

THE NATIONAL SCIENCE FOUNDATION



# PROSPECTIVE NEW AWARDEE GUIDE



## **About the National Science Foundation**

The National Science Foundation (NSF) is an independent federal agency created by Congress in 1950 "to promote the progress of science; to advance the national health, prosperity, and welfare; to secure the national defense..." NSF is vital because we support basic research and people to create knowledge that transforms the future.

NSF funds research and education in most fields of science and engineering. It does this through grants and cooperative agreements to approximately 2,000 colleges, universities, K-12 school systems, businesses, informal science organizations and other research organizations throughout the U.S. The Foundation accounts for about one-fourth of Federal support to academic institutions for basic research.

NSF receives over 50,000 proposals<sup>1</sup> each year for research, education and training projects, of which approximately 11,000 are funded. In addition, the Foundation receives several thousand applications for graduate and postdoctoral fellowships. The agency operates no laboratories itself but does support National Research Centers, user facilities, certain oceanographic vessels and Antarctic research stations. The Foundation also supports cooperative research between universities and industry, U.S. participation in international scientific and engineering efforts, and educational activities at every academic level.

NSF welcomes proposals from all qualified scientists, engineers and educators. The Foundation strongly encourages women, minorities, and persons with disabilities to participate fully in its programs. In accordance with Federal statutes, regulations, and NSF policies, no person on grounds of race, color, age, sex, national origin, or disability shall be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving financial assistance from NSF, although some programs may have special requirements that limit eligibility.

Grantees are wholly responsible for conducting their project activities and preparing the results for publication. Thus, the Foundation does not assume responsibility for such findings or their interpretation.

NSF has Text Telephone (TTY) and Federal Information Relay Service (FIRS) capabilities that enable individuals with hearing or speech impairments to communicate with the Foundation about NSF programs, employment, or general information. TTY may be accessed at (703) 292-5090 and (800) 281-8749, FIRS at (800) 877-8339. The NSF Information Center may be reached at (703) 292-5111.

## **Privacy Act and Public Burden Statements**

The information requested on proposal forms and project reports is solicited under the authority of the National Science Foundation Act of 1950, as amended. The information on proposal forms will be used in connection with the selection of qualified proposals; project reports submitted by awardees will be used for program evaluation and reporting within the Executive Branch and to Congress. The information requested may be disclosed to qualified reviewers and staff assistants as part of the review process; to applicant institutions/grantees to provide or obtain data regarding the proposal review process, award decisions, or the administration of awards; to government contractors, experts, volunteers and researchers and educators as necessary to complete assigned work; to other government agencies needing information as part of the review process or in order to coordinate programs; and to another Federal agency, court or party in a court or Federal administrative proceeding if the government is a party. Information about Principal Investigators may be added to the Reviewer file and used to select potential candidates to serve as peer reviewers or advisory committee members. See Systems of Records, NSF- 50, "Principal Investigator/Proposal File and Associated Records," 63 Federal Register 267 (January 5, 1998), and NSF-51, "Reviewer/Proposal File and Associated Records," 63 Federal Register 268 (January 5, 1998). Submission of the information is voluntary. Failure to provide full and

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<sup>1</sup> For the purposes of this Guide, the term "proposal" is interchangeable with the term "application."

complete information, however, may reduce the possibility of receiving an award.

Public reporting burden for this collection of information is estimated to average 120 hours per response, including the time for reviewing instructions. Send comments regarding this burden estimate and any other aspect of this collection of information, including suggestions for reducing this burden, to: Suzanne H. Plimpton, Reports Clearance Officer; Division of Administrative Services; National Science Foundation; Arlington, VA 22230.

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## **Section A: Overview and Basic Information**

### **1. Overview**

Each proposing organization that is new to the National Science Foundation (NSF), or has not had an active NSF assistance award within five calendar years (60 months) since the end-date of its last award, should be prepared to submit basic organization and management information and certifications, when requested, to the applicable award-making division within the Office of Budget, Finance and Award Management (BFA). The information contained in the *NSF Prospective New Awardee Guide* will assist your organization in preparing the documents which NSF requires to conduct administrative and financial reviews. This Guide also serves as a means of highlighting the accountability requirements associated with federal awards.

You should read this Guide in its entirety since it contains helpful information for preparing documents requested and for understanding the requirements of managing a federal award. Please note that it your responsibility as a prospective awardee<sup>2</sup> to ensure that the documents submitted are a fair and accurate representation of the administrative and/or financial position of your organization. NSF will assess the organization's administrative and financial capabilities based upon the documentation provided. Missing, incomplete or inadequate information may result in proposal declination.

