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Frequently Asked Questions: NSF SBIR/STTR Phase II Budgets and Accounting

GENERAL

1. What is the accounting review process for Phase II proposals?
2. What major budget and financial issues face Phase II applicants?
3. How is the 51% primary employment rule computed for Principal Investigators?
4. What administrative and financial requirements are placed on subaward institutions and consultants?
5. What are minimum requirements for timekeeping systems?
6. Must timekeeping systems account for all employee work time?
7. Will my company be audited after receiving a Phase II award?
8. What if the budgeted rates (salaries, fringe, indirect, etc.) in my Phase II proposal budget are different than those used in Phase I?

FINANCIAL VIABILITY

9. How does NSF determine the financial viability of a Phase II small business applicant?
10. What steps can be taken in advance of the financial viability evaluation to ensure that a Phase II applicant has the maximum chance to be considered viable?

BUDGET ADJUSTMENTS

11. How are pre-submission budgets or accounting questions handled?
12. How are changes to the budget (e.g., indirect rate changes) between submission and award decision handled?
13. What change level requires NSF approval?
14. Can a single individual be billed against both direct and indirect costs?

SALARIES

15. How does NSF assess reasonableness of budgeted salaries?
16. What happens if NSF considers a budgeted employee's salary too high?
17. Under what conditions are significant salary increases permitted between Phase I and Phase II?
18. How does flow through of profits to one-or-more principals (no separate corporate income tax filing) affect Phase II accounting audit approval?
19. What is an acceptable annual cost-of-living (COLA) salary escalation?

INDIRECT COSTS

GENERAL

1. **What is the accounting review process for Phase II proposals?**

   Once a proposal is being considered for award, the SBIR/STTR Program Director (PD) will notify you that the materials for administrative and financial review need to be submitted to the NSF Cost Analysis and Audit Resolution (CAAR) Branch within 10 calendar days. CAAR and/or contracted certified public accounting (CPA) firms will review your budget, accounting and timekeeping systems, and overall financial capability, as well as establish an indirect cost rate (ICR) as appropriate. During this process, you may receive additional requests for information. CAAR issues its final determination and advises the NSF Division of Grants and Agreements (DGA) and SBIR/STTR program as to its assessment of financial viability.

2. **What major budget and financial issues face Phase II applicants?**

   Major issues typically facing Phase II applicants surround (1) setting and justifying salaries for current/future staff; (2) responding to questions of solvency and liquidity; (3) justifying proposed indirect costs; (3) justifying proposed materials and supplies and equipment with authentic vendor quotes; and (4) addressing subawardee requirements.

3. **How is the 51% primary employment rule computed for Principal Investigators?**

   The primary employment of the Principal Investigator (PI) must be with the small business concern for the duration of the award. PI limitations set in the SBIR solicitation set primary employment as 51% or more employed by the small business. NSF normally considers a full-time work week to be 40 hours; employment elsewhere of greater than 19.6 hours is considered in conflict with this requirement. Also note, for SBIR/STTR Phase II awards, the PI commitment must be at least two calendar months per year.

4. **What administrative and financial requirements are placed on subaward institutions and consultants?**

   All subawards are subject to the Federal cost principles applicable to that organization. Also, salaries for subrecipient staff, and proposed subrecipient indirect costs should be justified. Other compliance requirements for your award are passed through in their entirety to subawardees. You are responsible for subawardee oversight and compliance. For consultants, you must ensure their services are justified; salaries are reasonable and within the NSF daily allowance of $600 per day; and project billing is accurate.

5. **What are minimum requirements for timekeeping systems?**

   Your timekeeping system must adhere to minimum requirements specified in applicable cost principles (FAR.31). By pay period, you must maintain records to verify project billing (i.e., employee names and signatures; total work effort; effort breakdown [e.g., project, general and administrative, leave categories]; names and signatures of employees' supervisors).

6. **Must timekeeping systems account for all employee work time?**

   Yes, timekeeping systems must account for all employee time during a pay period (i.e., NSF project, other work activities, general/administrative functions, leave).

