

## Quick test from Yale University settlement:

“The investigation focused on allegations involving two types of mischarges to federal grants. Both types of mischarges arose as violations of the basic principle that recipients of federal grants are allowed to charge to each grant account only “allocable” costs, which are costs that relate to the specific objectives of that grant project. The first allegation involved cost transfers and the requirement that costs transferred to a federal grant account must be allocable to that particular grant account. The settlement resolved allegations that some Yale University researchers at times improperly transferred charges to a federal grant account to which those charges were not allocable. Researchers allegedly were motivated to carry out these wrongful transfers when the federal grant was near its expiration date and they needed to spend down the remaining grant funds.”

Source: Department of Justice press release

<http://newhaven.fbi.gov/dojpressrel/2008/nh122308.htm>

## Answer: Definitely both B and C (and D is implied)

Which of our “top ten” compliance duties did Yale allegedly violate?

A: Costs are not reasonable

**B: Costs are not allocable to a particular project**

**C: Cost transfers are made based on funding considerations**

*D: Cost transfers are not supported by adequate documentation describing the benefit of the cost to the technical work performed*

# Summary of “top ten” principles

1. Spend the sponsor / donor funds as agreed
2. Become familiar with regulations
3. Review monthly financial ledgers and charges
4. Meet basic costing requirements –reasonable, allowable, fall within time period of award, and allocable to the technical work performed
5. Ensure timely financial communications and actions
6. Avoid cost transfers
7. Ensure effort certification and payroll charges are accurate and timely
8. Close out sponsored projects in a timely manner
9. Do not incur charges after ending date
10. Do not directly charge costs that are normally included in the F&A rate

# Financial Compliance Principles

## UT fiscal policies and campus procedures

The “Top Ten Financial Compliance Principles” are a foundation for good financial management and compliance; however, more complete guidance is in UT Fiscal Policies and campus procedures, such as policies:

*FI0205 Sponsored Grants & Contracts*

*FI0210 Cost Sharing*

*FI0220 Cost Transfers*

*FI0230 Subcontract Monitoring*

*FI0235 Program Income*

*FI0225 Code of Business Ethics for Sponsored Projects*

Additionally, there are policies and procedures relating to purchasing, travel, and other expenditures affecting sponsored projects.

**All project directors and staff involved in sponsored projects must proactively learn about and comply with these regulations along with sponsor and award-specific rules. Please contact your campus research/sponsored programs office, or business office for assistance.**



# Action Objective Two

Describe the responsibilities of researchers in financial compliance, business ethics, and creating a culture of compliance on sponsored projects.

## Key Words!

**RESPONSIBILITIES**

**CULTURE OF COMPLIANCE**

# Culture of Compliance

**Financial compliance is expected of you!!!**

**The University expects you:**

1. To be personally committed to ensuring proper business ethics and financial compliance on sponsored projects.
2. To promote a culture of compliance within the University community so that it is unacceptable to act otherwise. For example, it is unacceptable to “play games with the money, “move charges around to maximize funding, etc.
3. To set the tone of compliance and ensure every graduate student, PI, project director, and support staff member is committed to “doing the right thing.”
4. To ensure that non-compliance is not to be tolerated and if continued after being addressed, should be reported to responsible University officials.

# Culture of Compliance

## **“We’ve always done it this way”**

*However we may have conducted business relating to sponsored projects in the past, we must be compliant now and going forward. This may require a big change in perspective, attitude, and actions for our existing faculty and staff.*

## **These real-life excuses are not valid:**

- *We’ve always done it this way, so it must be okay.*
- *I didn’t know I was supposed to do that, so it doesn’t apply.*
- *This regulation makes no sense, so it is okay for me to ignore it.*
- *UT systems and processes let me do it, so it must be okay.*
- *We always move money around on sponsored projects to maximize funding.*
- *The PI’s job is to do the technical work and support staff should take care of all the administrative and financial details.*
- *My project is special, so it’s okay.*
- *It’s my project and I can do whatever I like.*
- *The program manager said it was okay.*
- *It’s my money, I can use it however I like!*

# Action Objective Three

Learn to evaluate the severity of a business ethics violation and what to do when one occurs.

## Key Words

**EVALUATION • EXAMPLES**

# Reporting violations

## What is your responsibility?



You should report any violations of business ethics/non-compliance to appropriate University officials.

This may be a delicate area that requires judgment on your part.

- How do you measure the severity of the violation?
- Who do you notify?
- What are your protections if you report it?
- What are the risks to you if you do nothing?

# Question

## **Violation of business ethics?**

Terry notices a coworker putting a UT pen and notepaper in her purse . Terry thinks that the coworker probably did this without thinking and did not intend to steal UT resources. Terry decides this is probably not a reportable violation of business ethics.

**Is Terry right about this?**

**Is this a violation of business ethics?**

Think about the answer to this question before you move on to the answer on the next page.

