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Six Important Financial and Compliance Considerations for For-Profit Federal Grant Recipients

The federal government recently passed the Infrastructure Investment and Jobs Act (IIJA) and the Inflation Reduction Act (IRA), setting the stage for historic investments in infrastructure and clean energy. As a result, the government will award federal grants and cooperative agreements to for-profit organizations for qualifying projects. Any for-profit organization that receives federal grant funding will face several financial and compliance risks throughout the lifecycle of its project. Here are six rules and best practices federal grant recipients should be mindful of throughout the grant period:

1. Maintain compliance with laws, regulations and terms of the award. For-profit organizations that receive federal grants must comply with all applicable laws, regulations, and the terms of their awards. This includes financial regulations, such as requirements for how the organization can use grant funds and how it must document its expenses. Failure to comply with these requirements

can result in the loss of funding, legal action or other penalties.

For example, all for-profit federal grant recipients must comply with the Uniform Guidance (2 CFR 200). This guidance establishes requirements for financial management of federal grants, including rules around procurement, property management record keeping and financial reporting. For-profit recipients must have an adequate system of internal controls, including written policies and procedures, to manage awards in compliance with 2 CFR 200.

2. Establish and maintain accurate accounting records to track the use of grant funds. For-profit recipients must ensure they are using grant funds in accordance with the grant agreement. They must be aware of any restrictions on how grant funds can be used and ensure that all expenses are reasonable and necessary for achieving the grant's objectives. Grant recipients must also document all grant-related expenses and demonstrate how those expenses are reasonable and necessary for achieving the grant's objectives.

Typically, the Defense Contract Audit Agency (DCAA) conducts a Pre-Award Survey of Prospective Contractor Accounting System (SF-1408) prior to awarding a grant to determine whether the organization is capable of managing the cost accounting of a large cost-reimbursement award.

3. Manage spending according to your budget. For-profit recipients must manage their finances in accordance with the budgets they prepared and submitted with their grant proposals. Any significant deviations from the budget may require prior approval from the grant-making agency. Recipients must carefully monitor their expenses and ensure they are staying within the budget for the grant.

In addition, budgeting is an important aspect of financial management for federal grant recipients because it helps to ensure grant funds are being used as effectively as possible. Finally, most grants are cost-reimbursement and do not allow the recipient to earn or keep any profit resulting from the grant, which makes it especially important for the organization to monitor the budget closely to avoid any costly overruns.

4. Submit timely, accurate financial reports. For-profit recipients must submit regular financial reports to the grant-making agency, documenting their use of grant funds and their progress toward achieving the grant's objectives. These reports must be accurate and timely, and failure to submit them can result in a loss of funding. The Federal Financial Report (SF-425), which is a staple of federal grant reporting, includes a certification statement that can land organizations in serious

legal trouble for false claims.

If the organization has proposed and is charging indirect cost rates on the award, it may also be required to complete an annual Incurred Cost Submission in DCAA's ICE (Incurred Cost Electronically) Model format. This report includes several interconnected schedules and is notoriously complicated and challenging for organizations new to federal funding.

5. Invest in the project through cost-sharing. In some cases, for-profit organizations may be required to provide matching funds or cost-sharing in order to receive a federal grant. Even when it's not an explicit requirement, willingness to share costs can differentiate an application for a competitive funding opportunity by demonstrating the recipient's investment in and commitment to the project's success. Organizations must account for cost-sharing or matching funds separately from grant funds and comply with all applicable regulations.

6. Cooperate fully with audits. Federal grant recipients may be subject to audits or other forms of financial review by the grant-making agency or an independent auditor. These audits will focus on project revenues and expenditures, internal controls over compliance and compliance with applicable laws and regulations. Recipients must cooperate fully with these reviews and provide all necessary documentation. Any adverse findings noted in the audit report could impact a for-profit organization's other federal business.

Has your organization recently been awarded a federal grant, or are you planning to apply? BDO's team of grants management and compliance experts can help.

Have Questions? Contact Us