

Research Circular No. D7

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SPONSORED PROJECTS POLICY

POLICY ON THE ADMINISTRATION OF SUBAGREEMENTS UNDER EXTRAMURALLY SPONSORED PROJECTS

I. PURPOSE

The purpose of this Research Circular (RC) is to inform the campus, specifically persons responsible for the administration of extramurally sponsored projects, of the policies and procedures regarding the issuance and administration of subagreements under extramurally sponsored projects.

II. REFERENCES

A. Office of Management Budget (OMB) Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations and OMB Circular A-133, Audits of Institutions of Higher Education and Other Nonprofit Organizations.

B. UC Business and Finance Bulletin (B&F) BUS-34, Securing the Services of Independent Consultants and B&F BUS-43, Materiel Management.

C. Memorandum from Vice President Brady to Chancellor Uehling dated August 28, 1991.

D. OP-Research Administration Office Operating Guidance: 91-07, 90-13, and 85-31.

III. DEFINITIONS

A. Competition - requirement whereby the University must obtain competitive bids from prospective suppliers for all transactions of \$50,000 or more.

B. Continuing Award - method of funding whereby a total estimated cost for the award is established, which amount is then subdivided into budget periods (usually equal to project years). Funds are then made available (obligated) by the Sponsor by budget period. Funds are commonly awarded only for the initial budget period, with amounts for projected budget periods listed. Each subsequent budget period is obligated by the sponsor after their receipt of the annual report. The sponsor is only liable to reimburse expenditures up to the amount of funds which have been obligated.

C. Financial Assistance - assistance provided by a Federal agency to a recipient, or subrecipient, to carry out a program.

D. Incremental Award - method of funding whereby a total estimated cost for the award is established, but funds are made available (obligated) in increments. The size of an increment is usually dependent upon the availability of funds to the sponsor. Increments are not usually tied to specific reports, but to overall progress. The sponsor is only liable to reimburse expenditures up to the amount of funds which have been obligated.

E. Notice of Subagreement (UCSB/OR Form 810) - a form issued by Sponsored Projects (SP) to notify appropriate campus departments that a subagreement has been established, or that modifications have been made to an existing subagreement. Summarizes information regarding a subagreement including special negotiated terms of which the PI and administering unit should be aware. Encumbers the value of a subagreement in the UCSB accounting system. See Attachment C to this Research Circular.

F. Purchase Contract - a written agreement between the University and a supplier containing the essential terms and conditions under which items of personal property or services are to be furnished to the University. Subcontracts and subagreements are Purchase Contracts.

G. Request to Issue a Subagreement (UCSB/OR Form 800) - a two-part form used to establish and modify subagreements. Similar to a Purchase Requisition, but solely for use with subagreements. See Attachments A and B to this Research Circular.

H. Sole Source - If it is determined that only a single supplier is capable of providing the required supplies or services within the time available, the competition requirement may be waived. This would be called a sole source transaction. Since the competition requirement is federally mandated, any sole source transaction must be fully justified. This justification is provided by the PI to the University official effecting the transaction.

I. Subagreement - a subcontract to implement a portion of the scope of work; perform scholarly or professional instruction; or perform public service programs relating to research or to scholarly or professional instruction issued by the University under an extramural prime award.

J. Subagreement Close-Out Certification (UCSB/OR Form 830) - a form completed by the administering unit which states the Principle Investigator's satisfaction, or lack thereof, with the programmatic and/or administrative performance of the Subcontractor. This form also provides basic guidance in helping the PI/Administering Unit in closing-out the subagreement. This form must accompany the final invoice forwarded to Sponsored Projects.

K. Subagreement Performance (UCSB/OR Form 820) - a form completed by the administering unit which states the Principal Investigator's satisfaction or lack thereof

with programmatic and/or administrative performance of the Subcontractor. This form must accompany each subagreement invoice forwarded to Sponsored Projects, whether or not such invoice is approved for payment. See Attachment D to this Research Circular.

L. Subcontractor - the entity with whom the University enters into a subagreement. The term "subcontractor" is used in this Circular to denote the recipient of a University subagreement, since the terms subcontractor and subrecipient, may have different meanings depending on the context in which they are used.

M. Subcontract - a purchase contract, under a prime contract, which contains special flow-down provisions and is generally utilized to procure research and development work or unusually complex or high-value items or services.

