

NIH GUIDE

for GRANTS and CONTRACTS

U.S. DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

No. 12, October 1, 1971

SETTLEMENT OF INDIRECT COSTS ON PROJECT GRANTS WITH FINAL NEGOTIATED RATES (HHS 5007)

PROCEDURE NOTICE

1. PURPOSE This directive prescribes procedures for the award and payment of indirect costs on project grants and the method for effecting settlement of claims for unrecovered indirect costs resulting from the establishment of final negotiated rates. It implements requirements of Chapter 1-80 of the DHEW Grants Administration Manual. Institutions receiving grant support from the Department of Health, Education, and Welfare should follow these procedures in the preparation and submission of the Summary Report of Expenditures Adjustment Sheet (See Exhibit 1) so that the review, validation, and subsequent settlement of submissions may be accomplished in a timely manner.

2. APPLICABILITY These procedures apply to all DHEW project grants having budget periods beginning on or after July 1, 1965, except that research project grants awarded by the NIH on or after July 1, 1971, will be settled in accordance with the procedures set forth in the *NIH GUIDE FOR GRANTS AND CONTRACTS*, No. 8, June 29, 1971.

3. GRANTS TO BE REPORTED

- a. All project grants governed by a final indirect cost rate agreement shall be reported whether or not an adjustment is due. This requirement applies regardless of the rate alternative selected, whether an upward or downward adjustment is required, or whether indirect costs were previously adjusted through use of the annual Report of Expenditure. When a final indirect cost rate is established, the grantee institution is expected to initiate any adjustments resulting therefrom. Section 5, (below) Method of Reporting, provides guidance for format and order of grant submissions.
- b. A chronology of indirect cost policies since July 1, 1965, indicates that research grants have been subject to statutory or administrative limitations in their award as follows:

[NOTE: For these purposes, the issue date of the award, not the start date of the budget period, is the governing date in determining the applicable time period.]

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(1) Grants issued from July 1, 1965 through October 17, 1965

Limited to actual indirect costs or 20% of total direct costs (TDC), whichever is lesser. The limitation is effective only through that budget period with continuation grants to follow the policy in b.(3) below.

(2) Grants issued from October 18, 1965 through February 28, 1966

Limited to 90% of actual indirect costs or 20% of TDC, whichever is lesser. The limitation is effective only through that budget period with continuation grants to follow the policy in b.(3) below.

(3) Continuation grants whose initial award was issued prior to March 1, 1966

Limited to 90% of actual indirect costs or 20% of TDC, whichever is lesser.

(4) Grants whose initial award was issued March 1, 1966 and later

With an acceptable indirect cost rate and cost sharing agreement, actual indirect costs are allowable.

(5) Grants that received a reduced indirect cost award due to the absence of a negotiated indirect cost rate agreement will have adjustments computed on a pro rata basis subject to the number of months indirect cost was allowed.

c. If rebudgeting direct cost categories increases indirect costs so that the total expense incurred for the budget period exceeds the total amount awarded and a final indirect cost rate has been negotiated, the grant(s) so affected should be reported on the Summary Report of Expenditures Adjustment Sheet. In the event a final rate has not been negotiated, grantee institutions may elect to submit a written request for an amended award to recover full indirect costs. This request must substantiate in depth that grants involved do not contain an unexpended balance of indirect costs and that the immediate need for funds places fulfillment of the project in jeopardy. The preceding policy applies also to grantee institutions having an adjusted provisional rate negotiated during the budget period which results in a significant difference between the amount awarded and that which would have been awarded if the adjusted rate were used. Awarding agencies will exercise judgment in determining the need for the amended award considering the amount of administrative effort involved as well as the financial position of the grantee institution. Generally, amended awards will not be made unless the net effect for all awards on the institution exceeds the lesser of either \$100,000. or 20% of the total grant award(s) affected. Grantees utilizing predetermined rates need only report grants affected by the rebudgeting process and footnote an explanation of their submission.

