Federal Grants Management: Accounting and Compliance for SBIR/STTR Grants

UCLA Technology Development Group – First Fridays
The material appearing in this presentation is for informational purposes only and is not legal or accounting advice. Communication of this information is not intended to create, and receipt does not constitute, a legal relationship. Although these materials may not have been prepared by professionals, they should not be used as a substitute for professional services. If legal, accounting, or other professional advice is required, the services of a professional should be sought.
Your Presenters

PARTNER
Kinman Tong, CPA
Kinman.Tong@mossadams.com
Specialized in Research Organizations, Health Care, Technology Companies Compliance Assurance and Consulting services
15+ Years Experience with Compliance Audits under Uniform Guidance (formerly Circular A-133)

SENIOR MANAGER
Matt Parsons, CPA
Matt.Parsons@mossadams.com
Specialized in Research Organizations, Health Care, Technology Companies Compliance Assurance and Consulting services
13+ Years Experience with Compliance Audits under Uniform Guidance (formerly Circular A-133)
Federal Grants Management: Accounting and Compliance

Federal Grants Process: Short Overview
General Administrative Requirements
Allowability of Costs – 48 CFR 31.2
Cash Management Considerations
Annual Compliance Audits
Open for Questions
Federal Award Phases

Pre-Award

After the Award

Post-Award
Pre-Award Phase: the Proposal

- Solicited / Unsolicited
- Narrative (What / Why / Who)
- Budget (How / When / How Much)
- Certifications from Applicant
- Collaboration with Other Organizations (Co-PI)
- Special Considerations: For-Profit Entities
Post-Award Phase: Managing the...
Grantor Expectations

Quality Work Effort
Effective Financial Management
Fair and Equitable Treatment
Compliance with Award Provisions
Keep Grantor Informed
Share Results as Agreed Upon
Regulations and Guidance

Code of Federal Regulations (CFR)

- 48 CFR Acquisition Regulations
- Uniform Guidance for Federal Awards
- Audit Guidance and Standards
- Other Specialized Guidance
Regulations and Guidance (Continued)

Code of Federal Regulations (CFR)

- Agency Codification: CFR—Tied to Laws
- Agency Policy Statements and Handbooks
- Notice of Grant Agreement (NGA)
- Web Sites, Conferences, Newsletters, Associations +
Post-Award Phase

Checklist:

✓ Complete the Work
✓ Reconcile Funds
✓ Dispose of Assets
✓ Retain Records
✓ Share the Results
Compliance Audits

Threshold is $750,000 in federal expenditures in a fiscal year.

Two audit options:

• Financial-related audit of program(s) only (in accordance with GAGAS); or
• Audit per Subpart F of 45 CFR 75 – which is either a single audit or program-specific audit of the federal award(s)

Source: 45 CFR 75.216
Compliance Audits (Continued)

- Compliance with Cost Principles
- Compliance with Uniform Administrative Requirements
  - Internal control and accounting structure
  - Equipment management
  - Procurement of goods and services
  - Records and reports
- Results of noncompliance
Uniform Administrative Requirements (FAR Based)
Uniform Admin Requirements

• Government-wide requirements for R&D for grants and contracts
  • Updated to address and implement the Uniform Guidance
  • https://www.nsf.gov/awards/managing/rtc.jsp

• Revised NIH GPS – effective 10/1/2018
  • www.grants.nih.gov/grants/policy/nihgps/index.htm
  • Summary of Significant Changes on the same website
  • News Flashes – https://sbir.nih.gov/funding
Post-Award Emphasis

1. Standards for Financial Management
   - Payment (Draws)—little later
   - Property Standards / Equipment
   - Procurement Standards
   - Records and Reports

2. Cost Sharing
   - Revisions of Budgets and Plans

3. Program Income
   - Termination and Enforcement
Standards for Financial Management

- Financial Results—Accurate, Current, Complete
- Records Retention
- Internal Controls with Written Procedures
- Actual to Budget Comparisons—PI Involved
Internal Controls – Written Procedures

Written procedures are **required** for:

- Implementation of the payment system according to §75.305
- Procedures for determining the allowability of costs in accordance with 48 CFR part 31.2 and the terms and conditions of the Federal award
- Standards of conduct covering conflicts of interest governing performance of employees engaged in selection of award and administration contracts
- Standards for procurement transactions
Property and Equipment

