

**University of Rhode Island
Office of the Controller**

Fixed-Price Agreement Procedure

Effective: April 1, 2013

Revised: December 26, 2014

Purpose

To outline the administrative requirements for formulating, monitoring, and closing-out fixed-price agreements. Responsibility for oversight of the administrative requirements is shared between the Offices of Sponsored Projects (under the V.P. of Research and Economic Development) and Sponsored & Cost Accounting (under the Controller's Office).

Definitions

A fixed-price agreement is an agreement where the contractor pays a firm price for the agreed-upon work. These contracts are negotiated with reasonably defined specifications and cost can be realistically estimated. There is a level of risk involved in these types of agreements because the institution must complete all work, even if there are cost overruns or escalations. However, the institution may have a minimal unexpended balance that remains after the contracted work is complete.

OMB's Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance or UG”) is the guide to determine the allowable costs of fixed-priced agreements.

Per UG 200.201” Use of grant agreements (including fixed amounts awards), cooperative agreements, and contracts”(b) states that Federal agencies or pass-through entities may use fixed amount awards to which the following conditions apply:

- payments are based on meeting specific requirements of the Federal award;
- for partial payments, the amount of each is agreed upon in advance and the “milestone” or event is set out in the Federal award;
- based on a unit price or a defined unit, defined price agreed to in advance of the performance of the award and set out in the Federal award; or
- one payment at Federal award completion
- a fixed amount award cannot be used in programs which require mandatory cost sharing or match;
- the non-Federal entity must certify in writing to the Federal awarding agency or pass-through entity at the end of the Federal award that the project or activity was completed and if not, the amount of the Federal award must be adjusted;
- changes in PI, project leader, etc. and scope of effort must receive prior written approval of the Federal awarding agency or pass-through entity.

Characteristics of a Fixed-Price Agreement

Fixed-price agreements will typically have the following characteristics:

- are similar to purchase orders where a work product is delivered, i.e., container of chemicals or a computer;
- are routine in nature;
- have a well-defined statement of work;
- where the outcome is relatively certain;
- have a failure rate of next to zero;
- the University bears the risk that a routine project does not come within the “costs” and the University has to cover those costs; or may have a small residual balance;
- normally short-term in nature (< 1 year); and
- costs are normally known.

Formulating the Fixed-Price Agreement

The Principal Investigator (PI) is required to work through the Office of Sponsored Projects during the planning stages of contract development and negotiation to ensure the accuracy of the agreement terms and conditions.

The following should be considered when preparing the fixed-price agreement:

- **The cost structure and payment schedule provides for:**
 - budget needs to be based on reasonable estimated cost
 - sufficient funding for the project;
 - careful planning and timing of receipt of funds;
 - use of simple and clear wording in compensation clause; no room for interpretation; and
 - sufficient cash flow to keep the project on track.
- **The scope of work and schedule of deliverables/outcomes should:**
 - not make promises the PI can't deliver;
 - refrain from guaranteeing certain results and use language such as “best efforts”;
 - avoid ambiguous language – be specific about the outcomes anticipated;
 - not agree to deadlines that PI or Offices of Sponsored Projects or Sponsored & Cost Accounting cannot live up; and
 - avoid agreeing to the submission of financial reports.
- **Fixed-price agreements**
 - carry F&A costs consistent with the University's rate policy on F&A cost;
 - have a project end date equal to the date of delivery of good/service (longer if warranties are present) in the agreement; and
 - have a PeopleSoft designator (TBD) to facilitate reviews and tracking.

Monitoring the Fixed-Price Agreement

As mentioned above, actual expenditures should be incurred in a manner consistent with the budget, during the period of performance outlined in the agreement.

It is the responsibility of the PI to properly monitor the timing of tasks, deliverables, and final reporting of results. Most fixed-price agreements include a clause or special terms section regarding the submission and/or acceptance of a final report or product. This can be tied to the final payment.

If terms (programmatic, financial or other) are not met, then fixed-price or not, the University may be in violation of the agreement and as a consequence, total cost reimbursement may not be forthcoming. **If a liability is incurred for late submission or any violation of the contract terms then the responsible department will reimburse the appropriate account for the disallowance.** Therefore, it is vitally important that all parties comply with all conditions set forth in the fixed-price agreement.

Closing Out the Fixed-Price Agreement

To close out a fixed-price agreement all project activity must be completed. This includes:

- the completion of all deliverables required under the fixed-price agreement;
- **all** costs in fulfilling the requirements of the award have been charged to the project in PeopleSoft;
- **completing any required sponsor certifications;**
- the receipt of full payment from the sponsor; and
- the F&A costs have been recovered at the University's current federally negotiated rate to the extent funds are available.

Upon project completion, both residual and deficit balances must be transferred.

A. *Residual Balance*

If there is a residual balance it will revert to the department of the principal investigator if greater than \$100 after close out of the fixed-price project .

The balance will be distributed as follows:

1. The full F&A will be calculated on agreement based on current budget. F&A Revenue will be distributed according to URI Overhead Policy.
2. Any remaining surplus will be distributed to the Department/ PI to a Fund 110 chartfield string.

B. *Deficit Balance*

If there is a deficit balance after close-out, it will be accounted for according to the Deficit Spending Policy (see [Controller's Policy website](#)).

C. Non-Receipt of Sponsor Funds

If the sponsor does not pay in full, the department and/or Principal Investigator must cover the deficit amount.

Example

A fixed agreement in the amount of \$30,000 was invoiced and collected in full by the project end date. The budget includes salary & benefits and supplies of \$19,610. The F&A rate on the project was the University negotiated rate and budgeted at \$10,390. A total of \$17,000 in expenditures was incurred and the full F&A of \$10,390 is applied, leaving a surplus of \$2,610.

Based on the above:

The surplus of \$2,610 would be distributed to the Department/PI Fund 110 chartfield string.