THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

POLICY FOR RESIDUALS ON FIXED PRICE SPONSORED PROGRAMS CONTRACTS

Number 07.02.09

Division Office of Sponsored Programs

Date September 30, 2012

Purpose To establish guidelines and best practices for the transfer of residual income on fixed price awards from a sponsored account. A significant residual income balance calls into question the integrity of accounting for costs related to the project. A written justification is required to adequately ensure that costs appropriate to the fixed price account have not been incorrectly placed on cost reimbursable, federal or federal pass through accounts.

Residual balances on fixed price contracts should be used to further University research related activities. Failure to comply with this policy could result in forfeiture of residual funds, audit findings and cost disallowance.

Policy It is the policy of UAH that residual income on fixed price awards may be moved to a state (normally Principal Investigator (PI)) account. In instances where the amount of residual income is greater than 20% of the award total, a written justification explaining the residual income is required and must be approved by the Director, Office of Sponsored Programs (OSP). *Residual income in excess of 20% of the award total not sufficiently justified by the department nor approved by the OSP will be transferred to the OVPR (less F&A).*

Definition:
A *residual balance* is defined as an unobligated, unspent balance remaining in a sponsored fund at the conclusion of the project. A residual balance occurs when the income or revenue is greater than the expense incurred upon completion of the project. When a residual balance occurs on a fixed price award, the balance is transferred to a college, center, departmental, or PI residual fund. Centers/departments have the authority to determine who administers and controls these residual fund balances. All other residual balances are refunded to the sponsor at close-out.

A *fixed-price contract* is a legal agreement in which specific services with defined deliverables are performed for a pre-determined compensation amount. The amount of the fixed-price contract is generally based on an estimate of the anticipated project cost.

Procedures

The expectation is that a fixed-price award will have the expense closely match the income if the costs were sufficiently determined at the proposal stage. Charges to fixed price contracts must reflect all actual effort and related costs incurred – without exception.

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.

A significant residual income balance might call into question the integrity of accounting for costs related to the project. A written justification is required to adequately ensure that costs appropriate to the fixed price contract have not been incorrectly placed on cost reimbursable, federal or federal pass through accounts; and proposed cost was not intentionally over-estimated.

Residual balances will incur facilities and administrative (F&A) costs at the University's full federal rate, even if a reduced rate was approved for the award. If a reduced rate was approved at the time of the proposal and if there is a residual balance, the University must be reimbursed the difference between the full and reduced rate prior to distribution of a residual balance to a departmental fund.

Ninety (90) days after the contract ends and it has been ascertained that all charges have been cleared, the PI will be contacted by C&G Accounting for a PI organization number (state orgs only) into which the residual funds, less Indirect Cost Recovery (ICR) will be transferred. ICR is deducted prior to the transfer of residual funds and will be allocated in accordance with the university ICR Allocation policy/process.

At award close-out, if there are residual funds on fixed-price agreements that include the University's full federally-negotiated F&A rate, then the full amount (dollar value) of the originally budgeted F&A will be charged to the project prior to the transfer of residual funds to the department or center.

If the Vice President for Research has approved a waiver or reduction of F&A in constructing a fixed-price proposal budget and if there are residual funds at award close-out, the University will be reimbursed at the full federally-negotiated F&A rate prior to the transfer of residual funds to the department or center.

The fixed-price contract account will be closed, unless the PI requests and is granted a No Cost Extension from the funding agency or, keeps the org open under a Risk Memo, pending the agency's approval for a NCE. Note: If a NCE is approved, the PI is required to maintain the same percent of effort proposed and funded during the original award period unless otherwise approved by the sponsor. *The project end date will not be extended solely for the purpose of spending out remaining funds for non-project related purposes.*

Any transactions that have not been completed at closure will become the responsibility of the PI and/or the fiscally responsible unit. If a fixed-price contract account has an overrun at the end of the contract period, the fiscally responsible unit must cover this over-run, less F&A.

Residual balances will be transferred to a University state account identified by the PI. The transfer will occur when all of the following conditions are met:

- All direct charges and project revenue are accounted for properly.
- All F&A costs are recovered by the University at the standard published rates (i.e., on- or off-campus federal negotiated rate).
- All project deliverables have been provided to the sponsor.
- All project payments have been received from the sponsor.
- All project close-out documents have been provided to GCA.
- The sponsored agreement does not stipulate otherwise.

Review The Office of Sponsored Programs is responsible for the review of this policy every five years**, (**or whenever circumstances require).

Approval

Chief University Counsel

Vice President for Research and Economic Development

Director, Office of Sponsored Programs

Director, Contracts and Grants Accounting

APPROVED:

President