Standard Operating Procedures for Fixed-Price Sponsored Projects

Authority: **Director, Office of Post Award Financial Services**

History: **First Issued: September 1, 2013**
Last Updated: April 28, 2026

Related Policies: REG 10.05.13 – Sponsored Awards Fixed Price Projects

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Definition:
A fixed price agreement is one in which the sponsor pays a firm price for the agreed-upon work within an established timeframe, regardless of the ultimate cost to complete the project. Fixed-price agreements typically meet the following criteria:

1. No reference to costs being reimbursable
2. Not subject to Uniform Guidance (except agreements under $150,000, as referenced in the Uniform Guidance) or other terms referencing allowability of costs, including Cost Accounting Standards (CAS).
3. No reference to limitations on types of allowable expenditures or prior approval issues related to expenditures.
4. No reference to financial audit cost. Programmatic audits are acceptable.
5. No requirement to return residual funds and no specific requirement on the utilization of residual funds beyond the furtherance of the research. The absence of a term specifically allowing the retention of remaining funds does not preclude an agreement from being fixed price.

Fixed-price agreements are those in which a value (a fixed price) is determined for work to be accomplished. In general, payment for a fixed-price contract is usually tied to performance or deliverables. If the performance is not met, the sponsor is not obligated to pay. If the performance is met, the sponsor is contractually obligated to pay the amount specified in the agreement. There is a level of risk involved in Fixed Price Agreements because the institution is obligated to complete the work, even if the costs exceed the contracted amount. However, the institution may retain any cash balance remaining after the work is complete and all related expenses are paid and posted to the contract.

Funding requests must be within a reasonable range of actual anticipated expenditures. We do not accept fixed-price contract funding from sponsors based simply on market value (e.g., what might have been paid to other contractors) without regard to estimated costs, even if the sponsor is willing to pay it.

Normally, if a contract proposal is appropriately budgeted and all reasonable and allocable expenditures are posted to the contract account, the unexpended balance should be no more than 15% of the awarded amount unless there is justification.

Establishing a Fixed Price Agreement:
When a fixed price agreement is proposed, Uniform Guidance, as well as State and university policy, should be used as guides to determine allowable costs under the project. This will ensure that cost estimates are comparable to other University contracts and will provide a basis for determining the reasonableness of the total contract price. The Principal Investigator (PI) should work through their College Research Office, as well as the Office of

Sponsored Programs and Regulatory Compliance (SPARCS), during the planning stages of the contract development and negotiation to ensure the accuracy of contract terms and conditions, including deliverables, budget, and timeline. Facilities and Administrative (F&A) costs based on the University's cost rates must be included in every fixed-price contract proposal. The contract must be developed in such a way that the following criteria are met:

1. There will be sufficient funding to cover the project
2. A payment schedule should be clearly established to provide sufficient cash flow to keep the project on track to meet the completion deadline.
3. Deliverables and deadlines are reasonable and specific.
4. Include F&A Costs consistent with University Policy.
5. Should be void of any financial audit references.
6. Promises/commitments are achievable.

Monitoring the Fixed Price Agreement:
It is the responsibility of the Principal Investigator to monitor the timing of tasks, deliverables, and final reporting of results. This includes monitoring expenditures and receipts associated with the contract to ensure that costs are consistent with the budget and that sponsor payments are in accordance with the agreement. If there is a 15% cash surplus remaining on the project at termination, an explanation must be provided by the Principal Investigator to the Office of Post Award Financial Services during the closeout process to document the surplus. All applicable expenditures are required to be charged to the fixed-price project and certified as being complete before transferring residual funds.

Closing a Fixed Price Account:
Fixed-price projects should be "closed" within 90 days from the project end date. Note that the scope of work must be completed by the project end date and all related expenses charged to the award. After full payment is received from the sponsor, any excess cash will be distributed in the following manner:

1. The full F&A rate allowed by the agreement will be assessed on the remaining cash. Please note, remaining budget is not a basis for a transfer of residual funds.
2. Any remaining funds can be transferred to and used by the Principal Investigator if the transaction meets University and State purchasing guidelines. [Exception: if funds are being used as cost sharing on a Cost Accounting Standards (CAS) covered agreement, they must meet CAS guidelines.]

If there is a cost overrun in the fixed price account, the amount must be covered by the department and/or Principal Investigator, including F&A.