



NIH Policy Change on Threshold for Negotiation of Facilities and Administrative (F&A)/Indirect Costs for Phase II SBIR/STTR Grants

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Key Dates

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National Institutes of Health (NIH) (<http://www.nih.gov>)
Centers for Disease Control and Prevention (CDC), (<http://www.cdc.gov/>)
Food and Drug Administration (FDA), (<http://www.fda.gov/>)

Purpose

NIH announces a change in the existing policy on the threshold for negotiation of Facilities and Administrative (F&A)/Indirect Costs (IDC) for Phase II Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) grants. Effective immediately, requested F&A cost rates of 40 percent of total direct costs or less will require no further justification at the time of award, and F&A costs will be awarded at the requested rate.

Background

If the applicant Small Business Concern (SBC) had a currently effective negotiated indirect cost rate(s) with a Federal agency, such rate(s) were to be used when calculating proposed F&A/IDC costs for an NIH application. (However, the rates(s) were adjusted for IR&D expenses, which are not allowable under HHS awards.) If the applicant SBC did not have a currently effective negotiated F&A/IDC rate with a Federal agency, the applicant was to propose an estimated F&A/IDC rate in the application.

If the requested F&A/IDC rate was 25 percent of total direct costs or less, no further justification was required at the time of award, and F&A/indirect costs were awarded at the requested rate. If awarded at a rate of 25 percent or less of total direct costs, the rate used to charge actual F&A costs to projects could not exceed the awarded rate unless the SBC negotiated an indirect cost rate(s) with the Division of Financial Advisory Services (DFAS). DFAS is the office authorized to negotiate indirect cost rates with SBCs receiving NIH SBIR/STTR awards. They negotiate F&A/indirect cost rates for SBCs receiving Phase II awards when the requested rate exceeded 25 percent of total direct costs.

In order to accommodate the expanding numbers of applications submitted by the SBC community and to provide flexibility, an increased threshold from 25 percent to 40 percent for negotiating F&A/IDC rates for Phase II SBIR/STTR awards is now appropriate. This will likely assist DFAS in helping to reduce the current backlog, allow DFAS to provide timelier rate negotiations, and improve timeliness of award obligations. For the small business research community, this policy change will provide additional options and flexibility and allow for faster turnaround for those SBIR/STTR awardees that continue to negotiate rates with DFAS. Further, this increase from 25 percent to 40 percent for Phase II awardees will eliminate confusion about the NIH's allowable F&A rates for Phase I and Phase II SBIR/STTR awards.

NIH Policy on Threshold for Negotiation of Facilities and Administrative (F&A)/Indirect Costs for Phase II SBIR/STTR Grants

Effectively immediately, SBIR and STTR applicants who propose in the application an F&A rate of 40 percent of total direct costs or less will not be required to provide further justification at the time of award, and F&A costs will be awarded at the requested rate. However, DFAS will retain the authority to require well-documented proposals for F&A rates on an *ad hoc* basis. If the applicant SBC has a currently effective negotiated indirect cost rate(s) with a Federal agency, such rate(s) should be used when calculating proposed F&A costs for an NIH application. (However, the rates(s) must be adjusted for IR&D expenses, which are not allowable under HHS awards.)

SBCs are reminded that only actual F&A costs may be charged to projects. If awarded at a rate of 40 percent or less of total direct costs, the rate used to charge actual F&A costs to projects cannot exceed the awarded rate unless the SBC negotiates an indirect cost rate(s) with DFAS. DFAS will negotiate F&A/IDC rates for SBCs receiving Phase II awards if the requested rate is greater than 40 percent of total direct costs.

Upon request, the applicant SBC should provide DFAS with an F&A/IDC proposal and supporting financial data for its most recently completed fiscal year. If financial data are not available for the most recently completed fiscal year, the applicant should submit a proposal showing estimated rates with supporting documentation. Further information about DFAS is available at its website (<http://oamp.od.nih.gov/dfas/dfas.asp>) or by telephone (301-496- 2444).

This policy applies to **all** competing SBIR and STTR applications submitted for fiscal year (FY) 2009 funding (i.e., applications assigned to the October 2008, January 2009 and May 2009 Council rounds) and to all competing awards issued here forward. Non-competing awards funded in FY2009 or earlier will continue to be funded at the committed level if between 25 percent and 40 percent.

SBCs who requested 25 – 40 percent F&A/IDCs in their SBIR or STTR application and who have no other grants (e.g., R01), will be funded at the requested rate (e.g., 35 percent). That is, DFAS will only negotiate rates with SBCs who requested more than 40 percent of total direct costs. For competing applications that have been submitted and are pending potential funding in 2009, applicants should contact the assigned Grants Management Specialist to discuss the applicability of this new policy.

Inquiries

Applicants are strongly encouraged to discuss their questions with their NIH IC contact. For additional information or questions regarding the submission of indirect cost proposals, please contact:

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