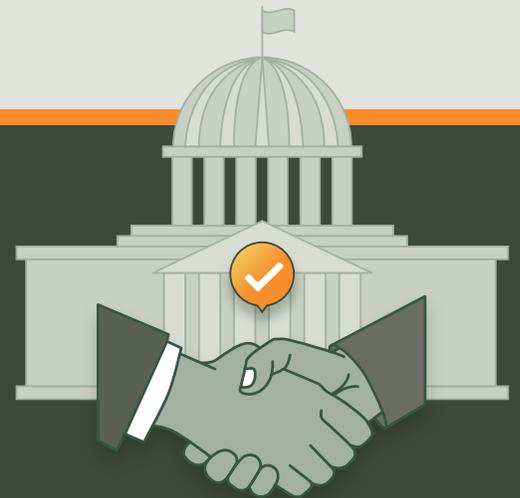


43

STEPS TO FAR COMPLIANCE

**ONGOING PROCEDURES NECESSARY
TO ENSURE COMPLIANCE WITH
FEDERAL ACQUISITION REGULATION
(FAR) PART 31**



JAMESON & COMPANY



A government grant or contract brings non-dilutive funding for your innovation. But please understand, federal funding is never free money; it comes with strings attached.

DO YOU HAVE A COST-REIMBURSABLE AWARD?

The following are typically cost-reimbursable-type awards:

- NIH and DOE SBIR/STTR Phase I and II awards
- Most DOD SBIR/STTR Phase II awards
- ARPA-E and EERE awards from the DOE
- R01, U01 and BARDA awards
- Most IDIQ, BAA and Army Medical Research Office awards from the DOD

COST-REIMBURSABLE AWARDS = COMPLIANCE WITH THE FAR.

If you have a cost-reimbursable award, you must comply with the Federal Acquisition Regulation (FAR) Part 31, as well as any supplemental regulations from your funding agency.

Step 1. You must set up a FAR Part 31 compliant accounting system. This system must be capable of:

- a. segregating costs as direct, indirect or unallowable;
- b. producing job costs reports that display direct costs by category, as well as proportionally allocated indirect costs; and
- c. producing actual indirect cost rate reports.

Step 2. You must maintain this system vigilantly.

FOLLOW JAMESON'S 43-STEP CHECKLIST

To help you maintain a FAR-compliant accounting system, we're sharing our 43-step checklist. Adhere to it, and you should be able to avoid trouble.

As you go through this checklist, if you have any questions or want to talk with one of our government award accounting specialists, please feel free to contact Ryan at ryan@jamesoncpa.com or [781.862.5170](tel:781.862.5170) ext. 2106.

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KEY

To address the basic accounting procedures listed in this document, you will need different levels of ability and expertise. We've color-coded each task to make this easy to identify.



Basic tasks can be completed by a **competent, well-trained administration person**.



General Accepted Accounting Principles (GAAP) can be administered by a **degreed accountant** (your books must be maintained in accordance with GAAP).



Government Award Accounting tasks should be handled by a **FAR Part 31 specialist**.

Important:
There are several different types of CPAs. There is a significant difference between a tax CPA, an audit CPA, and a FAR Part 31 government award specialist CPA.



ONGOING CASH MANAGEMENT

WHY: Cash is king. It is essential to manage cash properly on a day-by-day basis. Doing so ensures that you can meet payroll and other obligations as they arise, adhere to agency rules with regards to advance draws and reimbursements, and pay vendors in a timely manner to maintain good working relationships.

WHY IT MATTERS IN AN AUDIT: Your disbursement source documents will be tested for proper vouching and approval. Cash draws will be tested for required support and adherence to agency rules. Noncompliance equates to an audit finding, which could trigger a notification to the Inspector General, a cut in your negotiated rate, repatriation of funds and a hold on pending awards.

WHY IT MATTERS TO YOUR BUSINESS: Proper cash management helps establish a good reputation —and better terms— with vendors, builds credit, minimizes stress, and improves overall morale.

