Budgeting for Grants

April 24, 2020

Meredith Albuquerque

Associated Director Grant Compliance

Southern New Hampshire University

Purpose of the grant budget

- Demonstrate how much the project will cost
- Show the funders exactly what they will support/where their money will go
- Serve as a plan for how the project will operate
- List other sources of income for costs not covered by the grant being requested

Budgeting Basics

- Sponsor/funder guidelines should always be consulted for specific directives on budget preparation.
- Proposed project costs are comprised of allowable, reasonable and allocable costs necessary for the performance of the project.
- The budget should be subdivided into periods of 12-month duration (unless the project will have a different time frame).
- A budget justification (narrative) should be prepared to explain how the budgeted costs relate to the project and should be derived directly from the project description.
- Cost estimates are usually required for each year of a multiple-year project.
- It is important to include enough funds to cover likely cost increases, both before the project is funded (which may be 6 to 12 months after proposal submission) and in subsequent years.
- Because it is impossible to predict exactly how costs will change in the future, the budget figures are *estimates* of what a project will cost.

Cost Principles (Uniform Guidance, Subpart E)

Any charge to a sponsored project, whether direct or indirect must be justifiable and meet three basic conditions. Each cost must be (1) allowable, (2) allocable and (3) reasonable.

- A cost is **allowable** when:
  - It serves an Institute business purpose, including instruction, research, and public service
  - It is permissible, according to SNHU policy and federal regulations (regardless of whether or not it is a sponsored project)
  - It is permissible according to the terms and conditions of the Sponsored Agreement

- A cost is **allocable**:
  - When the cost is to one or more project objectives in accordance with the relative benefits received

- A cost is **reasonable** if a prudent person would purchase the item at that price:
  - The cost is necessary for the performance of the activity
  - Incurrence of the cost is consistent with established Institute policies and practices

Note: The Uniform Guidance deems certain costs simply unallowable, and will not allow such costs to be budgeted as either direct or indirect costs. Examples of disallowed costs include expenses for alcoholic beverages, entertainment, fund-raising, and lobbying activities.

Cost Accounting Standards

The CAS state that costs incurred for the same purpose in like circumstances must be treated either as a Direct Cost or as Facilities and Administrative Costs (F&A). The underlying reason for this rule is to ensure that sponsors bear their fair share of the total costs and do not pay for the same expense twice.

The CAS were established to achieve uniformity and consistency in the practices governing the measurement, assignment, and allocation of costs. Every organization is expected to establish and abide by standard cost accounting practices to ensure the organization is treating costs in a uniform and consistent manner.

Direct costs are costs that can be identified and associated with a specific sponsored project, instructional activity, or any other institutional activity with a high degree of accuracy. Examples of direct costs include salaries, travel, equipment, supplies, etc.

Facilities and Administrative Costs (F&A) - sometimes referred to as indirect costs or overhead, are costs incurred for common or joint objectives and cannot be readily and specifically identified with a particular sponsored project, instructional activity, or any other institutional activity. Examples of F&A costs include building and equipment depreciation, utilities, and general administrative services and expenses.

Cost Accounting Standards (continued)

In certain circumstances, a cost that is normally considered F&A may be allowable as a direct cost if all four of the following “unlike circumstances” apply:

1. Have extraordinary need for the item or service that is beyond the level of services normally provided by departmental administration

2. The cost can be identified to the scope of work conducted under the project and is appropriately documented

3. The cost specified is in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal.

4. The sponsoring agency accepts (i.e. does not specifically disapprove) the cost as part of the project’s direct cost budget

The Budget Justification

A budget justification (also known as budget narrative) should be prepared to explain how the budgeted costs relate to the project.   The narrative should provide sufficient detail to allow the sponsor to determine whether the proposed costs are reasonable and appropriate.

Key elements to include in the narrative are:

- A detailed justification of the expense or service
- How the expense relates to and benefits the project
- The time period in which each cost will be utilized
- The anticipated cost
- Other information that will aid the sponsor in evaluating the proposed item (Who, what, when, where, why)

Budget Justification Tips

- **Show your work**. Reviewers should be able to determine how you arrived at your budget figures.
- **The budget justification serves as the rationale for your costs.** Be certain to tie each cost to the overall project so that readers understand the importance of each cost/item to the overall project.
- **If portions of your budget include an escalation for costs, be sure to state this in the budget justification.**
- **Present the budget justification in a format that allows a reader to easily assess the costs in relation to the budget.** if the budget uses headers such as "salaries," "fringe benefits," and "travel," be certain to use the same headers in your justification to allow readers to quickly skim the budget and the budget narrative to find specific items of cost.

