

## **Budget and Administrative Guidelines for Subrecipients Cost Reimbursable Contracts**

This guideline has been developed by the University's Office of Research and Project Administration (ORPA) and Sponsored Programs Accounting (SPA) to assist University of Rochester Department Administrators and potential subcontractors in preparing subcontract budgets and to inform them what information is required by our federally-audited systems. Please note that this guideline is intended for cost-reimbursable subcontracts.

### **1. Budget Requests**

In general, subrecipient cost proposals must conform to the following principles and procedures (copies may be obtained from ORPA):

Educational Institutions:	OMB Circular A-21, OMB Circular A-133
Non-Profit Organizations:	OMB Circular A-122, OMB Circular A-133
Industrial/Commercial Organizations:	Federal Acquisition Regulation (FAR) Part 31

Budget requests for cost-reimbursable subcontracts may include the following cost elements and must include the following information:

**Direct Labor:** Salary must be requested in terms of a percentage of effort or man-hours and based on an annualized salary. If the subcontractor is a university, research during the academic year is normally considered part of the academic duties. While salaries can be direct charged during the normal appointment period, no compensation in excess of the base salary can be paid other than, for example, summer salary. The subrecipient should be prepared to explain:

1. The basis for the direct labor hours or percentage of effort, e.g. historical hours or best estimate;
2. The basis for the direct labor rates or salaries. Labor costs should be predicated upon current labor rates or salaries. Adjustments or increases should be consistent with cost-of-living increases and other sponsor restrictions, if applicable.

Regardless of the basis for direct labor rates, the subrecipient must have a system which collects and verifies effort.

**Fringe Benefits:** Fringe benefits should be identified as a percentage and to the salary base to which it is charged. The rate charged must be in accordance with the existing rate and must be verifiable. Fringe benefit rates may have been negotiated by the federal government and, in these cases, the negotiation memorandum should either be provided or ORPA will obtain it prior to the subcontract being issued. If the subrecipient is a commercial entity that has proposed labor hours, the labor hour rate must be itemized by its components. Fully-burdened labor hours will often include fringe benefits (generally as part of the general and administrative expense), overhead and sometimes profit. ORPA will request a calculation of the fringe benefit rate if the subrecipient does not have a government-approved rate.

**Equipment:** Equipment should be listed separately and a justification for each piece of equipment should be provided. The subrecipient should be prepared to explain the basis for each item of permanent equipment, such as a vendor quote, historical cost or engineering estimate. Proposed equipment during the last year of a project period should be even more fully justified. ORPA may require verification (i.e., a vendor quote) for large (i.e., over \$5000 per unit) pieces of equipment.

**Travel:** Travel costs should be presented in sufficient detail to determine the reasonableness of such costs. Travel should identify the destination, the number of travellers and the various cost elements (airfare, mileage, per diem, etc.). Local travel costs should also be justified and identified by cost per mile.

**Materials and Supplies:** Materials and supplies should be itemized by category. The subrecipient should be prepared to explain the basis for developing the cost estimate. If animals are involved, the subrecipient must state the species, the number to be used, their unit purchase cost, their unit care cost and the number of care days.

**Other Expenses:** Other expenses should be itemized by category and unit cost. Other costs could include publication costs, page charges, computer charges. Rental charges must include a square footage cost and the number of square feet used, and the subrecipient should be prepared to verify space use.

**Consultant Costs:** The nature of anticipated consultant services should be explained and justified. If available, the daily compensation rate and number of days of expected service should also be provided. For federal awards, there may be a maximum consultant rate that can be charged; ORPA should be contacted for guidance.

**Indirect Cost:** If applicable, subrecipient budgets should request indirect cost at their current negotiated rate. The base on which indirect costs are proposed should be identified. A copy of a negotiation memorandum with the subrecipient's cognizant federal audit agency should either be provided or ORPA will obtain it prior to the subcontract being used.

Small businesses/clinics, that do not have a government approved rate, will be asked to provide a breakdown by component of their general and administrative costs (G&A) or overhead rate. Note that any expenses claimed in these rates may not be claimed as a direct cost. ORPA and SPA require this information in order to determine the reasonableness of the rates and will treat this as confidential information, subject only to our auditors.

Commercial organizations should also state any G&A and overhead rate and identify to what base this is applied. These rates must be certified to be government approved rates; ORPA will obtain this certification prior to letting the subcontract.

**Fixed Fee:** For commercial organizations, any fee or profit should be identified by percentage and to what base this is applied; this fee should normally not run any higher than 5-10% based on labor costs. There are certain agencies such as DHHS which do not allow profit recovery. ORPA will advise you when this is the case.