# Answer

## **Violation of business ethics?**

Terry notices a coworker putting a UT pen and notepaper in her purse . Terry thinks that the coworker probably did this without thinking and did not intend to steal UT resources. At another time, Terry sees the same person writing an IOU for Petty Cash funds. Terry decides the IOU issue is probably a reportable violation of business ethics.

Is Terry right about this? Is this a violation of business ethics?

## **YES, This is a violation of business ethics.**

Mistakes are sometimes made by honest people, like with the case of the pen and paper. However, they are still UT resources and should not be misused by constantly being taken. The IOU being placed in the Petty Cash funds is not only an Ethics issue but a compliance violation to UT's policy on handling funds. Terry should mention it right away to her supervisor.

# Question

Ann, a business manager, is constantly concerned over charges she is required to post to a grant. Fred, the PI on the grant, is very respected and brings in a large portion of the department's funding. Fred is aware of how much the department depends on him. Each time Ann questions Fred about a charge, he directs her to do what he says, and if the department doesn't like it he will leave taking his research money with him. Ann talks with the Budget Director about her concerns and she says to post the charges because they must keep the PI happy so he doesn't leave.

- Should Ann post the charges?
- Is the Budget Director correct in telling Ann to post the charges?
- Is the PI acting responsibly with the grant funds?
- What should Ann do?



# Answer

Ann, a business manager, is constantly concerned over charges she is required to post to a grant. Fred, the PI on the grant, is very respected and brings in a large portion of the department's funding. Fred is aware of how much the department depends on him. Each time Ann questions Fred about a charge, he directs her to do what he says, and if the department doesn't like it he will leave taking his research money with him. Ann talks with the Budget Director about her concerns and she says to post the charges because they must keep the PI happy so he doesn't leave.

- Should Ann post the charges?
- Is the Budget Director correct in telling Ann to post the charges?
- Is the PI acting responsibly with the grant funds?
- What should Ann do?

**Ann should not post charges she knows are not allowed on the grant. The budget director should not have allowed the grant funds to be misused. The PI is not applying sound business practices in his management of grant funds. Ann should report the issue to her department head.**

**The department head must ensure that the PI is aware that all funds should be managed in accordance with the policies and requirements set forth within the award agreement and UT policy.**

**The University cannot afford the negative stigma of being found guilty of misusing grant funds. Plus, it's the right thing to do even when you don't think you will get caught!**

# Question

## **Violation of business ethics?**

A PI regularly asks a departmental business manager to make excessive and late cost transfers just to spend down the funds remaining on the sponsored project. In fact, there is one charge that has already been moved five times between various accounts.

## **Is this a violation of business ethics?**

Think about the answer to this question before you move on to the answer on the next page.

# Answer

## **Violation of business ethics?**

A PI regularly asks a departmental business manager to make excessive and late cost transfers just to spend down the funds remaining on the sponsored project. In fact, there is one charge that has already been moved five times between various accounts.

Is this a violation of business ethics?

**YES, This is a violation of business ethics.**

The business manager should talk to the PI and explain why this violates UT Fiscal Policy and Federal Regulations. If the behavior persists, the business manager should report this to the department head. If it still persists, the business manager should report this to Internal Audit.

# Specifics Regarding Disclosure

What are your protections if you disclose a violation?

**The following confidential means of communication are available for reporting suspected violations:**

**UT Internal Audit hotline 974-6611**

**State Audit's Compliance Hotline 1-800-232-5454**



# Specifics Regarding Non-Disclosure

## What are the risks if you do nothing?

The University could incur significant fees/penalties and suffer a loss of reputation.

Depending upon the severity of the business ethics violation:

- You could be subject to disciplinary action.
- You could be fired.
- You could be charged with a civil or criminal violation You could go to jail.
- PIs could also be debarred by a sponsor agency when misuse of grant funds is the result of violations.

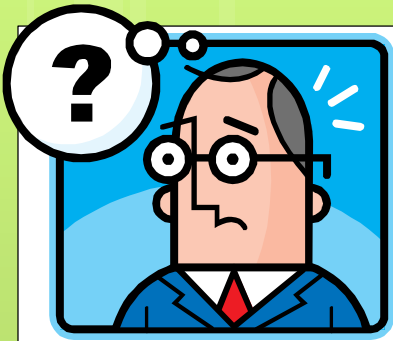


# Action Objective Four

Learn about UT resources for assisting researchers in financial compliance and business ethics.

## Key Words

**RESOURCES • WHO TO CALL**



## Resources

Financial compliance issues or Federal regulations:

Office of Research & Engagement  
Sponsored Projects Accounting

Business ethics violations or questions:

Supervisor/business manager  
UT Internal Audit  
State Audit



# Summary

We have reviewed some basic financial responsibilities of project directors from the “top ten” list of financial principles.

It is the responsibility of **everyone** working on a grant, in any capacity, to ensure financial compliance with sponsored projects and to promote a “culture of compliance” with coworkers for the protection of individuals and the institution.



# Certification

In order to ensure your understanding of the business ethics and compliance principles discussed, you must take the short quiz.

A certification form will be created once you pass the quiz. You should print and retain a copy of the certificate.

Thank you!