



The Stimulus Plan and Basic Research: Responding to New Requirements for Transparency and Reporting

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The sheer volume of dollars being added to the research enterprise will undoubtedly generate momentous leaps forward in many areas of research and science. Perhaps a new planet will be discovered, or we will witness major medical breakthroughs that cure or improve treatments for millions.

Slow distribution of ARRA funds

Over the next two years, the American Recovery and Reinvestment Act (ARRA) will contribute to an expected thirty percent increase in Health and Human Services funding – the largest rise in basic research funding since World War II. The sheer volume of dollars being added to the research enterprise will undoubtedly generate momentous leaps forward in many areas of research and science. Perhaps a new planet will be discovered, or we will witness major medical breakthroughs that cure diseases or improve treatments for millions.

We recognize, however, that there is great concern within the research community and internal to the government agencies that manage these new funds as to whether or not agencies can feasibly distribute funds in a timely manner. This uncertainty carries a cost to all universities. Should

universities and other research institutions begin now to develop systems and hire staff to support the influx of grants, or wait? What happens if institutions are late in responding to ARRA requirements?

A growing number of research community members have great concern as to whether or not the agencies will have the capacity and internal approval capabilities to move quickly enough to get the funding out in a timely manner. To accomplish the goals of the Administration, awarding research funding must occur more quickly. As of September 2009, only approximately 20 percent of the dollars that are supposed to be approved and being spent are actually in the hands of those who are to do the hiring and spend the money. In order to stimulate the economy, extend and initiate new research, this must change immediately.

New rules, regulations and reporting requirements

So, what do the new ARRA funds mean for your organization? The details lie in the new rules, regulations and reporting requirements. If you were to read all of the pronouncements by the various Federal agencies, you could boil them down to a few basic requirements. Compliance with this handful of requirements, however, can be onerous.

- Organizations must separately identify and report on all Stimulus fund that you receive. Some Agencies are beginning to release specific instructions on what they are requiring so that you can follow their lead at your institution.
- Preparing to report ten days after the end of second quarter, or October 10, 2009. This will be difficult, if not impossible, for most institutions. The government has developed a spreadsheet that can be used to input the required data for the October 10 period. This process, while assisting institutions with compliance, will not be pretty or easy. These reports will cover a six-month period showing cumulative to date data. There are quite a few demographics that will need to be reported. The government has recognized that these would be repeated in each reporting cycle for thousands of grants and contracts and has indicated that it would hold this information once submitted. This would eliminate the need to submit each cycle.
- Institutions will need to report on an individual grant-by-grant basis. If you have only a handful of grants, individual reporting does not present a problem. However, individual reporting poses challenges when you have a few hundred or more grants that receive all or partial Stimulus funding.

- Requirements for reporting on financial information is not significant in number, but obtaining the data as requested may be a challenge depending on your systems. The key is that both data sets are requested on a cash basis. The requested information is:
 - Cash received at quarter end by grant or contract receiving Stimulus funds. Simply stated, you will need to have available the actual cash received cumulatively for Stimulus funds on a grant or contract at the end of each cycle.
 - You will also need to have available the actual cash expended on each Stimulus funded grant or contract. There may be issues related to the availability of the data in a timely fashion, since it is known that in some systems the reported data may have delays due to processing procedures and the way the system itself processes data.
- New or uncollected data must also be reported. This activity will be the most difficult and most controversial data to deal with in the entire process. The new data includes:
 - FTE for all new, extended or back filled positions where Stimulus dollars were used as a source of funds. This will need to be tracked and reported at an individual grant/contract basis unless your institution has a rather sophisticated position control system. This will probably be one of the jobs the staff person paid out of direct Stimulus funds will perform, if their positions are approved. FTE will be calculated on a 40-hour per week basis or whatever other standard work week you use.
- You will also be required to report on the goals of each grant and contract over time. The cumulative progress toward attaining the goals and milestones will have to be reported quarterly and should relate to technical reports being submitted. At the end of the project, you will also need to report on attainment of desired results. This information, in this format, and available to this wide of an audience to the best of our knowledge has never been requested before. As a result of its' potential widespread dissemination, all types of scientific and non-scientific questions may be raised from outside the institutional environment. In addition, Principal Investigators (PIs) may have concerns about what is being reported and how it can be misinterpreted, as well as the time it will take each cycle to prepare the reporting. The PIs will be the only ones who can actually assess where they are and accurately report. The staff position, if funded, can help but must have the PIs assistance. Expect issues here, and prepare now.
- As of today, you must report on all funds that are provided to a sub-recipient. This means that you would have to require that a sub-recipient submit to you each quarter all of the information that you are reporting on your other Stimulus funding. You would also have to require them to submit this material in time for you to include it in your report. Compliance with these deadlines may not be feasible. Most of your sub-recipients are also recipients in their own right. This will make their basic task more difficult, and will also increase the chance of double or misreporting.
- Institutions also are required to report all individuals who receive more than \$25,000 of Stimulus funds from a grant or contract.

