

10.0 CLOSEOUT OF SUBAWARDS (09/09)

10.1 Information

All subawards must be processed for closeout and formally closed on a timely basis.

The requirements of the prime award under which a subaward is issued will be considered during the closeout process. MIT will not close out a prime award until all subawards issued under the prime award have been closed out.

Subaward administrators should begin subaward closeout actions immediately following conclusion of subaward period of performance.

A subaward may not be formally closed until all of the applicable closeout requirements have been accomplished.

10.2 Subaward Closeout Requirements

10.2.1 Verification with MIT Technical Representative

A. Deliverable Items. The purpose of this requirement is to confirm that subaward effort has been completed and that items/services contracted for have been delivered/ performed. To fulfill this requirement, Form 10.2B, **Closeout of Subaward** is prepared and forwarded to the MIT technical representative. The technical representative is requested to advise, by completing the form, if he/she has received all deliverable items/services in accordance with the terms of the subaward. If any deliverable item/service has not been received/performed, the subaward administrator will coordinate this with the subawardee and will withhold payment of the final invoice until all deliverable items/services have been received/ performed.

B. Inventions or Discoveries. Form 10.2B also requests that the technical representative advise whether any invention or discovery were conceived or first actually reduced to practice in the performance of work under the subaward, regardless of whether or not the subawardee files a patent application. Information from the technical representative will be compared to the formal report of inventions, discoveries and patents, which will be obtained from the subawardee.

C. Residual Property. Form 10.2B also requests that the technical representative advise as to whether any residual property including equipment, supplies or materials furnished to or purchased by the subawardee under the subaward remain at the subawardee's facility. Information from the technical

representative will be compared to the formal report of residual property, which will be obtained from the subawardee and any differences reconciled with the subawardee.

10.2.2 Items Provided by the Subawardee

A. Report of Patents, Inventions or Discoveries

1. The Patent provisions of Institute subawards require that the subawardee furnish patent information related to effort performed. In accordance with this provision, the subawardee must (i) disclose any invention or discovery conceived or first actually reduced to practice in the performance of work under the subaward, regardless of whether or not the subawardee files a patent application, or (ii) provide a formal negative report containing the assertion that no invention or discovery was conceived or first actually reduced to practice in the performance of work under the subaward.

2. To fulfill this requirement, Form 10.2C, **Final Payment Under Subaward**, is sent to the subawardee to advise that final payment under the subaward is dependent upon submission of a report of inventions, discoveries and patents.

3. Upon receipt, the subawardee's report is compared to the information provided by the MIT technical representative. Any differences are reported to the MIT Technology Licensing Office and the Office of Sponsored Programs.

4. A copy of the subawardee's report is furnished to the Office of Sponsored Programs for coordinating contract patent closeout requirements with the MIT Technology Licensing Office.

B. Report of Residual Property

1. The Property provisions of Institute subawards require that the subawardee submit inventory schedules of all items of residual property remaining at the subawardee's facility.

2. Form 10.2C informs the subawardee that final payment under the subaward is dependent upon submission of the residual property inventory.

3. Upon receipt of the subawardee's report, it is compared with information that was provided by the MIT technical representative. (Any discrepancies must be coordinated with the technical representative and the subawardee and, if necessary, a corrected report obtained.)

4. Where the subawardee submits a listing of residual items, disposition is made in accordance with applicable MIT policies and Sponsor Regulation and/or the terms of the prime contract.
5. A copy of the subawardee's listing of residual items is forwarded to the MIT technical representative and Property Office's property auditor.

C. Subcontractor's Release Forms. Where applicable, the subawardee should submit a Subcontractor's Release Form and Subcontractor's Assignment of Refunds, Rebates, Credits and Other Amounts. Copies of these forms are included as Form 10.2F and Form 10.2G.

D. Final Invoice Submission. Form 10.2C also advises the subawardee that final payment under the subaward is dependent upon submission of a final invoice.

10.2.3 Closeout Cost and Price Analysis and Audit of Subawardee.

A. In accordance with the Payment provisions of MIT subawards, final payment may not be made until a final assessment of total cost incurred under the subaward has been completed. It is MIT's responsibility to perform some type of evaluation of the costs incurred on all cost-type subawards prior to final closeout. This evaluation may range from a desk review to a full audit of the subawardee's direct and indirect costs. The level of review to be performed is determined by a risk assessment performed by the subcontract administrator. This risk assessment is based on such factors as the amount of the subaward, prior reviews performed, the subawardee's performance on this or other subawards, the subaward type, the type of subawardee organization and the provisions of the subaward. For those subawards with a total value in excess of \$500,000, an audit will be requested or performed.