7. **Will my company be audited after receiving a Phase II award?**

   As a condition of the award, duly authorized NSF representatives have the right to examine and audit at any time, all books, accounting records, documents, data, etc. to determine compliance, stewardship, and adequate expenditure of awarded NSF funds. In addition, you may be asked for any materials necessary to evaluate technical performance and reports related to the award.

8. **What if the budgeted rates (salaries, fringe, indirect, etc.) in my Phase II proposal budget are different than those used in Phase I?**

   The Phase II budget does not have to be the same as the Phase I budget. The Phase II budget should be an accurate representation of the work to be performed, and adequately justified.

FINANCIAL VIABILITY

9. **How does NSF determine the financial viability of a Phase II small business applicant?**

   NSF is looking to make sure that the current financial status of the company is stable enough so that it is not at risk of misusing government funds, either due to financial statement issues or due to mismanagement. To this end, NSF wants to see that each proposing small business does not have short-term liabilities which would call into question the solvency of the organization. These aspects are evaluated by looking at such elements as accounting ratios (the quick ratio and current ratio), the cash on hand of the company in question, revenue streams, net profit/loss, etc.

10. **What steps can be taken in advance of the financial viability evaluation to ensure that a Phase II applicant has the maximum chance to be considered viable?**

    If a proposing company has liabilities which will come due during the coming 2-3 years, the company should ensure that they have enough liquid assets to cover these liabilities. The proposing company also wants to make sure it has enough cash on hand to ensure that company operations can continue for the next few months.

BUDGET ADJUSTMENTS

11. **How are pre-submission budgets or accounting questions handled?**

    Pre-submission budget questions should be directed to the responsible SBIR/STTR PD. Pre-submission accounting questions should be directed to CAAR at bfacaarsbir@nsf.gov or at 703-292-8244.

12. **How are changes to the budget (e.g., indirect rate changes) between submission and award decision handled? What change level requires NSF approval?**

    Do not make any budget changes between submission and award decision. CAAR does not accept or review revised budgets after acceptance of the initially submitted budget. All submitted budgets to CAAR must be final before the financial review starts.

13. **How are budget changes handled during a project? When is NSF approval required?**

    The Phase II award reflects the total supported dollar amount for the proposed research effort. Supplemental funding requests, however, are allowable to secure involvement with NSF research center programs; provide research experience for undergraduates; and/or to bridge a funding gap until a third party investor is secured (Phase IIB Option). Contact with the NSF PD is recommended.

    Within your Phase II budget, you generally have the authority to move costs across budget categories. You cannot, however, make any changes that would result in violating program requirements (e.g., minimum 2-month annual commitment of the PI, research effort requirements for small business (SBIR) and small business/cooperating research institutions (STTR)). Contact with the NSF PD is recommended.

14. **Can a single individual be billed against both direct and indirect costs?**

    Yes, you can bill individuals against both direct and indirect costs as long as the practice conforms to organizational policies and is fully documented in your Cost Policy Statement.

SALARIES

15. **How does NSF assess reasonableness of budgeted salaries?**

    NSF assessments of reasonable salaries rely on your current payroll register and evidence of recent salaries from comparable positions, years of related work experience, other information drawn from résumés, local labor market characteristics, and critical skills needed for project performance. Without sufficient levels of commercial activity and/or justification, salaries are limited to mean average salaries for relevant occupations as reported in the U.S. Bureau of Labor Statistics (BLS) Occupational Employment Statistics Survey (OES) for the major metropolitan area nearest your location. Please note, under SBIR, small business owners are not considered "Chie" "Executives". Another Standard Occupational Classification must be designated for their position to facilitate budget review.

16. **What happens if NSF considers a budgeted employee's salary too high?**

    Key personnel are, in part, why your company received the award and are deemed critical for project success. If a salary is assessed as unreasonable, and the company cannot demonstrate a sufficient level of commercial activity to justify the above-market rate, the usual result is a reduction in the budgeted funds to reflect the allowed salary and a corresponding reduction in the total proposal budget.

