

Number: **PPD - 0220**
Subject: **Fixed Price Grants and Contracts: Residual Balance Transfers and Deficit Recovery**

Office of Sponsored Programs

DEFINITIONS

Sponsored Projects can be funded in several ways.

A “*Fixed Price*” award is one in which the PI and the Institute agrees to accomplish the project objectives within a specific timeframe for a set dollar amount. If the deliverables are not completed within the award period an extension must be requested. The award amount remains constant, even if the actual costs for the project are more or less. Any over-expenditure is the responsibility of the PI or department. Residual balances are retained by the Institute and may be distributed to the PI.

“*Fixed Fee*” awards are funded for a set dollar amount per unit of measure; i.e., per student or per hour. These projects at VIMS are often for community education (i.e., courses offered to other state agencies). The fee per unit remains the same, even if the actual costs per unit fluctuates from the proposed and award figure, but the total award may vary based on number of units. Any over-expenditure is the responsibility of the PI or department. Residual balances are retained by the Institute and may be distributed to the PI.

“*Cost Reimbursable*” agreements indicate that a sponsor will fund a project to the extent described in the award notice. The Institute is reimbursed by the sponsor only for actual costs incurred and any awarded funds that remain unspent revert to the sponsor. Most sponsored projects are “cost reimbursable.”

Fixed Price and Fixed Fee projects are reviewed and administered by the staff of the Office of Sponsored Programs.

Cost Accounting Standard 9905.501 (Appendix A of OMB Circular A-21 *Cost Principles for Higher Education*; <http://www.whitehouse.gov/omb/circulars/>) addresses consistency in estimating, accumulating, and reporting costs. This standard in part says,

“With respect to individual sponsored agreements, the consistent application of cost accounting practices will facilitate the preparation of reliable cost estimates used in pricing a proposal and their comparison with the costs of performance of the resulting sponsored agreement. Such comparisons provide one important basis for financial control over costs during sponsored agreement performance and aid in establishing accountability for costs in the

manner agreed to by both parties at the time of agreement. The comparisons also provide an improved basis for evaluating estimating capabilities.”

To ensure A-21 compliance, VIMS must review fixed price contracts that show a significant deviation between proposed costs and actual expenditures at project completion. If estimates are consistently and significantly higher than actual costs, the institution is required to examine cost estimation procedures to address the problem.

Fixed price agreements involve a degree of financial risk. A fixed price contract requires that VIMS perform the work specified in the contract or award (Scope of Work) to the sponsor’s specifications regardless of the actual cost of doing the work. Therefore, PI’s must budget carefully to ensure that the funds received from the sponsor are sufficient to cover the actual project costs. Ideally, accurate budgeting (estimating) and charging of costs should result in circumstances where there is neither a deficit nor a substantial surplus of funds at project completion.

An *Institutional Fixed Price Research Residual Index* is maintained in support of the Institute’s Research mission. The index will be monitored and administered by VIMS Chief Financial and Administrative Officer (CFAO), Director of Research and Advisory Service (DRAS) and Director of Sponsored Programs. The funds are accumulated as described in the policy below and may be used to support research funding shortfalls when all other available resources have been exhausted.

POLICY

It is the policy of the Virginia Institute of Marine Science that residual balances remaining at the close of a fixed price agreement, in which VIMS does not have to return the balance to the sponsor, will be transferred to the PI’s Fixed Price Variance Index less F&A recovery and a standardized contribution to the Institutional Fixed Price Research Residual Index as outlined below.

Further, upon the departure of a PI, it is the policy of VIMS, that the balance of the PI’s Fixed Price Variance index will be split 50% to the PI’s department and 50% to the Institutional Fixed Price Research Residual index unless otherwise negotiated with the Dean & Director within a reasonable timeframe from departure.

PROCEDURES

1. All project related costs, including Facility and Administrative Costs (F&A; also commonly called “Indirect Costs” or “overhead”), are to be charged to the fixed price contract/grant or related matching index.

2. If the deliverables have been met and the institution has collected the funds, fixed price awards will be closed 90 days after the end date of the award. If the deliverables have not been met, the PI and the Sponsored Programs Administrator will coordinate a request for extension.

