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Hot Issues in Federal Grant Management – 2026 Status and 2027 Outlook

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Meet the Presenter



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Hot Issues in Federal Grant Management – 2026 Status and 2027 Outlook

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Update on Current Indirect Cost Environment

Current Negotiated Indirect Cost Rate Model Still In Effect

15% Flat Rate:

NIH – Injunction

Upheld by Appeals Court

DOE – Withdrew Appeal

NSF – Withdrew Appeal

DOD -Withdrew Appeal

Appropriation Act Bills

– FY 2026

Prevents OMB and agencies from altering the manner in which negotiated indirect cost rates have been implemented & applied under the Uniform Guidance. **This is the LAW**

OMB expected to propose Uniform Guidance major revisions with **NO CHANGES** to the Indirect Cost Process

Outcome: The current UG process of submitting indirect cost rate proposals and negotiating indirect cost rates remains in effect and should remain for the foreseeable future

OMB's Uniform Guidance Revisions

OMB expected to propose Uniform Guidance major revisions with **NO CHANGES** to Indirect Cost Process

Expected 45-day comment period and the revisions effective for awards starting 10/01/26 (FY 2027); the major revisions will be for how grants are reviewed and awarded (in accordance with the directives of Executive Order 14332)

Consideration of New Indirect Cost Rate Models Pushed to the Future

Appropriation Act for FY 2027 might consider new models. Any new model is expected to have a 2-year implementation period. FY 2029?

Joint Association's Group (JAG) proposed the FAIR model (Financial Accountability in Research) – Two Year Implementation period proposed

OMB might develop their own indirect cost model for FY 2027 and release for comment. No sign of that currently.

Current Indirect Cost Model can be updated in future revisions to Uniform Guidance
Preserve the current process but add more limitations or less allowable costs

Update on GAO Study

GAO Study on Indirect Costs and Oversight

The United States Congress, Committee on Science, Space, and Technology, requests that GAO conduct a comprehensive review of the indirect costs of conducting federally supported research and examine federal agency oversight of indirect costs – **June 17, 2025**

Key Focus Areas:

- What is considered a direct and indirect cost for federal research grants
- What is the process for determining allowable indirect costs
- What efforts have federal science agencies made to coordinate and ensure the consistency of their indirect cost rates for research
- What information do grantees provide to the federal science agencies on their indirect costs
- How do agencies ensure grant recipients adhere to the appropriate rate

GAO Study on Indirect Costs and Oversight

- Mainly focusing on colleges & universities
 - GAO selected 10 universities to interview and learn more about the indirect cost rate proposal and negotiation process, as well as the application of rates to federal awards
 - Questions have mostly focused on the proposal, review and negotiation process
 - GAO is following up with on-site visits to the campuses to see some research lab environments
- GAO has a number of federal agencies in their scope:
 - DOD, HHS/NIH, DOE, NSF, NASA
 - Examining the differences in reviews and rate negotiations between HHS-Cost Allocation Services (CAS) and DOD-Office of Naval Research (ONR)

GAO Study on Indirect Costs and Oversight

- Common questions on the “process”
 - What documentation, if any, do agencies provide to universities with justification or explanation of how the agency came to an indirect cost rate after reviewing the university’s rate proposal?
 - What types of documentation do universities typically exchange when negotiating indirect cost rates and is there value in making rate component sheets part of rate agreement?
 - How extensively do single audits examine application of indirect cost rates by a university? What specific checks do they conduct?
- Timeline
 - GAO is planning site visits in June and July
 - Would not expect the GAO report to be released until at least late in the calendar year

Summary of Attain Partners AAU-COGR Indirect Cost Rates and Recovery Report

AAU-COGR Indirect Cost Rates and Recovery Report

Report prepared by Attain Partners

- Report was commissioned by our clients, the Association of American Universities (AAU) and COGR.
- Purpose of the report is to explain the indirect cost reimbursement system, including the safeguards to protect fraud and abuse, and answer the following questions:
 1. What are the differences in indirect cost rates and recovery among the research performing entities?
 2. How does the federal reimbursement policy for universities compare with that for private industry?
 3. Are there differences in reimbursement policies between private and public universities?
- **AAU and COGR have decided to make the report publicly available on their respective websites**, given the significance of the findings and the current policy environment.

