

## **CONTROLLER ALERT: *Management Fees or Profit under Federal Assistance Awards***

*Controller Alerts are designed to highlight emerging financial management issues that may require agency attention or action. These Alerts are intended to inform the Chief Financial Officer (CFO) community of key issues where the Office of Management and Budget (OMB) believes further action may be warranted, but do not constitute official guidance or prescribe specific tasks for agencies beyond consideration of appropriate steps to address the issue. Additional Controller Alerts can be viewed at <https://max.omb.gov/community/x/ihXjJg>.*

This Controller Alert reminds Federal awarding agencies to exercise due diligence when considering whether to allow grant and cooperative agreement recipients to earn management fees or profit under Federal awards. This Alert also requests data from Federal awarding agencies regarding the prevalence of this practice.

### **Background**

In December 2014, twenty-eight Federal awarding agencies formally adopted the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”), which streamlined previous OMB guidance into a single, comprehensive policy guide (available at 2 CFR 200). Implementation of the Uniform Guidance is a culmination of a three-year collaborative effort across Federal agencies, with public comment, to focus Federal grant resources on improving performance and outcomes while promoting sound financial management of taxpayer dollars. This reform reduces administrative burden for non-Federal entities receiving Federal awards while reducing the risk of waste, fraud, and abuse.

In accordance with the Uniform Guidance, profit is typically unallowable; however, the guidance does maintain the prior flexibilities for Federal awarding agencies to allow award recipients to earn profit when expressly authorized by the terms and conditions of the Federal award, see 2 CFR §200.400. Furthermore, in practice, Federal awarding agencies treat management fees earned under grants and cooperative agreements as profit. Agencies should remember that the Uniform Guidance allows for the use of either management fees or profit only in appropriate circumstances, such as those highlighted below.

### **Allowance of Management Fees or Profit**

Typically, Federal awarding agencies permit management fees or profit in grants and cooperative agreements only in circumstances when the viability of the project may be at risk because the recipient organization has limited or no financial resources to cover certain ordinary and necessary business expenses that may not be reimbursable under the governing cost principles. For example, awards for construction or operations of large facilities may benefit from management fees or profit. For Small Business Innovative Research (SBIR) and Small Business Technology Transfer (STTR) awards, management fees or profit are required in accordance with the Small Business Administration (SBA) SBIR and STTR policy directives.[1]

This Alert reminds Federal awarding agencies to carefully consider whether there is an appropriate justification for allowing management fees or profit in the terms and conditions of

the Federal award. This includes having agency controls, policy or guidance for Federal award officials to consult when determining whether management fees or profit are appropriate. For instance, Federal awarding agencies should review and receive a reasonable justification and explanation from the potential recipient that provides the intended use of the management fees or profits. Agency policy or guidance also should include examples of inappropriate uses of management fees or profit such as purchase of alcoholic beverages, entertainment, meals for non-business purposes, membership dues for social or sporting clubs, and lobbying. Management fees should not be used to circumvent statutory or other limitations included in the terms and conditions of the award on otherwise allowable costs. OMB has posted examples of agency best practices regarding management fees or profit to the Council on Financial Assistance Reform (COFAR) OMB MAX site at: <https://community.max.gov/x/0AcdJg>.

### **Data Collection Request**

OMB is collecting data to better determine: (1) the extent to which Federal awarding agencies allow grant and cooperative agreement recipients to earn management fees or profit; (2) the extent to which awards currently permit such fees or profit under the terms and conditions of the award; and (3) whether Federal awarding agencies have agency-specific policy or guidance regarding this practice. This data collection and associated instructions will be made available through the COFAR OMB MAX site at: <https://community.max.gov/x/0AcdJg>. Responses to this data collection are requested by close of business May 29, 2015.

Please contact Gil Tran ([Hai.M.Tran@omb.eop.gov](mailto:Hai.M.Tran@omb.eop.gov)) or Rhea Hubbard ([RHubbard@omb.eop.gov](mailto:RHubbard@omb.eop.gov)) if you have questions on this data collection request.

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[1] The SBA SBIR and STTR policy directives are available at: [https://www.sbir.gov/sites/default/files/sbir\\_pd\\_with\\_1-8-14\\_amendments\\_2-24-14.pdf](https://www.sbir.gov/sites/default/files/sbir_pd_with_1-8-14_amendments_2-24-14.pdf) and [http://www.sbir.gov/sites/default/files/sttr\\_pd\\_with\\_1-8-14\\_amendments\\_2-24-14.pdf](http://www.sbir.gov/sites/default/files/sttr_pd_with_1-8-14_amendments_2-24-14.pdf) respectively.