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## **Deficit Resolution of Restricted Funds Administrative Policy**

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| Approved By:           | Keith Bonin, Associate Provost, Research and Scholarly Inquiry<br>Janet Williams, Vice President for Finance |
| Effective Date:        | April 1, 2019  |
| History:               | Approval Date: April 1, 2019<br>Revisions: Not Applicable  |
| Type:                  | Administrative Policy  |
| Finance Policy Number: | 3.12.12  |
| Responsible Official:  | Associate Provost, Research and Scholarly Inquiry<br>Assistant Vice President for Finance & Controller       |
| Related Documents:     | Cost Principles, Audit, and Administrative Requirements for<br>Sponsored Activities Policy                   |

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### **Administrative Policy Statement**

As noted in the Cost Principles, Audit, and Administrative Requirements for Sponsored Activities Policy, Wake Forest University (WFU) conducts research and activities that are sponsored by federal, state or private entities. Sponsored grants and contracts are an essential element in creating a collegiate university and providing outside funding to support the academic mission and research function of WFU. As a recipient of federal, state and privately sponsored grants and contracts, WFU is required to comply with all policies and regulations set forth by the federal and state government and private sponsors, including compliance with the Office of Management and Budget (OMB) Uniform Guidance (UG). The OMB UG identifies the costs principles, audit and administrative requirements for sponsored projects.

All WFU faculty, staff, and students who are responsible for administering sponsored grants should be familiar with these principles as well as other requirements of a granting agency or authority to mitigate risk associated with noncompliance.

## **Purpose**

To establish a policy to support the University's deficit resolution process for restricted funds in accordance with federal, sponsoring agency, and WFU guidelines and U.S. Generally Accepted Accounting Principles (GAAP).

## **Overview**

The Principal Investigator (PI), Grant and Contract Manager (GCM), or designee take primary responsibility for ensuring compliance with all regulations as well as the monitoring of expenditures, timely correction of errors, and proper allocation of expenses. It is incumbent on the faculty and/or staff who manage projects to understand the budget as awarded and planned, monitor the financial activities on a timely basis; and, know the costing/budget policies associated with their programs.

Sponsored accounts are created using the total funds authorized by the sponsoring agency. The authorizations come in the forms of grants, contracts or other types of agreements and identify the maximum compensation that WFU can expect. A single program may have periodic authorizations or be funded entirely at the initial award stage. Regardless of the award mechanism, the ORSP and Financial Services (FS) departments will establish the award within the WFU financial system for the level of funding authorized. However, overspending and collectability issues arise periodically and this policy addresses the process for resolution of the resulting deficits.

The policy described in this document applies to all circumstances under which costs incurred by a project are not reimbursed by the sponsor. For the purpose of this policy, these costs are referred to as "deficits". As discussed below, there are many different scenarios wherein costs are not reimbursed. This policy addresses each of these separately, providing for a resolution strategy based on the situation.

## **Deficit Resolution Process**

There are a number of scenarios under which costs may not be reimbursed. This situation may come to be known at any time throughout the life of a project. More often than not, this situation occurs at the financial closeout of a project. In order to timely assess the reasons and potential resolution of any deficit, it is critical that the financial closeout activity occur between 30-60 days, depending on the sponsoring agency, and prior to the closeout period, as defined by the sponsoring agency for the project in question.

Throughout the process, it is critical that communication between all involved individuals (ORSP, the PI, Deans, Chairs, Departmental Administrators and/ or Financial Services) be both timely and consistent.

As noted above, there are different reasons and scenarios for why costs are not recovered. Each of these are identified below and the standard processes for resolution are described.

### **Budget Deficit**

A *budget deficit* occurs when the direct expenditures of a project exceed the authorized amount. These are generally identified at the end of a project during the final financial reconciliation or at interim financial reporting. For all deficits, expenses must be moved to an allowable fund. Generally, the PI's Designated Fund should cover the costs. If there are not funds available, the PI's department is required to move the expenses to one of their departmental unrestricted accounts. If separate budget allocations and accounts were established for Co-Investigators, they and their respective departments will be held responsible for those deficits.

### **Unallowable Costs**

*Unallowable or disallowed costs* occur when it is determined that expenses charged to a sponsored account are not in compliance with federal, state, sponsor, or University terms and conditions or cost principles. This situation may arise from a specific unallowable expense or when cumulative costs in a single budget category exceeds the maximum amount that can be reimbursed. For example, a sponsor may place a budgetary restriction indicating that costs in any given category cannot exceed 10% of the approved budget. Even though the costs may be reasonable and each individual item is considered allowable, the total amount over the cap may not be reimbursed. If this situation occurs, ORSP can assist in obtaining sponsor approval or the expenses need to be moved to an allowable fund. If separate budget allocations and funds were established for Co-Investigators, they and their respective departments will be held responsible for the costs of the unallowable expenses.

### **Indirect Costs Associated with Deficit**

WFU excludes indirect account charges associated with the deficit amounts. When deficits are incurred, only the direct portion of the deficit is subject to resolution. Additionally, the University will not consider as a deficit any over expenditure in the indirect account budget line that occurs as a result of an indirect account rate change. If the deficit is the result of non-payment of an invoice or other reimbursable amount, the indirect account on all unrecovered amounts will be absorbed internally and not made a part of any deficit resolution.

### **Uncollectible Invoices – Failure of Payment**

Deficits may result from a disagreement with the sponsor regarding the scope or performance of work or deliverables, or without cause. Any deficit is to be covered by the PI and if funds are not available, deficit repayment is the responsibility of the department. Exceptions are rare and would require a written agreement with the Associate Provost of Research and Scholarly Inquiry.

To mitigate occurrence of deficits, the following escalation steps apply:

- The PI and GCM will be notified by FS when any single invoice from an external sponsor is more than 60 days past due. It will then be the responsibility of the PI and GCM to decide to either to stop work immediately or to proceed at risk.
- The Department Chair and the Associate Provost for Research and Scholarly Inquiry will be notified by FS when any external invoice is more than 90 days past due. It will then be the responsibility of the PI, their department chair and the Associate Provost for Research to make a determination on project continuation.
- When notified of a new award from a sponsor who previously failed to make payments in a timely manner, the University may require payment of all or a portion of award funds prior to the start of the project period. Reviews may also apply to sponsors with known personal or financial affiliations to a sponsor with a history of non-payment or late payments. Pre-payment determinations are made on a case-by-case basis after review by Assistant Vice President for Finance & Controller, the Associate Provost of Research and Scholarly Inquiry, and the Director of the Office of Research and Sponsored Programs.

### **Appeal Process**

The policy noted above defines the standard practice for WFU. If any PI or department feel as though they should not be monetarily responsible for a deficit, they are asked to state an appeal to the Associate Provost for Research and Scholarly Inquiry.

### **Contacts**

For any questions, please contact the following:

Office of Research and Sponsored Programs: [research@wfu.edu](mailto:research@wfu.edu)

Financial Services: [grants@wfu.edu](mailto:grants@wfu.edu)

### **Responsibilities**

#### **Responsible University Office or Officer**

Associate Provost for Research and Scholarly Inquiry

Assistant Vice President for Finance & Controller

Financial Services

Office of Research and Sponsored Programs

#### **Who Is Governed By This Administrative Policy**

Any person who administers or is paid by sponsored funds through a Wake Forest University account.

#### **Who Should Know This Administrative Policy**

All Wake Forest University faculty, staff, and students who administer federal, state, or private sponsored awards.