III. BACKGROUND

On March 16, 1990, the Office of Management and Budget issued Circular A-133 which superseded the audit portion of OMB Circular A-110. With A-133, the federal government, for the first time, set out specific penalties for non-compliance with the audit requirement. Penalties include suspending federal awards. Furthermore, A-133 provides much more specific instruction to auditors as to what is to be reviewed and requires a recipient of federal funds to "flow-down" the independent audit requirement to any subrecipient of those funds. A-133 makes the prime recipient responsible for monitoring the conduct of the subrecipient. This monitoring includes both financial and programmatic conduct and requires that the prime recipient take specific action if the subrecipient is not in compliance.

Since this degree of monitoring is beyond the scope of the systems currently in place within UCSB's Purchasing Department, it was determined that the Sponsored Projects Unit (SP) of the Office of Research would be the most appropriate department to establish the necessary policies and procedures to ensure that UCSB remains in compliance with federal regulations. Thus, effective November 15, 1991, authority for the execution of subagreements was transferred to the Office of Research.

Subagreements still fall under University procurement policy. Thus, it has been necessary to develop a form which would provide to SP the basic information available on a Purchase Requisition as well as information regarding transfer of programmatic work. The result is a form entitled "Request to Issue a Subagreement" (RIS). This two-part form has been designed to be as simple as possible and includes complete instructions on the back of each part. In summary:

A. Part A sets forth the services to be performed; helps determine whether a subagreement is the appropriate mechanism to procure the services; identifies the proposed Subcontractor; provides justification for sole-source.

B. Part B provides to the Contract and Grant Officer information regarding specific terms of the subagreement (e.g., total amount, period of time, reporting requirements, etc.); identifies the appropriate project account to which the subagreement should be charged; allows encumbrance of funds in the campus accounting system. Part B should be submitted at the point when the subagreement is to be issued or to implement any change to an existing subagreement.

IV. AUTHORITY

A. The standard authority to execute purchase contracts, subcontracts and standard purchase orders for goods and services is delegated by the President to Chancellors and is

subject to several provisos including:

1. approval is secured as required pursuant to the provisions of a contract, grant, or other extramural sponsor agreement;
2. approval as to form is secured from the General Counsel for any purchase contract other than that made on the standard purchase order form or for any changes in the standard terms and conditions attached to those forms. The President has authorized redelegation of this standard authority to the administrative officers responsible for purchase of all goods and services (e.g., Material Manager, University Librarian). Any other redelegation requires prior approval of Senior Vice President - Administration.

B. An exception to the standard authority has been secured from Senior Vice President Brady for the Chancellor to transfer authority, for execution of subagreements only, to the AVC for Research, and the Contract and Grant Manager. This redelegation is effective November 15, 1991.

V. POLICY AND PROCEDURE

A. Issuance of New Subagreements

1. Overview - Since the issuance of subagreements is a procurement function, SP must have certain information regarding the potential Subcontractor in order to satisfy UC and federal regulations. The necessary information is described on Part A of the form Request to Issue a Subagreement (RIS) which form must be submitted to SP at the earliest point at which it is known there is to be a subagreement. One of the purposes of this form to help determine whether the services to be secured do, in fact, fall under the category of subagreement. If they do not, the instructions indicate which UCSB department should be contacted. The instructions also provide information on how the services should be represented in a proposal budget, depending on the nature of the services.

SP will assign to each new subagreement a unique 6-digit agreement number, similar to a purchase order number. This number will be reflected on all invoices from the Subcontractor and in all Accounting transactions regarding that subagreement, including the General Ledger. The subagreement number will be assigned when Part B of the RIS is received by SP. Subagreement numbers will have the form KKxxxx.

Once a subagreement has been fully executed, OR will issue a Notice of Subagreement (NS). The NS summarizes the terms of the subagreement and encumbers funds for the subagreement in the Accounting system. A copy of the subagreement will be forwarded to the PI and administering unit.

2. Procedure

PI/Administering Unit is responsible for:

- a. Initial determination that a subagreement is the appropriate mechanism by which to secure the desired services;
- b. Completing Part A of RIS and forwarding it to SP along with the original proposal from the Subcontractor which has been approved by the Subcontractor's authorized representative;
- c. When the Principal Investigator (PI) is ready to initiate the subagreement, Part B should be completed and forwarded to SP. Part B must be accompanied by Part A (if not previously submitted) and the most recent revisions to the Subcontractor's proposal. Please note that without receipt of completed copies of both Parts A and B of the RIS form, SP will be unable to initiate a subagreement.
- d. Initiating request to agency for prior approval, when required.