Key Report Findings

1

Universities already subsidize a substantial portion of the indirect costs required to conduct federally funded research; often paid upfront by universities and only partially reimbursed through negotiated F&A rates.

2

On average, the effective reimbursement rate for universities' actual indirect costs is likely lower than that of private industry.

3

Federal national laboratories—both government-owned, government-operated (GOGO) and government-owned, contractor-operated (GOCO)—receive more comprehensive reimbursement for indirect costs than universities conducting similar research using their own facilities.

4

Private industry laboratories operate with uncapped indirect cost rates and fewer restrictions; their indirect cost structures vary widely and are not directly comparable to university indirect cost rates.

5

The differences in indirect cost rates between public and private universities are not driven by differing federal rules or negotiation processes, but rather by the types of research, the location of the schools, the cost subsidy provided by the states, and the volume of research

HHS Salary Rate Limitation

Salary Rate Limitation on Executive (Indirect) Salaries

- NIH Salary Cap was implemented in 1990 through the Consolidated Appropriations Act for NIH (Not tied to Executive Level II)
- Cap initially at \$120,000 then later tied to Executive Level II (\$228,000 for 2026)
- In 2022 HHS OIG suggested that the Cap should also apply to Executive salaries
 - HHS Audit Report - Cost Allocation Services Needs To Update Its Indirect Cost Rate-Setting Guidance, June 2022
<https://oig.hhs.gov/oas/reports/region6/62001000.pdf>
- CAS kicked this ruling up to the HHS Grants Office and OMB, but it was decided in later 2024 that the implementation of the Cap will move forward
 - Effective on October 1, 2024
 - CAS will not be sending out a notification
 - CAS includes this into the checklist for IDC rate submissions
 - Applies to overhead cost pool salaries (O&M, Library, GA, DA, SPA)

Salary Rate Limitation on Executive (Indirect) Salaries

Observations

- Since 1990 and up until October 1, 2024, both CAS and ONR applied the cap only to the direct salary and wages on awards
- The Cap on indirect salaries and wages will minimally affect colleges and universities
- Non-profits and hospitals likely to have a greater impact
- Salary Rate Limitation only applies to HHS awards
- The Cap may require different rates for Non-HHS projects (NSF, NASA, DOD, EPA)
- Compliance with this mandate will be included in the organization's rate agreement

Subaward and Equipment Threshold Changes

Uniform Guidance Threshold Changes

OMB increased the allowable threshold for equipment (up to \$10,000) and subawards in the MTDC base (up to \$50,000), made **available** for fiscal years beginning October 1, 2024, and later

BREAKING NEWS:

- On April 20, 2026, the National Institute of Health (NIH) notice NOT-OD-26-72 rescinds the subaward threshold up to \$50,000, reverting back to \$25,000
- Current and future proposals to NIH must use the \$25,000 threshold to calculate the total budget
- The equipment threshold remains at \$10,000
- Other Federal agencies are not affected, and the higher threshold is allowed (as long it is reflected in the negotiated rate agreement)
- You may still propose the higher subaward threshold during the F&A negotiations with the federal cognizant agencies for indirect costs. However, for recovery, the approved rate can only be applied to the first \$25,000 on NIH awards

Uniform Guidance Threshold Changes

Regardless of the NIH notice NOT-OD-26-72 rescinding the subaward threshold up to \$50,000, things to consider in whether to continue pursuing having your threshold changed:

- The \$50,000 threshold will still apply to all federal awards other than NIH awards
- This rescinding from NIH to \$25,000 could be changed in the near future, and you wouldn't want to have to wait until a future negotiation for the opportunity to get the threshold back to \$50,000

Process for Threshold Changes

Negotiated rates

- No change in equipment and subaward thresholds until new rates are established (200.110)
 - 200.110(b) “Existing negotiated indirect cost rates will remain in place until they expire...”
 - Can only change thresholds in conjunction with next IDC rate base year
- What if your rate is predetermined through FY 2028 with FY 2027 base year?

