When is an agreement a subcontract?

A document, which formalizes a “third party” relationship with an institution performing a significant portion of the work based upon a sponsored award made to the University of Rochester (UR), is called a subcontract, subaward, subagreement or consortium agreement. The institution performing work under a subcontract is called the subrecipient or subcontractor. It is important that, as the primary recipient of the sponsored award, UR perform a substantive role in the conduct of the research and not merely act as a conduit of funds to another party.

When the work being performed is not based upon scientific research (e.g., repetitive tests or activities requiring little or no discretionary judgement on the part of the service provider) it would be handled as a service agreement rather than a subcontract. Activities performed by an individual are handled through a consulting agreement.

Until recently most of the University’s subcontracts were made from federal awards; however, subcontracts from clinically sponsored studies are becoming more prevalent. Terms for clinical trial subcontracts will differ from federal subawards and are governed by the terms we receive from the pharmaceutical companies sponsoring the study.

In general, ORPA develops and negotiates subcontracts as defined above; Purchasing is responsible for all other procurement contracts, service agreements and consulting agreements.

Subcontracts at the Proposal Stage.

It is the UR Principal Investigator’s (PI) responsibility to discuss the scope of work to be performed by the collaborating investigator at the subrecipient institution. Prior to submission of the UR proposal to the sponsor, the subrecipient submits a subcontract proposal, which contains a statement of work, budget, biosketch and a list of current and pending support. The Statement of Work outlines the procedures and methods, which will be used by the subcontractor to accomplish the goals proposed by the UR. This should be submitted to the University PI well in advance of the agency deadline to allow for review and comment. If the proposed work involves human or animal work, appropriate subrecipient approvals or pending approvals should be included with the subcontract proposal.

The budget includes proposed salaries, fringe benefits, supplies, equipment and other direct costs, as well as the subrecipient’s Facilities and Administrative (F&A) costs, needed to perform the research as outlined in the Statement of Work. The UR PI is responsible for reviewing the budget for appropriateness. The subrecipient proposal should be signed by the subcontracting institution’s authorized business representative and, in most cases, a letter confirming the institution’s verification that they will abide by the prime sponsor’s policies should be
included for submission with the UR proposal.

At the time of University sign-off, ORPA reviews the subcontract portion of the proposal to ensure that the required items have been incorporated.

**Subcontracts at the Award and Post-Award Stage.**

When the UR receives notice of an award from the sponsoring agency, it is necessary to establish an agreement with the subcontracting institution. ORPA requires verification and approval from the PI to release the subcontract. This is done using the Request to Issue a Subcontract form. The PI or responsible department administrator will complete this form and the PI will sign it. This form is necessary for audit purposes and ORPA will not issue a subcontract without the completed request.

If the institution receiving a Federally-funded subcontract is a small business or organization which has never received Federal funding, they will be asked to fill out a Pre-Qualifying Questionnaire prior to issuing the subcontract. This is to ensure that the UR is subcontracting to an organization qualified to receive Federal funds.

In preparing the subcontract terms and conditions, it is important to remain consistent with the terms of the prime award or, in the case of clinical trials, the terms of the clinical study agreement. On NIH and Federal grant subcontracts, standard terms and conditions are used. The PI has the ability to incorporate unique terms when necessary provided they do not conflict with the terms stated in the prime award.

The subcontract terms and conditions are attached to the UR G-Purchase Order (G-PO). The G-PO states the variables of the subcontract (e.g., vendor, subrecipient PI, project period and dollar amount). It also references all attachments, normally, the Statement of Work, Budget and Terms and Conditions. This document requires a signature from the authorized representatives of both institutions to show acceptance of the subcontract agreement.

Once the subagreement package is complete, ORPA mails two copies of the G-PO along with one set of attachments to the person indicated on the Request to Issue a Subcontract form as the Subrecipient Contracting Officer. If, at this time, we do not have a copy of the subrecipient’s fringe benefit rate or negotiated F&A rate agreement, it will be requested in the transmittal letter. The subrecipient is instructed to keep one copy of the executed G-PO along with all attachments. Once ORPA receives the fully-executed G-PO, the original is placed in the file and a copy is sent to Sponsored Programs Accounting and to the department. At this point, the subcontractor is able to bill the University for expenses incurred.