### **2. Federal Requirements**

In addition to complying with all NSF regulations, recipients of NSF awards are required to comply with all applicable Federal requirements set forth in 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. ALL prospective NSF awardees are encouraged to familiarize themselves with the information contained within 2 CFR 200 as soon as possible at:

[https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1&rgn=div5#se2.1.200\\_1430](https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1&rgn=div5#se2.1.200_1430).

For-profit organizations and small businesses should continue to use the Federal Acquisition Regulations (FAR) Subpart 31.2 to determine the types of costs that may be considered allowable uses of federal grant funds. However, please note that Chapter VIII of the *NSF Proposal and Award Policies and Procedures Guide* (PAPPG) implements the financial management systems requirements prescribed by 2 CFR 200.302 on all types of recipients of NSF grants, including for-profit commercial organizations and small businesses.

### **3. NSF Points of Contact and Frequently Asked Questions**

Many of the questions frequently asked by prospective new awardees are addressed in this document; therefore we recommend that you read this Guide in its entirety. The following NSF Divisions assist in the awarding process to new NSF awardees, and individual program websites may provide additional information that you may find helpful. If you still need additional assistance, please contact the applicable award-making division noted below.

#### ***Division of Grants and Agreements (DGA)***

Website: <http://www.nsf.gov/bfa/dga/>

The Division of Grants and Agreements (DGA) supports the issuance of NSF assistance awards and provides stewardship across the continuum of non-large facility awards from pre-award through closeout. DGA supports a diverse set of stakeholders including grantees, NSF Directorates and others within the national scientific research and education communities and maintains a leadership role in the Federal grants arena. In carrying out NSF's primary mission of providing basic research support, DGA interacts on a continuing basis with academic and non-academic institutions, private industry, state and local governments, and other Federal agencies. DGA is responsible for the business, financial and administrative review of all recommended grants, most cooperative agreements<sup>3</sup> and other assistance awards and assuring that they are consistent with applicable policies, regulations, directives and fund certifications.

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<sup>2</sup> For the purposes of this Guide, the term "awardee" is interchangeable with the term "grantee."

<sup>3</sup> The Division of Acquisition and Cooperative Support (DACS/CSB) is responsible for negotiation, award, and administration of cooperative agreements for FFRDCs, major research facilities, and various science, technology, engineering and education center programs.



Grants & Agreements Officers are responsible for issuing all amendments and certain post award prior approvals under these awards, for monitoring awardee compliance with the terms and conditions of the awards, and for the administration and closeout of these awards.

***Division of Acquisition and Cooperative Support (DACS/CSB)***

**Website:** <https://www.nsf.gov/bfa/dcca/>

The Division of Acquisition and Cooperative Support (DACS) provides acquisition and cooperative agreement award support for the Foundation. The Contracts Branch is responsible for planning, solicitation, negotiation, award and administration of research and research support contracts for NSF. The Cooperative Support Branch (CSB) is responsible for planning, solicitation, negotiation, award and administration of cooperative agreements for FFRDCs, major research facilities, and various science, technology, engineering and education center programs. CSB provides cooperative agreement management and oversight for supported multi-institutional and international programs. This includes key participation and input on NSF project advisory teams, business process reviews and redesign, risk assessments, financial and administrative assistance to all stakeholders and on-site support for large research facilities and FFRDCs.

***Division of Institution and Award Support (DIAS) - Cost Analysis and Pre-award Branch (CAP)***

**Website:** <https://www.nsf.gov/bfa/dias/cap/>

DIAS staff in the Cost Analysis and Pre-Award (CAP) Branch, and Resolution and Advanced Monitoring (RAM) Branch, perform cost analyses and resolve audit findings pertaining to the allowability, allocability, and appropriateness of costs claimed under all NSF awards, including grants and cooperative agreements. CAP responsibilities include the performance of accounting system reviews, financial capability reviews, budget reviews, and award monitoring and business assistance. CAP also negotiates indirect cost rates for organizations that have numerous Federal awards where NSF provides the preponderance of funding.

***Division of Financial Management (DFM) – Cash Management Branch***

**Website:** <http://www.nsf.gov/bfa/dfm/>

(please contact the DFM Accountant assigned to your state)

The Division of Financial Management (DFM) is responsible for the financial policy and financial management of NSF. The division is responsible for NSF's financial reporting, grantee business office relationships and payment of vendors. The Cash Management Branch of DFM is available to assist grantee financial and business officials in matters of payment and financial reporting.

***Large Facilities Office (LFO)***

**Website:** <http://www.nsf.gov/bfa/lfo/>

The NSF's Head, large Facilities Office (HLFO), and supporting staff (the Large Facilities Office, or LFO) are the NSF's primary resource for all policy or process issues related to the development, implementation, and oversight of Major Research Equipment and Facilities Construction (MREFC) projects and are the NSF-wide resource on project management. The DDLFP has the institutional authority and resources to effectively develop mandatory policies, which are approved by Senior Management, for all phases of large facility construction and retirement. The HLFO is consulted on all policy issues relating to large facility development.

