

# IMPLEMENTING SBIR ACCOUNTING SYSTEMS

*UNDERSTANDING THE STRINGS ATTACHED TO YOUR GOVERNMENT FUNDING*

ED JAMESON, CPA  
MANAGING PARTNER

JAMESON & COMPANY





# JAMESON & COMPANY

*Jameson & Co. has helped businesses across the country procure, manage and survive audit on more than \$4 billion in government contracts and grants.*

- **Founded in 1978**
- **Account Managers are CPA's with 10+ years experience**
- **Clients in 30 states, all agencies, all types of awards**

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# BEYOND PHASE II AGENDA

1. Foundations of compliance
2. Understanding indirect rates
3. Overview of government audits

# FAR 52.216-7

## The Allowable Cost & Payment Clause



### CONTRACT

NOW IT IS HEREBY AGREED  
In consideration for the employment  
follows:

1. The Employee hereby agrees  
the Company and its successors  
period of [Enter Time Period]  
unless or reason for termination  
This provision shall not constitute  
any other agreement or contract

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# LEVELS OF GOVERNMENT RULES

- FAR & CAS
- Agency Specific – NIH vs. DOD
- Program Specific – ARPA-E vs. SBIR

# TIMESHEET POLICIES YOU MUST HAVE

- Filled out in ink daily
- Must record all time, signed by the employee
- Signed by the supervisor
- Changes must be crossed out (not erased) and initialed



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# MANDATORY ANNUAL INCURRED COST SCHEDULE

## PAYROLL RECONCILIATION (CASH VS ACCRUAL)

Per General Ledger	Amount
<b>Direct Labor</b>	<b>\$412,353.19</b>
<b>B&amp;P Labor</b>	<b>\$18,735.77</b>
<b>Sick Pay</b>	<b>\$3,262.38</b>
<b>Vacation Pay</b>	<b>\$28,922.18</b>
<b>Holiday Pay</b>	<b>\$34,666.62</b>
<b>Other Paid Time Off</b>	<b>\$435.62</b>
<b>Bonus Pay</b>	<b>\$40,500.00</b>
<b>Overhead Labor</b>	<b>\$48,257.31</b>
<b>G&amp;A Labor</b>	<b>\$29,902.80</b>
<b>Plus beginning accrued payroll</b>	<b>\$7,457.00</b>
<b>Less ending accrued payroll</b>	<b>(\$8,279.00)</b>
<b>Plus beginning accrued vacation</b>	<b>\$32,754.00</b>
<b>Less ending accrued vacation</b>	<b>(\$31,932.00)</b>
<b>Totals Per General Ledger</b>	<b>\$617,035.87</b>

Per 941 Forms	Amount
<b>3/31/2014</b>	<b>\$142,577.95</b>
<b>6/30/2014</b>	<b>\$142,129.95</b>
<b>9/30/2014</b>	<b>\$144,887.95</b>
<b>12/31/2014</b>	<b>\$187,440.02</b>
<b>Totals Per 941 Forms</b>	<b>\$617,035.87</b>

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# ANOTHER LABOR POLICY YOU MUST HAVE

- **Accounting for Uncompensated Overtime**
  - $\$80,000/2,000 = \$40/\text{hour}$
  - Bill the government at \$40/hour
  - Actually works 2,500 hrs
  - Actual hourly rate is \$32/hour
- **3 common cures**
  - Pay for OT
  - Change the billing rate every month
  - Credit the overbilling to the indirect rate pool
- **The MIT Professor**



# NORTHWESTERN PAYS \$3MM FOR FRAUD

According to the Wall Street Journal, Northwestern University agreed to pay nearly \$3 million to settle claims that a former cancer researcher fraudulently used federal grant money for personal expenses, including food, hotels and airfare between 2003 and 2010.

The whistleblower, Melissa Theis, worked as a purchasing coordinator, processing invoices when she 'noticed some red flags,' according to her attorney.

