

**PROCEDURE NUMBER:** FINA 3.00 Procedure

**SECTION:** Administration and Finance

**SUBJECT:** Sponsored Awards – Termination and Closeout Costs

**DATE:** September 1, 2025

**REVISION:**

**Procedure for:** All Campuses

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**Issued by:** Administration and Finance – Controller’s Office

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## **Procedure Statement**

The University Administration and Finance Division, Controller’s Office, will ensure compliance with University Policy FINA 3.00. This procedure is applicable to campuses, units, departments, centers, Principal Investigators (PIs), and administrators at the University who are involved with the initiation, administration, and conduct of sponsored awards. The purpose of this procedure is to supplement the associated policy by providing additional detail and guidance on termination and closeout costs.

Termination costs are those incurred as a direct result of the termination of a sponsored project and must be necessary and reasonable to ensure an orderly shutdown of award activities. All requested termination costs are subject to sponsor approval and must comply with the requirements outlined in [2 CFR 200.472](#). All termination and closeout costs must be thoroughly documented and substantiated by the department. Unless explicitly approved by the sponsor, flat-fee coverage of termination and closeout costs is not appropriate. Costs in excess of the authorized award amount will not be paid. See below for further guidance.

### **A. Termination Costs**

The following requirements must be followed for the items are captured in [2 CFR 200.472\(a\)\(1\) through \(6\)](#):

- (1) **Common Use Items**: Recipients may not charge the sponsored award for items that could reasonably be repurposed or used elsewhere, unless retaining them would cause a financial loss. If the item is a common use item (e.g., computers, software, office suppliers, furniture etc.), the recipient must submit a signed statement attesting to why it

cannot be reasonably used on another project or activity. If retaining the item causes a financial loss, the recipient must submit documentation that substantiates such a loss (e.g., supplier return policy, inventory or disposal costs, depreciation loss, resale market analysis, etc.).

- (2) **Unavoidable Continued Costs**: Recipients cannot charge the sponsored award for costs that could have been avoided with proper planning and effort. Unless specified by the sponsor, in general, sponsors do not expect recipients to immediately halt all spending on the exact date of the termination. However, recipients must make efforts to stop incurring costs. Reasonable, unavoidable costs must meet the following criteria:

- There was a good faith effort to stop the cost,
- The cost was not the result of negligence or poor planning, and
- The duration and amount of the cost is reasonable.

The supporting justification and documentation must include:

- A signed explanation of why the cost could not be eliminated or reduced,
- The timeline of actions taken to discontinue the cost, and
- Other applicable substantiating documentation such as communications with the vendor, copies of cancellation requests, contracts of terms explaining minimum billings or penalties, etc.

- (3) **Special Tooling, Machinery, and Equipment**: The loss of useful value is generally allowable if the items are not reasonably capable of use in other work of the recipient. Supporting justification and documentation must be maintained and provided to the substantiate the criteria detailed in [2 CFR 200.472\(a\)\(3\)](#).

- (4) **Leases**: Rental costs that were reasonably necessary for the performance of the terminated sponsored award may be an allowable termination cost. The supporting justification and documentation must include:

- A copy of the lease agreement, clearly identifying the start and end dates, monthly rental amount, and cancellation terms,
- Documentation of attempts to mitigate the costs (e.g., copies of cancellation efforts/correspondence, notices to sublet, etc.) or a justification to use the space for other purposes, and
- A calculation and supporting rationale for the amount claimed.

If the space is used for other sponsored awards or purposes, the amount claimed must be reduced by that value. If claiming full rent reimbursement, the recipient must explain why the residual value is \$0 or minimal.

- (5) **Settlement Expenses**: Accounting, legal, clerical and similar costs that are reasonably necessary for termination and settlement of subawards, settlement claims related to the terminated award, and costs related to the disposition of property procured with federal

funds. If approved by the sponsor, recipients and subrecipients may charge certain professional and administrative costs. Below are examples of expenses that may be allowable:

- Preparation and presentation of settlement claims to the sponsor.
  - Allowable: Staff time for obtaining and compiling documentation, preparing justifications, completed sponsor-related forms.
  - Unallowable: Legal costs for appealing a termination or litigation; lobbying, fundraising, or public relations related to the termination; costs for programs or activities outside the approved scope of work.
- Termination and settlement of subawards.
  - Allowable: Legal review of subaward terminations, drafting subaward termination letters, calculating subaward amounts or penalties owed, administrative time for processing final subaward reports.
- Storage, transportation, protection, and disposition of property acquired or produced for the sponsored award (see [2 CFR 200.1](#) for the definition of property).

