

Subawards and Vendor Contracts

Position Paper Prepared by Statewide Finance

The intent of this memorandum is to provide clear information that will enable university staff to distinguish between subawards (subrecipients, subagreements, subgrants, and subcontracts) in proposals and the acquisition of goods and services utilizing a vendor contract. The information in this document should help departments determine when these costs should be excluded from or included in the modified total direct cost (MTDC) basis on which the facilities and administrative rate (F&A) is charged in their proposal budgets. This document contains definitions of relevant terms, recommended accounting treatment for subawards and vendor contracts, and information on waiving F&A when a specific vendor contract for goods and services would result in an inequitable charge of F&A to a sponsored award.

Regulations and Compliance Issues

OMB Circular A-21 Section G.2 describes the modified total direct cost (MTDC) distribution basis that is used for assigning F&A costs to sponsored projects. This section also lists specific exclusions from MTDC that include equipment, capital expenditures, charges for patient care, tuition remission, rental costs, scholarships, and fellowships, and the portion of each subgrant and subcontract in excess of \$25,000. The subgrant and subcontract exclusion was added to the definition effective March 1979. The university is precluded from recovering F&A costs from federal sponsors on these MTDC excluded expenditures.

Universities are required to be consistent in their treatment of costs as a result of the incorporation of the Cost Accounting Standards into Circular A-21. The university must be consistent in its treatment of subawards and its treatment of acquisitions for goods and services in terms of charging F&A and treatment during the F&A rate development process.

General Information and Definitions

A subaward is defined as an award of financial assistance by a recipient to an eligible subrecipient or by a subrecipient to a lower tier subrecipient. Subawards include financial assistance when provided by a legal agreement, but do not include procurement of goods and services. Subawards also do not include payments for technical assistance, loans, loan guarantees, interest subsidies, insurance, direct payments of any kind to individuals, and any other contractual arrangement that are required to be entered into and administered under procurement laws and regulations. It is important to realize that a subaward may be

called a subcontract, subagreement, subrecipient agreement, purchase order, subgrant, etc. and it may look like a procurement agreement in format and language. The University considers subawards synonymous with the subgrants and subcontracts referred to in OMB Circular A-21.

According to Statewide Accounting Manual Procedure G-13, the University defines a subrecipient as a non-Federal entity that expends Federal awards received from a pass-through entity to conduct a substantive portion of the program or activity for which the original award was received for a federally funded program. In addition, subrecipients are required to meet compliance requirements, have their performance measured against meeting the objectives of the program, are responsible for programmatic decision making, and determining eligibility for assistance. For OMB Circular A-133 monitoring purposes, the university segregates other educational institutions, non-profit institutions, and state and local governmental subrecipients from other subrecipients in accounting for subawards.

A contractual arrangement to acquire goods or services required for the conduct of a sponsored program from a vendor is not considered a subaward. Vendors include dealers, distributors, merchants, or other seller's of goods and services. A vendor is distinguished from a subrecipient by the fact that a vendor provides these goods or services during the course of their normal business operations to many different customers. Additionally, vendors operate in a competitive environment, the goods and services provided are ancillary to the operation of the sponsored program, and the vendor does not have responsibility for adherence to program compliance requirements. Consultants are generally considered vendors because they are normally not receiving funds "to carry out" a part of the sponsored program.

Occasionally, an entity may be both a subawardee and a vendor on a sponsored project. For example, an entity is included on an award as a subaward conducting a piece of a research project that is part of the scope of work funded by a federal agency. The entity has responsibility for programmatic decision-making and is subject to compliance requirements for the work included in the subagreement. This work is clearly a subaward. In addition, the entity has a service center operation that specializes in constructing specialized research equipment that will be used by the university to carry out the sponsored work. The service center will construct the equipment based on university specifications and requirements. This is clearly an acquisition of a good not a subaward. Each of these costs will be accounted for differently as described later in this document.

Excluding Specific Non-MTDC costs on Sponsored Projects

OMB Circular A-21 also states that other items may only be excluded from MTDC where necessary to avoid a serious inequity in the distribution of F&A costs. Excluding specific costs from F&A that are normally included in MTDC results in an inconsistent treatment of similar types of costs and creates potential exposure of noncompliance unless the costs are incurred in unlike circumstances or including them creates a serious inequity in the distribution of F&A costs during the rate development allocation process. In order to ensure consistent treatment of costs, it is important that the University establish criteria and procedures to address the most common of these situations which involves vendor contracts for goods and services.