The period of performance referenced on the G-PO is normally the same as the budget period of the prime award, although the same G-PO number is generally used throughout the prime award project period. In order to extend the period of performance and add additional funds to correspond to the new budget period of the prime award a Change Order is required. Change Orders utilize the same G-PO number but the suffix numbers will change to reflect the number of times the document has been modified (e.g., XXXXX-G001 would indicate one modification to the Purchase Order). The approval process for Change Orders is the same as for the initial Purchase Order. Any modifications, such as a change in the scope of work or subrecipient PI, also require a Change Order to the Purchase Order. In these instances it may be necessary to obtain sponsor approval; therefore, agency guidelines should be consulted before modifying a subcontract.

The period of performance referenced on Purchase Orders issued for clinical trial subcontracts will be the same as that of the anticipated project period state in the clinical trial agreement. In cases where the prime contract is amended to extend the project period, Change Orders will be issued in the same manner discussed above.

In situations where sponsor approval on the prime award is required to carry forward funds each year and it is necessary to request a new ledger-5 account number, a new G-PO with the appropriate attachments would then be issued to reflect the new account number as well as any other amendments.

It is important to note that advance funding to subrecipients is generally not allowable. Since the UR does not receive advance funding, our accounts would go into deficit in order to advance funding for work not yet performed at subrecipient sites. In addition, most Federal sponsors do not allow advance payment for services. Requests for advance payments to subcontractors will only be considered in very unusual circumstances with consultation from the UR PI and Sponsored Programs Accounting (SPA).

Subcontract funds are recorded in subcode 2968 of the account established for the prime award. This is done so the University can document, for accounting and audit purposes, the amount of subcontract funds exempt from F&A (indirect) cost recovery. Sponsored Programs Accounting staff have the responsibility of allocating the first $25,000 from each subcontract to subcode 2968 to enable the University to recover F&A costs on that portion of a subcontract; the remainder is allocated to subcode 2969 which is exempt from F&A costs.

The UR PI or designated department administrator will be responsible for approving subcontractor invoices and submitting them to SPA for payment. Per OMB Circular A-133 guidelines, they are responsible for monitoring periodic progress reports and invoices from the subrecipients for compliance with the terms of the contract. Invoices should be checked to ensure that they are reflective of progress. It is SPA’s responsibility to ensure that invoices are properly submitted by the
subrecipient and reviewed for accuracy and in compliance with the terms of the subaward. The criteria for payment by SPA is as follows:

- The invoice is reviewed to determine that the requested payment falls within the subcontract dates. The invoice must be an original and signed and/or certified by the subrecipient’s financial officer. If it has not been signed, SPA will contact the vendor. Also, basis for payment should match the budget in the G-PO (e.g., if budget is based on a per patient invoice, the invoice should not reflect payment for a cost-reimbursable expense category).

- If the dates do not fall within the subaward period or if the total amount exceeds the amount not to exceed on the G-PO, the invoices cannot be processed. ORPA is contacted to determine if a Change Order is in progress or if a new G-PO is being issued. The invoice will be held until the proper paperwork is in place.

- The F&A cost calculation and fringe benefit rates are verified. If this is a first invoice and SPA has not received a copy of the F&A rate agreement or approved benefit rate, the invoice cannot be processed. The invoices will be held until documentation has been received by SPA.

- The invoice must be signed and dated by the PI or designated department administrator. This indicates that the invoice has been reviewed and that the payment requested is appropriate. The invoice will be returned to the PI if it is received without a signature and date.

- Once approved for payment, a copy of the invoice is made and attached to the G-PO. The original invoice is sent to Accounts Payable for payment. Payment will be made to the subrecipient approximately thirty days from date of invoice.

- Final invoices will not be processed until all terms of the subcontract have been completed. (Please see close-out procedures for a description of what is required)

### Subcontract Closeout

When SPA receives an invoice marked “Final” they will contact ORPA regarding closeout on the subcontract. ORPA will send a memo to the PI inquiring as to whether the subcontract should be continued or if the project has been completed. If the PI notifies ORPA that the project is continuing, a Change Order will be issued. If the project has indeed been completed the PI is asked to verify at the bottom of the memo that the subrecipient PI has completed the technical reporting requirements as stated in the Terms and Conditions. Once ORPA receives verification from the PI that the project is completed, a letter is sent to the subrecipient institution informing them of any other reports they may be responsible for submitting (e.g., invention statement or property report). When all documents have been received, the responsible Research Administrator in ORPA will notify SPA that it can release the final payment. This process applies primarily to those subawards issued from research awards. There is no formal closeout procedure for subcontracts from clinical trials because the prime sponsors do not require final technical and financial reports.