



# THE TEXAS A&M UNIVERSITY SYSTEM

## **Reporting Importance of the Schedule of Expenditures of Federal Awards (SEFA) By Texas A&M University Vice President for Research and the System Office May, 2015**

### **Questions**

What should universities exclude from the SEFA? State Comptroller's Reporting Requirements provide instructions on excluding "vendor services" revenues. Need to consider more factors before making the determination to exclude from the SEFA.

What if a federal sponsor issues their awards to university or agency as a procurement document and transaction (i.e., purchase order), but the services or work provided to the sponsor is not considered "vendor services" by the university or agency?

When can generic CFDA numbers (xx.000) be used?

### **Background**

As part of their mission, public universities and associated state agencies perform research to further the University's research mission by facilitating collaborations to grow federal funding; strengthening the research infrastructure; promoting the value of research; encouraging commercialization partnerships; and ensuring research compliance.

Universities are ranked, both nationally and internationally, according to Research & Development (R&D) expenses. In order to match and exceed the growth of other "competitors" the university must be successful in attracting federal research awards. Federal research expenses are a key measure in assessing institutional performance, and are a good measure of the institution's overall commitment to and success in research. It is an indicator of the institution's overall success in attracting external grant funding as well as the faculty that performs the research.

Federal R&D contracts (including purchase orders, task orders, or other agreement forms) are considered Restricted. They are restricted by external parties (sponsor). If there remaining balances they are reported in the restricted net position on the Statement of Net Assets. Projects and accounts managed by sponsored research administration offices at universities or



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federal appropriations which are managed by the fiscal offices are considered Restricted as well. While a federal agency may issue the university/agency a purchase order as the form of agreement, the R&D work being provided by the university or the agency is not normal vendor “goods and services.” A researcher or faculty member is providing some type of research expertise that a federal agency needs, and in many cases the researcher is responsible for any research results. The substance of the relationship is more important than the form of the agreement.

Depending upon the sponsor, federal contracts can impose a greater administrative burden on the institution than do grant awards, sometimes requiring quarterly or even monthly technical reports, quarterly property reports (title to equipment almost always vests in the government sponsor with contracts), annual summaries of disclosed inventions, detailed invoicing, etc. The federal government continues to implement government-wide research policies to protect animal and human subjects, govern financial conflicts of interest and misconduct in science, establish regulatory controls on exports, and tighten controls on the security of laboratory agents in response to terrorism. Some government sponsors also have mandated formal compliance programs, particularly in education and training, in specific areas of concern. In addition, certain purchase orders reference FAR and DFAR clauses that must be taken into consideration (i.e., terms regarding intellectual property, re-performance, specific audit language, etc.). The compliance burdens and costs associated with federal sponsored research are increasing, difficult to measure, and spread out among various departments on a campus. Federal contracts with various federal compliance requirements are not “goods and services” transactions.

Universities who are ranked in the top 25 for Federal Expenditures (refer to Appendix B) have included expenditures identified with generic CFDA numbers from various federally funded research labs in their Schedule of Expenditures of Federal Awards (SEFA).

Universities/agencies may also provide goods or services for federal sponsors or customers. When the transaction(s) is based on established rates and no contract is required, this type of activity would not be included on the SEFA. It would also not be considered “federal” revenues. This type of activity would be “goods and services” revenue.

**Characteristics of federal contracts and other agreements**, such as purchase orders, generally include (not every item is applicable to every contract):



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- Research & Development (R&D) work provided is not “normal”. Normal vendor services would include the purchase of goods or services, payment is made and the transaction is complete. Performance of a research project may cover an extended time period and will be determined by sponsor’s requirements as stated in the contract.
- Terms and conditions required are over and above a “normal” sales and service transaction. Every agreement or contract must be individually negotiated with the federal sponsor because the deliverables, including final technical reports, are unique to each sponsored project. The scope of work performed will vary for every contract depending upon the scientific expertise required and sponsor’s requirements.
- Federally negotiated indirect cost rate are normally applied to the project. Negotiated indirect cost rates are not normally applied to “goods and services” purchases.
- Universities and agencies do not actively advertise or compete against other universities/agencies in an effort to persuade and solicit sponsors to purchase “goods and services.” However, universities do submit grant proposals to external sponsors and respond to RFP’s (Request for Proposal) issued by federal sponsors.
- Work being provided requires a detailed budget with named personnel (faculty, graduate students, research staff, or other staff) and the amount charged for the work is not based on published rates.
- Time and effort reports are normally expected to be completed. Auditors from federal labs have asked the university/agency for Time & Effort reports, which are a requirement from OMB Circular A-21 and now Uniform Guidance.
- Agreements with federal labs to provide R&D work may reference the prime contract number from the federal sponsor that provides their funding.
- Audit requirements mandate an A-133 audit. The audit provisions of OMB’s [Uniform Guidance](#) (Subpart F) apply to cost-reimbursement contracts in addition to financial assistance awards.
- Prior sponsor approval of foreign travel is required as it relates to the contract.
- E-Verify requirements are present in the federal contract or agreement, and require that university/agency must verify whether employees working on the R&D project or contract are eligible to work in the U. S.
- U. S. Export control requirements are applicable to the agreement. Universities must comply with all applicable export controls, as established by federal regulations, to avoid severe institutional and individual sanctions for violations of export controls laws. R&D projects must be reviewed to determine if any exports require a license on certain items.