Criteria for Exclusion from MTDC for Vendor Procurements for Goods and Services

If a department believes that it has a contract for allowable goods and services that should not recover F&A costs on the excess over \$25,000, that department must be able to clearly demonstrate that the contract does not require the same level of F&A support as other contracts for goods and services.

To qualify for the exclusion, the vendor contract must meet the following criteria:

- The contract must be in excess of \$50,000.
- Normally, the primary administrative costs associated with the contract are only the initial costs incurred in the bidding process.
- Limited additional administrative costs will be incurred as a result of the short-term of the contract, few types of goods and/or services purchased, quantity of goods purchased is small, or the vendor will receive a small number of payments.

The unit should follow the same process used by their respective MAU for F&A waivers by providing a written request explaining the need and justification for exceptional treatment to their respective campus's Chief Financial Officer or authorized designee for review and approval. MAUs that currently charge a penalty to departments for waivers have the option of treating these situations as exceptions to those penalties.

Accounting for Subawards on Sponsored Projects

Sponsored project subawards are accounted for in specific account codes established to ensure that the university excludes subaward expenditures in excess of \$25,000 from recovery of F&A costs. For a subrecipient, the first \$25,000 of a subaward is recorded in account code 3021 and the balance of the subaward is recorded in account code 3022. For other entities, the first \$25,000 of the subaward is recorded in account code 3025 and the

balance in account code 3026. These account codes are described in the following excerpts from the Statewide Accounting Manual:

3021 Sub-agreement (Subrecipient) Under \$25,000 - Expenditures made under a sub-agreement with another entity, for the purpose of carrying out (part of) the program and where the entity is defined as a sub-recipient by OMB Circular A-133. To be classified as a sub-recipient the original funding must be federal or federal pass-thru (but not a fixed price contract), and the sub-agreement entity is an educational or non-profit institution or a state or local government - for further guidance see accounting manual G-13. Sub-recipients are generally named in the original award document or proposal. The expenditures charged to this account code must not exceed \$25,000 during the life of the agreement. The portion of the payments exceeding \$25,000 is to be charged to account code 3022. See Statewide Advisory Report 2003-1 for guidance. For use in restricted funds only.

3022 Sub-agreement (Subrecipient) Over \$25,000 - Expenditures made under sub-agreement with another entity, for the purpose of carrying out (part of) the program and where the entity is defined as a sub-recipient by OMB Circular A-133. To be defined as a sub-recipient the original funding is federal or federal pass-thru (but not a fixed price contract), and the sub-agreement entity is an educational or non-profit institution or a state or local government - for further guidance see accounting manual G-13. Sub-recipients are generally named in the original award document or proposal. These expenditures are excluded from the facilities and administrative cost recovery calculation using the MTDC method. The portion of the payments up to the \$25,000 is to be charged to account code 3021. See Statewide Advisory Report 2003-1 for guidance. For use in restricted funds only.

3025 Sub-agreement (Other) Under \$25,000 - Expenditures made under a sub-agreement with another entity for the purpose of carrying out (part of) the program but where the entity is not defined as a sub-recipient. Use account code 3021 if the entity is defined as a subrecipient – for further information see account code 3021 definition and procedure G-13. The expenditures charged to this account code must not exceed \$25,000 during the life of the agreement. The portion of the payments exceeding \$25,000 is to be charged to account code 3026. See Statewide Advisory Report 2003-1 for guidance. For use in restricted and segregated (14XXXX) funds only.

3026 Sub-agreement (Other) Over \$25,000 - Expenditures made under a sub-agreement with another entity for the purpose of carrying out (part of) the program but where the entity is not defined as sub-recipient. Use account code 3021 if the entity is defined as a sub-recipient - see account code 3022 definition and procedure G-13. The portion of the payments over \$25,000 is excluded from the facilities and administrative cost recovery calculation using the MTDC method. The portion of the payments up to the \$25,000 is to be

charged to account code 3025. See Statewide Advisory Report 2003-1 for guidance. For use in restricted and segregated (14XXXX) funds only.

Under a special agreement with Exxon Valdez Oil Spill Council (EVOS) the University is allowed to recover F&A costs on all direct costs except equipment for which ownership resides with the University and the subcontract cost exceed \$25,000. The first \$25,000 of the subaward is recorded in account code 3025. Subcontract costs in excess of \$25,000 but less than \$250,000 are charged a reduced F&A rate of 5 percent. These costs are recorded in account code 3026. Those subaward amounts in excess of \$250,000 are subject to a reduced F&A rate of 2 percent. These costs are recorded in account code 3027.