## **Section B: Grantee Standards**

### **1. Financial Viability**

NSF performs financial viability reviews to determine whether a prospective awardee has adequate financial resources (or the ability to obtain such resources), to perform under the terms of the award. The evaluation of the financial viability of a prospective awardee is of particular importance, and will require more detailed analysis where the prospective awardee:

- Is a new entity,
- Has not had any active award funding with NSF within five calendar years (60 months) since the end-date of its last award
- Is known to be experiencing financial difficulties.

In addition to submission of audited or compiled financial statements, Single Audits, or filed tax-returns, these organizations could be requested to provide:

- Latest available interim financial statements, or “year-to-date” financial statements
- Various documentation to support amounts reported in financial statements
- Detailed budgets for the proposed project period
- Financial projections of anticipated revenue from operations (based upon valid assumptions)
- Documentation relating to existing or contemplated credit, financing, and investing arrangements that add significant benefit, or affect financial position of the organization, whether favorably or not.

As the scope and detail of analysis may vary with the circumstances of particular cases, the extent of financial data and its evaluation is determined by the judgment of NSF staff. Per the New Awardee Checklist (Section D), prospective awardees are required to submit audited financial statements, or Single Audit reports for the two most recent accounting years for analysis. In the absence of audited financial statements, awardees should submit their compiled or unaudited financial statements for their two most recent accounting years, along with the corresponding Federal tax returns for those years.

### **2. Financial Management/Accounting System and Internal Control Requirements**

The acceptance of an award from NSF creates a legal duty on the part of the awardee organization to use the funds made available prudently; and in compliance with Federal statutes, regulations, and the terms and conditions of the award. Therefore, NSF awardees are required to have financial management/accounting systems that meet the requirements of **2 CFR 200, Subpart D – Post Federal Award Requirements – Standards for Financial and Program Management**. Adequate financial management/accounting systems, and systems of internal control, provide assurances to the Federal Government that fiscal management of Federal funds are in accordance with applicable regulations, and the terms and conditions of the award.

The awardee should have a financial management/accounting system, and internal control environment in place that meets the requirements of **2 CFR 200, Subpart D**, in the following areas:

- Identification in its accounts, of all Federal awards received and expended, and the Federal programs under which they were received (including CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any);
- Accurate, current and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in 2 CFR 200.327 (Financial Reporting) and 200.328 (Monitoring and Reporting Program Performance);
- Records that identify adequately the source and application of funds for federally-funded activities, (including authorizations, obligations, unobligated balances, assets, expenditures, income and interest);

- Accounting records that are supported by source documentation; including purchase orders, invoices, canceled checks, statistical records, and all other records pertinent to the NSF award. All records must be maintained for a period of three years from the date of submission of the final financial expenditure report, in accordance with 2 CFR 200.333;
- Comparison of actual expenditures with budgeted amounts for all awarded budget categories, for each Federal award;
- Written procedures to minimize the time elapsing between the transfer of funds to the recipient from the U.S. Treasury, and the awardee's use of those funds for program purposes in accordance with 2 CFR 200.305 (Payment);
- Written policies and procedures for determining the reasonableness, allocability, and allowability of costs in accordance with 2 CFR 200 Subpart E – Cost Principles, and the specific terms and conditions of the NSF award.
- Internal controls, and established policies and procedures that provide effective control over, and accountability for all funds, property, and other assets; and that continually evaluate and monitor compliance with all applicable regulations and award terms and conditions; in accordance with 2 CFR 200.303 (Internal Controls);
- Adequate accounting for cost sharing, if required. Voluntary committed cost sharing is not expected; but may be required as “mandatory” on some NSF program solicitations. Acceptable forms of cost sharing contributions are those which meet the criteria established in 2 CFR 200.306.

Organizations being considered for an NSF award are REQUIRED to support the existence of an adequate financial management /accounting system, and internal controls. The prospective awardee is thus asked to submit several documents to NSF for review. These documents are detailed in the New Awardee Checklist (Section D). In particular, the responses on the Financial Management Systems Questionnaire (FMSQ) (Appendix 3) assist NSF to determine the adequacy of the financial management systems currently in place at the organization.

Additional items beyond what are listed in the Checklist may also be requested. For example, if an organization that has been subject to a financial management and/or accounting system audit by the Defense Contract Audit Agency (DCAA) or any another Federal agency, the organization should be prepared to provide a copy of the resulting review and/or audit report to NSF for analysis.