- Equipment
- Real Property
- Federally Owned and Exempt Property
- Intangible Property (often overlooked)
Equipment Accountability

Per 45 CFR 73.320 – Grantees retain title to equipment purchased with the award with some conditions:

- NIH reserves the right to order the transfer of equipment (including title) to others named by NIH
- Equipment cannot be used to provide services for a fee
  - If it is used to generate other income – that income must be reported and could be subject to reducing the reimbursable cost by NIH.
Procurement Standards

- Procurement Policies & Procedures
- Conflict of Interest Policies
- Procurement Records
- Contract Administration
- Contract Provisions
- Full and Open Competition
- Cost or Price Analysis (over $150K)
- Procurement Methods
Micropurchase Threshold and Simplified Acquisition Threshold was updated by OMB as directed by OMB Memo M-18-18 issued on June 20, 2018:
- Micropurchase threshold - $10,000
- Simplified acquisition threshold - $250,000
Suspension and Debarment

Must Perform At Least One of the Following:

• Check Systems for Award Management’s Exclusion Parties List System for potential exclusion of vendor/subrecipient; or
• Collect certification of non suspension or non debarment from vendor/subrecipient; or
• Add a clause or condition to the covered transaction with vendor/subrecipient.
Records and Reports

- Records Retention
- Financial Reporting
- Performance/Progress Reporting
- Subcontractor Reports—added rules about audits
Special Considerations for SBIR/STTR

SBIR
• The PD/PI must already be employed
• Allows subcontracting – but doesn’t require it

STTR
• Primary employment is not stipulated, but PI must devote 10% to the project
• Partnership requirement with not-for-profit
  • >40% performed by the small business
  • >30% performed by a single NFP
Special Considerations for SBIR/STTR (Continued)

- Must be included in the budget request at time of application
- Reasonable profit or fee not considered...
  - a “cost” for determining allowable use,
  - for program income accountability,
  - as included in the audit threshold
- Generally doesn’t exceed 7% of total costs for the respective phase
48 CFR 31.2—Contract Cost Principles and Procedures

UCLA Technology Development Group – First Fridays
Key Definitions

- **Award**—Grant, Cooperative Agreement, Cost-Reimbursed Contract, etc.
- **Direct Costs**—Allocable to Specific Project
- **Facilities & Administrative (F&A) Costs**—“Indirect”
Cost Characteristics

Allowable  Allocable  Reasonable
Direct Costs

- Consistent treatment is essential
- Assess by project, not by type of cost
- Some type of “cost driver” needed
- Allocation to multiple projects is OK
Common Direct Costs

1. Personal Costs
2. Materials and Supplies
3. Travel and Conferences
4. Equipment (+)
## Indirect Costs (F&A)

<table>
<thead>
<tr>
<th>Negotiated with Federal Government (DHHS DFAS or DOD ONR)</th>
<th>Result is a rate to apply to all awards</th>
<th>Costs support common or joint activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Use of cost groupings or “pools”</td>
<td>All costs considered</td>
<td>Use of base periods</td>
</tr>
</tbody>
</table>
Indirect Costs (F&A) (Continued)

Source 45 Part 75.414

- Federal agencies must accept negotiated IDCR unless:
  - Statute or regulation allows for an exception or approval by federal agency

- A de minimis rate of 10% accepted if no IDCR
  - Based on modified total direct costs
  - May be used indefinitely
Indirect Costs (F&A) (Continued)

Important things to note:

- Rate should be proposed during the application phase
- Cannot exceed 40% of total direct costs (unless already approved by another Federal agency)
- NIH does not negotiate indirect costs for Phase I awards
- Only actual F&A costs incurred can be charged
Allowable Costs Categories

- Allowable
- Allowable with conditions
- Allowable with prior approval
- Unallowable
Allowable Costs

- Personal Services Costs—includes salaries and benefits (leave, severance, and other pay) *To be discussed in more detail*
- Meeting costs
- Subscriptions and periodicals
- Training costs
- Travel
- Audit costs and related services
**Costs Allowable with Conditions**

**Advertising/public relations**
- Solely for public relations of organization—unallowed
- RFP and promotion of program/grant—allowable