The budget narrative/ justification is a vital part of the proposal. It serves as the basis for the figures included on the budget pages and is critical in the proposal review process. Many reviewers may not have a scientific or technical background and may not understand vague budget items. It is recommended that you provide as much detail as possible in the budget justification—it may result in a faster pre-award audit and award processing.

Common Direct Cost Categories

- Personnel (Salary & Wages)
- Fringe Benefits
- Travel (Domestic & Foreign)
- Equipment (over $5,000)
- Materials & Supplies (under $5,000)
- Subaward / Contractual
- Other Direct Costs
  - Conference Room Rentals
  - Dues & Subscriptions
  - Licenses/Permits
  - Publication Costs
  - Software
- Stipends / Participant Support Costs

Indirect costs Base Types

Indirect Costs are real costs to the University and sponsors recognize the University's right to claim them as expenses related to sponsored projects. The University is dependent on recovering these costs in order to maintain the infrastructure necessary to support sponsored activities.

1. **Salary & Wages** – SNHU Federally Negotiated Base
2. **Salary, Wages & Fringe Benefits**
3. **Total Direct Costs** – Total of all cost category expenses (typically the base allowed for non-federal grants)
4. **Modified Total Direct Costs** - Total costs less distorting items (equipment, capital expenditures, patient care, rental costs, tuition remission, scholarships/fellowships, participant support costs, and each subward in excess of $25K).

Cost Share / Matching

Cost share refers to the expenditures of University or third-party resources beyond the amount funded by the sponsor to support the scope of work defined by a sponsored award.

Cost share commitments can be met using direct or indirect costs that are allowable, allocable, reasonable, and consistently accounted for by the University.

Cost share is usually in the form of a cash contribution, but can also be in the form of in-kind costs, which are those in which the University is already committed to pay such as faculty salary or equipment.

Southern New Hampshire University

Types of Cost Share / Matching

1. Mandatory/Involuntary

- Required by the sponsor
- Identified or quantified in proposal
- Condition of receiving the award
- Represents binding commitments that must be captured and documented throughout the life of the award

2. Voluntary Committed Cost Sharing

- Not required by the sponsor
- Identified in the proposal and/or budget
- Represent binding commitments that must be captured and documented throughout the life of the award

3. Voluntary Uncommitted Cost Sharing

- Occurs during the life of the award but was not offered in the proposal and/or budget
- Amounts and documentation are not reported nor submitted to the Sponsor.

Sources of Cost Share / Matching

1. In-Kind Contribution

The value of the contribution can be readily determined but where no actual cash is transacted in securing the good or service..

Two examples of in-kind contributions are:

(a) The donation of volunteer time valued at a rate that would be reasonable for the time devoted had the volunteer been compensated for the time.

(b) The donation of non-institution space where such space would normally carry a fee for purposes other than supporting this particular project

2. Cash Contribution

Cash contributions differ from in-kind in that an actual cash transaction occurs and can be documented in the accounting system.

Two examples of cash contributions are:

(a) The allocation of compensated faculty and staff time to projects

(b) The purchasing of equipment by the institution or other eligible sponsor for the benefit of the project

Budget Revisions (Why we want to get it right the first time)

A **Budget revision** or **re-budgeting** is a reallocation of funds from one cost category to another category.

Sponsors may or may not require prior approval for budget revisions, and/or may provide thresholds that require prior approval (either by a percentage of the budget or an amount of deviation by budget category or line item). The University does not have the authority to revise agency approved budgets where prior approval of the agency is required

What's the Worry?

- Compliance with Prior Approval requirements
- Compliance with award terms and conditions
- Need to rebudget to normally indirect cost expense codes
- Change in scope
- Change in key personnel
- Absence of PI
- Issuing subawards not previously approved

Final Thoughts

The budget is the final expression of the project

If someone cannot understand your project from reading your budget, it still needs work!!

Take time to read the budget, budget justification, and narrative. Do all of the expenses in the budget appear in the budget justification? Do the budget, budget justification, and proposal narrative all align?