

UD Service / Maintenance Contract Procedure Advance Payment on Sponsored Projects Internal Guidance

Service/maintenance contracts on sponsored projects are agreements with a vendor to perform services to ensure the equipment's satisfactory operation during the life of a sponsored project. There are two types of payment options for service/maintenance contracts: advance payment or a payment schedule. This guidance addresses advance payments for equipment contracts.

Advance payment can be advantageous if the vendor offers a significant discount for early payment. The vendor may also require advance payment. Advance payment requires documentation to support why this payment option is required and/or necessary.

If it is determined that advance payment is the optimal course, it must be reasonable, allowable, allocable, and applicable to the sponsored project. To confirm this, the following questions should be considered:

- 1) Was the associated piece of equipment charged to the project?
- 2) Is the service/maintenance contract important, necessary, critical, or vital to the continued operation of the equipment?
- 3) What are the implications to the sponsored project if the service/maintenance contract is forfeited?

To be in compliance with Uniform Guidance – [Subpart D, E, & F](#), this documentation should be included in the UD Exchange (UDX) requisition request. A document may be attached, or a comment can be included on the requisition (for example):

“This contract is vital to the project due to [INSERT EXPLANATION]. Research would halt with any delay due to equipment malfunction because [INSERT EQUIPMENT NAME] is necessary and integral to project to [INSERT EXPLANATION].”

If the vendor requires advance payment, and there were no other qualified vendor options, please add a note to UDX regarding that. After determining the service / maintenance contract is essential to the project, appropriate allocation of the cost can be managed according to the term of the contract:

- 1) Contracts covering twelve months or less; or
- 2) Multi-year contracts covering more than twelve months.

Contracts covering twelve months or less

Service/maintenance contracts that cover twelve months or less can be charged directly to the sponsored project within the same budget period as paid.

Multi-year service/maintenance contracts covering more than twelve months

Multi-year service/maintenance contracts on sponsored projects are allowable. In the event of a multi-year contract, it is recommended, if possible, to seek quarterly or annual payment.

- 1) If a multi-year contract is advantageous to the project, the justification (cost, service level, etc.) must be provided in UDX for review and approval by the Research Office. The period approved will be allowable to the sponsored project as paid.
- 2) For multi-year contracts which are disallowed to be charged to the project under (1) above, the first-year costs may be allocated to the sponsored project as paid, while subsequent years must be allocated to a departmental non-sponsored source of funding. Subsequent year costs may be reallocated to the allocable sponsored project within each budget period corresponding to the service/maintenance contract as paid.

NOTE: the same principles above apply for service/maintenance contracts on a payment schedule, which typically would be on a schedule for payment either monthly, quarterly, or semi-annually within a 12-month period.

Cost allocation to the sponsor code will be as paid.

Service Contract Period	Budget Period Matches Service Period	Allocation of Costs to Sponsored Project	Allocation of Costs to non-sponsored Project
❖ 12 months or less or required multi-year			
Scenario 1	Yes	Full contract amount (as paid)	N/A
Scenario 2	No*	Full contract amount (as paid)	N/A
<i>*For contracts greater than 12 months, follow the multi-year guidance below.</i>			
❖ Multi-Year: Fully Allowable			
All Years	Yes	Full contract amount (as paid)	N/A
❖ Multi-Year: Partially Allowable			
Year 1			
Year 1	Yes	Full first year amount (as paid)	N/A
Year 1	No	Full first year amount (as paid)	Year 2 - Year 3 amount
Year 2			
Year 2	Yes	Cost transfer of Year 2 amount, as paid or one year from last payment	N/A
Year 2	No	Year 2 amount, as paid or one year from last payment	Year 3 amount
Year 3			
Year 3	Yes	Cost transfer of Year 3 amount, as paid or one year from last payment	N/A
Year 3*	No	Year 3 amount, as paid or one year from last payment	N/A
<i>*Continue this allocation method if the contract exceeds 3 years.</i>			

Example Scenarios

Example 1 – Twelve-month contract or less

Invoice received: 03/12/2023
Federal Award: 9021086936
Award period: 03/01/2021-08/31/2025
Maintenance contract period: 04/01/2023-03/31/2024
Annual Maintenance Total: \$18,500.00

Accounting: Charge \$18,500.00 to award in March 2023 (when invoice received)

Sticking with the main example above, except changing the what ifs below:

What if: invoice received 06/01/2023 and contract period was 06/01/2023-05/31/2024.

Accounting: charge \$18,500.00 to award in June 2023

What if: invoice received 06/01/2023 and contract period was 06/25/2023-05/24/2024.

Accounting: charge \$18,500.00 to award in June 2023

What if: invoice received 10/01/2024 and contract period was 10/01/2024-09/30/2025.

Accounting: charge 11/12ths of \$18,500 to award in October 2024 (award ends 08/31/2025)

Example 2 – Multi-year contract

Invoice received: 05/12/2023
Federal Award: 5021086639
Award period: 07/01/2022-06/30/2026
Maintenance contract period:
Year 1: 04/17/2023- 04/16/2024; \$75,250.25
Year 2: 04/17/2024- 04/16/2025; \$79,440.48
Year 3: 04/17/2025- 04/16/2026; \$80,996.75
Annual Maintenance Total: \$235,687.48

Example 2: Accounting- if allowed in full:

Charge full contract amount, \$235,687.48, to award in May 2023 (when invoice received)
(Allowed in full: justification provided for vital criteria/implications to sponsored project)

Example 2: Accounting- if disallowed in full:

Charge Year 1, \$75,250.25 to award in May 2023 (when invoice received)
Charge Years 2-3 total, \$160,437.23 to a department discretionary code in May 2023 (when invoice received)

NOTE: with multi-year contracts, the out years charge must be allocated to a **department discretionary** purpose code and reallocated to the award yearly corresponding to the service contract year making sure it falls within the award period.

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