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- Other federal compliance requirements may be applicable to the contract work, such as:
  - a) Animal care and use
  - b) Human subjects in research
  - c) Financial conflict of interest
  - d) Misconduct in science
  - e) Good Laboratory Practices
  - f) Biosafety as it relates to bioterrorism, including those statutes that have been enacted since September 11, 2001, that impact colleges and universities.
- If the contract proposal is \$500,000 or more, the institution may be required to submit a “subcontracting plan.” In federal procurement transactions, there are certain minimum requirements regarding the inclusion of minority and disadvantaged businesses that the government imposes on itself and on all those to whom it issues contracts. A subcontracting plan is the proposed plan of action to ensure that as the institution procures goods and services, it is attempting to include a minimum number of minority and/or disadvantaged businesses as vendors.

## **Conclusion**

Federal R&D awards to universities and agencies associated with universities with characteristics listed above need to be included on the SEFA.

Federal agencies may issue purchase orders (procurement agreement) as a convenience for them in providing funds to U. S. universities. However when the project is managed as a sponsored research project and contains federal compliance requirements, the substance of the agreement and work performed is more than “goods and services.”

University national R&D rankings are impacted by the success in securing federal awards, both grants and contracts. An important indicator for membership in AAU (Association of American Universities) is based on federal research expenditures. Texas A&M University and University of Texas – Austin are both members of this by invitation to this prestigious association. It is critical to maintain the ability to report all federally funded research expenditures.

## **Answers to Original Questions**

What should universities exclude from the SEFA? Only exclude purchases for goods & services that occur in normal business. Often this type of service might have published rates that the institution/agency may use to charge all entities.



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What if a federal sponsor issues their awards to university or agency as a procurement document and transaction (i.e., purchase order), but the services or work provided to the sponsor is not considered “vendor services” by the university or agency? A purchase order alone is not enough to deem the contract to be recorded as ‘goods and services’. The contract must be analyzed to determine the substance of the work and if the contract contains A-133 requirements.

When can generic CFDA numbers (xx.000) be used? It is common for federal contracts to have generic CDFA numbers. National Labs often use generic CFDA numbers. Depending on whether the National Lab is associated with a university or a corporation, universities/agencies receive varying answers on whether A-133 requirements are applied. Best practice is to treat these activities as reportable on the SEFA and ensure compliance with the A-133 requirements.



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## APPENDIX A

### Definitions – From A-133 Audit Circular

Federal award means Federal financial assistance and **Federal cost-reimbursement contracts** that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities. **It does not include procurement contracts, under grants or contracts, used to buy goods or services from vendors.** Any audits of such vendors shall be covered by the terms and conditions of the contract.

Federal financial assistance means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individuals.

Federal program means:

- (1) All Federal awards to a non-Federal entity assigned a single number in the CFDA.
- (2) When no CFDA number is assigned, all Federal awards from the same agency made for the same purpose should be combined and considered one program.
- (3) Notwithstanding paragraphs **(1)** and **(2)** of this definition, a cluster of programs. The types of clusters of programs are:
  - (i) **Research and development (R&D);**
  - (ii) Student financial aid (SFA); and
  - (iii) "Other clusters," as described in the definition of cluster of programs in this section

Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-Federal entity. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research



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directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes.

Subrecipient means a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.

Vendor means a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a Federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the Federal program.

§ \_\_\_\_\_.210 Subrecipient and vendor determinations.

- (a) General. An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a Federal award or a payment for goods and services.
- (b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:
- 1) Determines who is eligible to receive what Federal financial assistance;
  - 2) Has its performance measured against whether the objectives of the Federal program are met;
  - 3) Has responsibility for programmatic decision making;
  - 4) Has responsibility for adherence to applicable Federal program requirements; and
  - 5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.
- (c) Payment for goods and services. Characteristics indicative of a payment for goods and services received by a vendor are when the organization:
- 1) Provides the goods and services within normal business operations;
  - 2) Provides similar goods and services to many different purchasers;
  - 3) Operates in a competitive environment;



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- 4) Provides goods or services that are ancillary to the operation of the Federal program; and
  - 5) Is not subject to compliance requirements of the Federal program;
- (d) Use of judgment in making determination. There may be unusual circumstances or exceptions to the listed characteristics. **In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement.** It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor

Basis for determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, **cost-reimbursement contracts**, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or consumption of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and, the period when insurance is in force.

Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.



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- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or **other identifying number when the CFDA information is not available**.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.
- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.



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## **APPENDIX B**

### **From Review of Federal Audit Clearinghouse – Reviewed latest reports available**

**<https://harvester.census.gov/idds2013/FY2013.aspx>**

Universities that are “top” universities in Federal funding from NSF HERD Survey rankings have included Sandia National Lab and other DOE national labs expenditures on SEFA for purchase orders:

1. Johns Hopkins – Used generic 81.000 and identified and R&D – Other
2. University of Washington (Statewide audit) – Used generic 81.000
3. University of Michigan, Ann Arbor- Used generic 81.000
4. Stanford University – Used generic 81.000 and specifically identified Sandia NL Purchase Orders and several other national labs
5. University of Pennsylvania – Used generic 81.000
6. Columbia University, City of New York – Used generic 81.000 and specifically identified Sandia NL Purchase Orders and several other national labs
7. University of California System – Used generic 81.000 for DOE labs, including PO numbers listed from Sandia National Labs
8. State of North Carolina – Have multiple lines of 81.000 with “U. S. Department of Energy”
9. University of Pittsburgh – Used generic 81.000 labeled as “Department of Energy”
10. Harvard University – Used generic 81.000 for federal DOE labs contracts and other agreements
11. Duke University – Used generic 81.000 with Sandia NL
12. Pennsylvania State – Used generic 81.000 for Sandia NL, including purchase orders
13. State of Wisconsin (University of Wisconsin – Madison) – Used generic 81.000 for DOE national labs, including Sandia and have aggregated total R&D for each lab on one line.
14. State of Georgia (Georgia Institute of Technology) - Used 81.000 – “Other Federal Assistance”
15. Yale University – Used 81.000 for DOE national labs
16. University of Minnesota, Twin Cities – Used 81.000 and label “Department of Energy”
17. Massachusetts Institute of Technology – Used 81.000 for Sandia NL and have also shown purchase order ID number



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18. University of Illinois, Urbana – Champaign – Used 81.000 and labeled “Department of Energy (Non-Specific)”
19. Ohio State University – Used generic CFDA 81.000 and labeled “US Department of Energy”
20. Cornell University – Used generic CFDA 81.000 for federal labs, including Sandia NL
21. Vanderbilt University – Used generic CFDA 81.000 for “Unknown” Federal program name and have DOE national labs expenditures
22. University of Southern California – Combined into one line for Sandia National Labs with 81.000
23. Washington University, St. Louis, Missouri – Used generic 81.000 for Sandia National Lab and other DOE labs
24. Northwestern University – Used generic 81.000 with PO numbers
25. Emory University – Used generic 81.000 for DOE labs
26. University of Maryland, College Park (Statewide audit) – Used generic 81.000 and shows funding from DOE labs as “pass through”; have included Sandia NL.
27. University of Arizona (Statewide audit) – Used generic 81.000 and shows funding from DOE labs, including Sandia NL
28. University of Colorado, Boulder (Statewide audit) – Used generic 81.000 and shows funding from DOE labs, including Sandia NL with PO numbers. Also showed expenditures for 81.000 as “Unclassified Grants and Contracts”
29. State of Texas (includes public universities in Texas) – Have included numerous agreements identified as 81.000 with various federal Department of Energy labs, such as Sandia NL, FermiLab, Los Alamos, UChicago Argonne, Lawrence Berkeley NL



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## APPENDIX C

### Reporting Requirements for Fiscal 2014 – Annual Financial Reports of State Agencies and Universities

SEFA – Interagency Federal Pass-Through Relationships

<https://fmx.cpa.state.tx.us/fmx/pubs/afrrptreq/sefa/index.php?section=pass-through&page=relationships>

#### **Research & Development (R&D) Relationships**

If the transaction is a typical vendor relationship, but the ultimate expenditure will be reportable in the SEFA R&D cluster, the expenditure is reported as federal interagency pass-through for agencies and direct expenditure for universities. This treatment allows the public universities in Texas to report additional federal R&D expenditures — improving their national R&D matrix/ranking.

OMB Circular A-133 defines:

- **R&D** — all research activities (both basic and applied) and all development activities performed by a non-federal entity.
- **Research** — a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term *research* also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.
- **Development** — the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems or methods, including design and development of prototypes and processes.

Notes to SEFA – Note 2: Reconciliation

[https://fmx.cpa.state.tx.us/fmx/pubs/afrrptreq/sefa/index.php?section=sefa\\_notes&page=sefa\\_notes](https://fmx.cpa.state.tx.us/fmx/pubs/afrrptreq/sefa/index.php?section=sefa_notes&page=sefa_notes)

The SEFA Web application allows the entry of the legitimate reconciling items below. Not all of these items will be applicable to every agency.

- Federal revenue received where a vendor relationship exists between the agency and the federal government
- Federal revenue received on the fixed fee basis contract