WSU POLICY FOR DEFICIT RESOLUTION

Overview

Financial management of sponsored projects resides with the Principal Investigator(s)/Project Director and their respective unit(s). It is incumbent on the faculty and/or staff who manage projects to:

1. Understand the budget as awarded and planned;
2. Monitor the financial activities on a timely basis; and,
3. Know the costing/budget policies associated with their programs.

With the exception of clinical trials, sponsored accounts are budgeted for the amount of funds authorized by the sponsor. The authorizations come in the forms of grants, contracts or other types of agreements and identify the maximum reimbursement the University can expect. A single program may have periodic, e.g. annual, authorizations or be funded entirely at the initial award stage. Regardless of the award mechanism, Sponsored Program Administration will establish the project within the University financial system (BANNER) for the level of funding authorized. However, overspending does happen and this policy addresses the process for resolution of these 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.

Handling of F&A (Indirect) Costs Associated with Deficit

It is the policy of the University to exclude F&A charges associated with the deficit amounts. When deficits are incurred, only the direct portion of the deficit is subject to resolution. F&A deficits are absorbed internally. Additionally, WSU will not consider as a deficit any overexpenditure in the F&A budget line that occurs as a result of an F&A rate change or rebudgeting. If the deficit is the result of non-payment of an invoice or other reimbursable amount, the F&A on all unrecovered amounts will be absorbed centrally and not made a part of any deficit resolution.

Deficit Resolution Guidelines

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 no more than 120 days after the end date of a project.

Throughout the process, it is critical that communication between SPA, the PI and unit administrators (Deans, Chairs, and Departmental Administrators) be both timely and consistent. SPA will follow set of approved service standards throughout this process.

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

Budget Deficit: A *budget deficit* occurs when the direct expenditures of a project exceed the authorization. These are normally identified at the end of a project during the final financial reconciliation or at interim financial reporting. Deficits less than $250 are absorbed centrally by the institution. For deficits greater than $250, unrestricted funds must be used to cover the deficit. Unless other funds are identified, the amount of the deficit is the responsibility of the lead PI, his/her unit and the respective school/college and allocated equally to their respective F&A recovery indexes. If separate budget allocations and accounts were established for Co-Investigators, they and their respective units 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 the sponsor spending/costing principles. This situation may arise from a specific cost that is not allowable under the award principles 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 may not be reimbursed. (If this situation occurs, SPA will write the sponsor to obtain approval; however success may be limited.) The determination that unallowable costs have occurred may be performed by SPA or by an outside auditor and can occur at anytime throughout or after the end of a project. Similar to the budget deficit, the amount of the deficit is shared. However, these instances will be handled by splitting the deficit equally between the lead PI and his/her unit's respective F&A recovery indexes. If separate budget allocations and funds were established for Co-Investigators, they and their respective units will be held responsible for those deficits in those funds.

Uncollectible Invoices – Non-payment: A deficit resulting from an *uncollectible invoice* when the sponsor has filed for bankruptcy or is in financial straits is to be equally shared between three parties: the lead PI, his/her unit and the Office of the Vice President for Research (OVPR). To mitigate the deficit, PI's and his/her unit will be notified by SPA when any single invoice is more than 120 days past due. It will then be the responsibility of the PI and his/her unit either to stop work or to proceed at risk. If the decision is to continue the project, the PI and his/her unit will become wholly responsible for any additional deficit occurred after that determination.

Uncollectible Invoices – Non-performance: A deficit resulting from an *uncollectible invoice,* during the course of the accounts receivable follow-up by SPA, the sponsor has claimed that work has not been performed is to be borne by the PI. Unless other funds are identified by the PI, the amount of the deficit is transferred to their F&A recovery account.

Uncollectible Invoices – Timeliness/Non-compliant invoice: A deficit resulting from an *uncollectible invoice* when the invoice was submitted late or not in compliance with the contract is to be borne by the OVPR/SPA. However, this situation does not include those instances when expenditures are not posted timely, resulting in the late invoice. These situations are handled in the same manner as a budget deficit.

Appeal Process

The guidelines noted above define the standard practice for SPA. In any of these scenarios, one of the parties may feel that they were unfairly impacted. If this occurs, that party should appeal the process to the Office of the Vice President for Research who will make a final determination. ***Due to the nature of the conditions surrounding the situation, the Vice president for Research may seek advice from the Vice President for Finance.***

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