WHAT CAN HAPPEN IF IT GOES SOUTH: Vendors could require you to pay bills in advance. The government could restrict access to funds or suspend payment of invoices until the problem is remedied. You may have to assume business or personal debt, lay off staff, or even close up shop.

#	TASK	CHECK	NOTES
1	Review incoming invoices from vendors and ensure that there are no duplicate charges, returns, or unapplied payments for checks recently issued.	[]	
2	Review invoice coding as a direct, indirect or unallowable expense in accordance with the chart of accounts, FAR part 31 and any applicable agency supplemental regs.	[]	
3	Enter invoices into QuickBooks to pay.	[]	
4	Collect 1099 information for all new non-corporate vendors.	[]	
5	Issue payments for manual or electronic signature (after ensuring that adequate cash is on hand).	[]	
6	Reconcile the QuickBooks general ledger to the bank statement on a monthly basis.	[]	
!	NOTE: A strong systemic check and balance is provided by having someone other than the person who manages the checkbook on a daily basis reconcile cash.		
7	Resolve “stale” outstanding checks that don’t clear the bank within 6 months.	[]	
8	Continuously monitor cash balance as necessary and follow up on collection status of all customers billed. Release payments to vendors accordingly.	[]	



CREDIT CARD MANAGEMENT

WHY: Credit cards give you a 30-day window to pay, and a concise way to enter and vouch for expenses. However, failure to process credit card payments to your credit card company can result in interest expenses, and interest expenses are not allowable.

WHY IT MATTERS IN AN AUDIT: Disbursement source documents will be tested for proper vouching and approval. Again, noncompliance equates to an audit finding, a notification to the Inspector General, a cut in your negotiated rate, repatriation of funds and a hold on pending awards.

WHY IT MATTERS TO YOUR BUSINESS: Proper credit card management gives you some breathing room on cash and helps build credit. It's important to establish and enforce procedures to get charges coded as quickly as possible in your accounting system. Failure to code and bill your clients for project expenses can create cash flow problems.

WHAT CAN HAPPEN IF IT GOES SOUTH: A poor credit rating and all that comes with it.

#	TASK	CHECK	NOTES
9	Obtain supporting documentation for all company credit card charges (and other online purchases) from all authorized employees.	[]	
10	Review coding of all monthly credit card charges as direct, indirect, or unallowable in a very timely manner as interest charges can be steep if the bill is paid late.	[]	



43 STEPS



TIMECARD AND EMPLOYEE RESOURCE PLANNING AND MANAGEMENT

WHY: Your employees typically are your greatest cost and the way they fill out their timecard will massively influence your indirect cost rate.

WHY IT MATTERS IN AN AUDIT: Your employees’ time must be accounted for accurately. Auditors need assurance that employees worked the number of hours stated on their timesheet and that accounting system controls are in place to ensure that these costs are not tampered with.

WHY IT MATTERS TO YOUR BUSINESS: Timesheets are **the** mechanism used to allocate payroll costs between direct and indirect cost categories. Auditors are keenly aware that if you’ve done a poor job of projecting your indirect cost rate, there is a heightened risk that you will commit (timesheet) fraud to avoid the devastating cash flow problems that will result from your mistake.

WHAT CAN HAPPEN IF IT GOES SOUTH: If you do this the wrong way and have a disgruntled employee who becomes a whistleblower, you can lose your award, face jail time, and be forced to repatriate government funds.

#	TASK	CHECK	NOTES
11	Collect all timecards and ensure that they are filled out properly and in accordance with employee handbooks.	[]	
12	Process payroll.	[]	
13	Maintain weekly, semi-monthly, or monthly labor distribution and distribute labor charges across all time categories being careful to adjust for retroactive raises and uncompensated overtime.	[]	
14	Create and develop written company labor policies, such as vacation, holiday and sick time. Enforce compliance as issues arise.	[]	
15	Reconcile the labor distribution throughout the general ledger to the outside payroll tax reports (required schedule in annual incurred cost submission) on a quarterly basis.	[]	





CUTOFF

WHY: The cutoff date determines when transactions are to be recorded. For instance, December 31 is typically the cutoff date for all transactions that will be recorded for that fiscal year.