**Capital assets**
- Purchase of land or buildings—unallowed
- Equipment—allowable (with prior approval or if in the grant award budget)

**Leasing**
- Lease-purchase arrangements for real property—unallowable
- Operating leases for real property—allowable

**Dues/memberships**
- Allowable only as an indirect cost (F&A)
Costs Allowable with Conditions – Meals

- **During travel**: allowable – but cannot be duplicated with reimbursed per diem
  - Meals provided as part of conference fees / hotels should be backed out for per diem reimbursements

- **Participants in a study**: allowable – if approved as a project activity

- **Meetings/Conferences**: allowable – if part of working meeting
  - Consideration should be given to reasonableness of cost and benefit to the program
  - Recurring staff meetings / business meetings – if not for the purpose of disseminating technical information would not be allowable
Approval Conditions

• Seek approval from pass-through grantor or, if a direct grant recipient, from the federal agency.

• If prior approval requirement exists
  • Needed BEFORE incurring cost
    • Must be requested in writing
    • Must be approved
    • May exist in grant agreement
Unallowable Costs

- Market research
- Entertainment / Alcoholic beverages
- Losses, fines, and penalties
- Bad debt expenses
- Costs of contingencies
- Interest on borrowings and cost of financing capital
- Organizational costs and goodwill
- Lobbying and political activities
- Fundraising costs
- Legal costs (for defending or prosecuting claims)
Selected Items of Cost

- Personal Compensation
- Contracted Services
- Travel and Conferences
Selected Item of Cost: Personal Compensation

Internal Control

- Responsibility for time keeping and payroll accounting should be separated
- Written procedures should be clear to avoid misunderstandings of what is and what is not permissible
- Violations of policy should be addressed promptly to deter prospective violations.
- Changes to timesheets (i.e. hours) should be made by the employee/contractor and authorized by the employee/contractor (i.e. initials on the timesheet)
- Supervisor cosign or electronically certify each pay period
Selected Item of Cost: Personal Compensation (Continued)

Time and Effort Reporting

- Salaries and wages must be documented
  - Labor distribution for all employees is required, regardless of function

- Labor distribution must account for TOTAL hours (i.e. to both direct and indirect)
  - Charges to direct projects
  - Charged to indirect activities
  - Included in the base to which indirect costs are allocated
Selected Item of Cost: Personal Compensation (Continued)

Time and Effort Documentation Requirements

- Written instructions should include:
  - Manual: pen and ink entries on a paper time sheet reflecting all the days in the pay period
  - Automated system would require computer printouts showing similar data on manual time sheet
Selected Item of Cost: Personal Compensation (Continued)

Time and Effort Documentation Responsibilities

- Recording of hours should be performed on a daily basis.
- All hours should be recorded, whether paid or unpaid (i.e. hours absent for sick time, PTO, etc.).
- Record the correct distribution of hours by project or indirect category (based on actual hours, not availability of funding, etc.).
- Employee should sign the time sheet or electronically certify the labor distribution in an automated system.
- Supervisor must cosign time sheet or electronically certify each pay period.
Selected Item of Cost: Personal Compensation (Continued)

SAMPLE TIMESHEET

Employee Name ______________________  Employee Signature ______________________

Supervisor Name ____________________  Supervisor Signature ____________________

MONTH: _________  YEAR: __________

| DAY | 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 | 11 | 12 | 13 | 14 | 15 | TOTAL |
|-----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|-----|
|     | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 | 31   |

PROJECT:

INDIRECT*
Selected Item of Cost: Personal Compensation (Continued)

Other miscellaneous Personal compensation:
Bonuses and Incentive—Allowable/Unallowable?
Severance Pay—Allowable/Unallowable?
Employee Rebate—Allowable/Unallowable?
ESOP—Allowable/Unallowable?
Owners and partners of for-profit entities have limitations on compensation:

- Must be reasonable
- Must **not** be
  - A distribution of profits (which is not an allowable contract cost)
  - In excess of the costs that are deductible as compensation under the IRC and other regulations
Selected Item of Cost: Contracted Services

- **Written policy requires:**
  - Process for determining their need/role
  - Process for selection
  - Rates to be paid

- **Procedures require signed agreements that**
  - Describe specific service to be provided
  - Duration of the engagement
  - Pay rates
  - Monitoring requirements
  - Federal compliance requirements and NIH policies