17. **Under what conditions are significant salary increases permitted between Phase I and Phase II?**

    It is not unusual for small, early-stage companies to pay salaries below market-level. For example, start-up companies may have limited cash on hand or companies may need to conserve cash and pay employees in the form of equity or an ownership interest. As approved by company management, you may increase proposed salaries to market value in your Phase II budget. In determining reasonable salaries, the Phase II financial review will factor in recent salary histories; therefore your salary justifications become more critical. The BLS/OES salary survey remains a major factor in assessing whether salaries reflect market value of services received.

18. **How does flow through of profits to one-or-more principals (no separate corporate income tax filing) affect Phase II accounting audit approval?**

    The accounting review for Phase II approval is not affected by business structure, which is totally at the discretion of the company. The level of profits flowing through principals named on your Phase II award along with requested salaries and salary survey data from the BLS OES Survey are considered in determining reasonableness of compensation.

19. **What is an acceptable annual cost-of-living (COLA) salary escalation?**

    Proposed COLAs should adhere to the NSF maximum allowable of 2%. Any requests above 2% will be reduced.

INDIRECT COSTS

20. **How is the indirect cost rate calculated?**

    ICR calculations should reflect your organization's adopted rate structure. Considerations used by NSF in setting an ICR can be found at the website, NSF CAAR SBIR/STTR Phase II Reviews. In your budget proposal, this rate is equal to (line C + line I)/(line A + line B). It should be noted, however, that NSF sets maximum allowable indirect costs inclusive of fringe benefits to no more than 150% of total salaries and wages.

21. **Must indirect cost rates below the safe rate (50%) be justified? Are there any other budget/documentation issues I need to worry about if I request the safe rate?**

    No documentation is required for ICRs requested at or below 50% of total salaries and wages (also known as the "safe" rate).

22. **Does taking the safe rate preclude use of real, reconciled rates on future awards?**

    No, use of safe rates does not preclude submission of future ICR proposals.

23. **How are future indirect costs handled and justified in indirect cost proposals?**

    To the extent possible, your ICR proposal should be based on actual cost data for the most recent accounting year with supporting financial statements. If you anticipate significant changes in indirect costs during the Phase II performance period, include projected costs in the relevant cost category (e.g., office rental) and provide a justification with supporting documentation.

24. **Does NSF have guidelines for costs allowable as fringe benefits?**

    Fringe benefits are a form of pay supplementing employees' salaries and wages; their treatment varies by organization. If the applicant's usual accounting practice treats contributions to employee benefits as direct costs, NSF allows for their classification as direct costs. Allowable fringe benefits include paid leave (e.g., vacation, sick), medical and dental insurance, organizational contributions to retirement plans (e.g., Social Security, 401(k)), unemployment insurance, etc. Under the SBIR/STTR programs, however, training and continuing education are not considered fringe benefits as their benefit is considered to accrue to the company.

25. **What costs are unallowable as indirect costs?**

    Expenses unallowable as indirect costs include: (1) Independent Research and Development (IR&D); (2) patent and patent-related expenses; (3) sales and marketing expenses; (4) manufacturing and production expenses; (5) business development; (6) indirect salaries and wages in excess of 35% of total salaries and wages, less paid time off; (7) entertainment; (8) H1-B Visa Fees; (9) bad debts/fines/penalties; and (10) Federal taxes. In addition, while generally allowable under Federal awards, the Facilities Capital Cost of Money is unallowable under the SBIR/STTR program.

REFERENCED WEBSITE URLS

SBIR Program Solicitation https://www.nsf.gov/pubs/2015/nsf15605/nsf15605.htm

STTR Program Solicitation http://www.nsf.gov/pubs/2015/nsf15545/nsf15545.htm

Phase II Award Terms & Conditions http://www.nsf.gov/pubs/policydocs/sbir/sbirii_716.pdf

Bureau of Labor Statistics/Occupational Employment Statistics Survey http://www.bls.gov/oes/home.htm

NSF Cost Analysis & Audit Resolution Website, SBIR/STTR Phase II Reviews
http://www.nsf.gov/bfa/dias/caar/sbirrev.jsp