

The following policy on the disposition of balances that remain when fixed price contracts are closed is effective for fixed price awards that end after March 31, 2014.

### **Sponsored Programs Accounting Procedure for Residual Balances on Fixed Price Awards**

Effective: Fixed Price awards ending after March 31, 2014

The purpose of this procedure is to ensure timely closeout of completed fixed price award accounts and the proper disposition of any unexpended residual balances.

Approved by: Sponsored Programs Accounting/Controller's Department  
Office of Sponsored Programs Administration  
Office of Intellectual Property & Technology Transfer  
Office of the Vice President for Research  
Office of the Senior Vice President and Provost

#### **Overview:**

In response to recent OIG audit activity, Sponsored Programs Accounting is implementing a new procedure for the close-out of fixed price awards. A significant residual balance may call into question the integrity of budgeting for project costs and accounting for project expenses incurred. This procedure is needed to:

- strengthen accountability and use of funds
- provide for accurate budgeting and costing of fixed price award activities
- ensure accurate reflection of effort in the effort certification process
- lower the risk of non-compliance

A **fixed price award** is a sponsored program agreement between the university and an external party (sponsor) where the university agrees to perform specific project deliverables within a specified time frame in exchange for a set (fixed) amount. If the deliverables are not completed within the award period, the agreement must be extended.

The expectation is that a fixed price award account will be charged the actual expenses incurred for the project. If project costs were sufficiently estimated at the proposal stage, expenses on the fixed price award should closely match the awarded amount. Departments must ensure costs appropriate to fixed price projects are not incorrectly charged against cost reimbursable projects or federal sourced projects.

A fixed price award will have a **residual balance** when the total payments received for the deliverables exceed the total expenses incurred, resulting in unspent funds at the conclusion of the project. In order for an unspent balance to be considered a residual balance, it must meet the following conditions: all deliverables must have been completed, all costs incurred to meet the deliverables of the agreement have been charged to the account, and all payments from the sponsor have been received.

**Close-Out Procedures:**

The administering department will have 90 days after the project's end date to charge expenses to the fixed price account.

The fixed price award will be closed out after all payments have been received from the sponsor and all encumbrances have been cleared. F&A (indirect) costs will be charged when the residual balance is transferred. The F&A charged will be distributed as part of the month end RMM IDC distribution process. PI Incentive will be distributed the same as past postings for the fixed price award.

**Residual Balance – Less than 25% of total project budget OR less than or equal to \$10,000**

Sponsored Programs Accounting will transfer the residual balance to a 290 account designated by the administering department's department chair or their delegate.

**Example:**

A fixed price award was negotiated for \$90,000 and payments totaling \$90,000 were received for the project's deliverables. The budget for direct costs totaled \$60,000 for salaries and benefits, and the budget for indirect costs totaled \$30,000 at a 50% F&A (indirect) rate. Actual expenses incurred were \$75,000 (\$50,000 salaries and benefits and \$25,000 indirect costs). The residual balance is \$15,000 (total budget (\$90,000) less total expenditures (\$75,000)). This residual balance equals 16.67% of the total project budget.

**Result:**

\$10,000 to 290 account designated by administering department  
\$5,000 to F&A (indirect) costs

**Residual Balance – More than or equal to 25% of total project budget AND more than \$10,000**

Sponsored Programs Accounting will transfer the residual balance to a 290 account designated by the administering college or unit's dean or vice president, or their delegate.

**Example:**

A fixed price award was negotiated for \$150,000 and payments totaling \$150,000 were received for the project's deliverables. The budget for direct costs totaled \$100,000 for salaries and benefits, and the budget for indirect costs totaled \$50,000 at a 50% F&A (indirect) rate. Actual expenditures incurred were \$105,000 (\$70,000 salaries and benefits and \$35,000 indirect costs). The residual balance is \$45,000 (total budget (\$150,000) less total expenditures (\$105,000)). This residual balance equals 30% of the total project budget and exceeds \$10,000.

**Result:**

\$30,000 to 290 account designated by the administering college/unit  
\$15,000 to F&A (indirect) costs