

**ADMINISTRATIVE DIVISION** FINA Administration and Finance  
**POLICY NUMBER** FINA 3.50  
**POLICY TITLE** Pre-Award Financial Review of Nongovernmental Entities  
**SCOPE OF POLICY** USC System  
**DATE OF REVISION** February 5, 2025  
**RESPONSIBLE OFFICER** Executive Vice President for Finance and Chief Financial Officer  
**ADMINISTRATIVE OFFICE** University Finance – Controller’s Office

**PURPOSE**

This policy ensures the University proactively manages its risk exposure prior to entering into sponsored awards agreements with certain entities that pose a risk of nonpayment for sponsored awards.

**DEFINITIONS AND ACRONYMS**

**Nongovernmental Entity:** Commercial, philanthropic, or “other” entities formed independent of federal, state, or local government affiliation and/or influence.

**Pre-Award:** Activities that occur prior to the sponsored award’s execution (e.g., proposal creation/submission, award negotiations, etc.).

**Solvency:** The ability of a company to pay its debts and meet its financial obligations.

**Sponsored Award:** Funding from an external entity (e.g., federal, state, local, commercial, philanthropic, etc.) for an activity/project with a defined scope and purpose undertaken by the University with the expectation of an outcome that directly benefits the provider.

**POLICY STATEMENT**

When contracting with external sponsors, nongovernmental entities present the highest risk of nonpayment. A pre-award financial capability review should be completed by the Controller’s Office prior to accepting these sponsored awards. This process includes gathering and assessing data on a sponsor’s history of financial solvency. The assessment will enable the University to make a data-driven decision regarding the acceptance of a sponsored award.

**Financial Capability Review Requirements**

A financial capability review of all new nongovernmental entities will be completed by the Controller’s Office prior to the acceptance and execution of an award. This review will include an examination of the entity’s audited financial statements using ratio analysis. Any past payment delinquencies or defaults will also be considered during the review.

The results of the pre-award financial capability review will be used to determine under what circumstances the University will agree to a contract with the entity (e.g., acceptance, payment

terms, etc.). The Controller’s Office and the Office of Sponsored Awards Management (SAM) will collaborate on the reviews and contract terms for nongovernmental entities. For those entities with insufficient solvency, based on the ratio analysis, payment language will be incorporated into the contract to mitigate the risk of nonpayment. For example, for fixed price agreements, substantial upfront payment will be required. Should an entity elect to pay the full contract amount upfront, the financial review will not be performed.

A financial capability review will not be required for nongovernmental entities that remain in good standing with the University. This includes new entities who receive an initial favorable review and existing entities with an established history and consistent contracting. A review of these entities will only be required if a three-year break in contracting occurs, or the entity demonstrates a consistent inability to adhere to contractual payment terms.

**PROCEDURES**

The accompanying procedure provides additional details on the administration and management of this policy as well as their respective roles and responsibilities. The procedure can be found here: [Policies and Procedures - Office of the Controller](#)

**RELATED UNIVERSITY, STATE, AND FEDERAL POLICIES**

[FINA 3.00 Sponsored Awards](#)

**HISTORY OF REVISIONS**

<b>DATE OF REVISION</b>	<b>REASON FOR REVISION</b>
February 5, 2025	New policy for the USC System regarding pre-award financial reviews.