Process for Threshold Change Using FY 2026 as IDC Base Year

- Submit FY 2026 Base Rate Proposal
- Notify CAS of your intent to change the thresholds
- Submit a cost impact analysis to CAS before the rate negotiation
 - Determine the desired threshold for each
 - One cost impact analysis for equipment and one for subaward

If you have a proposal or rate extension already submitted and under review

- Notify CAS of your intent to change the thresholds
- Submit to CAS a cost impact analysis (for equipment and subawards) for establishing rates for FY 2027 and beyond
- ONR will not allow changing the thresholds for a rate extension

2024 UG Revisions Impact on Indirect Costs

Higher Thresholds:

Subawards (\$50K)

- Higher indirect cost recovery

Equipment (\$10K)

- Administration Burden Reduction for Equipment
- Less number of equipment items for maintenance, property inventory and report to Federal agencies
- Less equipment items for prior approval requirement

Cost Impact Analysis - Equipment

Equipment threshold from \$5,000 to \$10,000 (From Base Rate Proposal)

1. Identify the amount purchased on research grants for assets between \$5,000 and \$10,000 (A).
 - Add the equipment value (A) to the Research MTDC base (B) (as they are now treated as supplies)
2. Determine the amount of depreciation allocated to research for assets between \$5,000 and \$10,000 (C).
 - Subtract value of what went to research for these assets (C) from the depreciation cost pool
3. Determine the undepreciated balance for assets between \$5,000 and \$10,000 (D).
 - This amount will be claimed over multiple years (3-4 years)
4. Recalculate the new Facility cost pool (E) by subtracting (C) and adding (D)
5. Calculate New Facility Rate (F) : (E) divided by (B)

Rate Impact : Current Facility Rate – New Facility Rate. (Normally a wash in the negotiation period)

Cost Impact Analysis - Subawards

Subaward threshold from \$25,000 to \$50,000 (From Base Rate Proposal)

Assumption: The base year rate proposal has \$2M of subaward costs included in the research base

- Impact will be to double the \$2M to \$4M
 - For impact analysis we will include the additional \$2M in the base
- The \$2M will be included in the base over a 5-year period (portfolio turns over 25% per year) – Not all grants start on July 1
 - First year expenditures would be 15% of \$2M (\$300,000)
 - Second year expenditures would be 40% of \$2M (\$800,000)
 - Third year expenditures would be 65% of \$2M (\$1,300,000)
 - Fourth year expenditures would be 90% of \$2M (\$1,800,000)
 - Fifth year would be the first year the full \$2M would be included in the base

Note: Only new subawards will increase to \$50,000 for IDC recovery. Current subawards stay at \$25,000

Current Practice and New Strategies on Fringe Benefit Charging

Fringe Benefits

Current Practice of Negotiating Fringe Benefit Rates

- HHS-CAS negotiates fringe benefit rates as a courtesy to the grantee and to assist federal awarding agencies
- CAS has decreased from a staff of 47 down to 12; four regional offices down to two
- HHS-CAS needs at least 6 months to assign a submitted fringe benefit rate proposal
- Assigned CAS negotiator needs approximately 6-12 months to start and complete review
- CAS has many fringe benefit proposals open for FY 2023 and 2024 base years, to fix rates for FY 2025 and 2026
- Large number of FY 2025 base year proposals submitted over the last few months
- CAS strategizing to try to negotiate multiple submissions/years at one time

Fringe Benefits

What Many Are Not Aware Of

- Regulations do not require grantees to have negotiated fringe benefit rates
- The majority of grantees do not have fringe benefit rates, they use specific-identification
- Many educational institutions still use specific-identification of fringe benefit costs
- CAS is not required to negotiate fringe benefit rates
- In the past, many institutions developed fringe benefit rates internally and these rates were applied to federal awards