Supporting justification and documentation must be maintained and provided for all costs, including staff time (substantiated by appropriate timesheets and/or time and effort reports), fee documentation, invoices, etc.

- (6) **Subawards**: The recipient (or subrecipient) may request reimbursement under subawards or contracts for the allocable portion of the settlement that relates to the terminated sponsored award and the appropriate share of indirect costs. The subrecipient must clearly identify the portion of the claim relevant to the terminated award. Examples of allocable costs include final invoices for services or items procured under the approved scope of work and termination penalties incurred due to the cancellation of the legal agreement between the recipient and subrecipient or contractor.

For cost reimbursable awards, if advance payments were issued to the subrecipient prior to the termination date, the subrecipient is responsible for refunding the University the unspent portion of the advance payment, which will be returned to the sponsor accordingly. If the unspent funds are not refunded by the subrecipient, the department is responsible for covering the amount with departmental funds.

Only in certain limited circumstances is it allowable to incur termination costs after the submission of final financial reports. All these costs must receive approval from the sponsor and University Controller. In these instances, sponsors may provide approval for one-time payments before the award is closed.

## **B. Closeout Costs (of Terminations)**

Administrative costs associated with the closeout of a termination may be allowable, as captured in 2 CFR 200.472(b). The recipient and subrecipient may charge the sponsored award during the closeout for necessary administrative costs. These costs may include salaries of personnel preparing final reports, audit preparation, accounting and financial documentation, costs associated with the disposition of equipment and property, and related indirect costs. For salaries and wages, the recipient must provide a description of the duties and time required, which must be substantiated by appropriate timesheets and/or time and effort reports. For indirect costs associated with closeout activities, the recipient must provide a substantiating calculation, including the base and approved rate at the time of award.

The following costs are not permitted:

- Ongoing programmatic work,
- Publication and printing beyond the termination date,
- Preparation of final performance reports which are not required following the award termination,
- Public relations, fundraising, and lobbying,
- Indirect costs calculated on unallowable costs, and
- Duplicative costs, such as charging indirect costs and direct administrative time for closeout activities.

## **C. Roles and Responsibilities**

All parties should establish open communication with the sponsor to seek clarification and potentially negotiate remedies or adjustments. The following roles and responsibilities should be adhered to:

### PI and Departments

- Monitor closeout activity and expenditures, ensuring appropriate financial management and cost allowability and compliance with sponsor terms and conditions.
- Maintain appropriate documentation to support closeout activities.
- Immediately cease all activities related to the terminated portion of the sponsored award to avoid incurring further costs.
- Decide whether to challenge the termination or proceed with the closeout process.
- Submit all required performance reports according to the award and sponsor guidelines related to the termination.

### Controller's Office – Grants and Funds Management

- Track all expenditures associated with the sponsored award, ensuring compliance with applicable requirements and cost principles.
- Provide guidance to PIs and department regarding cost principles, as needed.
- Submit all required financial reports according to the award and sponsor guidelines related to the termination.
- Assess and document the financial and operational impacts of the termination on the organization.

### Office of Sponsored Awards Management

- Inform all impacted parties (e.g., departments, subrecipients) of the termination and instruct them to stop work.
- Ensure all parties have access to the termination documents.
- Assist the PI with sponsor communication, ensuring compliance with applicable requirements and cost principles.

## **D. Resources and Forms**

Resources, trainings, and guides can be found on the Controller's Office website under the Grants and Funds Management and Resources and Training Toolbox sections.

### **History of Revisions:**

<b>DATE OF REVISION</b>	<b>REASON FOR REVISION</b>
September 1, 2025	New Procedure