Operating Policy and Procedure

OP 65.11: Fixed Price Agreements

DATE: October 20, 2016

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 Accounting Services and the Senior Associate Vice President for Research with substantive revisions forwarded to the Vice President for Research, the Assistant Vice President and Controller, 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. To ensure all costs are applied to the project, cost transfers will be allowed after 90 days despite time limits set forth in OP 65.04, Cost Transfers Involving Sponsored Projects and Cost Share Funds.

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.
3. **Account Closeout**

As projects end, Accounting Services will coordinate the award closeout with the PI and the department business manager. If deliverables have not yet been met, PIs must work with the Office of Research Services (ORS) to request a no-cost extension.

a. **Fund Deficits**

Departments are responsible for fund deficits existing at the time the financial closeout procedures are performed by Accounting Services. The PI is responsible for providing unrestricted FOP(s) to cover deficits. 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 are 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 specialist in Accounting Services (an email is sufficient):
   
   a. All project deliverables have been met; and
   b. All project costs have been accounted for in the respective fund.

2. Funds remaining in the F&A budget pool will not be transferred; the full F&A budgeted will be charged by Accounting Services at the time the residuals are transferred.

3. If the residual balance transfer is less than 25 percent of the original award amount and less than $20,000 the balance will be transferred by Accounting Services without further approvals.

4. If the residual balance transfer is greater than 25 percent of the original award amount and/or greater than $20,000, the PI must provide an explanation of reduced costs. The balance will be transferred after approval of the justification from the Senior Associate Vice President for Research (or his/her designee) and the Managing Director of Accounting Services (or his/her designee).

5. Residuals will be transferred to the unrestricted 18F fund class. Eighty percent of the residual will be transferred to the PI and 20 percent will be transferred to the PI’s department as defined at organization level 6 of PI’s sponsored project organization hierarchy. The program code should be reflective of the activity for which the residual funds will be used. Deviations may be approved by the PI’s department chair.

   a. Departments must establish the FOP using the New Fund System.
(b) Departments must notify Accounting Services once the FOP is established, and Accounting Services will transfer the funds in accordance with this policy once all accounts receivable are collected.

(6) Accounting Services 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 by recipients to determine if there are any patterns of significantly over-estimating costs.

4. **Roles and Responsibilities**

   a. Office of Research Services
      
      - Work with PIs to prepare and submit a budget that reasonably reflects anticipated costs to complete the work
      - Assist PIs with filing no-cost extensions
      - Approve residual transfers in accordance with this policy

   b. Principal Investigators
      
      - Work with ORS to prepare and submit a budget that reasonably reflects anticipated costs to complete the work
      - Monitor project revenues and expenses
      - Ensure costs are allocated and charged to the project in accordance with OP 65.08, Direct Charging to Sponsored Projects and Cost Share Funds
      - Provide Accounting Services with alternative funding sources in the event of a fund deficit at award closeout
      - Provide certain assurances for projects with residual balances upon closeout
      - Establish residual FOPs

   c. Accounting Services
      
      - Submit invoices to the sponsor in accordance with the agreement
      - Monitor accounts receivable balances and follow up with the sponsor on any uncollected revenue
      - Process cost transfers in the event of a fund deficit at award closeout
      - Transfer residual balances in accordance with this policy
      - Provide monitoring reports to chairpersons, deans, and the OVPR