WHY: Helps insure the integrity of your accounting process and that your books are kept in accordance with GAAP, which is a requirement. Expenses need to be recorded in the period in which they occur.

WHY IT MATTERS IN AN AUDIT: If expenses and revenue are not properly recognized, it may result in expensive audit findings.

WHY IT MATTERS TO YOUR BUSINESS: If expenses and revenue are not recorded in the correct period, your award's direct and indirect expenses will not be accurate, which means your agency financial reports will not be accurate and you have either overbilled or underbilled the government.

WHAT CAN HAPPEN IF IT GOES SOUTH: Did we mention expensive audit findings?

#	TASK	CHECK	NOTES
16	At the end of your fiscal year, i.e. December 31, 20XX, it is critical that all charges for products received or services performed during that fiscal year are coded to that year. You must make sure that consultants, subcontractors submit their bills on a timely basis so they can be applied appropriately. If their bills arrive after your fiscal year has ended, say January 3, 20XX, you must examine the invoice very carefully to ensure that changes are recorded in the proper period.	[]	





OTHER ASSETS & ACCRUED EXPENSES

WHY: Your books are required to be kept in accordance with GAAP.

WHY IT MATTERS IN AN AUDIT: Your expenses may be understated or overstated leading to a miscalculation of both your award spending and indirect rate(s). This, in turn, can lead to expensive audit findings.

WHY IT MATTERS TO YOUR BUSINESS: If your expenses and revenue are not recorded in the correct period, your direct and indirect expenses, and agency financial reports will not be accurate. This may result in over or under billing the government.

WHAT CAN HAPPEN IF IT GOES SOUTH: You think you have money to spend when in reality you don't, you overspend, or you don't take all the money to which you are entitled.

#	TASK	CHECK	NOTES
17	Material prepaid expenses should be recorded on the balance sheet and amortized into the profit and loss statement in accordance with GAAP (which may be different than the cash method of accounting used for tax purposes).	[]	
18	Potentially depreciable items with a useful life > 1 year (that are not directly charged to a specific grant or contract) should be capitalized in accordance with the Company's accounting policies and procedures. These capital assets should be recorded on the balance sheet and depreciated in accordance with their GAAP useful life (again, tax basis is not allowable).	[]	
19	Accrued expenses should be maintained as balance sheet liabilities. For example, vacation should be charged to the profit and loss statement as earned . The resulting liability should be tracked on an employee by employee basis on the balance sheet in accordance with the Company's accounting policies and procedures. Any vacation taken by the employee should reduce the liability.	[]	
20	If a retirement plan is part of the Company's fringe benefit package, a monthly accrual should be made to the balance sheet and profit and loss to accrue for this liability. Employee census information should be provided to the Company actuary prior to the year-end to ensure that the Company does not run afoul of the ERISA top-heavy rules. Retirement plans funded on a monthly basis or plans that allow employees to self-direct pre-tax contribution must be administered in a timely manner.	[]	

43 STEPS



DEBT (IF APPLICABLE)

WHY: Debt is a company obligation, associated interest and carrying costs are unallowable and must be accounted for separately from government funding.

WHY IT MATTERS IN AN AUDIT: Costs associated with debt are unallowable. Using government funds to repay borrowing, or to pay interest or fees associated with debt equates to an audit finding.

WHY IT MATTERS TO YOUR BUSINESS: Interest expense is a specifically unallowable expense.

WHAT CAN HAPPEN IF IT GOES SOUTH: There is a 100% penalty for trying to charge the government for an unallowable expense (as well as the cost disallowance).

#	TASK	CHECK	NOTES
21	If the Company has borrowed money, special care needs to be taken to carefully plan cash flow to minimize unallowable interest costs. A repayment plan is essential.	[]	
22	Loan obligations from the bank or investors must be monitored in accordance with applicable terms and conditions.	[]	



43 STEPS



EQUITY

WHY: Government awards often have restrictions on company ownership.