Sponsored Projects is responsible for:

- e. Final determination that a subagreement is the appropriate mechanism by which to secure the desired services;
- f. Review of RIS and Subcontractor's proposal;
- g. Obtaining any necessary additional information from PI and/or Subcontractor;
- h. Determining whether prior agency approval is required;
- i. Determining whether Subcontractor meets University standards in BUS 43 regarding financial/organizational competence;
- j. Preparing subagreement which will include:
 - 1) standard UC terms and conditions;
 - 2) flow-down of appropriate agency terms and conditions;
 - 3) special terms and conditions based upon CGO determinations

and information provided by PI.

k. Negotiating, if necessary, terms of subagreement;

l. Executing subagreement;

m. Notifying campus, via Notice of Subagreement (NS), of executed subagreement.

Accounting is responsible for:

n. Encumbering funds according to NS.

Please note that the amount of funds encumbered for a subagreement will be equal to the amount obligated.

B. Monitoring Subagreements

1. Overview - One of the primary federal requirements imposed upon the University when it issues subagreements, is the monitoring of the performance of the Subcontractor. More specifically, the federal government requires that the University keep track of the performance, both programmatic and administrative, of any Subcontractor and, if necessary, take action (including legal) to ensure completion of the subagreement.

It is the responsibility of the Principal Investigator (PI) to monitor the programmatic performance of the Subcontractor. This will normally be accomplished by the PI's review of all deliverables submitted by the Subcontractor. Furthermore, the PI, in conjunction with Sponsored Projects, is responsible for reviewing Subcontractor invoices and/or financial reports for allowability and reasonableness of costs.

In the event that programmatic performance is unsatisfactory, or that certain costs appearing on an invoice are questionable, the PI must inform SP so that policy and regulatory requirements can be met.

Similarly, any problems identified by SP will be discussed with the PI prior to the taking of any action.

Please note that if problems arise with performance on a subagreement, UCSB will make every attempt to work with the PI and the Subcontractor to find a solution. However, our primary responsibility is to the agency providing the funds.

2. Procedure

Accounting is responsible for:

a. Initial receipt and blocking of invoices for subagreements issued as vendor blanket orders (VBxxxxxx);

b. Forwarding blocked invoices to administering unit;

PI/Administering unit is responsible for:

c. Initial receipt of invoices for subagreements issued by SP (KKxxxx); for FINAL invoices, see D. below;

d. Reviewing invoices to ensure that:

1) costs are acceptable;

2) period of invoice is within period of subagreement;

3) amount of invoice, when added to all previous invoices, does not exceed the total obligated amount of subagreement.

e. Determining whether or not PI is satisfied with programmatic performance of Subcontractor and whether technical reports have been received;

f. Approving invoice for payment, if satisfied with d. and e.

above;

g. Filling out Subcontractor Performance form (Attachment D);

h. Timely forwarding of invoice (approved or not) and completed Subcontractor Performance form to Sponsored Projects.

Sponsored Projects is responsible for:

i. Reviewing Subcontractor Performance form;

j. Determining whether Subcontractor is in noncompliance with any terms of subagreement;

k. Discussing any potential problems with PI;

l. Final approval of invoice, if appropriate;

m. Forwarding approved invoice to Accounting, or contacting Subcontractor if problems exist.

Accounting is responsible for:

n. Review for SP approval, blocking and payment of invoices which bear agreement numbers in the range KK0000 to KK9999;

o. Returning invoices to administering unit if full approval has not been obtained.

Please note that subagreements which were issued as vendor blanket orders (prior to 11/15/91) do not possess agreement numbers in the range indicated above. Thus, Accounting is unable to perform the "check" described in step n. It is very important that administering units forward all invoices for subagreements, regardless of the number assigned, to SP.

C. Modification and/or Termination of Existing Subagreements

All requests to change the terms of an existing subagreement, including those originally issued by Purchasing, must be submitted on Part B of the Request to Issue a Subagreement form (RIS). Please fill out appropriate sections of the form depending on the nature of the modification. All such requests must be signed by the Principal Investigator.

