

Valdosta State University
Office of Sponsored Programs & Research Administration
and
Office of Financial Services
Procedures for Closeout of Fixed-Price Award Accounts

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1.0 BACKGROUND

From time to time, Valdosta State University may accept fixed price awards for sponsored projects. A fixed price award, usually in the form of a legal contract executed by both parties, is an agreement to deliver a specified product or service at a stated price and usually within a certain time frame. The stated price is determined prior to award acceptance by estimating what is perceived to be the actual cost of producing the product or providing the service.

Once the University agrees to a fixed price award, it must produce the deliverables within the required time frame regardless of the actual cost of doing so. At project completion, the project account may approximate zero if costs were estimated accurately and the project went as planned, or may be positive if unanticipated efficiencies were realized. In the latter case, the question of importance to public and non-profit institutions is “when does the amount of residual funds become a problem?”

There are no governmental regulations that specifically address this question, but the general rule of thumb is that actual costs within $\pm 10\%$ of the agreed upon price is acceptable. Depending on the circumstances and the source of funds, an occasional residual in excess of 10% is usually not a cause for great concern. However, repeated instances of excessive residuals, especially in projects overseen by a particular investigator or within a specific department or unit, are problematic. Patterns of excessive residuals indicate that either some project costs are not being appropriately charged to the project accounts (usually meaning that the university is unintentionally subsidizing the work) or projected costs are not being estimated correctly. Inflated prices can lead to charges of violation of cost and pricing regulations if federal funds are involved. Furthermore, excessive residuals may threaten the non-profit status of the institution and/or subject the institution to unrelated business income tax liability.

Principal Investigators are expected to estimate costs for fixed price agreements as accurately as possible and to charge all applicable project costs to the project account during the term of the agreement. However, even when projects are appropriately budgeted and managed, residuals funds can sometimes remain after all deliverables have been met and all work has been completed. When such residuals do remain, the institution must determine who will receive those funds and how they will be used.

Valdosta State University’s procedures for the closure of fixed price award accounts and disbursement of any residual funds in these accounts are detailed below. These procedures apply to all fixed price award accounts with end dates of July 1, 2007, or later. Distribution of residuals in fixed price accounts that have ended on or before June 30, 2007, will be addressed on a case-by-case basis to ensure that previous commitments to sponsors and Principal Investigators are honored.

2.0 CLOSEOUT PROCEDURES

- 2.1 All work on a fixed price project must occur before the end date of the award. Likewise, all expenditures applicable to the project must be incurred prior to the end date. It is the University's policy to reconcile and close all fixed price award accounts as soon as possible, and no later than six (6) months after the end date.
- 2.2 Ninety (90) days before the end of a fixed price award, the Grants Accountant will notify the Principal Investigator of the upcoming end date and will provide instructions and other information relevant to reconciliation and closure of the account.
- 2.3 If a no-cost extension is required to meet deliverables or complete the scope of work, the Principal Investigator must notify the Office of Sponsored Programs & Research Administration (OSPRA) at least thirty (30) days prior to the award end date. OSPRA will request an extension from the sponsor, who must give approval. If the deliverables have been met and the scope of work has been completed, the project end date will not be extended solely for the purpose of spending out remaining funds for not-project related purposes. Special exception may be made when the PI requests continuation of health or social services to clients or educational services to students beyond the end date of the contract until all funds are depleted. Such requests will be reviewed and approved by the Director of Sponsored Programs & Research Administration.
- 2.4 In the final thirty (30) days before the award end date, the Principal Investigator should submit appropriate documents to terminate employment of any individuals paid on the project to become effective at close of business on the award end date.
- 2.5 Within the first thirty (30) days after the award end date, the Principal Investigator should review project expenditures to ensure that all allowable project costs have been charged to the project account. He/she should also review remaining encumbrances and project-related procurement card charges that have not yet been posted to the Works card system. Every attempt should be made to resolve incomplete transactions within a ninety (90) day period.
- 2.6 Prior to closing the account, the Grants Accountant will ensure that the institution's full share of indirect costs (based on the final approved budget or on actual salary and wage expenditures if those expenditures exceeded the budgeted salary and wage amounts) have been charged to the project. As soon as all transactions are complete and full payment from the sponsor has been received, the Grants Accountant will close the account. The account will be closed no later than six (6) months after the end date. Any transactions that have not been completed at closure will become the responsibility of the Principal Investigator and/or his/her department.

3.0 DISBURSEMENT OF RESIDUAL FUNDS

- 3.1 All residual disbursements will be made to institutional indirect cost accounts within thirty (30) days of closure of the account. Expenditures of residual funds are subject to the same regulations and policies that apply to expenditure of indirect cost revenue funds.
- 3.2 A residual of less than or equal to 10% of the total award will be disbursed by the Grants Accountant without further review to the Principal Investigator's indirect cost account. If the Principal Investigator does not have an indirect cost account, one will be established for him/her.
- 3.3 If the residual is greater than 10% of the total award, the Grants Accountant and the Office of Sponsored Programs & Research Administration will review the project file before any residual disbursements are made to determine the reason for the residual so that any necessary pre-award

pricing procedure changes may be identified. Depending on the circumstances, the OSPRA may request a meeting with the Principal Investigator, his/her department head, and/or his/her dean to review the project to ensure that all expenses have been appropriately charged to the account before the residual is disbursed.

- 3.4 Fixed price award residuals in excess of 10% of the total award will be disbursed in accordance with the institution's distribution schedule applied to indirect cost recovery. (Currently, the distribution is: 15% to Principal Investigator; 20% to department; 20% to dean; 20% to Finance & Administration; 10% to Academic Affairs; 15% to OSPRA.)
- 3.5 Patterns of excessive residuals will be reviewed by the Grants Accountant and the OSPRA, and as necessary, referred to the appropriate academic officials for investigation, action, and/or exception to the standard disbursement schedule.
- 3.6 Exceptions to the account closure and disbursement procedures may be made on a case-by-case basis when terms and conditions of the award warrant. Requests for exceptions should be addressed to the Office of Sponsored Programs & Research Administration. All requests will be reviewed and forwarded to the Vice President for Academic Affairs for action.

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