

POLICY ON FIXED PRICE CONTRACTS AND RESIDUALS

Policy

Fixed price agreements are contracts that are negotiated with fixed payment schedules, payment based on milestones, or payment based on fixed fees for service. The primary characteristic of these agreements is that funds are not received based on actual costs incurred (cost reimbursement), rather for performance of work on a specific deliverable. These agreements are generally used when the scope of work is well defined, reasonably precise specifications are available and when fair and reasonable prices can be estimated and established. Since these agreements are based on performance of work on specific deliverables, the sponsor typically does not request a detailed budget. Nor do they typically track expenditures.

To ensure correct budgeting, the Office of Research and Sponsored Programs (ORSP) requires that a detailed internal budget for the contract be submitted during internal clearance that itemizes the cost breakdown for the entire agreement. The internal budget must accurately reflect the expected resources needed to achieve the specified deliverables and be equal to the total contract value. All appropriate expenditures as well as full F&A costs must be budgeted for the project. It is critically important that the costs of performing the work do not exceed the expected cash receipts for the work being performed (budgeted amount). **PI's will be held personally responsible for any debt incurred during the conduct of a fixed price agreement.** The ORSP and/or the University will not normally provide matching or cost sharing resources on fixed price agreements. This includes waiving/reducing the F&A (indirect) costs to a rate less than the federally negotiated rate or the sponsor's published rate for the type of activity performed.

While not required by the sponsor, ORSP will restrict categorical expenditures to within 20% (+/-) of the budget amount. Requests to exceed this variance, in any budgeted category, require written approval by both the PI and the Dean of the College. Occasionally, when all work has been performed and ORSP has received all required payments from the sponsor, a residual amount (total cash received exceeds total expenditures) may exist. Per the Provost's policy dated July 15th, 2011, residual amounts from fixed price contracts at the end of contract period revert to ORSP, although limited exception may be approved by the AVP for Research and Sponsored Programs. The request must include a budget and justification of how the residuals will be spent to promote the mission of the University with emphasis on stimulating research activity. Additionally, an explanation for the basis of the residuals must be provided if the amount is equal to or greater than 20% of the entire contract value. In these cases, ORSP will deposit the residuals into budgeted categories in the PI's RS account for the **direct cost** portion of the residual amount. Funds in these residual accounts cannot be used for personal salary and are to be used solely for the purposes for which they were approved.

The following details the responsibilities of the Principal Investigator (PI) and ORSP for managing fixed price agreements:

Principal Investigator (PI) Responsibilities:

- Developing detailed budgets carrying the full indirect F&A rate that accurately equate the true cost of performing the work of the project to the contract value.

- Charging all appropriate and applicable costs of the project to the associated contract account including the full indirect costs.
- Obtaining signed approval by the Dean for requests in variance above 20% in the expenditures in any budget category
- Meeting the objectives/deliverables/agreed upon in the agreement and communicating these to ORSP, especially when invoicing and payment are contingent upon these objectives/deliverables.
- Providing ORSP copies of any sponsor required progress reports.
- Notifying ORSP if the anticipated objectives/deliverables cannot be fully met so that the account budget can be adjusted appropriately to prevent over-expenditure.
- Notifying ORSP when the requirements for the agreement have been fully met, and all associated expenditures have been charged to the account so that the ORSP can transfer any direct cost portion of the residual amount to a budget in the appropriate RS (Research Stimulation) account. A written explanation must be provided for residuals equal to or greater than 20% of the total contract value set forth in the fixed price agreement.
- Reviewing closeout report and noting Dean's/representative's acceptance of same.
- Completing the appropriate information necessary for setting up the fixed price residual account.
- Resolving any deficit amounts resulting from total expenditures exceeding total cash received.