Benefits to the research enterprise

As ARRA funding begins to benefit the economy and the research enterprise, research institutions will focus on new job creation and retention, the core goal established by the President and the Federal government. If the government succeeds in expediting approval and distribution of Stimulus research funds, large volumes of new jobs will be created and the economy will be spurred. This can occur due to the nature of the research process; there are "shovel-ready" projects that have been rated as meritorious by research panels but were passed over by agencies due to insufficient funding resources. With additional funding, these exceptional research proposals can be approved, processed, and awarded almost immediately. This would allow for retention of existing staff and hiring of new staff.

Potentially negative impacts

All of these potential benefits, however, do not come without challenges -- hiring new staff, IT costs, and out of pocket dollars will be needed to support the reporting effort and transparency. Do not underestimate the costs, changes to compliance requirements and potential risk to your institution.

Increasing budgets without increasing the staffing level to carryout review, processing and award will present a significant detriment to the process. The sheer volume of new awards, extensions or expansions of active grants may overwhelm your pre-award, post-award and departmental capabilities. Several university pre-award offices across the country confirmed with us that they are heads-down focused on the significant volume of applications for new awards, continuation, or expansions of existing awards that are already going into the pipeline of proposals. While there is no funding to support this increase in volume, university administrators must help meet the demand and delay tasks related to their typical job function. The impact of this shifting of duties will be felt for several months as they try to catch-up.

In addition, you will need to expand staff and modify or enhance your current systems to comply with tracking and reporting data to submission in a new electronic form. As of September 2009, it appears that the only manner allowed to recover cost or a portion of cost will be through placing partial positions on individual grants. These individuals can assist in gathering the required data and in-putting it into an approved form. Currently, there is no manner to recover cost in the pre- and post-award areas of IT operation. Cost recovery through F&A rates remains questionable. In fact, the receipt of Stimulus may artificially reduce your F&A rate. A rule to increase the states indirect cost rates was approved. The approval went further to declare that this was not applicable to universities and others. Is it their position that only states will incur any indirect costs associated with these new rules? At least one national association is taking action, but we believe that a lot more will need to be done in order to see a positive outcome approved. If not approved, institutions will pay the price of doing what is needed to meet the transparency regulations and reporting; or in the end you will have to pay for non-compliance as the audits are performed. Action now will have a positive impact for your institution's financial future.

Another challenge to prepare for is what will happen in 2013, when ARRA dollars expire and funding falls back to "standard" levels. While there will be some organic growth in funding agency budgets, it is anticipated that there will be zero or negative growth in defense research to universities and labs, which may negatively impact some of the largest university and research laboratories. Will there be enough work to maintain jobs for the newly retained or hired?

Timing – What do we do now?

When you look at the challenges before you, the first question is when you should take action. The answer is yesterday. Agencies are beginning the review process and currently are examining unfunded grants and contract s that are in-hand to determine whether Stimulus funding can be used. They also will be looking at requests for extension and existing grants and potentially increasing the size of awards without an increase to the length of time the grant was originally prescribed.

A top priority is ensuring that your organization is in compliance with the new ARRA rules and regulations. Depending on the final rule making, you could be in non-compliance before the actual research or new funding has begun. When you receive or accept ARRA dollars, you must comply with all rules, including the new transparency rules. If you fail to comply, the dollars you receive may have to be returned with interest and penalties. And, as an even stronger deterrent, if it is determined that one knowingly did not comply, criminal actions may be taken.

What should my organization do now to prepare?

- **Ensure compliance with the new rules and regulations**
- **Review the "False Claims Act"**
- **Expect audits, and plan accordingly**
- **Prepare for a return to standard funding**

In light of the amount of publicity around these funds and the President's promise of transparency, institutions will be under the microscope -- this is not the time to be out of compliance from any perspective. All institutions should be aware of and familiar with Federal laws set out under the "False Claims Act". If you do not follow a rule or properly report the accurate and timely information required by a grant and/or contract, this may cause a false claim (in the form of an invoice or bill) to be filed (submitted to the agency or included in an agency draw on a letter of credit). When this occurs and costs are disallowed, there is the possibility of treble damages, interest, and penalties.