### **3. Allowable Costs**

All expenditures incurred under NSF cost-reimbursable grants are governed by federal regulations and must conform to NSF policies, grant special provisions and grantee internal policies. In general, NSF grantees should ensure that all costs claimed under NSF grants are allowable, allocable, reasonable and necessary, as defined by 2 CFR 200, Subpart E - Cost Principles, NSF policy, and/or the program solicitation. For-profit organizations and small businesses should continue to use the Federal Acquisition Regulations (FAR) Subpart 31.2 to determine the types of costs that may be considered allowable uses of federal grant funds. Both 2 CFR 200.400 and FAR Subpart 31.2 detail the types of costs that cannot be incurred by federal awards, either as direct or indirect costs. A few examples of these costs are: alcoholic beverages, certain types of advertising, entertainment/amusement, bad debts, contributions and donations, fines, and penalties.

### **4. Compensation – Personal Expenses**

Salaries and wages charged to Federal awards must also be supported by a system of internal controls that provides reasonable assurance that the personnel costs incurred are accurate, allowable, and properly allocated. Generally, this system of internal controls should ensure that: the total compensation paid to individual employees is reasonable according to the work performed on the NSF-supported project; the compensation is made in accordance with established policies of the organization; and that the compensation policies are consistently applied to both government and non-government activities. In addition, the system must be able to adequately identify whether or not the work performed is considered a direct or an indirect cost, consistent with the organization's established policies and 2 CFR 200.430.

Total salaries charged to Federal awards (including extra service pay) are subject to the Standards of Documentation as



described by 2 CFR 200.430. Accordingly, salaries and wages charged to Federal awards must be based on records that accurately reflect the work performed. These records must:

- Be incorporated into the organization's official records;
- Reasonably reflect the total activity for which the employee is compensated across all grant-related and non-grant related activities (100% effort)
- Support the distribution of employee salary across multiple activities or cost objectives (for example, effort spent on multiple federal awards, spent on general/or administrative activities, vacation, sick leave, leave without pay, etc.); and
- Utilize an "after-the-fact" review of the employee's actual hours worked during the reporting period for identifying and correcting significant changes (as defined by the organization's written policies).

Organizations being considered for an NSF award are REQUIRED to provide evidence of an existing, adequate system for documenting personal compensation charges to Federal awards. Please see the New Awardee Checklist (Section D of this document) for a listing of the documents required for review.

## **5. Participant Support**

Participant support refers to the cost of transportation, per diem, stipends, and other related costs for participants or trainees (but not employees of the grantee organization) in association with NSF-sponsored conferences, meetings, symposia, training activities and workshops. Funds provided for participant support may not be used by grantees for other categories of expense without the specific, prior, written approval of the cognizant Program Officer. In addition, NSF does not allow indirect costs to be calculated on participant support costs. Therefore, awardee organizations must account for participant support costs separately in its accounting system. This is typically accomplished through the use of separate accounts codes, sub-accounts, sub-tasks, or sub-ledgers in the accounting system software.

Organizations being considered for an NSF award that contains participant support should be prepared to provide a copy of their written policies and procedures governing what types of costs may be considered participant support; and how the entity intends to account for, and record incurred participant support costs separately in its accounting system. The awardee should also be prepared to describe how it intends to document the attendance of participants at workshops, symposia, etc. Federal and NSF regulations for participant support can be found in 2 CFR 200.68, 200.75, 200.308(c)(v), & 200.407(t); and the NSF PAPPG II.C.2.g(v).

## **6. Subawards and Subrecipient Monitoring:**

The objectives of many NSF-funded projects are achieved through the issuance of subawards to other organizations. However, subaward relationships require additional monitoring on the part of the prime awardee (pass-through entity). Prime awardees must make a case-by-case determination regarding whether the party receiving the funds is cast in the role of a subrecipient or a contractor. The general characteristics of subrecipients and contractors are provided in 2 CFR 200.330. In general, a contractor provides goods or professional services in a competitive environment as its normal course of business (e.g., selling computers or providing professional support). In contrast, a subrecipient is an organization like the prime awardee, and has programmatic responsibilities for performance in carrying out a portion of the research or project.

Subrecipient monitoring requirements do not apply to contractors. However, when subawards are included in Line G.5 of the Award Budget, the pass-through entity (prime awardee) is required to establish a system to monitor the performance and activities of the subrecipients. Prime awardees are also responsible for ensuring that costs of all subawards under NSF grants are subject to the cost principles and procedures appropriate to the subaward type and organization involved. For example, if the subaward is a cost-reimbursable type to a commercial organization or small business, FAR Subpart 31.2 would apply.