4. PERIOD TO BE REPORTED Grantees shall use the Summary Adjustment Sheet for all grant budget years beginning on or after July 1, 1965. Adjustments shall be reported for terminal years of grants as well as preceding years. Separate Summary Adjustment Sheets shall be submitted for each federal fiscal year and will contain grants applicable to that year only.

5. METHOD OF REPORTING

- a. A listing of all project grants will be submitted on the Summary Report of Expenditures Adjustment Sheet in accordance with the format shown in the attached Exhibit 1. A separate adjustment sheet will be prepared for each federal fiscal year (July 1, through June 30,) showing only those grants having a budget period start within that fiscal year. Grants shall be arranged in numerical order by transaction number. Expenditures are to be shown to the nearest whole dollar by rounding upwards for 50¢ or above and dropping amounts of 49¢ or less. The columns headed "IC Adjustment," "Cost Sharing," and "Net IC Adjustment" shall be totalled for each Agency. As a further aid in identifying information requested under the summary report headings, explanatory footnotes have been included on the sample report form.
- b. To assist grantee institutions in reporting project grants and expedite the processing of Summary Report of Expenditures Adjustment Sheets, the National Institutes of Health will provide separate tabulated lists by federal fiscal year of NIH and HSMHA (Health Services and Mental Health Administration) grants subject to adjustment. Listings of grants for fiscal years 1966-70 from this source will be forwarded to grantees within thirty (30) days after the date of this directive and will be in the same format as Exhibit 1. Sufficient space will be provided beneath each heading for insertion of required data. The grantee may return reproduced copies of this form as his completed submission. Due to the possibility of omissions occurring in such listings, the responsibility for reporting all project grants remains with the grantee. Listings for subsequent years will be provided in sufficient time to accomplish necessary adjustments.

6. ACCOUNTABILITY OF SETTLEMENT FUNDS

- a. When validation (by Agency) of the Summary Report of Expenditure Adjustment Sheets for each fiscal year or series of fiscal years has been accomplished, the resulting payment or collection of funds for all DHEW Agencies will be handled through the Office of Financial Management, National Institutes of Health. A single Treasury Check or Bill of Collection will be sent to each grantee institution based upon the net total dollars of indirect cost adjustments submitted and approved. All financial transactions will be processed outside the Grant Payment System rather than through normal grant payment/collection procedures. Therefore, to maintain a reconciling balance with grant funds previously received from DHEW, grantee institutions are instructed to charge an account other than the original grant account with any indirect cost settlement funds received or disbursed. Supplemental award notices will not be issued for upward adjustments.

- b. Hereafter, neither increases nor decreases in indirect costs due to the application of final negotiated rates are to be reflected in any way on individual Report of Expenditures. Adjustments to direct costs will continue to be reported in the usual manner.

7. TRANSMITTAL REQUIREMENTS

- a. Initial submission of the Summary Report of Expenditures Adjustment Sheets covering project grants for which final negotiated indirect cost rates have been established must be reported within six (6) months from the date of this directive. Grantee institutions unable to comply with this requirement will submit a letter to the Indirect Cost Management Section, Office of Financial Management, NIH, within thirty (30) days from the directive date stating the reasons for the requested extension and the anticipated date the grantee will forward the Summary Report of Expenditures Adjustment Sheets. The Indirect Cost Management Section will review the request and advise the grantee whether or not an extension will be permitted.
- b. When final indirect cost rates are negotiated for subsequent years, the Office of Grant Administration Policy, DHEW, will remind the grantees of the requirement to submit a Summary Report of Expenditures Adjustment Sheet within one (1) year from the date of execution of the agreement. If Summary Report of Expenditures Adjustment Sheets are not received within the time limitation, upward adjustment of indirect costs will not be considered.
- c. The grantee will prepare an original and three (3) copies of the Summary Adjustment Report, certify to the accuracy and completeness of the data reported, and forward to the following address:

Department of Health, Education, and Welfare
National Institutes of Health
Office of Financial Management
Indirect Cost Management Section
Building 31, Room B1B-62
Bethesda, MD 20014

Acknowledgement will be sent the grantee institution upon receipt of their submission. Copies of the Summary Adjustment Report will be distributed to the applicable Regional Audit Office and to each awarding Agency.

