



OSP Memorandum 12-05 *(Supersedes OSP07-05)*

FROM: Gloria Greene, Director, Sponsored Programs

SUBJECT: **Residuals on Fixed Price Sponsored Programs Contracts**

DATE: 30 September 2012

It is the policy of UAHuntsville 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 Research Administration (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 account.

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 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 contract have not been incorrectly placed on cost reimbursable, federal or federal pass through accounts; and proposed cost was not over-estimated.

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.

The fixed-price contract account will be closed, unless the PI request and is granted a No Cost Extension from the funding agency or, keep 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. 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 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. C&G Accounting will contact the PI on clearing this over-run.

Failure to apply this policy could result in forfeiture of the residual funds, audit findings, and cost disallowances.