ORSP (Grant and Contract Administrator-GCA) Responsibilities:

- Creating sponsor required invoices when the PI meets specified objectives/deliverables as communicated to the ORSP.
- Monitoring the payment of sponsor invoices and assisting the PI in the follow up of any unpaid invoices.
- Determining that all expected payments have been received from the sponsor (once the PI notifies ORSP that they have completed all of the requirements) and making the appropriate closing entries to the fixed price agreement to transfer any remaining direct cost balance to the residual account.
- Notifying each PI that s/he has a residual balance on fixed price agreements.
- Notifying the PI of the Provost's policy on residuals and explaining the process and forms to complete to request transfer of the residual funds to a budget in an RS account. Ensuring that the transfer and the justification for "excess residual," if necessary, have been authorized by the AVP for Research and Sponsored Programs.
- Upon approval, creating the budget in the RS account in a timely manner once the account creation forms are completed.
- Charging the full F&A costs upon transfer of the funds to the RS account. The total residual amount shall be subject to the CSULB on-campus federally negotiated research rate in effect at the time of the contract closeout, regardless of the sponsor's F&A rate applicable to the fixed price agreement. Preparing any sponsor required financial reporting.

Procedure

When ORSP receives a fixed price agreement, it is created using the same process as other sponsored agreements. As mentioned above, an internal budget will be established as a guideline for pricing the

work to be performed. The internal budget will be used to create the account budget and all allowable project related expenses must be charged to the account. The account budget will not be restricted by budget category unless otherwise specified by the sponsor.

During the life of a fixed price agreement, the PI is responsible for notifying the GCA when any specific deliverables or milestones required for payment are met. Once notified, the GCA will create and send the invoice to the sponsor. Foundation Accounts Receivable Technician will be responsible for monitoring all open receivables (unpaid invoices) on the account.

Although fixed price agreements typically do not require financial reporting, ORSP will track any requirements and will be responsible for preparing these reports. Any programmatic related reporting will be the responsibility of the PI.

After all of the requirements for the agreement have been met, the PI should notify the GCA of the project's completion. At this time, the GCA will prepare and send the final invoice to the sponsor and will begin the closing process for the fixed price agreement project.

As part of the closing process the GCA will contact the PI via e-mail to confirm the completion of all requirements and to determine if all project related expenses have posted to the project. Once the PI has confirmed that both of these conditions have been met, the GCA will then prepare a final closeout report. This report will reflect a comparison of the internal budget to actual costs incurred. Attached to the report will be a print out of detailed expenditures which will expedite the review of the report by the PI and his/her College officials.

The closeout report will be sent to the PI for review. Once the PI confirms the accuracy of the report, the report will be sent to the Dean (or his/her designee – most probably the College ASM) for review and approval.

Once the PI and the Dean/designee approve the report, all sponsor requirements are met, all payments are received, and all project related expenses have posted to the project, and any excess residual has been justified and the justification accepted by the AVP, ORSP, the GCA will close the account. Any remaining balance will automatically revert to ORSP unless the PI requests transfer of the funds to their RS account for research stimulation activities. If an RS account does not exist, ORSP will initiate the process of setting up the account and the approved budget.

The funds in the approved budget in the RS account to be used to promote the mission of the University with an emphasis on stimulating research. These accounts will remain active for the PI to use until one of the following two instances occur:

1. The budget is exhausted.
2. The PI retires or leaves CSULB.

In the latter case, the remaining balance will revert to ORSP.

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Accounting for Residual Transfers:

- 1) Transfer residual amount, charging full amount to the grant and crediting ORSP at the current full negotiated rate of 46.5% and crediting the balance to a designated PI Research Stimulation fund:

DR.	G1xxx-deptid-project- 671936 (transfer-out)	10,000	
CR.	G1xxx-101100		10,000
DR.	RS001-101100	3,174	
CR.	RS001-00013-571936 (transfer-in)		3,174
DR.	RSxxx-deptid-101100	6,826	
CR.	RSxxx-deptid-571936 Transfer-in)		6,826

- 2) Increase budget by the amount of residual transfer to the PI RS fund:

DR.	RSxxx-deptid-660003	6,826	
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