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Your Clients'
Answer to
the Recession

ARRA money

plus

Brace Yourself for New Wave of Compilation, Review Standards

Navigating ARRA

Alternative Funding in Tough Times

The American Recovery and Reinvestment Act (ARRA) is making millions of dollars available to jump-start the economy by funding projects that will create or retain jobs, especially in science, engineering research and infrastructure, education, alternative energy, energy efficiency and other green projects.

Our experiences across the United States tell us that there is a high level of corporate interest in ARRA funding and incentives.

For some companies, ARRA grants represent a way to retain employees and survive the recession; for others, the grants are a way to partner with the government to bring advanced technology to market or to acquire additional capacity. Regardless of why they are attracted to these incentives, many companies are making their first, eye-opening foray into navigating the U.S. government procurement system—and they're scrambling to find a compass that will guide them through the process.

Whether previously initiated into the government's unique business environment, understanding the ARRA's specific reporting and compliance requirements will allow you to help your clients whose projects receive these funds to stay on course and, most importantly, speed the receipt of money without running afoul of the myriad regulations associated with doing business with the government.

ARRAFacts

The \$787 billion in ARRA funding is segregated into three major incentive programs:

- Tax: \$288 billion
- Contracts, grants and loans: \$275 billion
- Entitlements: \$224 billion

As of Feb. 10 (the most recent information published):

1. The government had awarded ARRA funding of:
 - \$167 billion in grants
 - \$30 billion in contracts
 - \$2 billion in loans
2. Recipients reported roughly 600,000 jobs created or saved

— www.recovery.gov

Getting—and Keeping—ARRA Funding

Demonstrating compliance with requirements is critical to successfully dealing with the government, whether when applying for a grant, managing ARRA funds received or reporting the status of activities performed using these funds. Companies receiving ARRA funds must ensure that their internal control and business systems are capable of satisfying ARRA requirements. In fact, agency-specific rules may require that recipients make their systems available for government audit within six months of the grant to allow the government to evaluate the recipient's ability to manage and protect government funds and any capital assets that are acquired using ARRA funds. In some situations, the receipt of funds could be contingent on the correction of deficiencies identified during this assessment.

Reporting Requirements

A widely publicized requirement is that companies must report to the government the number of jobs either created or saved using ARRA funds. What many people don't realize is that the jobs report must be provided to the government within 10 calendar days after the end of each quarter. This can be a daunting task, especially for companies that engage subcontractors or use affiliates in the performance of work. In these situations because the funded companies must either obtain and report comparable information for each ARRA-funded subrecipient or ensure that these other entities comply with the reporting requirements.

Companies receiving grants, contracts and loans are subject to other ARRA reporting requirements. These requirements vary by federal agency and grant, and they require companies to submit to the government a list of reports specified in the grant award. The list may include reports providing detailed project plans, time-phased spending plans, capital assets acquired, allowable costs incurred, goals attained, reasons why progress is better or less than planned or other project status-related information. Companies receiving ARRA funds must ensure that their internal control systems are capable of producing information in sufficient detail to satisfy stated requirements within government-mandated deadlines.

Reporting of Potential Violations and Significant Overpayments

ARRA also requires companies to report to the Inspector General of the agency that issued the grant or contract if the company has

“credible evidence” of a violation of the law by a company official. Companies should pay special attention to this requirement, as failure to report could result in an investigation by the government, as well as potential fines, penalties and other sanctions.

However, since the law does not define what information constitutes “credible evidence,” and since guidance in this area is still evolving, companies participating in the ARRA program are operating in a gray area of federal contracting. Accordingly, companies should make sure that their control systems are geared toward and able to identify, escalate and investigate indications of ARRA wrongdoing or violations. As with the other requirements, it’s essential to establish and articulate company and employee responsibilities and to train company personnel on compliance policies.

High-Risk Areas

In addition to ARRA requirements, there are high-risk areas related to complying with other requirements for certain federally funded agreements. One involves identifying and removing unallowable costs from request for payments and other pricing requests.

For decades the government has mandated that companies identify, track and eliminate from all estimates, bids and invoices a variety of costs that the government deems unacceptable. While the criteria used to establish what may and may not be reimbursed by the government vary, the basic tenet is the same: Companies must understand and comply with guidance provided by the issuing federal agency and the terms of the grant. In most cases, companies will need to implement processes and internal controls to comply with the terms of the agreement.

As part of this process, companies should ensure that internal controls associated with estimating, proposal preparation and submittal, and invoicing include up-front validation, approval and accounting classification of expenses, including unallowable costs. These controls help ensure that the requested information is consistent with requirements and acceptable to the government.

Another potential area of risk is the existence and utilization of an adequate internal labor recording and distribution system. Such a system ensures that the hours charged to each government agreement represent the time actually worked on that agreement and *only* that agreement.

In addition, controls must be established to ensure the rates used to prepare estimates and proposals and to record costs associated with government work are consistent with the amounts paid to employees (or consistent with a methodology acceptable to the government). Any differences between the two must be reconciled.

Since today’s multitasking workforce seldom focuses on a single project at a time, companies are expected to have a robust timekeeping system that includes written authorization to perform work, employee certification of hours recorded and supervisory approval and transaction audit trails (including labor adjustments)—all intended to make sure that the government only pays for work actually performed on its agreements.

These high-risk areas require a much more detailed level of accounting than most companies have in place. Developing and maintaining policies and procedures that articulate company and individual employee responsibilities are the essential first steps on the road to compliance; training the accounting and compliance staff and the general employee population is the next.

Additional Considerations

Certain ARRA grants may include a cost-sharing provision that requires the company to pay or absorb a percentage of the cost incurred on the project.

Also, if a company purchases assets with ARRA funding, it may *not* have sole title to that property. Because the government obtains conditional property rights in assets acquired using ARRA funds, a company’s accounting and facilities teams must work together on a capital asset management system that will track, record, protect and monitor the cost and management of these assets.

As part of bidding on and managing government funds, many companies are required to establish rates to be used to allocate indirect costs.

For example, to demonstrate that a company is treating the government in a manner consistent with other customers, the government can require the modification, enhancement or creation of an indirect rate structure consistent with specific criteria. Depending on the complexity and size of the company, and its customer base, these rates can mean a significant investment of effort and money.

The Payoff ... ?

So, is it worth going after these funds? The answer depends on many factors: the size and financial condition of the company receiving the funds, the cash demands of the project and the ultimate return on that investment are just a few. For some, ARRA may create a bridge from the recession to more prosperous times; for others, ARRA is a way to acquire new capacity or enhance technology using less of the company’s investment capital.

Regardless of the reason, determining if ARRA’s benefits exceed the costs associated with participating must be systematic and holistic, and be done with full knowledge of the requirements and the potential levels of government oversight—or your clients could find themselves in a morass of pitfalls and issues around every blind curve. **CPA**

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Stretching Tax Credits

In addition to grant funding, ARRA also introduced, expanded or extended several tax credits that are applicable to some business:

- The **Work Opportunity Tax Credit** was expanded to include unemployed veterans and disconnected youth.
- The **Energy Production Tax Credit** was extended through Dec. 31, 2012 for wind facilities and Dec. 31, 2013 for other eligible, renewable energy facilities.
- The **Energy Investment Tax Credit** was modified to eliminate the basis reduction for subsidized energy financing.
- A temporary election was introduced to claim a grant in lieu of the investment tax credit, as well as a temporary election to claim the investment tax credit in lieu of the production tax credit.
- Other new tax opportunities introduced include an investment tax credit for manufacturers of advanced energy property that has already passed, but may be extended under future stimulus legislation.