Please note that all subagreements will include wording to the effect that modifications to the terms of a subagreement (e.g., additional funds, budget revisions or extensions) will be binding on the University only if issued in writing by the University's Sponsored Projects Unit.

1. Continuations/Increments - All increments or continuations (see definitions) to subagreements should be initiated by the administering unit by submission to Sponsored Projects of Part B of the RIS form. If the amount of a continuation award to a Subcontractor is different from the amount originally negotiated for that particular budget period, a revised budget from the Subcontractor should accompany the RIS.

Funding for subagreements will usually be consistent with that of the prime award. Thus, funds are obligated to a Subcontractor as funds are made available to the University.

2. Augmentation - (Supplement) Funds are added to a subagreement for the purpose of increasing the scope of the work to be performed and increasing the originally negotiated total estimated cost of the subagreement, generally within the originally negotiated award period. All requests to augment a subagreement should be submitted on Part B of the RIS form and be accompanied by a budget and work statement.

3. Renewal - When a new award period is initiated at the completion of an existing one, the new award period has a total estimated cost separate from the previous project period and is often associated with a similar renewal of the prime award.

All requests to renew a subagreement should be submitted on Parts A and B of the RIS form and be accompanied by a proposal from the Subcontractor. A renewal will generally be issued as a new subagreement and will require a proposal from the Subcontractor .

4. No-Cost-Extensions - all requests to extend the end date of a subagreement should be submitted on Part B of the RIS form. Please note that no subagreement may be extended beyond the end date of the prime award.

5. Budget Revisions - requests from the Subcontractor will not normally require modification of the Subagreement. A letter from the Subcontractor, endorsed by the UCSB PI, and forwarded to SP, should be sufficient. SP will then notify the Subcontractor. The need to make this type of request is dependent upon the restrictions included in the subagreement.

6. Termination - subagreements will contain language to the effect that either party may terminate the subagreement upon the giving of 30 days written notice.

All requests initiated by UC to terminate a subagreement (prior to the date on which it was negotiated to end) should be submitted on Part B of the RIS form and must be accompanied by a full justification.

A Contract and Grant Officer will contact the Principal Investigator to discuss the possible legal and financial implications of early termination.

D. Closing Out Subagreements

1. Overview - An integral component of subagreement monitoring is close-out of the subagreement. This is the point at which final determination is made as to whether the Subcontractor has fulfilled all of its responsibilities. Close-out involves all aspects of the subcontracted effort: scientific, fiscal, and administrative. Federal and UC regulations mandate the minimum requirements with which we must comply.

Initial responsibility for close-out of subagreements resides with the PI/Administering Unit. The PI/Administering Unit should review the subagreement to determine that all deliverables have been submitted. The primary sources for this information are the Statement of Work (usually Exhibit A of the subagreement) and the "Reports" clause of the subagreement. Most subagreements require that the Subcontractor submit the final invoice within 60 days of the end date. This allows for timely closeout of the subagreement and is especially important as many subagreements are scheduled to end on the same day as the prime award. However, the final invoice should not be paid until all subagreement requirements have been met. The subagreement requires Subcontractors to label their final invoices as "FINAL". When submitted to Sponsored Projects, the final invoice should be accompanied by Attachment E "Subagreement Close-Out Certification", which not only provides assurance from the PI that all work has been satisfactorily completed, but also provides a checklist for the PI/Administering unit to help ensure that all close-out actions have been completed. If the PI/Department has problems collecting contract deliverables from the Subcontractor they should contact their

Contract and Grant Officer for help.

2. Procedure

PI/Administering Unit is responsible for:

- a. Review of subagreement to determine that all required deliverables have been submitted by Subcontractor and are acceptable;
- b. Review of final invoice and final financial report to ensure that:
 - 1) costs are acceptable;
 - 2) all costs were incurred within period of subagreement;
 - 3) amount of final invoice, when added to all previous invoices, does not exceed the total obligated amount of subagreement;
 - 4) sum of all invoices matches the "Total Expenditures" amount of the final financial report;
- c. Determining whether or not PI is satisfied with programmatic performance of Subcontractor and whether all technical reports have been received;
- d. Approving final invoice for payment, if satisfied with b. and c. above;e. Filling out Subagreement Close-Out Certification (Attachment E);
- f. Timely forwarding of invoice and Subagreement Close-Out Certification to Sponsored Projects.