In its consideration of potential subrecipients, the prime awardee organization should evaluate each subrecipient's potential risk of noncompliance with Federal statutes or regulations for the purposes of determining the appropriate levels

of subrecipient monitoring. Prior to issuing the award, the prime awardee must conduct a risk assessment of the subrecipient. If necessary, the pass-through entity may consider imposing its own specific subaward conditions, if appropriate (see 2 CFR 200.207). Specific NSF award requirements placed on the prime awardee, should also be required of the subrecipient, and appropriately disseminated down to the subrecipient.

In addition to establishing subrecipient monitoring policies, prime awardees are also responsible for drafting and implementing subaward agreements or contracts between the organizations to govern the performance of the subaward. Subaward agreements are formal documents that are signed by authorized representatives from both parties and **MUST** contain ALL required elements identified by 2 CFR 200.331. In addition to these requirements, subaward agreements must also generally include provisions for:

- Statutory requirements such as non-discrimination, drug-free workplace, animal rights, human subjects, and any applicable grant terms and conditions,
- Any additional requirements necessary in order for the pass-through entity to meet its own responsibility to the Federal awarding agency (such as the timely submission of financial, technical and performance reports, and NSF award flow-down provisions and clauses.)
- The indirect cost rate(s) and base(s) approved for the subrecipient,
- Audit requirements and the prime awardee's access to records,
- The prime awardee's right to conduct technical and administrative site visits,
- Termination clauses and/or legal remedies for non-performance, and
- Closeout procedures (when the subaward is completed).

Organizations being considered for an NSF award that contains subawards, should be prepared to submit a copy of their subaward monitoring policies and a copy of the proposed subaward agreement, if already executed, to NSF for review. If the proposed subaward agreement is not yet executed, a sample copy of any executed subaward agreement must be submitted.

## 7. Cost Sharing Requirements

Cost sharing (or matching) is that portion of **allowable** project or program costs that are not borne by the Federal Government. Per NSF regulations, the inclusion of voluntary committed cost sharing is prohibited (per Chapter II.C.2.g(xii) of the NSF PAPPG). Mandatory cost sharing will only be required for NSF programs when explicitly authorized by the NSF Director, the National Science Board, legislation, or the NSF program solicitation.

In those rare instances where cost sharing is required, and mandatory, these requirements will be clearly identified in the solicitation and must be included in the proposal budget. When mandatory cost sharing is included on Line M of the Award Budget and accepted by NSF, the commitment of funds becomes legally binding and is subject to audit. Failure to provide the level of cost sharing required by the NSF solicitation as reflected in the approved award budget may result in termination of the NSF award, disallowance of award costs and/or refund of award funds to NSF by the awardee.

Further criteria regarding the allowability of cost sharing is defined by 2 CFR 200.306, titled "Cost Sharing or Matching." Per this regulation, cost sharing must meet all of the following criteria:

- Are verifiable from the non-Federal entity's records,
- Are not included as contributions/cost sharing for any other Federal award,
- Are necessary and reasonable for accomplishment of project or program objectives,
- Are allowable under 2 CFR 200, Subpart E - Cost Principles,
- Are not paid by the Federal Government under another award, except where authorized by federal statute to be used for cost sharing or matching,
- Are provided for in the approved budget, and

- Conform to other provisions of 2 CFR 200, as applicable.

Organizations with approved cost-sharing in their proposal budgets are required to support the existence of an adequate financial management system that can properly document these costs. The responses on the Financial Management Systems Questionnaire (FMSQ) (Appendix 3) will assist NSF to determine the adequacy of these systems. Per the organization's responses on the FMSQ and the nature of the cost sharing, additional documentation may also be requested.

## 8. Program Income Requirements (If applicable)

*(This section is only applicable if at the time of submission of the proposal, the awardee has already planned within the project's scope of work, that it will generate program income.)*

Awardees are always encouraged to earn income to defray program costs where appropriate. Ordinarily program income must be **deducted** from total allowable costs to determine the net allowable costs. With prior approval from NSF, program income may be **added** to the Federal award by the awardee organization with NSF concurrence. **All program income must be used for the purposes of, and under the conditions of the Federal award in accordance with 2 CFR 200.307 Program Income, and the NSF PAPPG, VIII. D. 4.** If program income is anticipated, awardees should also identify which method they would intend to use, whether the deduction or addition method.