3027 EVOS Sub-agreement Over \$250,000 - Expenditures made under a sub-agreement with another entity for the purpose of carrying out (part of) the program but where the entity is not defined as a sub-recipient. The portion of the payments over \$25,000 are subject to reduced facilities and administrative cost recovery calculation by agreement with EVOS trustee council. The portion of payments over \$25,000 but less than \$250,000 recover at a reduced rate of 5%. The portion of payments over \$250,000 recover at a further reduced rate of 2%.. The portion of payments up to the \$25,000 is to be charged to account code 3025. The portion of the payments from \$25,000 to \$250,000 is charged to account code 3026. See Statewide Advisory Report 2003-1 for guidance. For use in restricted funds only.

Accounting for Procurements on Sponsored Projects

Expenditures for goods and services not meeting the criteria for a subaward are charged to the service or commodity account code that most closely describes what is being purchased. In addition, the University must be able to identify all unallowable costs so these types of costs require special handling and should not be charged to these specific account codes. Contact Statewide Office of Cost Analysis for guidance on accounting for any of these types of costs. All other expenditures for procurements of goods and services on sponsored projects that meet the criteria and are approved for exclusion from MTDC as explained previously should be accounted for in the following new account codes:

3028 CFO Approved Vendor Service Contract Under \$25,000 - Expenditures approved for a limited exclusion from MTDC under a contractual arrangement to acquire services necessary for the conduct of a sponsored program from a vendor which require less oversight and administrative burden than normally warranted. Vendors include dealers, distributors, merchants, or other seller's of services. The expenditures charged to this account code must not exceed \$25,000 during the life of the agreement. The portion of the

payments exceeding \$25,000 is to be charged to account code 3029. See Statewide Accounting Advisory Report 2003-1 for guidance. For subawards, use account code 3021 or 3025 – for further information see account code 3021 and 3025 definitions and procedure G-13. For use in restricted and segregated (14XXXX) funds only. Procurements using this account code require the approval of the MAU Chief Financial Officer or authorized designee.

3029 CFO Approved Vendor Service Contract Over \$25,000 – Expenditures approved for a limited exclusion from MTDC under a contractual arrangement to acquire services necessary for the conduct of a sponsored program from a vendor which require less oversight and administrative burden than normally warranted. Vendors include dealers, distributors, merchants, or other seller's of services. The portion of the payments over \$25,000 are excluded from the facilities and administrative cost recovery calculation using the MTDC method. The portion of the payments up to the \$25,000 is to be charged to account code 3028. See Statewide Accounting Advisory Report 2003-1 for guidance. For subawards, use account code 3022 or 3026 – for further information see account code 3021 definition and procedure G-13. For use in restricted and segregated (14XXXX) funds only. Procurements using this account code require the approval of the MAU Chief Financial Officer or authorized designee.

4028 CFO Approved Vendor Commodity Contract Under \$25,000 - Expenditures approved for a limited exclusion from MTDC under a contractual arrangement to acquire goods necessary for the conduct of a sponsored program from a vendor which require less oversight and administrative burden than normally warranted. Vendors include dealers, distributors, merchants, or other seller's of goods. The expenditures charged to this account code must not exceed \$25,000 during the life of the agreement. The portion of the payments exceeding \$25,000 is to be charged to account code 4029. See Statewide Accounting Advisory Report 2003-1 for guidance. For subawards, use account code 3021 or 3025 – for further information see account code 3021 and 3025 definitions and procedure G-13. For use in restricted and segregated (14XXXX) funds only. Procurements using this account code require the approval of the MAU Chief Financial Officer or authorized designee.

4029 CFO Approved Vendor Commodity Contract Over \$25,000 - Expenditures approved for a limited exclusion from MTDC under a contractual arrangement to acquire goods necessary for the conduct of a sponsored program from a vendor which require less oversight and administrative burden than normally warranted. Vendors include dealers, distributors, merchants, or other seller's of goods. The portion of the payments over \$25,000 are excluded from the facilities and administrative cost recovery calculation using the MTDC method. The portion of the payments up to the \$25,000 is to be charged to



University of Alaska
Statewide Accounting Advisory Reports
Report No.: 2003-1
June 11, 2003

account code 3028. See Statewide Accounting Advisory Report 2003-1 for guidance. For subawards, use account code 3022 or 3026 – for further information see account code 3021 definition and procedure G-13. For use in restricted and segregated (14XXXX) funds only. Procurements using this account code require the approval of the MAU Chief Financial Officer or authorized designee.

This advisory report is available on the [Statewide Accounting Manual](#) website. Please distribute this information to individuals on your campus that might benefit from this clarification. Contact the Statewide Controllers Office or the Office of Cost Analysis to discuss any issues not clear in this advisory report.