OP 65.11: Fixed Price Agreements

DATE: October 2, 2013

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to establish policies for the fiscal management of fixed price sponsored agreements.

REVIEW: This OP will be reviewed in June of odd-numbered years by the managing director of Sponsored Programs Accounting and Reporting (SPAR) and the senior associate vice president for research with substantive revisions forwarded to the vice president for research and the vice president for administration and finance and chief financial officer.

POLICY/PROCEDURE

1. Policy Statement

Due diligence should be exercised to ensure fixed price agreements reasonably reflect the anticipated costs of performing the work. If the cost of the project is underestimated and actual costs exceed revenue, departments are responsible for the deficit. If payments from the sponsor exceed the actual costs to complete the work, residual funds may be retained in accordance with this policy.

2. Definitions

   a. Fixed Price Award

      In a fixed price award, the principal investigator (PI) agrees to accomplish the project objectives within a specific timeframe for a set dollar amount. If the deliverables are not met within the performance period, the project must be extended. Actual costs may be more or less than the award amount, but the fee paid by the sponsor remains constant.

   b. Residual Balance

      The residual balance of a fixed price agreement is the dollar amount that remains in the sponsored project fund after (1) deliverables have been completed and accepted by the sponsor, (2) all costs incurred to fulfill the requirements have been charged to the fund, (3) final adjustments for Facilities and Administrative (F&A) costs have been made, and (4) all payments from the sponsor have been received.
c. Fund Deficit

A deficit balance exists in the sponsored project fund when the costs accounted for in the respective sponsored project fund exceed the revenue payments received by the sponsor at the time the award is closed.

3. Account Closeout

SPAR will monitor project end dates for fixed price agreements on a monthly basis. As projects end, SPAR will initiate communication with the PI and the department business manager to determine whether project deliverables have been met and to ensure all costs incurred for the project have been accounted for in the respective fund. If deliverables have not been met, PIs must work with the Office of Research Services (ORS) to request a no-cost extension.

SPAR will determine fund balances at the completion of the project and consult award documents to verify that the award is fixed price.

a. Fund Deficits

Departments are responsible for fund deficits existing at the time the financial closeout procedures are performed by SPAR. The PI is responsible for providing unrestricted FOP(s) with sufficient funds to cover necessary cost transfers. If the FOP information is not provided within 10 business days, the request will be escalated to the chair and/or dean as appropriate.

b. Residual Balance Transfers

If all funds received under a fixed price agreement are not expended, then the balances may be transferred to an unrestricted fund. Residual balances are considered institutional funds. These balances must be utilized to support the university’s mission in accordance with institutional policies and procedures. Funds should not be used for personal or private expenses.

(1) Upon closeout, the PI must provide the following assurances to the respective grant accountant in SPAR (an email is sufficient):

(a) All project deliverables have been met;

(b) All project costs have been accounted for in the respective fund; and

(c) An explanation for the reduced cost.

(2) If the residual balance is less than 10 percent of the original award amount, the balance will be transferred by SPAR upon closeout.

(3) If the residual balance is greater than 10 percent of the original award amount, the balance will be transferred after approval from the senior associate vice president for research and the managing director of SPAR.

(4) Funds remaining in the F&A budget pool will not be transferred; the full F&A will be charged at the time the residuals are transferred.
(5) Residuals will be transferred to the unrestricted fund 18F001. Eighty percent of the residual will be transferred to the PI and 20 percent will be transferred to the PI’s home department. The program code should be reflective of the activity for which the residual funds will be used.

(a) Departments must establish the FOP using the FOP combination form located on the Financial Accounting and Reporting (FAR) website.

(b) Departments must notify SPAR once the FOP is established, and SPAR will transfer the funds in accordance with this policy.

(6) SPAR will provide monitoring reports twice annually to chairpersons, deans, and the Office of the Vice President for Research (OVPR). Reports should quantify the amount of transfers by academic department and should be reviewed to determine if there are any patterns of significantly over-estimating costs.

4. Roles and Responsibilities

a. Office of Research Services

(1) Work with PIs to prepare and submit a budget that reasonably reflects anticipated costs to complete the work;

(2) Assist PIs with filing no-cost extensions; and

(3) Approve residual transfers in accordance with this policy.

b. Principal Investigators

(1) Work with ORS to prepare and submit a budget that reasonably reflects anticipated costs to complete the work;

(2) Monitor project revenues and expenses;

(3) Ensure costs are allocated and charged to the project in accordance with OP 65.08, Direct Charging to Sponsored Projects and Cost Share Funds;

(4) Provide SPAR with alternative funding sources in the event of a fund deficit at award closeout;

(5) Provide certain assurances for projects with residual balances upon closeout; and

(6) Establish residual FOPs according to FAR policies and procedures.

c. Sponsored Programs Accounting and Reporting

(1) Submit invoices to the sponsor in accordance with the agreement;

(2) Monitor accounts receivable balances and follow up with the sponsor on any uncollected revenue;
(3) Process cost transfers in the event of a fund deficit at award closeout;

(4) Transfer residual balances in accordance with this policy; and

(5) Provide monitoring reports to chairpersons, deans, and the OVPR.