

## TECHNOLOGY AND LIFE SCIENCE

# Federal Research Grant Compliance Checklist

### PROJECT TEAMS AND PERSONNEL

*Your project team is an integral part of compliance. Having the right team in place can make the difference between complying with audit requirements and falling behind.*

- Keep project teams consistent.** According to NIH, the principal investigator (PI) working on the grant must be the one named in the report.
- Evaluate internal positions.** Consider whether your people are in the right seats to bolster your internal control system and prevent fraud and noncompliance.
- Hire externally to meet demands.** If needed, hire a grant accountant or consultant who has the knowledge and experience to help with the grant's administration. This may reduce the need to switch PIs or to ask the CFO or PI prepare documentation from memory down the road.

### SYSTEM MONITORING AND PROCUREMENT POLICIES

*The federal government has specific rules for procuring supplies, equipment, and services. Take the following steps to help stay compliant.*

- Establish strong internal controls.** Federal regulations require companies have internal controls that include proper segregation of duties, accurate purchases and vendor approvals, and documented evidence of controls.
- Monitor systems organization and tracking.** Verify your company has a system in place to track costs, claims, and equipment; monitor subrecipients; and comply with any other regulations.
- Review your procurement policy.** Double check your procurement policy to verify it meets or exceeds the federal minimum requirements.
- Due diligence.** Make sure potential vendors aren't included on the federal debarment database. If a purchase exceeds \$10,000, it's important to obtain and retain multiple quotes. If you need to use a specific vendor, document your reasons and verify the vendor meets federal sole-source requirements.

### TIME AND EFFORT REPORTING

*The federal government is interested in how you're tracking and reporting employee time spent on federal projects.*

- Correctly allocate time.** Base time charged to the federal grants on after-the-fact time incurred on the grant.
- Log your time.** You and your researchers should regularly submit, document, and support time spent through a system of internal controls. A management-level individual with understanding of the grant process should then review and approve logged time.
- Key personnel.** Verify the documented time key personnel spend on a given project is consistent with time listed on a grant application. If the professional needs less time, or your company needs to substitute them for another professional, get approval from your grantor before making the change.

## INDIRECT COST

*Federal agencies acknowledge that costs beyond those directly charged are required to run grants. Often agencies will allow indirect costs to be charged based on a rate.*

- Determine your actual indirect cost.** Calculate your indirect-cost rate based on the approved formula from the granting agency. This will be your starting point to determine a potential allowable rate.
- Negotiate indirect-cost rate.** Consider negotiating an indirect-cost rate with your cognizant agency. This will simplify the process and apply a single rate to all grants. If you don't negotiate your indirect-cost rate, you may need to track multiple rates.
- Review direct-cost base.** Verify your policy requires use of the appropriate direct-cost base. Often, large purchases are excluded to prevent indirect-charge inflation.
- Align rate used.** When charging the grantor, match the rate to either your actual rate or the grantor-approved rate, whichever is less.
- Document internal controls.** Companies often calculate the indirect charge when calculating the federal draw down. Implement a system of internal controls, including draw review and approval, that incorporates a comparison of the rate used and the allowable rate. If you overcharge the grantor, you'll need to pay it back.

## SUBRECIPIENT MONITORING

*Your policies should include a robust process for monitoring subrecipients.*

- Perform a risk assessment.** Create a robust due diligence process and make decisions based on the results. Questions to ask when assessing third-party risk include:
  - Have you worked with the subrecipient in the past?
  - Does the subrecipient receive an annual single audit?
  - If so, are there any findings?
  - Does the subrecipient have a system for tracking and reviewing costs incurred on individual grants?
- Obtain the single audit report.** If a subrecipient undergoes an annual federal single audit or compliance audit, set a reminder to obtain the report and check for findings.
- Suspension and debarment.** Throughout a contract, check the federal debarment database annually to make sure a potential subrecipient isn't debarred from federal contracting.
- Ongoing monitoring.** Create a system to monitor not only a subrecipient's research activity, but also their financial health. For example, questionnaires, regular check-ins, and site visits can be necessary. Base the need and frequency of check-ins on the results from your risk assessment.
- Follow up on findings.** If you identify deficiencies, cost issues, or findings that affect your grant in the single audit report, follow up with the subrecipient to make sure they're resolved.

## AUDIT PROCESS

*The external audit process can be summed up in three stages, which include action steps your company could benefit from applying.*

- Internal audit planning.** Show auditors how much spending and what type of spending your company did by grant.
- Sampling.** Supply auditors with a complete list of costs, subrecipients, equipment, and claims. They'll then select individual transactions or other qualitative items for compliance and controls testing. Depending on the assessed risk and volume, the number of selected items could range from dozens of transactions to hundreds.
- Testing.** Provide auditors with invoices, reports, and other source documentation to review. They'll need to interview employees, including the PI on the grant. Auditors are required to test not only your compliance, but also your internal controls over compliance, so make sure you're evidencing your reviews along the way.

Remember, just because you're in compliance, doesn't mean there aren't control deficiencies you may need to report.