## 9. Audits of Federal Awards

If the project is funded, it will be the responsibility of the grantee to arrange for the conduct of audits as required by 2 CFR 200, Subpart F - Audit Requirements. In addition to the audit requirements outlined by this Subpart, the NSF Office of the Inspector General (OIG) conducts audits of awards made to for-profit and non-profit organizations receiving NSF funding. Audits with questioned cost findings can result in cost disallowances and require organizations to make repayments to NSF. Audit findings resulting in questioned costs which are related to "accounting" for federal funds are generally, **but not limited** to the following:

- Lack of adequate documentation to support salary and wages charged to awards,
- Lack of consulting agreements and invoices to support professional services that were procured for the award, and charges were unallowable/unreasonable,
- Lack of subaward agreements and invoices to support subrecipient services that were budgeted within the award, and charges were unallowable and/or unreasonable,
- Indirect cost recoveries were in excess of those allowed by the approved indirect cost rate and base of the award,
- Incurred costs were unallowable in accordance with the applicable Federal cost principles and NSF regulations (e.g., 2 CFR.200 Subpart E, FAR Part 31, NSF PAPPG, NSF program solicitation), and should not have been charged to awards,
- Proposed participant support was inadequately accounted for, and incurred costs re-budgeted in other cost categories without the required prior NSF written approval, and/or
- Inadequate accounting for, lack of supporting documentation for cost sharing claimed and awardee not meeting the required cost sharing amount.

The resolution of audit findings is the responsibility of NSF management, via the Cost Analysis and Pre-award, and the Resolution and Advanced Monitoring (CAP/RAM) Branches at NSF. Please contact CAP/RAM at (703-292-8244) if you have any questions concerning audits and/or the supporting documentation which should be maintained. You may also find additional information regarding audit resolution at <https://www.nsf.gov/bfa/dias/ram/>.

## **Section C: Indirect Costs**

### **1. Overview**

Indirect costs are those costs that cannot be readily identified with a specific project or any other organizational activity, but rather are incurred by an organization for the joint benefit of all projects and objectives. Such costs are usually grouped into common pools and charged to the benefiting departments/awards/activities through an allocation process.

In its simplest form, the indirect rate is the ratio between an awardee's total indirect expenses and a specified direct cost base (often referred to as the allocation base). Common direct allocation bases are direct salaries and wages; or modified total direct costs (total direct costs excluding capital expenditures and other distorting items such as subawards and participant support costs). Other modifications may be made to the direct cost base if necessary, to ensure an equitable distribution of indirect costs across programs.

In theory, all costs might be charged directly; however, practical difficulties typically preclude such an approach. Except as noted in PAPPG Chapter X.D.1 or in an NSF program solicitation, it is NSF policy that grantees are entitled to reimbursement from grant funds for indirect (F&A) costs allocable to the NSF share of allowable direct costs of a project. Accordingly, most organizations work with their cognizant federal agency to establish a formal indirect cost rate agreement, to be honored by all Federal funding agencies. The indirect cost rate allows for a fair and expeditious allocation of the proportion of such general expenses that will be borne by each department, award, or activity.

### **2. Support of Indirect Cost Rate**

Except as noted in an NSF program solicitation, it is NSF policy that grantees are entitled to reimbursement from grant funds for indirect costs (F&A) allocable to the NSF share of allowable direct costs of a project. NSF program staff are not authorized to negotiate indirect costs as a discrete item of a proposal budget. NSF program staff also are not authorized to suggest or request that PI/PDs seek reductions or waivers of indirect costs.

Organizations requesting indirect costs in their proposal budgets are required to submit documentation to support the indirect rate and allocation base that has been requested. This can be accomplished in one of two ways:

#### **A. Organizations with a Negotiated Indirect Cost Rate Agreement (NICRA):**

Organizations that have a NICRA with a Federal agency should be prepared to submit a copy of their current rate agreement as requested in the New Awardee Checklist (Section D). Except as specifically identified in an NSF program solicitation, the applicable indirect cost rate(s) negotiated by the organization with the cognizant negotiating agency must be used in computing indirect costs (F&A) for a proposal. The amount for indirect costs should be calculated by applying the current negotiated indirect cost rate(s) to the approved base(s). Additional information on the charging of indirect costs to an NSF award is available in PAPPG Chapter X., section D.

#### **(1) Special Limitation concerning Predetermined Rates at Colleges and Universities:**

Indirect cost recovery for colleges, universities, and other organizations of higher education are additionally restricted by 2 CFR 200, Appendix III, section C., paragraph 1., item 7. Per this citation, Federal agencies are required to use the negotiated F&A rates that are in effect at the time of the initial award throughout the life of the sponsored agreement. This restriction is upheld by NSF, and also referenced in the NSF PAPPG, Chapter X., section D.

#### **B. Organizations without a Negotiated Indirect Cost Rate Agreement:**

Proposing organizations that have never received a formally negotiated indirect cost rate agreement from a cognizant federal agency may elect to charge a *de minimis* rate of 10% (or less) of modified total direct costs. No further documentation is required to support the application of the *de minimis* rate, which may be used indefinitely per 2 CFR 200.414(f).

