

# University of South Alabama

## Budgeting and Rebudgeting

### Initial Budget Preparation

#### Budget Components

A budget is a numerical estimate of anticipated cost to accomplish the stated objectives of a sponsored program.

Most sponsors provide guidelines for budget preparation and many provide forms for the submission of budget information. The following guidelines provide general criteria for budget development and highlight specific budgetary restrictions and requirements of selected agencies.

For multiple-year proposals, a budget for each year is usually expected, as well as a cumulative budget. Consideration should be made for cost increases and inflation from one year to the next. Unless the principal investigator has access to exact costs for the "out" years of a project, an inflationary factor of 4% should be used. (In the absence of exact cost figures, NIH and DOD will not award a cost-of-living increase greater than 3% unless there is a compelling need. If the NIH Modular Grant Application and Award process is applicable, inflationary factors are not used.)

#### *Direct Costs:*

##### Personnel

Include only USA personnel and base amounts on actual salary figures. Include a 4% annual salary increase (3% for NIH grants) for each year of your proposal beyond year one.

The budget should clearly describe the proposed effort of every person, or position, for which salary is requested. Sponsors may ask that effort be described either in terms of academic, summer, or calendar-year months. Others want effort described in percentages. When instructions are not explicit, such as in some foundation applications, the budget justification should clearly describe the contributed effort of every salaried project staff member.

Requested salaried must be supported by actual salary rate information. However, generally speaking, a strong justification will focus on the how the project will be accomplished with the proposed personnel.

Only USA personnel may appear as salaried persons in a project budget. Those not on the University payroll may be consultants, recipients of honoraria, or affiliated with an institution which will be receiving a subcontract from USA if the project is funded.

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If personnel are contributing effort to the project for which they do not expect to be reimbursed, they should be listed as project personnel. Their effort should be described the same as the effort of paid personnel with “-0-“ showing on the budget forms, and their contributions clearly described in the budget justification.

Some agencies place restrictions on the amount of time they will support a faculty member during a given year and on the amount of salary they will pay. For examples, generally, NSF will only support two summer months, rather than three, and NIH caps the total salary used to cost a faculty member’s time allocation to the project.

Undergraduate students may work on grants and are usually hired as bi-weekly employees. Undergraduate work loads are necessarily limited to less than 20 hours per week and effort is usually described in hours.

Administrative and Clerical Staff may be supported by sponsored projects under very limited circumstances. Only work directly related to the project objective can be budgeted as direct costs. All general clerical support is considered as reimbursed by indirect cost recovery. Any request for the inclusion of administrative and/or clerical personnel must be accompanied by a memorandum defining the project required tasks that are mandated as part of the implementation activities under the project scope of work.

Normally, faculty members should not receive supplementary pay, that is, remuneration for additional work performed during their regular, 9-month appointment term, since they are already being paid for full-time service (100% effort). Payments for additional work during that period will usually be substitutive rather than supplementary. In unusual circumstances, particularly when a department other than the principal investigator's primary appointment is involved, he or she may request permission from the Senior Vice President for Academic Affairs, with the approval of the appropriate dean, to receive reimbursement from grant funds above his or her regular salary.

Grants may not be used to augment the salaries of staff. Policy does allow monthly employees to receive supplementary pay if they perform short- term tasks, conducted outside their work

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schedules, which are not related to their primary jobs, although this rarely occurs as part of funded projects.

**Fringe Benefits** Fringe benefit rate is 25% assessed on base salary figure for all USA personnel. Undergraduate and graduate student wages do not accrue fringe benefit costs.

**Equipment** Capital equipment is defined by the University as a permanent asset costing \$5,000 or more per unit and having a useful life of at least two years. The cost of shipping and installation is included in the cost of the equipment.

Operational software is purchased in conjunction with hardware and is considered part of the purchase price. Software applications which are purchased separately are considered equipment if they meet the dollar threshold as described above per licensed user. Leased software is not identified as capital equipment, regardless of cost.

Extended warranties are not capitalized and should go in the "other direct costs" category.

The budget should specify the name and manufacturer of the equipment whenever possible. Sponsors may want to see the manufacturers specifications and price list, particularly if the equipment is very expensive.

**Travel** Lodging, meals, transportation, car rental, mileage, parking, taxis, registration fees (for travel expenditure procedures and allowable costs, refer to the USA Travel and Entertainment Regulations Manual).

**Materials & Supplies** General office supplies, such as staples and pens, may not be allowable on federal grants unless they are related to specific project activities rather than general departmental activities. This budget category can be supported by general descriptions of the type of supplies included and a best estimate of their cost.