The federal False Claims Act allows private citizens who allege government programs are being defrauded to file actions on behalf of the government and receive a portion, **usually 15% to 30%, of any recovered damages.**

**Ms. Theis will get \$498,100 in settlement proceeds, according to the agreement.**

# OTHER DIRECT COSTS

## Direct Consultants

- Require a consulting agreement with an hourly rate and detail of the scope of work
- The consultant must provide an invoice detailing the amount of hours and details of the work performed.

## Direct Materials

- Must be properly coded with the invoice, purchase order and payment support all in alignment

## Direct Travel

- Requires proper coding and must be in line with the published per diem rates
- <http://www.defensetravel.dod.mil>

## Direct Subcontractors

- Require a signed subcontract agreement
- The agreement must detail the FAR provisions that are flowed down to the contractor

MANDATORY ANNUAL INCURRED COST SCHEDULE			
INDIRECT RATE CALCULATION			
Item	Expenses per General Ledger	Unallowable	Claimed Costs
Overhead/Indirect Labor	\$88,043		\$88,043
Pension Benefit Expense	\$51,280		\$51,280
Incentive Compensation	\$50,000		\$50,000
Rent Expense	\$48,000	\$15,044	\$32,956
Professional Fees	\$36,000		\$36,000
Medical Insurance	\$35,502		\$35,502
Patent Costs	\$26,855		\$26,855
Payroll Taxes	\$21,444		\$21,444
Office Supplies and Expense	\$13,217		\$13,217
Vacation, Holiday & Sick (earned)	\$25,070		\$25,070
Depreciation	\$22,314		\$22,314
Computer Supplies	\$18,566		\$18,566
Trade Shows	\$8,352	\$8,352	
Telephone & Utilities	\$12,779		\$12,779
Advertising – Recruiting & Hiring	\$1,550		\$1,550
Postage and Shipping	\$3,450		\$3,450
Contributions	\$1,200	\$1,200	
Penalties & Interest	\$232	\$232	
Claimed Expenses	\$463,854	\$24,828	\$439,026
		Direct Labor Base	\$332,950
		Claimed Overhead Rate	131.86%

# MANDATORY ANNUAL INCURRED COST SCHEDULE

## APPLY FINAL INDIRECT RATES TO ALL JOBS

Contract Number	Contract Type	Direct Labor	Direct Materials	Direct Consultants	Direct Travel	Total Direct Costs	131.86% Overhead	Total Costs
2071	CPFF	\$122,495	\$4,256	\$59,872	\$2,344	\$188,967	\$161,521	\$350,488
2077	CPFF	<u>\$125,841</u>	<u>\$3,859</u>	<u>\$467</u>		<u>\$130,167</u>	<u>\$165,933</u>	<u>\$296,100</u>
		\$248,336	\$8,115	\$60,339	\$2,344	\$319,134	\$327,454	\$646,588
2073	FFP	\$35,120		\$10,372	\$1,914	\$47,406	\$46,309	\$93,715
2074	FFP	\$13,605	\$1,205		\$749	\$15,559	\$17,939	\$33,498
		<u>\$48,725</u>	<u>\$1,205</u>	<u>\$10,372</u>	<u>\$2,663</u>	<u>\$62,965</u>	<u>\$64,249</u>	<u>\$127,214</u>
Commercial	N/A	\$35,889	550	\$39,593		\$76,032	\$47,323	\$123,355
		<u>\$35,889</u>	<u>550</u>	<u>\$39,593</u>		<u>\$76,032</u>	<u>\$47,323</u>	<u>\$123,355</u>
		\$332,950	\$9,870	\$110,304	\$5,007	\$458,131	\$439,026	\$897,157



# INDIRECT RATES

*A Balancing Act that 98.3% get wrong*



# DIRECT, INDIRECT OR UNALLOWABLE

- Expenses NOT in the original proposal? (permission?)
- A lab jacket?
- Medical and dental insurance?
- Vacation, holiday and sick paid time off?
- Company contributions to retirement plans?
- Accountants and lawyers?
- Raising VC money
- Patent costs?