Should a proposing organization without a current negotiated indirect cost rate wish to request indirect costs in excess of the 10% *de minimis* rate, it should prepare an indirect cost proposal based on expenditures for its most recently

ended fiscal year. This proposal will be submitted to NSF as requested in the New Awardee Checklist (Section D of this document).

Foreign grantees that do not have a U.S. federally negotiated indirect cost rate are limited to the *de minimis* indirect cost rate recovery of 10% of modified total direct costs. Foreign grantees that have a negotiated rate agreement with a U.S. federal agency may recover indirect costs at the current negotiated rate.

The contents and financial data included in indirect cost proposals vary according to the make-up of the organization. Instructions for preparing an indirect cost rate proposal can be found at: <https://www.nsf.gov/bfa/dias/caar/indirect.jsp>. Proposing organizations submitting a proposal to NSF for the first time are encouraged to request guidance from the Cost Analysis and Pre-award Branch (CAP), at (703) 292-8244. Based on the information provided, NSF may negotiate a formal indirect cost rate agreement with the awardee; or, may instead award indirect costs on an award-specific basis.

Please note that NSF does not negotiate rates for organizations that are not direct recipients of NSF funding (e.g. subrecipients). The prime recipient is responsible for ensuring that proposed subrecipient costs, including indirect costs, are reasonable and appropriate.

### **3. Types of Indirect Cost Rates Used on NSF Awards**

The awarded indirect cost rate is generally based upon a grantee's current federally negotiated indirect cost rate agreement. When establishing an indirect rate for an award where the grantee does not have a current negotiated rate agreement, NSF will consider the rate proposed in the budget, the grantee's indirect cost proposal submission, the amount of total funding requested and other pertinent financial factors. Since some types of rates limit indirect cost recoveries and require adjustments, grantees receiving awards should ensure that they understand the type of indirect cost rate applicable to the award.

NSF generally uses provisional, predetermined, and fixed indirect cost rates in its awards. In certain circumstances, NSF may also award indirect costs as a "fixed" dollar amount. For detailed descriptions of each type of indirect cost rate used by NSF, please reference PAPPG Chapter X.D.

2 CFR 200, Appendix III, section C., paragraph 1., item 7; contains an additional restriction on recovery of indirect costs for colleges and universities and other organizations of higher education. These awardees are subject to a further limitation in that the negotiated rates at the time the award is made shall be used throughout the life of the award.

## **Section D: New Awardee Checklist**

The following documents must be submitted to NSF for the administrative and/or financial review of your organization. Unless otherwise specified, all documents are **REQUIRED**. It is the responsibility of the new awardee to ensure that all documents are submitted, and that they represent a fair and accurate representation of the administrative and/or financial position of the organization. NSF will assess the organization's administrative and financial capabilities based upon the documentation provided. **Missing, incomplete or inadequate information may result in proposal declination.**

- \_\_\_\_\_ **1) Awardee Organization and Management Summary, NSF Form 357** (see Appendix 1)  
*Complete Part 1 only.*
- \_\_\_\_\_ **2) Small Business Declaration, NSF Form 359** (see Appendix 2)  
*If you are a for-profit organization or small business, provide a copy of the Small Business Declaration form. If you are a non-profit organization, provide a copy of the current Internal Revenue Service tax exemption letter, which certifies the organization's non-profit status.*
- \_\_\_\_\_ **3) Documentation of Organizational Establishment and Structure**  
*Provide an official or published statement of the purpose of your organization and of the power, which have been granted to it to enter into contractual relationships and/or accept awards (e.g. articles of incorporation, by-laws). This should include a brief description of your organization's objectives.*
- \_\_\_\_\_ **4) Organizational Chart/Segregation of Duties**  
*Provide a copy of your organizational chart reflecting the structure of your organization. The organization's structure should allow for adequate segregation of duties. For example, no single employee or person should have complete control of accounting transactions and oversight of the daily functions of the NSF project; or be in a position that generates a conflict of interest.*
- \_\_\_\_\_ **5) Listing of Current or Recent Federal Awards**  
*Provide a listing of all federal awards (grants, contracts and cooperative agreements) received by your organization over the past two years. Please provide the name of the agency, award number, amount, and title of the project.*
- \_\_\_\_\_ **6) Financial Management Systems Questionnaire (FMSQ), NSF Form 358** (see Appendix 3)  
*Complete the questionnaire and sign the form.*
- \_\_\_\_\_ **7) Single audits:** An organization that expends \$750,000 or more in Federal Awards during its fiscal year must have had a single audit conducted in accordance with 2 CFR 200, Subpart F – Audit Requirements. *Provide your organization's Single Audit Reports if you have met the \$750,000 expenditure requirement for both or any of your two most recently ended fiscal years.*
- \_\_\_\_\_ **8) Financial Statements**  
*If you have NOT met the \$750,000 expenditure requirement for a Single Audit, provide your organization's financial statements for the two most recently ended fiscal years. If financial statements are not audited, please ALSO submit the organization's tax returns for the two most recently ended fiscal years.*
- \_\_\_\_\_ **9) General Ledger and sample Project Expense Ledger**  
*The Project Expense Ledger can be queried from the General Ledger for a specific grant-project's fund/account to show revenues and incurred expenses under the grant-project. Documentation submitted should show how the organization tracks grant-project expenditures by line item, reconcile current expenditures to the amount budgeted, and keep grant-project expenditures separate from organizational expenditures. If you have open or recently closed Federal grant awards, please submit a sample of Project Expense Ledger the organization used to track those expenses. If you have never received a Federal award, submit a sample of your General Ledger with general operational transactions for a period; e.g., month, quarter, or year.*