WHY IT MATTERS IN AN AUDIT: If the company has owners not allowed by the award, this could be an audit finding. Likewise, legal fees incurred for the transfer of ownership (i.e. Series A offering) are an unallowable cost as the government derives no benefit from the change in ownership. Using government money to pay for unallowable costs could be an audit finding.

WHY IT MATTERS TO YOUR BUSINESS: If your ownership is not in compliance, you will not be eligible for certain government awards.

WHAT CAN HAPPEN IF IT GOES SOUTH: You can lose your government funding or your investors.

#	TASK	CHECK	NOTES
23	If the Company has third-party investors, a capitalization table must be maintained.	[]	
24	Stock options and warrants must be tracked and accounted for when issued and exercised.	[]	
!	NOTE: Stock issued in return for equity is typically not allowable.		





CONTRACT AND GRANT MANAGEMENT

WHY: Federal Acquisition Regulation and agency compliance requires government grant and contract expertise to pass government audits, your company must demonstrate that you maintain a FAR-compliant accounting system.

WHY IT MATTERS IN AN AUDIT: If your accounting system doesn't report spending properly, it's an audit finding. If you spend outside the period of performance, it's an audit finding. And if all the proper financial reports haven't been filed, it's an audit finding.

WHY IT MATTERS TO YOUR BUSINESS: If you can't demonstrate a compliant accounting system, you may lose awards, have funding restricted, owe money as a result of audits and be forced to repatriate overbillings.

WHAT CAN HAPPEN IF IT GOES SOUTH: Disgruntled employees get 15-30% of all funds recovered by the federal government under the federal whistleblower's act. If you don't do this right, you could be subject to criminal, civil, or administrative penalties.

#	TASK	CHECK	NOTES
25	All new grants and contracts (and modifications) should be summarized in a contract briefing summary. This executive summary should outline the major financial highlights and budgetary constraints of each cost category of the project.	[]	
26	Run a monthly job cost report in QuickBooks via a FAR-compliant accounting system like JamesonWorx and reconcile it to the mechanism for allocating provisional indirect rates.	[]	
27	Maintain a monthly job cost report for all active projects in JamesonWorx. Reports should be run using targeted or provisional rates with an analysis of indirect rate over/under runs that have or have not been billed to each project. NOTE: These reports are used for the government billing, managing employees, and ensuring the profitability of each project. They are the backbone of the cost accounting system and a critical managing tool.	[]	
28	Monitor the period of performance dates for all active contracts and grants. Alert management of all projects when they hit the 80% spent point or have 2 months prior to ending so they can be spent out or extended.	[]	



CONTRACT AND GRANT MANAGEMENT CONT.

#	TASK	CHECK	NOTES
	Maintain an executive summary of the following items on a monthly basis:		
	a. Targeted indirect rates vs. the actual cumulative indirect rates on a monthly basis (and resulting cost impact).		
29	b. Cumulative contract spending backlog remaining.	[]	
	c. Period of performance end dates.		
	d. “Months to live” based on the monthly spending rate vs. current active funding, amounts awarded but not yet funded, and maintain a factor order forecast for proposals submitted.		
30	Prepare all Financial Status Reports or final cost accounting for all awards within 90 days of final spending and technical report submission, as well as any other close-out documents.	[]	
31	Prepare quarterly FFR reports showing actual grant spending with the Payment Management System (NIH awards) or ASAP (DOE).	[]	



43 STEPS



INDIRECT RATE MONITORING

WHY: You must true up with the government at year-end. You don't want to leave any money on the table, but you don't want to have to return any money, either.

WHY IT MATTERS IN AN AUDIT: Expense variances from year-to-year could indicate problems in processes and controls. Not trueing up the rates at year-end is an audit finding and may result in a repatriation of funding.

WHY IT MATTERS TO YOUR BUSINESS: You may not be proposing the correct indirect rate for future awards, so you may leave yourself scrambling to find outside money to fund your indirect expenses.