# THE MULTIPLIER

Direct labor	1.00
Overhead @ 100%	<u>1.00</u>
Subtotal	2.00
G&A @ 25%	<u>.50</u>
Subtotal	2.50
Fee @ 7%	<u>.18</u>
<b>Total</b>	<b><u>\$2.68</u></b>

*For every \$1.00 you pay labor, you charge the government **\$2.68***

# MULTIPLIER OVERVIEW

Our experience with established DoD **SBIR-type** government contractors:

Multiplier	Level
<2.4	Inexpensive
2.4-2.7	Normal
2.7-3.0	Expensive
>3.0	Prohibitive



# HOW WILL KEY PEOPLE SPEND THEIR TIME?

Working **ON** the business (indirect labor):

Building strategic alliances

Diversifying the revenue stream

Advancing the technology

Working **IN** the business (direct labor):

Project – technical work

## Project

0%

0%

0%

100%

## Business

15%

20%

15%

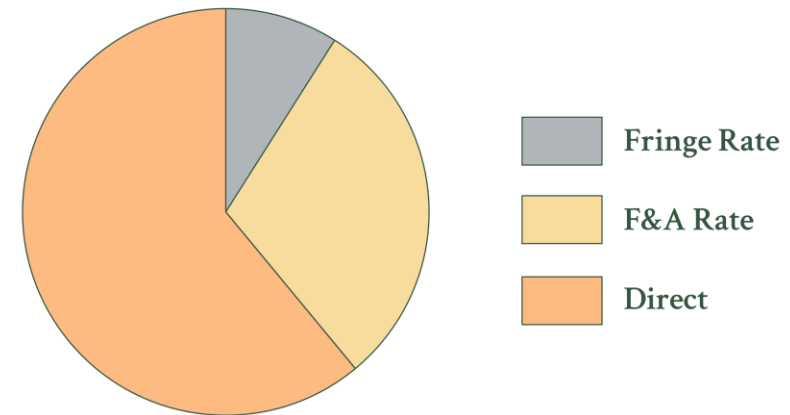
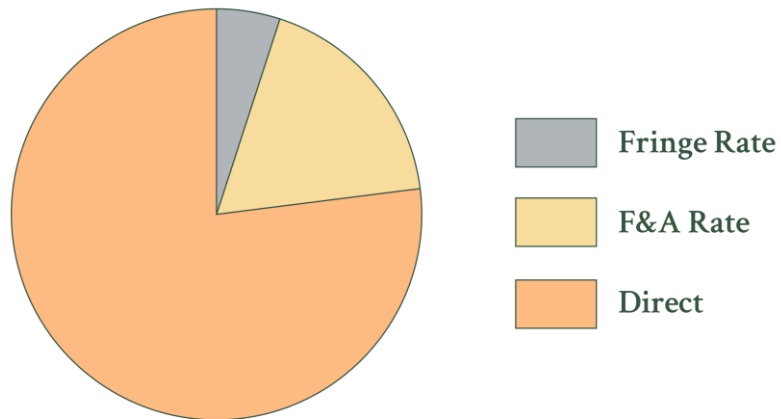
50%