B. When the risk assessment indicates an audit is required the following steps will be taken:

1. For subawardees that are nonprofits, hospitals, and institutions of higher education, and have negotiated forward pricing rate agreements with the cognizant administrative federal agency, the indirect rates invoiced will be verified to the rate agreement letter. In addition, for those subawardees that are subject to OMB circular A-133 audits, the audit results for each year in which significant costs are incurred will be considered at the time of closeout to determine whether there is a material impact on the specific subaward being closed out.

2. For those subawardees that are not subject to an OMB circular A-133 audit, where possible MIT will request an assist audit of the subaward from the subawardee's administrative contracting officer (ACO) through the MIT ACO at the Office of Naval Research. If such an assist audit is not available, MIT or its designee will perform an audit of the subawardee. When the audit report is received, it will be used as the basis for establishing or negotiating final total subaward costs.

3. At the end of each year, a list of multiyear subawards to subawardees that are expected to require final audits as described item 2 will be created. A copy of the indirect rate submission will be requested, an audit request will be submitted to the ACO or an audit will be conducted during each year that the subaward is active. In the final year of the subaward performance, the subcontract administrator will evaluate the indirect cost submissions and audit results received to date and, where possible, apply the quick closeout procedure described in FAR 42.708.

C. When the risk assessment indicates that an audit is not necessary, a desk review consisting of the following steps will be completed:

1. Comparison of the invoiced overhead rates to those included in the subawardee's pricing proposal and supporting documentation and a reconciliation of any differences.

2. Comparison of the total amount of the subaward to the ceiling price to determine whether or not it has been exceeded.

3. Overall analytical review of the final invoice for reasonableness and accuracy.

4. Any questions or exceptions that arise as a result of the desk review should be discussed with the appropriate OSP management and, if possible, negotiated with the subawardee. If necessary, an audit may be requested at this point in accordance with the procedures listed above.

10.2.4 Closeout of Level of Effort, Time and Material and Fixed Price Subawards:

A. Level of Effort/Labor Hour Subawards:

1. Verify that the labor hours have been reviewed and accepted by the MIT technical representative (i.e.: by way of invoice approvals).
2. Verify the labor rate is in accordance with the rate negotiated during placement of order.
3. Verify that any other requirements contained in the subaward provisions have been completed.

B. Time and Material Subawards:

1. Material Costs and Labor Hours: Verify that the material costs and labor hours have been reviewed and accepted by the MIT technical representative (i.e.: by way of invoice approvals).
2. Labor Rate and Indirect rates (if applicable): Verify these rates are in accordance with the rates negotiated at placement of order. Review the total material expenditure to determine if the costs are reasonable and consistent with the vendor's proposal estimates.

C. Fixed Price Subawards:

1. Verify that all deliverables included in the subaward statement of work have been received and accepted.
2. Verify that the total costs invoiced do not exceed the total price of the subaward.

10.2.5 Interim Subaward Change Order/Amendment to Deduct/Add Funds - Pending the Establishment of Actual Burden Rates and the Performance of Completion Audit

- A. Form 10.2C requests that the subawardee provide, for a subaward which was based on the use of provisional burden rates, an estimate of MIT's maximum obligation under the subaward, consisting of all direct and indirect costs incurred, modified to reflect any projected revisions of burden rates.

B. The reason for this is that the establishment of final, actual burden rates and the performance of a completion audit can take as long as one year and sometimes longer. During this waiting period, the remaining funds under the contract under which the subaward was issued could be expended in full, and/or the contract could expire.

C. Therefore, where a subaward cannot be closed without the establishment of actual burden rates and a completion audit, to ensure the return to the department or laboratory of excess and not required subaward funds (to enable other uses for these funds), or to commit and preserve additional contract funds which may be required because of an overrun of subaward costs - the issuance of an interim subaward change order/amendment may be warranted.

10.3 Subaward Closeout Processing

10.3.1 Final Invoice - Processing and Payment

A. Final invoices are processed as follows:

1. Amounts billed (costs, cost share and fixed fee) are reviewed with special regard given to final cumulative totals. Final amounts billed, when added to amounts previously processed, must be identical to (i) cost allowed by the government audit agency and/or negotiated by the subaward administrator plus fixed fee (if any) provided under the subaward, and (ii) amounts released on the MIT or subawardee's release form. Variances must be reconciled prior to releasing the final invoice for payment.

2. After review and verification of final amounts billed, final amounts available for payment (according to subaward and Accounts Payable records), the invoice is forwarded to Accounts Payable for payment.

In the case of subawardee overbilling (due to cost disallowance, downward burden adjustments, etc.), the subawardee must issue a credit and/or check to adjust the amount overbilled.

10.3.2 Final Amendment

After completion of all closeout items a final, closing change order/amendment is prepared, routed for review and signature/countersignature, and issued to the subawardee

for execution. This change order/amendment establishes the final total cost plus fixed fee (if any), the basis used for establishing final totals (audit/negotiation) and formally close the subaward. A final closing amendment is always required, whether or not the funding amount is changed.