- d. Direct inquiry regarding the subject material contained herein may be made by contacting the Indirect Cost Management Section at 301-496-5315.

SUMMARY REPORT OF EXPENDITURES
ADJUSTMENT SHEET

<u>Transaction Number</u> (1)	<u>Institution</u> <u>Address</u>	<u>Various</u> <u>Anywhere, U.S.A.</u>	<u>Grant Budget Period</u>		<u>Allowable Cost Base</u>		<u>IC Rate Alternative 1</u>		<u>Adjustment Period (Fed. Fiscal Year) 7/1/65--6/30/66</u>			
	<u>Grant Number & Governing Date</u> (2)	<u>From</u>	<u>To</u>	<u>TDC</u>	<u>S&W</u>	<u>Final IC Rate</u> <u>TDC-%</u>	<u>S&W-%</u>	<u>Allowable IC Amount</u> (4)	<u>IC Pd. Per ROE</u> (5)	<u>IC Adjustment</u>	<u>Cost Sharing</u> (6)	<u>Net IC Adjustment</u>
(A) 01-010000	1-R01-HE-10000-01	8/1/65	7/31/66	\$20,000	\$8,000		40.00	\$3,200	\$2,400	\$ 800	\$-0-	\$ 800
(B) 02-020000	5-R01-HE-20000-02 GD 2/1/65	3/1/66	2/28/67	20,000	8,000		(90%x30.00)	2,160	3,600	(1,440)	-0-	(1,440)
(C) 01-030000	1-R01-AM-60000-01	4/1/66	3/31/67	20,000	8,000		60.00	4,800	3,200	1,600	80	1,520
(D) 01-031000	1-R01-AM-40000-01	12/1/65	11/30/66	20,000	8,000	20.00		4,000	4,000	-0-	-0-	-0-
(E) 01-040000	1-R01-AM-50000-01	5/1/66	4/30/67	20,000	8,000		40.00	3,200	4,000	(800)	(40)	(760)
										<u>\$ 160</u>	<u>\$40</u>	<u>\$ 120</u>

NOTES:

General - Prepare separate adjustment sheet for each Agency (Office of Education, NIH, SRS, etc.). Show amounts to nearest whole dollar.

- (1) Obtain number from award statement; arrange in numerical order by five digits of transaction number.
 - (2) Governing Date - For continuing projects for which the original award was made before March 1, 1966, indicate basic award date.
 - (3) Record allowable cost base chargeable to grant; if base different from TDC or S&W, state the formula used.
 - (4) The allowable IC amount for grants subject to statutory or administrative limitations should show only the amount allowable up to the limitation. The allowable amount in these instances should be footnoted and explained.
 - (5) Record amount of indirect cost paid to your institution as shown on the annual report of expenditures.
 - (6) If cost sharing was reflected in previous indirect cost amount claimed, compute amount to enter in this column by multiplying dollars of IC adjustment x cost sharing rate.
- (A) Provisional rate of 30% S&W was finalized at 40% S&W (IC amount using final rate is less than 20% TDC).
 - (B) Provisional rate of 50% S&W was finalized at 30% S&W (90/20 policy applies, claim limited to 90% x final rate x S&W).
 - (C) Provisional rate of 40% S&W was finalized at 60% S&W (cost shared through individual cost sharing agreement - 5% of total project costs).
 - (D) Provisional rate of 60% S&W was finalized at 70% S&W (90/20 policy applies, claim limited to 20% TDC).
 - (E) Provisional rate of 50% S&W was finalized at 40% S&W (cost shared 5% through individual cost sharing agreement).

I hereby certify that the above information is true, complete and accurate to the best of my knowledge and that expenditures reported have been made in accordance with appropriate grant policies.

Signature & Title

Date