\_\_\_\_.10) **Chart of Accounts**

*Please provide an up-to-date Chart of Accounts of revenue and expense codes/accounts used for recording revenues and expenses under Federal grant projects.*

\_\_\_\_ 11) **Compensation – Personal Services**

*Please provide current written policies and procedures for compensation of personal services, or salaries and wages; to address the processes for allocating, reporting, and certifying effort under Federal grant awards. Please also provide a sample of the effort reports/attendance records the organization intends to use for documenting effort charged to the NSF project. Note: SSN's and other personal data should be redacted.*

\_\_\_\_ 12) **Allowable Costs**

*Provide the current accounting policies and procedures in place at the organization governing the types of expenditures that can be made under federally sponsored projects. These should include how the organization will evaluate costs to ensure that they are necessary, reasonable, allocable and allowable. Policies should also include identification and treatment of strictly unallowable costs such as alcohol, entertainment, etc., as prescribed by 2 CFR 200 Subpart E – Cost Principles, and 420-475 – General Provisions for Selected Items of Cost.*

\_\_\_\_ 13) **Participant Support**

*If your proposal contains participant support, provide the current written policies and procedures governing participant support (who is considered a participant, what types of costs can be charged, NSF restrictions on re-budgeting out of participant support, non-recouping of indirect costs, and segregation of incurred participant support costs in the accounting system.). Please also identify in the Chart of Accounts which expense codes/accounts are used to segregate participant support costs.*

\_\_\_\_ 14) **Subaward Monitoring Policies and Subaward Agreement**

*If your proposal contains a subaward, provide the current subaward monitoring policies and procedures in place at the organization as well as a copy of the proposed subaward agreement, if already executed. If the proposed subaward agreement is not yet executed, provide a sample copy of any executed subaward agreement.*

\_\_\_\_ 15) **Mandatory Cost Sharing**

*If your proposal contains mandatory cost-sharing, provide the current cost-sharing policies and procedures in place at the organization. Please also provide an explanation of how the accounting system provides proper segregation and recording, of incurred costs.*

\_\_\_\_ 16) **Support of Indirect Costs**

*Provide a copy of the organization's current negotiated indirect cost rate agreement (NICRA). If you do not have a negotiated indirect cost rate and are requesting indirect costs in excess of the "de minimis" rate of 10% of modified total direct costs, submit a full indirect cost rate proposal for review: <https://www.nsf.gov/bfa/dias/caar/indirect.jsp>.*

**Items 1 - 16 should be submitted electronically within 15 calendar days of request to the applicable NSF award-making Division. Hard copies are no longer accepted by NSF.**

**\*\*\*EXCEPTION for Small Business Innovation Research SBIR/STTR Phase II applicants\*\*\***

SBIR/STTR Phase II applicants have **10 calendar days** to respond to the NSF Program Manager's request for this documentation. This material should be sent to the Division of Institution and Award Support (DIAS) as directed. In addition to items 1-16, SBIR/STTR Phase II applicants should also provide the following:

- \_\_\_\_ 17) **Current payroll registers or pay stubs for all project personnel with a proposed annualized salary in excess of \$50,000** (Note: SSN's and other personal data should be redacted)
- \_\_\_\_ 18) **Indirect cost rate proposal reconciled to the most recently completed financial statements.**
- \_\_\_\_ 19) **Copies of any financial management or accounting system audits conducted by the Defense Contract Audit Agency (DCAA) or any other federal agency during the past 5 years.**

**Appendices:**

**[Appendix 1: Awardee Organization and Management Summary – Form 357](#)**

**[Appendix 2: Small Business Declaration – Small Business Declaration – Form 359](#)**

**[Appendix 3: Financial Management Systems Questionnaire \(FMSQ\) – Form 358](#)**