

Office of Sponsored Programs
Procedure 30009 Letter of Credit or Federal Drawdown

Revision Date: 10/14/2016

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1. Introduction

Responsible Officials: Senior Director of Post Award

Effective Date: September 30, 1998

Revision Date: October 14, 2016

IMPORTANT: For federal awards/subawards issued to Virginia Tech with a start date prior to December 26, 2014, 2 CFR Part 215 (OMB Circular A-110) and 2 CFR, Part 220 (OMB Circular A-21) apply. For all new funds (new awards and new monies, such as continuation awards, supplements, etc. received for existing awards) with a start date on or after December 26, 2014, these new funds are subject to 2 CFR Part 200 (commonly referred to as Uniform Guidance—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) but hereinafter referred to as “2 CFR Part 200”).

Due to the change in federal regulations the language in this procedure specific to the new regulations, 2 CFR Part 200, is highlighted in red font below.

2. Scope

This procedure outlines the requirements necessary to initiate a federal drawdown of funds against a letter of credit (LOC) on federal sponsored awards. The procedure applies to activities within the Office of Sponsored Programs and Controller’s Office involving the administration or use of sponsored awards funded by LOC.

3. Procedure Statement

The Office of Sponsored Programs (OSP) functions as the steward of Virginia Tech’s research portfolio and is responsible for ensuring that all awards comply with university, federal, and sponsor regulations, policies, and procedures. Funding agencies have delegated to awardee organizations increasingly expanded administrative authority to approve certain actions. However, these funding agencies and 2 CFR Part 200.305 require an awardee to have written procedures related to cash management of awards. This procedure is established to comply and to minimize the time elapsing between the transfer of funds from the United States Treasury and their disbursement.

4. Reason for the Procedure

The purpose of this procedure is to outline the process associated with a drawdown against a LOC to assure the university's compliance with the terms and conditions of the sponsored award and federal requirements, where applicable.

5. Definitions

Drawdown: A request to transfer funds to reimburse allowable expenditures that the awardee (Virginia Tech) has accumulated under sponsored awards.

Letter of Credit (LOC): A letter from the bank that guarantees that wire payments from the sponsor's allocated funds to Virginia Tech will be received on time and for the correct amount.

Letter of Guarantee (LOG): serves as financial commitment from the department head/center director/dean's office requesting a LOG fund be established in advance of a pending award or pending transfer of an award from another institution. A LOG is established with the understanding that, should the award not be received or should the costs end up falling outside of the eventual award terms or performance period, the department will cover all unreimbursed expenditures from a fund source identified at the time the LOG is established (see [OSP 10003 Letter of Guarantee \(LOG\)](#)).

6. Letter of Credit Principles

- Drawdown of funds will be made as close as possible to the actual expenditure of funds, generally on a reimbursement basis to avoid excess cash on hand consistent with the terms of the LOC.
- In order to request payment of research expenditures in a timely manner, the drawdown of funds against each LOC will be processed every three (3) business days.
- Due care is exercised to ensure that funds are not drawn in advance of actual expenditures, unless requested by the sponsor or the Assistant Vice President for Sponsored Programs. If excess funds are drawn in advance, the university may be obligated to pay the sponsor interest on the advanced funds.
- Revenue is credited to an award in the university's financial records system (Banner) by an electronic process, OSP_LOC when a drawdown is indicated by a cash deficit condition in the fund. The corresponding debit posts to a separate clearing fund in Banner for each LOC where all pending receipts under that letter of credit are tracked.
- Monthly, the balance in each LOC clearing fund (normally zero excluding pending receipts) is reconciled to known pending drawdown receipts to identify any receipts that are unreasonably overdue or posting errors.
- While a single LOC usually supports all awards from a single sponsor, each individual award under the LOC is identified in the drawdown request, allowing federal sponsors to monitor expenditures on each individual award. Federal agencies (other than NSF) also require reporting LOC transactions via a Federal Cash Transaction Report (FCTR).
- The award expenditures reported on a project's Federal Financial Report (FFR) and the FCTR should agree. For this reason, drawdowns are generally timed for month end. If there is an unresolved discrepancy between the final reports, the federal agency will choose

the report with the lower expenditures. Most agencies allow 90 days to submit the final reports.

7. Controller’s Office Role

The Controller’s Office executes an electronic process, OSP_LOC, and routes the output to the OSP’s Finance Team upon request. The OSP_LOC process is not accessible on university or federal holidays or when the university’s financial records system (Banner) is not available. The process output lists each of the federal agency’s expenditures in a journal entry format.

8. Drawdown Process

A member of the OSP’s Finance Team uses the data output by OSP_LOC to perform the following duties:

- Assure that the correct account is listed with the correct LOC.
 - Review the program output for accuracy and determines the amount to draw from each sponsor.
 - Enter LOC drawdown requests online to the appropriate sponsor system.
 - When these wire payments are received through the federal Automated Clearing House (ACH), identify and code each payment with the appropriate LOC clearing fund number.
 - Review documentation for each wire payment, match it with the drawdown forms, noting and correcting any discrepancies, and file both in the corresponding LOC file.
 - Enter the wire information in Banner.
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9. References

- [2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(Uniform Guidance\)](#)
 - [OSP Procedure 10003 Letter of Guarantee](#)
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10. Contacts

- **Senior Director of Post Award**
Office of Sponsored Programs
North End Center, Suite 4200
300 Turner Street NW
Blacksburg, VA 24061
540.231.9372
 - **Assistant Vice President for Sponsored Programs**
540.231.5281
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11. Roles and Responsibilities

- **Office of Sponsored Programs Finance Team**
 - Establish necessary LOC documentation with the federal agency as appropriate.
 - Prepare, review and correct as necessary any LOC activity.
 - Monthly, reconcile the balance in all LOC clearing funds in Banner.

12. Dissemination

This procedure may be posted on a Virginia Tech internet accessible site. No public restrictions are noted.

13. Approval and Revisions

This Procedure has been approved by the Director, Office of Sponsored Programs on 9/30/98.

Revised on 7/15/03.

Revised on 10/3/2011 and approved by the Assistant Vice President for Sponsored Programs Administration

This procedure was updated to reflect current working processes. This revision was approved by the Assistant Vice President for Sponsored Programs Administration, October 16, 2011.

Revision approved October 14, 2016 by Assistant Vice President for Sponsored Programs. This major revision updates the formatting of the procedure, brings the procedure into compliance with [2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(Uniform Guidance\)](#) and other minor edits for title changes and clarity.

The official version of this information will only be maintained in an on-line web format.

Any and all printed copies of this material are dated as of the print date.

Please make certain to review the material on-line prior to placing reliance on a dated printed version.