WHAT CAN HAPPEN IF IT GOES SOUTH: You don't have enough funding, so you may wind up borrowing money you could have been given if you knew how to ask for it properly. As a result, you may prematurely dilute yourself, or become insolvent. Without proper funding, your business will not self-actualize.

#	TASK	CHECK	NOTES
32	Prior to year-end, perform a search for assets improperly expensed that should have been capitalized (typically to repairs or computer supplies).	[]	
33	Annually – perform a fluctuation analysis of all expenses incurred to prior year costs and investigate all material deviations. A flux analysis is a standard audit test and will result in a request for rationale for all material deviations.	[]	
34	Annually – perform a recurring items test, aka 12 months test, to ensure that the P&L reflects 12 months of rent, 12 phone bills, etc.	[]	
35	Annually – prepare a written comparison of all budget vs. actual for all expense categories. This is another common audit test.	[]	
36	Ongoing – Review all costs for those specifically unallowable. Make note of all “marginal” expense items in order to advise management of potential risks upon audit.	[]	
37	If applicable, calculate unallowable rent paid to related parties.	[]	



43 STEPS



REVENUE RECOGNITION – TRACKING CUSTOMER ADVANCES & UNBILLED RECEIVABLES

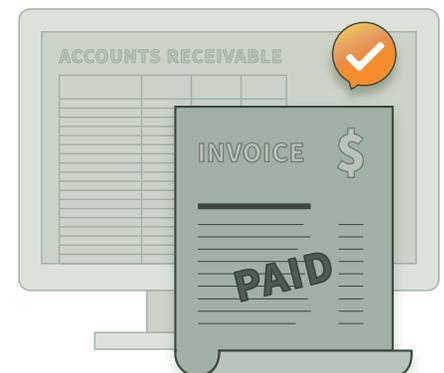
WHY: You need to properly account for money you have earned in accordance with the FAR and agency supplements and track this against money you have received.

WHY IT MATTERS IN AN AUDIT: You must be able to provide proper supporting documentation for expenses reimbursed by the government agency, otherwise, you will have an audit finding and the the Inspector General will be notified.

WHY IT MATTERS TO YOUR BUSINESS: You want to get paid!

WHAT CAN HAPPEN IF IT GOES SOUTH: You will have no money.

#	TASK	CHECK	NOTES
38	Invoice all clients. Document all PMS draws and WAWF billings.	[]	
39	After invoicing a client, compare cumulative revenue recognized in QuickBooks to the total revenue earned in the job cost/backlog report.	[]	
40	Analyze net income on the profit and loss statement to ensure that it properly reflects income earned by the company. Specifically, any indirect rate underrun should be reflected as a liability on the balance sheet and will reduce revenue and net income as that underrun either needs to be spent or it must be refunded to the overbilled customer(s).	[]	





GET THE HELP YOU NEED.

WHO: Contact the government award accounting specialists at [Jameson & Company](#).

WHY: We are experts in government award accounting, offer an innovative FAR-compliant accounting system (JamesonWorx), and have multiple service levels to fit your specific needs.

WHY IT MATTERS IN AN AUDIT: After 30 years, we know every agency, all the pitfalls and how to avoid them. With over \$4 billion in awards managed, we are experts at protecting our clients, whether we're negotiating an indirect cost rate or representing them during an audit.

WHY IT MATTERS TO YOUR BUSINESS: Handling your government award accounting properly helps you keep your current award, focus on your research and business, and qualify for additional funding.

WHAT CAN HAPPEN IF IT GOES SOUTH: Our job is to make sure that doesn't happen.

#	TASK	CHECK	NOTES
41	Learn more about Jameson solutions and services for governments grant awardees.	[]	
42	Learn more about our FAR PART 31 compliant accounting system, JamesonWorx .	[]	
43	If you have any questions or would like to talk with one of our government award accounting experts, please contact Ryan at ryan@jamesoncpa.com or 781.862.5170 ext. 2106	[]	