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## II. **Other Considerations for Subrecipients**

**Forms:** In addition to the explanation of cost elements noted above, subrecipients may be asked to complete additional forms in accordance with federal guidelines. For instance, under federal contracts, a SF 1411 Form must be submitted at the time of the initial proposal. A Certificate of Current Cost or Pricing Data will also need to be completed by subrecipients under a federal contract prior to ORPA issuing the subcontract.

Depending on the prime sponsor, there may be additional items necessary to satisfy award requirements.

**Subrecipient Qualification:** Small businesses, clinics and organizations (other than another university, college or university-affiliated hospital) may be asked by ORPA to complete a Pre-Qualifying Questionnaire prior to letting the subcontract. This questionnaire is intended to demonstrate that the subrecipient is qualified to receive federal funds and that the subrecipient's accounting/management systems are adequate to meet government standards. Those subrecipients that do not qualify will not be eligible to receive federal funding without taking specific corrective action.

**Payment Terms:** The University operates under normal business practices which provide payment to subrecipients or vendors within 30 days of the date of the invoice. There are rare situations that warrant an exception to the normal net 30 day terms (see below). ORPA, in consultation with SPA, will make the determination as to whether an exception will be granted. Exceptions to the net 30 day terms will be noted on the purchase order.

Advance payments will also be made on an exception basis (see below). Advance payments will normally be approved only in those circumstances where the University is also receiving its funding in advance. Subrecipients must document their expenses against the outstanding advance before any additional funds will be provided.

For example: Subcontract is for \$120,000. Subrecipient has a need for an advance. It is estimated that three months funding would be sufficient. In this case \$36,000 is provided. The first invoice from the subcontractor is for \$25,000 in actual expenses. This invoice would not be paid. The second invoice is for \$15,000. The first \$11,000 of actual expenses would be used to clear out the amount remaining on the advance and the remaining \$4,000 would be paid. The decision whether the subrecipient needs an additional advance would be made at this time. If advances are to be made, the requirement and method of reimbursement must be written into the terms of the subcontract.

Exceptions to University payment policy will be based on a well defined need. A situation that might require an exception to net 30 day terms or advance payment would be when the University is subcontracting with a small specialty group, clinic, or business and the subcontract will require the subrecipient to employ additional staff or resources solely as the result of the subcontract.

Subrecipients must invoice for costs that are actually incurred during the invoice period. Invoicing against the budget is not allowed (i.e. dividing the budget by the number of budget months). As indicated in the subcontract terms, the invoice must be signed by a person who has responsibility for official financial data and can certify its validity. The PI is usually not this person.

Subcontracts will be expected to submit a FINAL INVOICE within 45 days of the end of the subcontract period. It is extremely important that the Department Administrator work closely with SPA during this time especially if the prime is a federal award. How expenditures and balances are reported is driven by the prime award. **With the requirement for reporting to the majority of our sponsors within 90 days attention to this is critical and, if ignored, may result in the loss of funds to either the subrecipient or the Department.**

**Cost Sharing:** Cost sharing by the University and subrecipient may be a requirement of the prime award. If the subrecipient is required to cost share by the University of Rochester, the subcontract budget must be specific about what is to be provided and how the evidence of the cost sharing will be documented. The subrecipient will be required under the terms of the subcontract to submit a certification or evidence of cost sharing with each invoice. The subcontractor will be required to maintain verifiable records as described in Circular A-110 of any cost sharing this is claimed or reported on the invoice. A copy of the applicable section of OMB Circular A-110 is attached.

**Audit Considerations:** The University is expected to provide the same stewardship over funds it awards as subcontracts as it does to the funds that flow directly from the prime award. This means that we must be certain that the subrecipient is fiscally responsible (we do this at the preaward stage as noted above) and we must be certain that the funds were spent in accordance with all sponsor requirements (post award administration). Circular A-133 requires that the University ensure that all subrecipients are capable of doing the government's business.

Subrecipients must remember that when they sign a subcontract they agree, by its terms, to make their records available for audit either by the University or its designee, by the sponsor of the prime, or by the University's cognizant audit agency. A desk audit of a subrecipient may be made at anytime during the subcontract period should the University deem it to be necessary.

After final payment has been approved, all subcontracts not covered by either OMB Circular A-133 or A-128 and for subcontracts covered by A-133 or A-128 when the total subcontract payments exceed \$100,000, will be referred to the UR's cognizant audit agency for an assist audit. Subcontracts covered by A-133 or A-128 receiving payment under \$100,000 will likely undergo a desk audit.