BUSINESS AND FINANCE DEPARTMENT
Grants Accounting

Effective Date: October 1, 2026

GRANTS - BUDGET OVERRUN POLICY

Policy Number	557-01
Approval Authority	Chief Financial Officer
Responsible Administrator	Controller
Responsible Office	Business and Finance
Policy Contact	Director of Grants Accounting

1.0 POLICY STATEMENT

Tennessee State University is committed to the responsible stewardship of sponsored funds in accordance with sponsor requirements, federal regulations, and institutional policies. All sponsored awards must be managed to ensure expenditures do not exceed authorized funding. A grant budget overrun (deficit) occurs when cumulative expenditures exceed the total awarded budget or timely resolution of outstanding expenditures are not resolved. Sponsored funds must not carry deficit balances. Any overrun is considered unallowable to the sponsor and must be promptly removed and transferred to an appropriate non-sponsored funding source. This policy reinforces the University's commitment to fiscal integrity, transparency, and accountability, consistent with federal requirements under 2 CFR Part 200 (Uniform Guidance) and institutional standards.

2.0 IMPORTANCE AND REASON FOR THE POLICY

In accordance with OMB Uniform Guidance, the University must maintain effective financial management of sponsored awards and compliance with federal, state, and sponsored regulations to prevent disallowed costs and audit findings while protecting the University's financial position and reputation and ensuring sustainability of research and sponsored programs. Failure to adhere with this policy may result in administrative or corrective action in accordance with University policies and procedures, including but not limited to restriction of spending authority, escalation to leadership, and potential non-payment or disallowance of costs.

3.0 DEFINITIONS

Allocable Costs - Costs that provide a clear benefit to an award and can charged in proportion to that benefit.

Allowable Costs - Costs that meet Uniform Guidance criteria under 2 CFR 200.403–405, they must be necessary and reasonable, allocable to the award, consistent with the University's policies, treated consistently, adequately documented, and permitted by the sponsor and the award terms.

Administrative Requirements - Federal and sponsor-specific rules governing fiscal management, reporting, property management, and general award administration.

Audit Trail - A complete, organized record of documentation that supports every financial and programmatic action taken on the award. Required for audits, reviews, and closeout.

Authorized Budget – The total funding amount approved by the sponsor for a specific project period.

Budget Overrun (Deficit) – The amount by which expenditures exceed the total authorized budget for a sponsored project or expenditure resolved timely during the grant closeout period.

Closeout - The formal administrative process at the end of an award in which the University and the sponsor confirm that all financial, programmatic, property, and administrative obligations are met.

Cost Transfer – The reassignment of an expense from one funding source to another after the transaction has been recorded.

Direct Cost – Expenses that can be specifically identified with a particular sponsored project.

Disallowed Cost - An expense determined to be unallowable by the sponsor or auditor. Disallowed costs are absorbed by the University or department.

Financial Analyst - The University's staff member responsible for providing financial oversight, analysis, reconciliation, and compliance support for sponsored project accounts.

Grant Fund - is a restricted funding source established to account for financial activity related to a **sponsored award** received from an external entity (e.g., federal, state, local government, or private sponsor). These funds are governed by specific terms and conditions outlined in the award agreement and must comply with applicable regulations such as Office of Management and Budget.

Non-grant Fund - is a funding source that is **not tied to a sponsored award** and is generally used to support institutional operations, auxiliary activities, or internally designated purposes. These funds are governed by University policies rather than external sponsor requirements.

Obligation (Unliquidated Obligations) – Financial commitments incurred but not yet paid as of a reporting date.

Overdraft – A negative balance in a sponsored project account indicating a budget overrun.

Period of Performance - The time during which charges are allowed under an award. Begins on the official start date and ends on the official end date as defined in the award document. Costs incurred outside this period are unallowable unless explicitly approved.

Principal Investigator (PI) - The lead researcher and the individual primarily responsible for the design, execution, management, and oversight of a sponsored project.

Reconciliation - A systematic review comparing internal University financial records to sponsor records that ensures all charges are accurate, allowable, properly recorded, and consistent with award terms before closeout.

Restricted Funds - Funds that must be used for a specific purpose as defined by the sponsor.

Subaward Closeout - The process where the University collects final invoices, reports, and certifications from subrecipients and reconciles these before closing the prime award.

Subrecipient - An entity that receives a subaward from the University to conduct part of the sponsored project. The University is responsible for monitoring subrecipients and ensuring they complete closeout tasks.

Unallowable Costs - Expenses that cannot be charged to the award because they fail Uniform Guidance allowability criteria or are prohibited by sponsor terms.

Unobligated Balance - The portion of the awarded funds not obligated or spent by the end of the period of performance.

Unrestricted Funds – Institutional funds that are not limited by external restrictions and may be used at the University's discretion.

4.0 PROCEDURES

I. Principal Investigators (PIs) and departments are responsible for:

A. Monitoring grant activity on a monthly basis, at minimum, to ensure all expenditures are allowable, allocable, and within budget to maintain proactive steps to prevent budget overruns

B. Prohibition of deficits on sponsored funds to ensure they do not carry negative balances. Overruns cannot be charged to the sponsor and must be transferred to another sponsored project to eliminate the deficit. Any deficit identified is considered unallowable and must be corrected.

C. All grant budget overruns must be removed from the sponsored fund and transferred to an allowable non-sponsored funding source, including departmental operating budgets or specified designated or unrestricted funds.

D. Prior to final closeout, PIs and/or departments must formally acknowledge the identity of the budget overruns and the funding source that will absorb the deficit. This will ensure transparency, accountability, and alignment with sponsor expectations.

II. Grants Accounting is responsible for:

A. Performing regular monitoring and reconciliation of sponsored funds to identify deficits through monthly and year-end reviews.

B. Timely notification to PIs and departments of identified overruns requiring resolution. PIs and departments are expected to respond and take corrective action within 30 days of notification.

C. Will facilitate the transfer; however, financial responsibility remains with the PI and department.

D. Cost transfers must be completed in a timely manner (generally within 90 days) that include sufficient justification and support documentation. Cost transfers may not be used to resolve deficits without proper justification or in violation of sponsor requirements.

E. Documentation of reconciliation(s) performed no less than quarterly of sponsored accounts must be reviewed for accuracy and completeness and investigated to resolve discrepancies promptly.

F. To strengthen financial oversight, a mandatory budget overrun review 60 to 90 days prior to the grant end date is required to identify deficits, outstanding commitments, and unliquidated obligations. PIs and departments resolve deficits in advance or closeout or identify an approved funding source for any anticipated overruns.

III. Noncompliance and Consequences

Departments and PIs have a fiscal responsibility for resolving deficits. Failure to adhere to this policy may result in removal of unallowable costs from sponsored funds, escalation to departmental and executive leadership, increased monitoring or spending restrictions, audit findings, or questioned cost.

5.0 AUTHORITY AND REFERENCES

The Office of Management and Budget (OMB) Uniform Guidance - 2 C.F.R. Part 200 Subpart D (Post Award Requirements); Subpart E (Cost Principles); Subpart F (Audit Requirements)

6.0 HISTORY

Policy 5.11.16 Cost Overruns