Sponsored Projects is responsible for:

- g. Reviewing Subagreement Close-Out Certification;
- h. Determining whether Subcontractor is in noncompliance with any terms of subagreement;
- i. Discussing any potential problems with PI;
- j. Final approval of invoice, if appropriate;
- k. Forwarding approved invoice to Accounting.

Accounting is responsible for:

l. Review for SP approval, blocking and payment of invoices which bear agreement numbers in the range KK0000 to KK9999.

m. Returning invoices to administering unit if required approvals have not been obtained.

E. Indirect Costs

UCSB's new indirect cost agreement (effective 7/1/94 through 6/30/97) includes new wording regarding the assessment of indirect costs on subagreements. Prior to 7/1/94, indirect costs were assessed on the first \$25,000 of each subagreement, and on the first \$25,000 of each modification to a subagreement which increased both work and funding (intended for augmentations to the scope of work, not to incremental funding). Effective 7/1/94, indirect costs will be assessed on the first \$25,000 of each subagreement regardless of how it is augmented. This means that, while SP will issue a new subagreement instrument in the event of a renewal (whether or not the agency changes the award number), there will be no new assessment of indirect costs on the subagreement. This is provided that the new subagreement funds a "follow-on" of the work from the previous subagreement.

The assessment of indirect costs on the first \$25,000 of a Subagreement is to reimburse the University for the considerable amount of effort its personnel expend to establish and maintain a subagreement. The indirect costs which are assessed by a Subcontractor are to cover the indirect costs incurred by the Subcontractor to maintain the project at its facility.

VI. SUBAWARDS TO UC CAMPUSES

A. Overview

A subagreement is a contractual arrangement between The Regents of the University of California and another, separate legal entity. Because The Regents of the University of California comprises all nine campuses, it is inappropriate for an individual UC campus to issue a subagreement to another UC campus.

Therefore, in those situations where more than one UC campus is participating in an extramurally-sponsored project, a University-wide procedure has been established, called a "Multiple Campus Award" (MCA), to effect the transfer of programmatic work between campuses. The campus which receives the prime extramural award will be responsible for overseeing all work performed under that award. Any other involved UC campus, or "participating campus" (PC), will be responsible only for the portion of work transferred to it.

Although MCAs are not subagreements, and thus do not fall under the heading of procurement, they are addressed in this circular to help clarify the differences. Use of Part B of the RIS form is required for an MCA. MCAs have always been handled directly by Sponsored Projects.

Lastly, MCAs will not be assigned subagreement numbers, nor will funds allocated to

them be encumbered in the Accounting System.

B. Procedure

1. Issuing a Multiple Campus Award/PI/Administering Unit is responsible for:

a. When the PI is ready to initiate the MCA, Part B should be

completed and forwarded to SP. Part B must be accompanied by a budget and statement of work from the PC, or if already submitted, the most recent revisions thereto. Please note that without receipt of a completed Part B of the RIS form, SP will be unable to initiate the MCA;

c. Initiating request to agency for prior approval, when required

Sponsored Projects is responsible for:

d. Review of RIS and PC's proposal; e. Obtaining any necessary additional information for PI and/or PC

f. Determining whether prior agency approval is required;

g. Preparing MCA memorandum and forwarding it to PC;

h. Sending copies of the MCA memorandum to appropriate UCSB departments

Accounting is responsible for:

i) Transferring funds to PC in accordance with Accounting Manual Chapter F-351.

2. Monitoring Multiple Campus Awards

It is the responsibility of the PI to monitor the programmatic performance of the PC. This will normally be accomplished by the PI's review of all technical reports submitted by the PC.

Funding for MCAs is handled on a monthly basis via an intercampus transfer of funds. There are no invoices to review or approve.

In the event that programmatic performance is unsatisfactory, the PI must inform SP so that policy and regulatory requirements can be met.

3. Modification and/or Termination of Multiple Campus Awards - See Section V.C. above.

4. Closing out Multiple Campus Awards - Not applicable.

5. Indirect Costs on Multiple Campus Awards

Indirect cost (IC) are assessed by the University of California only as funds are expended and only at the rate approved for the campus at which the funds are expended.

For example: If an extramural research award is received by UCSB, which includes work to be performed by UCR, that portion of the work to be performed at UCSB will carry UCSB's current IC rate for research; the portion allocated to UCR will carry UCR's current IC rate.

James F. Case

Associate Vice Chancellor for Research

attachments