



After the Award #3

Will an audit be required?

The short answer? Yes. And no. It depends on the agency granting the award. But why do SBIR agencies even require audits after the award? Simple. They want to ensure that your financial system is free from misstatements, fraud or errors; your time management system is working properly; and that all internal controls are in place.

An audit is actually good for your business. Verified compliance opens the door for future funding and even prepares you for outside investment by performing due diligence and establishes you as a good credit risk. It even gives you information that helps you manage your business better and become profitable.

There are also different kinds of audits:

Financial audits review cost sharing, indirect costs, timekeeping, and sub recipient monitoring.

Performance audits occur if the program officer suspects that Phase I results may have been exaggerated or falsified or in a case of plagiarism.

Each agency determines when, how and who will be audited.

NIH – An Audit is required when an organization under federal grants, procurement contracts or operating agreements expends \$750,000 and at least one of your awards is an HHS grant. (not including the fee)

DOE – An Audit is required when an organization under federal grants, procurement contracts or operating agreements expends \$750,000. (not including the fee)

DoD Phase I – pre award survey Phase II – cost incurred, annually

NSF – An NSF grant will only be audited at the request of the program officer. A pre award evaluation is conducted before a phase II is funded.

Here's what auditors will be doing:

- Learning the organization, procedures, financial reporting and known fraud or error
- Evaluating and understanding the internal control system
- Reviewing and analyzing variances in account balances or classes of transactions
- Testing documentation supporting account balances and transactions
- Assessing allowable costs/cost principals
- Analyzing cash management, including accounts receivable
- Reviewing Time and Effort to track labor and efficiency

How to prepare for your audit:

1. Have written policies and procedures in place — make sure they comply with standards set forth and that you follow them for the duration of the project
2. Make sure your billing system is compliant
3. Ensure that your time keeping system is accurate — all time must be recorded by activity and project, and time sheets must be signed by a company member
4. Develop an equipment inventory list
5. Organize consultant and sub-award contracts
6. Make sure you have all supporting documents for expenses
7. Indirect rate letter or calculation
8. Reports

Here are 10 things you can fail to do that can kill your business:

1. Fail to track ALL expenses
2. Fail to save receipts and documents
3. Mix personal and business funds
4. Not being organized for your accountant
5. Not filing taxes on time
6. Not keeping financial documents for a minimum of seven years
7. Not paying employees accurately and on a consistent cycle
8. Fail to track labor
9. Fail to reconcile bank accounts monthly
10. Not billing clients timely and consistently

Keeping a project binder will reduce the pain and cost of an audit.

1. Make sure it includes:
2. Proposal
3. Notice of award or contract
4. Just in time docs/agency communication
5. Contracts – consultants, sub award/consortium
6. Invoice/draw with supporting documents (reports, timesheets, equipment inventory)
7. Policies and Procedures notes, emails, etc.