

Overdrafts, Bad Debts and Audit Disallowances on Sponsored Programs

SPA-11-009

About This Policy

Effective Dates:

10-03-2011

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Responsible University Administrator:

Vice President for Research

Policy Contact:

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Scope

This policy applies to all Indiana University faculty and staff involved in the fiscal operations and administration of grants and contracts or otherwise with the authority to incur expenses under grants and contracts.

Policy Statement

It is the policy of Indiana University that the Responsibility Center with prime responsibility for managing a sponsored award is financially accountable for all overdrafts, bad debts, and audit disallowances related to the award. The Responsibility Center is responsible for finding a suitable source of funds to cover the overdraft or audit disallowance. These funds may come from other unrestricted funds available to the principle investigator, department, school/responsibility center or campus but not from other sponsored programs.

Reason For Policy

The purpose of this policy is to identify responsibilities and a process for the resolution of cost overdrafts and audit disallowances on restricted grants and contracts. This policy provides guidance to ensure best practices in the fiscal management of grants and contracts at Indiana University and to meet requirements of Office of Management and Budget Circular A-21 and other sponsoring agencies and to, specifically, identify responsibilities and processes for the handling of cost overdrafts, bad debts and audit disallowances.

Procedure

Departments should monitor and reconcile grant account financial statements on a monthly basis at a minimum.

Overdrafts on grant accounts should be identified and rectified as soon as possible, moving the costs to the appropriate account. Care should be taken to ensure the costs are identified and moved in a timely manner. Cost transfers in general, and late cost transfers in particular (those occurring more than 90 days after the original expenditure was posted to the account), are heavily scrutinized by auditors. Cost transfers to correct an overdraft are subject to the [Cost Transfer Policy](#).

Audit disallowances must be transferred from the grant account to an unrestricted account, and may not be transferred to another grant account.

If work was completed satisfactorily, but the agency no longer has the financial means to honor the payment, this is considered a bad debt. ORA will typically pursue payment for 1 year from issuance or until written acknowledgement is received from the funding agency indicating payment is declined. When all measures to collect the funds have been exhausted and with full knowledge of the department, a credit memo utilizing a

departmental account will be initiated to write off the debt in the institutional financial system. Bad debts resulting from unpaid invoices shall be cleared from the account by offsetting the invoice with a credit memo using object code 5105.

If the project was completed but the agency refuses payment because of dissatisfaction with the work or end product, this is not considered a write-off. Rather, a credit memo will be initiated by ORA and a transfer of funds processed to cover the overage using a departmental account, similar to other overdraft resolutions.

Nothing in this policy shall preclude other units if Indiana University taking additional actions to recover the funds. For more information or assistance, please contact the Office of Research Administration.

Definitions

Audit Disallowance: Grant expenditures determined to be unallowable in an audit

Bad Debts: Any income due to the University under an award agreement that is deemed to be uncollectable.

Sanctions

Failure to adhere to the principles and processes in this policy may result in cost disallowances or reduced payments by the agency, audit findings, possible loss of funding or ORA's transfer of expenses to the Responsibility Center.

History

Replaces:

III-60: "Policies Related to Contract and Grant Administration: Overdrafts and Audit Disallowances"

Related Information

[IU Financial Policy FIN-ACC-I-490 Non-Student \(External\) Accounts Receivable, Annual Write-off Report](#)