There will be audits of Stimulus Funds. Expect them. Significant funding has been made available to the Offices of Inspector General to perform ARRA audits and assure that funds are being properly spent, without fraud, waste and abuse. The audits will most likely be performed in one of two manners:

- Directly by the OIG with specially trained and prepared auditors who will have an audit plan that is specially designed to investigate and determine how the funds were spent and if you complied with all the existing rules and new transparency rules related to the Stimulus funds. While it will be said that they will only examine the Stimulus funds, expect that there will be other findings not related to the Stimulus funding. They simply cannot unstring the spaghetti and only look at a single strand. It is all mixed in together with the same internal controls and systems. If an internal control is broken, it is broken everywhere.
- They may also cause, either directly or indirectly, your outside audit firm to perform an extended and more complex A-110 Single Audit of these funds. This would be done by using the rules and processes developed to perform the audit using OIG staff. The auditors would be required to produce a specific report of their findings and potential disallowances. This option may cause a strain between your outside auditor and your institution. This process could also be used with State Auditors.

Then, organizations must also prepare for a return to "standing" funding. How and where could your institution absorb new positions created by these funds, and continue employment for team members? If job continuation is not possible, plan for staff reductions, including timing, number of employees potentially impacted, impact on the underlying research, the cost to the university in the form of layoffs and ending research projects, etc. Planning for the worst now will make handling the reality of 2013 much less difficult. As we all know, it always is better to plan for the worst and be pleasantly surprised by a better scenario.

Recommended action plan

Step one

It is critical to develop an oversight committee with visibility to fully understand the issues that are before it from all perspectives. Action will need to be taken quickly and many constituencies on and off campus will need to participate in the development of processes and dealing with major issues before you. If you have not already done so, create a committee comprised of:

- CFO
- VP or Dean of Research
- Controller
- Directors of pre- and post-award services
- An academic dean
- A major active research faculty member

The purpose of this committee is to assess where your institution is in the ARRA fund application and compliance process, develop short and long term strategies, assure and measure the ongoing implementation of the plan, evaluate the final results of the plan, and ensure the ultimate success of the receipt, monitoring and reporting on Stimulus funding. This committee would also have oversight of any audits related to Stimulus funds.

Step two

IT assistance will be a necessity for all. The question will be whether your institution uses internal resources, external resources, or both.

We all know that most of our institutional resources are already consumed. This means that plans will need to be changed and resources reallocated if you are going to use internal resources. If you plan to use internal resources you also need to ask if you have the right type of resources to do the job. Lastly, you should determine the internal impact of stopping projects and shifting resources in the short and long term.

If you are going to use external or combined resources, the same questions will need to be asked and then measured against the all demands.

The easiest and likely least expensive solution will be to find a prepackaged solution that is compatible with your internal systems. Many institutions are looking to a business intelligence system, joined with a database with custom reporting and analytics to help with their compliance and reporting issues. Since the cost will be spread over many organizations, the overall cost will be less and it is much more likely that if changes are needed they will be made quickly without having to compete for resources once your internally developed system is complete.

When selecting a package, the committee will need to determine whether to proceed internally or with outside help to find a package. In either case, a basic set of requirements will need to be developed to either be the basis for further development or to be used for comparison to the package. A sub-group should be formed to develop this tool bringing in additional support as needed. If you have selected to go with a package, the company should have a completed design, and be able to demonstrate the system, its capabilities, and how they meet the Federal government's requirements. With a package it is also extremely important to determine how they are going to gather all of the disparate data that is required, particularly the data that is not currently available in electronic form.

The committee should set timelines and milestone dates for the implementation team, as well as establish overall goals and determine what will be considered success for the project.

Step three

There are still many issues that need to be resolved at the national level, and this committee needs to get executive leadership involved. Decisions that are being made right now that could negatively impact your institution financially as well as organizationally for the next several years. Ask your President and perhaps Board to get in touch with national associations, legislators, and let them know the impact ARRA and its compliance requirements are having at your institution.

Conclusion

We are still at the beginning of the process and much need to be done. The key to compliance and reporting success is to get Institutional attention to the issues you face and take individual and group action. We will continue to monitor ARRA and its impact on the research enterprise.

An Update

As this paper was being prepared, things have continued to move forward. Most universities and other research institutions worked to respond to the Stimulus regulations for reporting and meet the October 10, 2009 deadline. For the most part, the only venue for reporting is a spreadsheet issued by the government. The saving grace is that the government has only been able to award approximately 20% of the available funds to date, with the exception of distributions the very large institutions. With preparation, institutions should be able to respond accurately and on time. As we approach issuance of closer to 100% of awards, it will become significantly more challenging for institutions to continue to report in this manual manner. Plan now, and prepare for the next reporting cycle on January 10, 2010.

In addition, there is additional clarity to the interpretation of the rules, including handling and reporting on sub-recipients.

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