## INDIRECT RATES THAT ARE TOO LOW

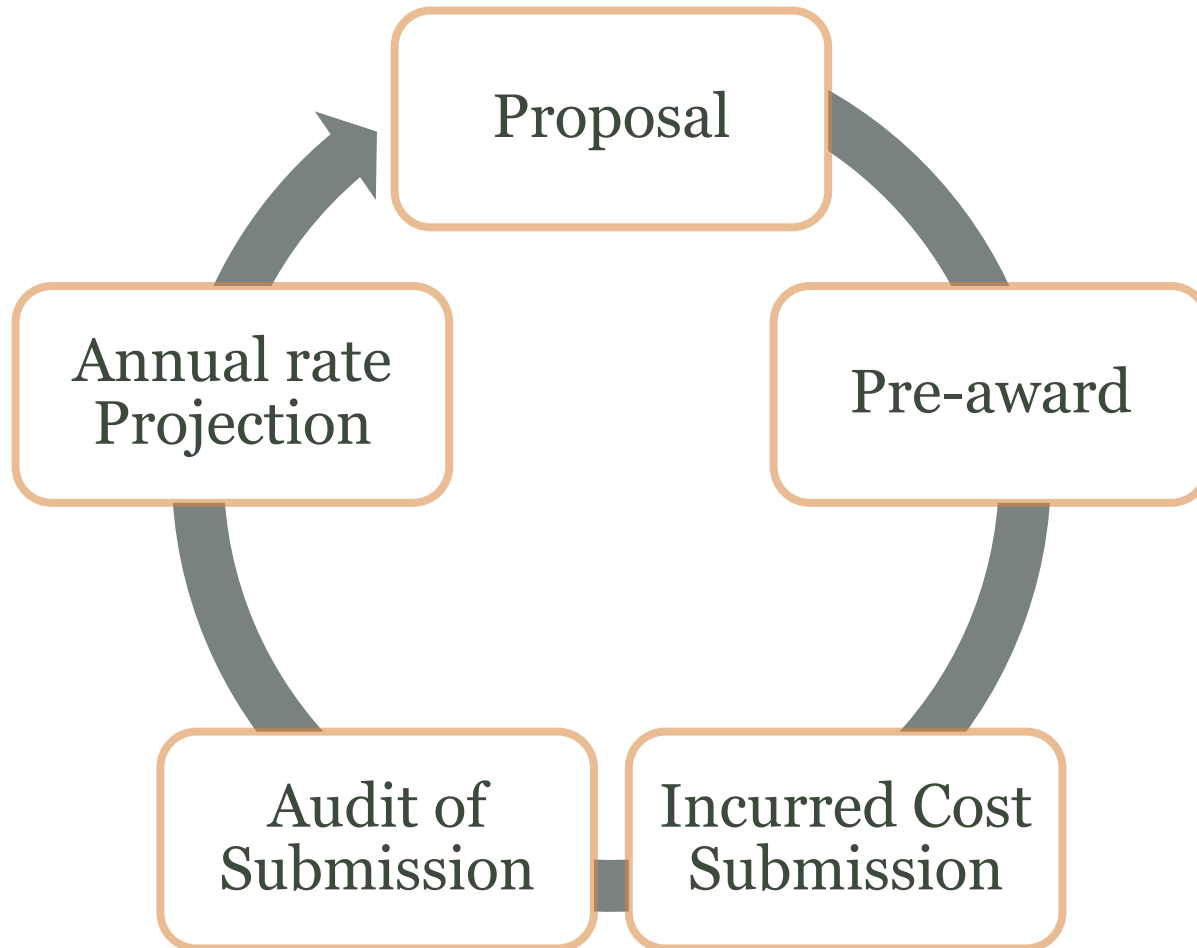
Creates automatic **cash flow problems** and **project cost losses**  
proportional to the degree of the “miss”

*If you're bootstrapped, what do you think happens?*

# WHICH HAS LESS RISK?



# INDIRECT RATE CYCLE (PROJECT VS BUSINESS)





# DEPARTMENT OF DEFENSE – TYPES OF AUDITS

- Accounting System Reviews
  - Pre-Award
  - Post-Award
- Surprise Floor Checks
- Provisional Indirect Submissions
- Voucher (Government billing) Audits
- Incurred Cost Audits

*Download our whitepaper Understanding the Different Types of DCAA Audits at [www.jamesoncpa.com/resources](http://www.jamesoncpa.com/resources)*