Fringe Benefits – Negotiated Rates vs Specific Identification

Advantages of Negotiated Rates

- Budgeting
- Efficient/Easier to apply to awards
- Full Recovery
- Negotiated annually lowers risk of non-compliance

Disadvantages of Negotiated Rates

- Reliance on federal negotiator
- Large swings with carryforwards
- Rate components may not match employee's eligibility
- Need to wait for rate agreement from federal government

Advantages of Specific Identification

- Accuracy
- Internally developed
- Timing – no negotiations
- No carryforwards

Disadvantages of Specific Identification

- Difficult to budget for
- Tracking benefits by employee is complicated
- May miss specific fringe benefit costs or may not be approved by CO
- More concerns on regulatory compliance

Fringe Benefits

Specific Identification (Direct Charging) Strategic Options

- A hybrid fringe benefit model can also be considered
- Specifically identify certain fringe benefit components such as FICA, Medicare, Worker's Comp, Unemployment, etc.
- Have a negotiated fringe benefit rate that covers pension, retirement, health insurance and other costs for eligible employees
- Advantage is non-eligible employees have specifically identified fringe benefits with no rate fluctuations or delayed negotiated rates, and eligible employees have a portion of their fringe benefits specifically identified
- Disadvantage is the eligible employee fringe benefit rate portion might fluctuate more with a smaller base and more volatile fringe benefit pools remaining
- Might be a good way to transition over time to a specific identification system

Fringe Benefits – Hybrid Example

Specifically Identify and Direct Charge

- FICA 6.2% of salary up to Salary Limit
- Medicare 1.45% of salary
- Workers Comp – Monthly Rate per employee
- Unemployment Comp – Fixed rate per employee

Limit Fringe Benefit rate to benefits for eligible employees

Fringe benefit pool is:

- Health and life insurance
- Pension/Retirement
- Misc benefits like Child Care, Parking subsidy, Transit, etc.

Base is eligible employee S&W

Fringe Benefits – Other Options

Continue Negotiating Rates with the Federal Government

- Continue preparing and submitting fringe benefit proposals but expect delays in review and rate negotiations
- If your institution is proposing the same rate as the currently negotiated rates on your last rate agreement, continue using the same rates after the rates become Provisional Rates
- If your institution is proposing a lower fringe benefit rate than the rates on your last rate agreement, implement the lower rate in order to avoid an over-recovery
- If your institution is proposing a higher fringe benefit rate than the rates on your last rate agreement, you need written approval before implementing the higher rate
- For a higher rate, you may request that CAS allows the higher rate to be implemented by receiving an email from CAS stating:

Your institution may use the currently proposed fixed rates in place of the approved provisional rates, with the understanding that any adjustments identified during the review process will be incorporated into future fixed rates and any applicable carryforward amounts.

Fringe Benefits – Other Options

Internally-Developed Fringe Benefit Rates

- Return to Internally-Developed Fringe Benefit rates
- CAS is currently working with HHS and awarding agencies to accept internally-developed rates
- Fringe benefit rates would be developed and applied similar to a service center
- Advantage is no more fringe benefit proposal submissions to CAS, no more waiting for review and negotiation of fringe benefit rates, eliminates timing issues
- For many institutions, it would be how it was done in the past
- Rates subject to audit
- If interested, request this change to CAS
- Rate agreement will need to reflect that the institution develops their fringe benefit rates internally, and the rates will not be included on the rate agreement

Fringe Benefits

Any switch from a Negotiated Fringe Benefit Rate to Specific Identification (Direct-Charging) or Internally-Developed Fringe Benefit Rates requires closing out open completed years with federal government:

- Fixed Rates that have not been finalized
- Years completed on provisional rates

Questions

To Continue the Discussion

Thank
You !

Contact Us

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