



Policy Number HJF-403	Policy Owner: VP Research Administration	Initial Issue Date: November 5, 2012	Approved By: President & CEO	Revision Number: 01	Revision Effective Date: August 9, 2018
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Subaward/Subcontract and Vendor Contracts Accounting Classification Policy

1. PURPOSE

The purpose of this policy is to set forth the criteria to be used to distinguish between subawards/subcontracts and vendor contracts when classifying Lower-Tier Agreements in the HJF accounting system. Accurate accounting classification of such Lower-Tier Agreements is essential to ensure accurate budgeting and reporting of costs. This is a significant decision because it influences the appropriate application of indirect cost rates, determines the level of monitoring required, and impacts the allocation of responsibilities within HJF.

2. SCOPE

This policy applies to HJF, including its wholly or majority owned affiliates and subsidiaries. HJF personnel who manage HJF's interests in HJF affiliates in which HJF is not the majority shareholder shall ensure that the entity adopts a policy that is substantially similar to this policy. Exceptions to this policy must be approved by the Chief Ethics & Compliance Officer, in consultation with the Legal Department and the Policy Owner.

3. DEFINITIONS

- 3.1. Lower-Tier Agreement** – Any agreement with another organization for the performance of work, or the furnishing of supplies or services under an award to HJF.
- 3.2. Pass-Through** – This concept relates to the level of HJF involvement in work to be performed by another organization to fulfill certain objectives and requirements of an award to HJF. To the extent HJF has minimal or no involvement in the work performed by the other organization in fulfillment of the objectives and requirements of the award to HJF (other than, for example, monitoring the third party's performance and administering the applicable agreement governing the relationship with the organization), the work is said to "pass-through" HJF from the other organization to HJF's sponsor or awarding agency.
- 3.3. The Principal Investigator/Program Director (PI/PD)** – the individual(s) judged by HJF and the sponsor to have the appropriate level of authority and responsibility to direct the project or program supported by an award to HJF.

4. RESPONSIBILITIES

- 4.1.** HJF employees responsible for making these classifications, in consultation with the applicable PI/PD or their designee, shall use his/her best judgment in documenting the substance of the relationship between HJF and the lower-tier organization relative to the work to be performed.
- 4.2.** HJF HQ management in Strategic Initiatives (SI) or Research Administration (RA), as appropriate, will review all pre- and post-award requests for Lower-Tier Agreements and will document final determination of whether a Lower-Tier Agreement should be classified as a "Subaward/Subcontract" or "Vendor Contract" in accordance with this policy.

5. POLICY

- 5.1. General.** The essence of the distinction between a subaward/subcontract and a vendor contract is based on the substance of the relationship between HJF and the lower-tier organization relative to the work to be performed by the lower-tier organization. In very basic terms, if HJF is acting as a Pass-Through, the Lower-Tier Agreement shall be classified as a subaward/subcontract. If HJF is not acting as a Pass-Through, the Lower-Tier Agreement shall be classified as a vendor contract.
- 5.2. Lower-Tier Agreements should be classified as a subaward/subcontract for accounting purposes when:**
 - 5.2.1. Issued under a government assistance agreement and the lower-tier organization:**
 - 5.2.1.1.** Has its performance measured against whether the objectives of the Federal program are met;
 - 5.2.1.2.** Has responsibility for programmatic decision making; and
 - 5.2.1.3.** Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the Pass-Through.
 - 5.2.2. Issued under a government contract and the lower-tier organization:**
 - 5.2.2.1.** Performs work or provides supplies/services that directly fulfills elements of HJF's scope of work and objectives under HJF's prime award; and
 - 5.2.2.2.** Provides deliverables either directly to the government customer or to HJF and HJF provides the lower-tier organization's deliverables as is on a Pass-Through basis to the government customer.
- 5.3. Lower-Tier Agreements should be classified as a vendor contract for accounting purposes when:**
 - 5.3.1. Issued under a government assistance agreement and the lower-tier organization:**
 - 5.3.1.1.** Provides the goods and services within normal business operations;
 - 5.3.1.2.** Provides similar goods or services to many different purchasers;

5.3.1.3. Operates in a competitive environment; and

5.3.1.4. Provides goods or services that are ancillary to the operation of the Federal program (i.e., provides goods or services that indirectly support or are secondary or subordinate to the scope of work of HJF's prime award).

5.3.2. Issued under a government contract and the lower-tier organization:

5.3.2.1. Performs work or provides supplies/services that is secondary and subordinate to, or indirectly support, HJF's performance of the scope of work and objectives of HJF's prime award; or

5.3.2.2. Provides deliverables that are modified and/or integrated into an HJF final product or deliverable provided to the government customer.

5.3.3. Issued under either a government assistance agreement or contract for contract labor of the "body shop" type that supplements and is used interchangeably with the program's regular work force under the same supervisors (i.e., labor brokerage services).

5.4. The substance of the relationship is more important than the form of the agreement in making the determination of whether a Lower-Tier Agreement should be classified as a subaward/subcontract or a vendor contract. It is not expected that all characteristics will be present; therefore, judgment should be used in determining whether a Lower-Tier Agreement is a subaward/subcontract or a vendor contract.

6. PROCEDURE

Detailed procedures, if applicable, are addressed separately in Subaward/Subcontract and Vendor Accounting Classification Standard Operating Procedure (HJF-403-P) and such other SOPs may be issued from time to time in furtherance of this policy.

7. ENFORCEMENT


Failure by HJF employees to comply with this policy may result in disciplinary action up to and including termination of employment.


8. ATTACHMENTS (if any)

None

9. EFFECTIVE DATE

This policy is effective as of the date set forth above and supersedes all prior policies on the subject matter hereof.


Joseph Carvalho, President & CEO 09AUG18


Policy Owner