- **Documentation must be kept on duties performed when being paid with federal funds**
Selected Item of Cost: Travel and Conferences

- Allowable with exceptions
- Mileage will be reimbursed at the applicable federal rate per mile
- Travel costs will be reimbursed only for individuals directly working on the grant project
- Documentation must include purpose for the travel
- Receipts required for meals unless per diem rates followed in accordance with [www.gsa.gov](http://www.gsa.gov)
Selected Item of Cost: Travel and Conferences (Continued)

- Airfare costs in excess of the lowest available commercial airfare (i.e. coach) are unallowable unless other accommodations are unreasonable
- Fly America Act—Requires any foreign air travel funded with federal dollars to be on US air carriers (unless prior approval)
Meeting and conference costs are generally allowable only if identified in the proposal scope of work and budget. Examples include:

- Conference facilities
- Conference supplies
- Conference publications
- Consultant services
- Speaker fees
- Meals
Cash Management Considerations

- Payments by the federal government are typically processed through advance payment methods such as:
  - ASAP
  - SMARTLINK II/ACH

- Procedure needs to be in place to minimize time elapsed between receipt of funds drawdown and expenses — usually within three days
Example of Cash Drawdown Process with HHS SMARTLINK II

- The Payment Management System (PMS) is a centralized grants payment and cash management system, operated by HHS
- Cash request for advance payment should be made by grantee from PMS monthly on the basis of expected disbursements during the succeeding month and the amount of federal funds already on hand
- For timely receipt of cash, a grantee must submit the request early enough for it to be forwarded to PMS at least 2 weeks before the cash is needed
- PMS makes payment to grantee electronically through the ACH process
Cash Management Considerations

- Advance payments must be maintained in an interest-bearing account, with some exceptions
- Grantees are expected to promptly return any funds not spent within three business days
- Interest earned on advances of federal funds that exceeds $500 per year must be remitted annually to PMS
- Profit / Fee should be drawn down proportionally to the direct and F&A costs
<table>
<thead>
<tr>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Grants Process: Short Overview</td>
</tr>
<tr>
<td>General Administrative Requirements</td>
</tr>
<tr>
<td>Allowability of Costs—48 CFR 31.2</td>
</tr>
<tr>
<td>Cash Management Considerations</td>
</tr>
<tr>
<td>Annual Compliance Audits</td>
</tr>
</tbody>
</table>
Questions
About Moss Adams
Crater Lake—A monument to perseverance, North America’s deepest lake filled to 1,949 feet over 720 years.

Grand Canyon—At 277 miles long and up to 18 miles wide, this icon serves as a testament to determination and time.
Here you’ll discover the advantage of industrial grade expertise. Beyond technical acumen, our professionals are steeped in the market sectors they serve. Our keen understanding of industry trends and challenges permits us to anticipate and respond to opportunities for our clients that might otherwise go untapped.
Help at Every Stage of Growth

1. Technology Development
   - R&D credits
   - Financial modeling
   - Internal controls
   - IT integration
   - Financial reporting policies

2. Funding
   - Stock compensation
   - Capital structures
   - Intellectual property valuations
   - Benefit plan services

3. Commercialization
   - Revenue recognition
   - State and local tax consulting
   - Royalty and compliance services
   - Risk management
   - SOC 1, SOC 2, and SOC 3 audits

4. International Expansion
   - International tax planning
   - Transfer pricing
   - IFRS consulting
   - Tax structuring

5. Successful Exit
   - Intangible asset valuation
   - M&A due diligence
   - Transaction services
   - Ownership transition planning
   - Business valuations
Kinman Tong, CPA
Kinman.Tong@mossadams.com
415-677-8267

Matt Parsons, CPA
Matt.Parsons@mossadams.com
949-221-4093
The material appearing in this presentation is for informational purposes only and should not be construed as advice of any kind, including, without limitation, legal, accounting, or investment advice. This information is not intended to create, and receipt does not constitute, a legal relationship, including, but not limited to, an accountant-client relationship. Although this information may have been prepared by professionals, it should not be used as a substitute for professional services. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Assurance, tax, and consulting offered through Moss Adams LLP. Investment advisory offered through Moss Adams Wealth Advisors LLC. Investment banking offered through Moss Adams Capital LLC.