

Financial Management of Foreign Currency Awards

Definition

Foreign currency awards are awards funded to George Washington University using the sponsor's local currency aside from the U.S. dollar. As these agreements are negotiated using the foreign currency, fluctuation in exchange rates during the life of the award may have significant effect on the payment for sponsored projects and overall available funding amount to carry out the award objective. As a result, all GW Principal Investigators (PIs) and Department Administrator's should be aware of the risks, including potential decrease of project funding available for spending in US dollars while still being responsible for the scope of work or deliverables.

To minimize the risk associated with exchange rates, Office of Sponsored Projects (OSP) may inquire with international sponsors about the possibility of setting the award amount and payment terms in U.S. Dollars. Alternative terms may include

- Payment in full upon execution of the agreement, or,
- As much advance payment as can be mutually agreed upon.

For agreements negotiated using foreign currencies, a consent statement (Attachment A) outlining risk acceptance for the School Finance Director or PI designee will be available for review and acknowledgment during the award acceptance phase. This includes when sponsors inform GW of the bank rate to use from a specific website as fluctuations will still occur from the invoicing date to the payment date.

Award Budget

Unless the sponsor provides their own exchange rate schedule, Office of Sponsored Projects (OSP) will setup the award with the budget in U.S. Dollars based on the currency exchange rate at the time of award setup or modification. The rate of conversion will be documented and made available in the award document package.

Overview of Budget Adjustment

The Principal Investigator (PI) should prepare a budget in both U.S. Dollars and the currency of the foreign sponsor to use initially. The funding/budget amount of the award may increase or decrease based on gain/loss at the time of payment of interim invoices throughout the life of the award. The PI has two options in the management of the currency differences. Both approaches create risk of shortfalls in the awarded amount compared to original approved budget. The PI and Department Administrator should stay abreast of the effect the exchange rate will have on the budget throughout the life of the award. Any cost overages at the end of the award will need to be covered by a departmental fund at award close out.

If there is a financial gain the funds will be added to the award to be used per the award agreement. The gain will be treated based on the terms and conditions of the awarding agency and GW's award management and closeout policy.

1. Planned Gains/Losses

PIs can elect to set aside a currency budget to handle the gains/losses that will be updated by GCAS and OVPR during the life of the award. *Procedure:* The total budget is established in USD based on the conversion rate of the day. One line item of the budget is for a new expenditure type called "BUDGET RESERVE CRCY" (recommendation of 5-7% of the budget). The PI/department charges expenditures against the award as normal. As GCAS invoices and if losses are identified, GCAS requests the "Budget Reserve Crcy" line be reduced by the amount of the loss with a copy to the PI and department administrators. Therefore the PI is notified they don't have as much money to spend but are not burdened to re-budget the individual line items in EAS. If there is a gain, the Budget Reserve Crcy line

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would be increased by the amount of the gain and the PI would have more funds to spend). Only if the Budget Reserve Crcy" line is reduced to zero will the PI be requested to re-budget. See example below.

2. Unplanned Gains/Losses

Upon receipt of payment, Grants and Contracts Accounting Services (GCAS) will work with Office of Sponsored Projects (OSP) to adjust the award budget and funding amount accordingly and will notify the PI and Department Administrators upon cash application and adjustment. The PI and Department Administrators would be responsible for re-budgeting the award for the amount of the currency loss (or gain).

Rate of Conversion:

The rate of conversion at each point during budget preparation, award setup, funding installment adjustment, invoice and/financial report and cash receipt will be clearly documented and made part of the award agreement package in GW Documents.

For questions regarding the financial management of foreign currency awards, please contact GCAS Sponsored Projects Accountant/Analyst (SPFA) and/or the appropriate person within OSP.

Examples:

Example of Unplanned Gains/Losses

A \$200k award is setup in EAS with the following budget:

Salaries: \$130k
Fringe: \$30k
IDC: \$40k

As invoices are paid and as currency losses (or gains) are identified, OVPR and GCAS request the PI to re-budget the award. This can occur monthly, quarterly but generally a few times a year.

Example of Planned Gains/Losses

The \$200k award is setup with the following budget:

Salaries: \$125k
Fringe: \$27k
IDC: \$38k
Budget Reserve Crcy: \$10k

The PI can overspend the individual lines of salary, fringe and IDC since no costs can be charged on the currency conversion line item but in total the award would not allow overspending.

GW invoices \$100k and receives \$98,800 due to currency fluctuations. GCAS will send an email to OVPR with a cc: to the PI and department to reduce the Budget Reserve Crcy line to \$8,800. In EAS and PI Dashboard the new budget for the PI would show as \$198.8k instead of \$200k. The PI has been informed there was a loss but is not required to re-budget each of the line items. If GW received excess money the amount of the gain would be added to the currency line item.

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Attachment A

Foreign Currency Consent Statement

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Foreign Exchange Risk Consent Statement

Foreign exchange risk occurs when payment is made to the University in a currency other than U.S. Dollars. This currency must be converted to U.S. dollars before it can be applied to the Sponsored Project award and any exchange rate fluctuation may result in a financial loss thus reducing the amount of the award.

Because of this potential risk, School Finance Directors or PI designee must consent to taking this risk by reading the consent statement below and keeping a record to themselves (if needed).

Consent Statement:

“By accepting the award agreement in foreign currency, I acknowledge the School is taking the risk of foreign currency loss resulting from exchange rate fluctuation. In the event the fluctuation results an overrun to the Sponsored Project award(s), I authorize the University to cover the overrun using Department’s home organization banner index listed under the sponsored project award (s) unless I provide another banner index prior to award end date.”

You may choose to identify another banner index to be used for covering loss by providing completed and signed form to GCAS Sponsored Projects Financial Accountant/Analyst for your school.

This signed form must be received prior to award end date.

Banner Index for covering foreign exchange loss

Designated banner index _____

School: _____

Finance Director or PI designee Name: _____

Finance Director or PI designee Signature _____

Project/Task/Award (if any) _____