3. Deficit balances will be cleared by transferring over-expenditures to a non-sponsored programs index identified by the PI or department.
4. Residual balances will be transferred according to the following guidelines and procedures:
 - 4.1. Residual balances that exceed 25% of the total funded amount.
 - 4.1.1. The PI will complete a VIMS Sponsored Programs Closeout form provided by OSP to certify completion of the Fixed Price Project. The PI will provide an explanation of the variance between the project budget and the actual amount expended. The explanation will be reviewed by the CFAO, the DRAS and the Director of Sponsored Programs.
 - 4.1.2. Residual funds will be used to recover the following, in the order listed below:
 - 4.1.2.1. *Facilities & Administrative Cost Recovery.* VIMS full, federally-negotiated Facilities & Administrative Cost Rate will be applied to the balance of the Fixed Price Project. The applicable rate will be the negotiated rate in place at the time the project was awarded. The F&A recovered will be allocated to the Institute, Department and PI according to the IDC distribution method being used at the time the project closes. (NOTE: All Fixed Price Projects will be accepted at the full federally-negotiated F&A rate; exceptions require the approval of the Dean and Director, or his designee.)
 - 4.1.2.2. *Institutional Fixed Price Research Residual.* The balance will be subject to a 10% (ten) contribution to the Institutional Fixed Price Research Residual Index. (See page 2 for definition.)
 - 4.1.2.3. *PI's individual Fixed Price Variance.* The remaining balance will be transferred by the Office of Sponsored Programs to the index established for the individual PI's use. A PI's Fixed Price Variance index is established to ensure that the expenditure of residual funds, not restricted by the terms and conditions of the former sponsor, continue to follow the guidelines of the Commonwealth and the Institute.

4.1.3. Sample Calculation/Scenario. The PI has a fixed price award for \$100,000 and completes the work with a residual balance of \$30,000. This exceeds the 25% threshold, requiring the PI to submit a justification of the large variance between cost estimates and actual. Upon acceptance of the PI's justification the Office of Sponsored Programs transfers cash as follows: \$9,730 in F&A costs (48% ID C applied to the residual balance based on the negotiated rate at the time of the award), \$3,000 to the Institutional Fixed Price Research Residual index (10% of the residual balance), and \$17,270 to the PI's individual Fixed Price Variance index.

4.2. Residual balances that are equal to or less than 25% of the total funded amount.

4.2.1. The PI will complete a VIMS Sponsored Programs Closeout form provided by OSP to certify completion of the Fixed Price Project. No explanation of variance will be required.

4.2.2. Residual funds will be used to recover the following, in the order listed below:

4.2.2.1. *Facilities & Administrative Cost Recovery.* The F&A rate accepted by VIMS for the subject award will be charged to the residual balance. The F&A recovered will be allocated to the Institute, Department and PI according to the IDC distribution method being used at the time the project closes. (NOTE: All Fixed Price Projects will be accepted at the full federally-negotiated F&A rate; exceptions require the approval of the Dean and Director.)

4.2.2.2. *Institutional Fixed Price Research Residual.* The balance will be subject to a 7% (seven) contribution to the Institutional Fixed Price Research Residual Index. (See page 2 for definition.)

4.2.2.3. *PI's individual Fixed Price Variance.* The remaining balance will be transferred by the Office of Sponsored Programs to the index established for the individual PI's use. A PIs Fixed Price Variance index is established to ensure that the expenditure of residual funds, not restricted by the terms and conditions of the former sponsor, continue to follow the guidelines of the Commonwealth and the Institute.

- 4.2.3. Sample Calculation/Scenario. The PI has a fixed price award for \$100,000 and completes the work with a residual balance of \$10,000. This is less than the 25% threshold so does not require the PI to submit a justification of the variance between cost estimates and actual. The Office of Sponsored Programs transfers cash as follows: \$3,243 in F&A costs (48% IDC applied to the residual balance based on the negotiated rate at the time of the award), \$700 to the Institutional Fixed Price Research Residual index (7% of the residual balance), and \$6,057 to the PI's individual Fixed Price Variance index.

Date: July 2, 2011

Fixed Price Project Supplemental Closeout Form

I certify that all project objectives have been successfully completed and all appropriate direct costs have been charged to the project.

Grant # V_____ Sponsored by (agency) _____

I understand that prior to a transfer of any residual balance funds to my Fixed Price Variance index funds will first be used to recover the following, in the order listed below, in accordance with the VIMS policy on Fixed Price Grants and Contracts: Residual Balance Transfers and Deficit Recovery:

- i. Facilities & Administrative Cost Recovery
- ii. Institutional Research Variance

The following is an explanation regarding the residual balance greater than 25% of the total award:

Principal Investigator

Date

**Submit Form to: Connie Motley, Director of Sponsored Programs via campus mail:
Waterman's Hall, Room 247 or email: motley@vims.edu**

This explanation will be reviewed by a committee consisting of the Chief Financial and Administrative Officer, Director of Research and Advisory Service and Director of Sponsored Programs

CFAO

DRAS

DOSP