

# Cost-Reimbursement or Fixed-Price

- Cost-Reimbursement
  - Generally for non-commercial items which cannot be based on reasonably definite functional or detailed specifications (i.e., R&D).
  - Subrecipient works until funds are exhausted – no requirement to complete SOW. There is no incentive for subrecipient to control costs, thus administrative controls are greater (e.g., audit and prior approval).
  - Payment is usually tied to expenditures
  - If subaward ends prior to full expenditure of estimated subaward cost, unexpended funds must be returned.
  - If prime is cost-reimbursement, generally use this type for subawards, unless greater control over subrecipient is desired.
  - Although not prohibited, it is inadvisable to issue a cost-reimbursement subaward under a fixed-price prime – it can place a great financial burden on the prime recipient. For example, if the prime recipient is receiving scheduled payments under a fixed-price award, but is required to reimburse the subrecipient based on expenditures incurred, its very possible that the prime recipient could be required to pay out to the subrecipient more funds than have been made available by the federal sponsor.
- Fixed-Price
  - Generally for procurement of commercial supplies or services on the basis of reasonably definite functional or detailed specifications.
  - Subrecipient must complete all deliverables within subaward price - imposes maximum incentive to control costs, but with minimum administrative burden.
  - Payment is usually tied to acceptable deliverables.
  - If subrecipient meets all subaward requirements below subaward price, keeps unused portion.
  - Use a fixed-price subaward, under a cost-reimbursement prime, when greater control over subrecipient is needed. Examples include: a subrecipient with a poor history of performance; subrecipients without adequate financial or administrative controls; and foreign subrecipients, especially those in unstable political or financial environments.
  - Recommended for use when subrecipient does not have minimum financial and administrative controls.