# DOD - ANNUAL INCURRED COST AUDITS

1. Several years ago an Independent Review Panel Report recommended more **risk-based planning**
2. Smaller contractors are typically cycled between in-person audits and remote audits (much easier “desk audits”) if you are considered LOW RISK.
3. In-person (live) audits are MUCH more thorough than years ago
4. **LOW RISK** status is determined:
  - based on no prior audit findings,
  - number and size of awards, and
  - indirect rate billed vs. actual experience

# DCAA'S NEW RANDOM PROGRESS BILLING AUDITS

- Random audit of a progress billing for all non-major contractors/year.
  - a. This is effectively a “mini” accounting system audit performed ON SITE by DCAA
  - b. Employees are interviewed and asked to show their “work product”
  - c. Audit steps:

*Invoice → job cost report → labor distribution → timesheets → employee interviews*

# HOUSTON PROFESSORS *INDICTED & CONVICTED*

The 2014 indictment, alleges one count of conspiracy, seven counts of making false statements and 21 counts of wire fraud, all in connection with the Small Business Innovation Research (SBIR) program.

According to the indictment, both men started Integrated Micro Sensors Inc. (IMS), a small business which applied for and received SBIR grants or contracts from NASA, National Science Foundation, Department of Energy and the United States Air Force.

Officials said if convicted of the conspiracy, **both face up to a five-year prison term**, as well as **another five years upon each conviction of making false statements**. For the wire fraud charges, the men face **up to 20 years for each conviction**. All charges also carry a possible **\$250,000 fine**.

***In late 2015, the two men were convicted and sentenced to prison.***

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# HOW JAMESON & COMPANY SUPPLEMENTS YOUR FINANCIAL TEAM

- Indirect cost rate development
- Financial negotiations with government officials
- Accounting system set up, training and periodic oversight
- Annual incurred cost report preparation
- Representation during government audits

# WHEN TO CALL JAMESON

- **Symptoms**

- Cost portion of proposal = ????
- Not realizing a profit on your contracts
- Cash flow problems, unexpected debt or dilution events
- Having problems getting paid by the government
- You don't know what your actual overhead rate is
- Concerns about your existing financial team

# REDUCED PRICING FOR INTRODUCTORY PRODUCTS FOR ATTENDING TODAY

## Companies with Fixed Price Awards

### **A** *Phase 1 Survival Kit* — ~~\$2,250~~ **\$1,995**

If you don't yet have an accounting system in place, our Phase 1 Survival Kit will make certain you are prepared to account for your government award properly. The kit includes setting up your QuickBooks Pro data file utilizing the proprietary accounting system developed by Jameson, as well as one on one personal training to ensure your compliance with the Federal Acquisition Regulations.

## Companies Proposing on Cost Reimbursable Award(s)

### **B** *Indirect Rate Projection and Cost Proposal Support* — **\$895**

As your project(s) morphs into a business, it's critical to project the indirect rate you'll need to stay cash flow positive. We'll get to know your business and understand which rate structure best suits your financial needs. Then, we'll help you make sure your cost proposal is fiscally sound.

## Companies with Cost Reimbursable Award(s)

### **D** *Risk & Compliance Analysis* — ~~\$1,795~~ **\$495**

Federal Acquisition Regulations (FAR) clause 52.216-7 Allowable Cost requires you to maintain a rigorous accounting system and meticulous job cost records subject to special cost recovery rules, which will be audited! We will perform a Risk & Compliance analysis on your current accounting system to assess whether or not it is compliant with the FAR.

Visit [www.jamesoncpa.com/services](http://www.jamesoncpa.com/services) or reach out to [Katie@jamesoncpa.com](mailto:Katie@jamesoncpa.com) for details

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*You're Invited*

## Beyond Phase II Cocktail Reception

Network with members from the Department of Defense, Jameson & Co., SBIR/STTR awardees and other small businesses.

Open Bar & Appetizers | August 14<sup>th</sup> | Howells & Hood | 5:30-8:00 p.m.



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