**Consultants** External consultants may be individuals or firms, provide identical services to others as part of their primary business, provide expertise vital to the project, but do not have authority over the direction of the project and are provided with specifications

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defining their contribution to the project rather than a statement of work requiring discretion.

Consultants should be listed by name in the budget. Information presented about the consultant should include the daily rate of pay, number of days of employment, any additional amounts to be paid such as travel and per diem, the consultant's primary affiliation and expertise, and justification of the need for consultant services

By statute, some federal agencies limit the daily rate of pay for consultants to that of an Executive Schedule Level IV Federal employee (exclusive of indirect cost, travel, per diem, clerical services, fringe benefits and supplies). The National Science Foundation provides the most current dollar figures for this rate limit.

Before a consultant can be hired, a contract for the consultant's services must be reviewed and approved by both OSP and Grants and Contracts Accounting.

### Subcontracts

If another organization, a subrecipient, will be paid to conduct part of the proposed project, a subcontract is the most appropriate mechanism for the transfer of funds if the following criteria apply:

The funds are to be paid to another university or business rather than to an individual.

The subrecipient will contribute to the scholarly or scientific conduct of the project as described in a statement of work. Conduct of the subrecipient's portion of the project requires judgment, unique expertise, and original thought. Subrecipient does not provide identical services to others as their primary business. Examples of identical services include the fabrication or repair of equipment, data processing, and routine analytical and testing services.

### Required Materials for a Subcontract Proposal

For every subcontract, USA must have a proposal which has been through an institutional review process and authorized by the appropriate person at the recipient institution.

This proposal must include the following documents:

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1. A statement of work
2. A corresponding budget
3. Written confirmation of the institution's willingness to participate in the project. It is critical that an institutional officer sign the confirmation. A signature from the participating principal investigator, a department chair, or dean will not suffice to commit the institution. The institutional confirmation may be either in the form of a letter to OSP or a signed agency cover sheet used as part of the subcontract proposal.
4. If required by the funder, the recipient institution may need to provide certifications and representations.

When preparing the budget, include the total costs of each subcontract, including the recipient institution's fringe benefits and indirect costs, as a line item in the budget proposal.

Subcontracts will be issued by OSP when the award is received.

Printing

Duplicating and publication costs.

Other

Includes participant costs, equipment less than \$5,000, tuition waivers, rentals, telephone charges, photo copying, communication costs

### *Facilities and Administrationve (indirect) Costs:*

Direct costs are those which can be identified specifically with a particular sponsored project and which can be directly assigned to such activities, relatively easily and with a high degree of accuracy. For example, the supplies needed for a research project are easy to identify; however, costs such as heating and air conditioning rooms and labs used by the project staff are not. The latter are indirect(facilities and administration) , defined as those that are incurred for common or joint objectives, and which cannot be identified readily and specifically with a particular sponsored project.

Federal regulations provide principles for determining which costs are applicable to agreements with the government and identify which of those costs may be charged as direct and which must be charged as indirect costs. Furthermore, the rules state that the distinction between direct and indirect costs must be maintained consistently throughout the University regardless of the source of funding.

*F&A Costs*

Where appropriate, use the F&A cost rate stipulated by the funding agency, i.e., ED only allows an 8% F&A cost rate on most of their programs. Use the appropriate negotiated rate with HHS where

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allowed by the funding agency (See F&A Cost Rates). In computing the F&A cost rate, do not include any of the following charges: equipment, capital expenditures, charges for patient care and tuition remission, rental costs of off-site facilities, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of \$25,000. Approval for the use of a lower F&A cost rate than what is allowed by the funding agency must be secured from your Dean and the Office of Sponsored Programs. Any variations to approved F&A rates must be approved by the Assistant VP, Office of Sponsored Programs.

Rate Changes - The federal government dictates that the F&A rate in effect at the time an award is made will be frozen throughout the life of the award. Even if the University negotiates a new set of rates with the government, those rates will not be used in continuations or supplements.

*TOTAL PROJECT  
COSTS*

Direct Costs + F&A Costs

### Budget Justification

The budget justification is a narrative, usually two-three pages, explaining the calculations you used to determine the total cost for each budget category. It **MUST** match both the budget and the proposal narrative. For example, if the Principal Investigator is committing 25% of his / her time to the project, the 25% time should be indicated accurately in the proposal narrative, in the budget, and in the budget justification. Funding agencies are very knowledgeable of appropriate budget costs for what you propose to do. Underestimating or overestimating your budget could create, in the funding agency, a lack of confidence in your ability to successfully complete the grant. Preferably, the budget should be close to the average award size. If a significantly lower or higher budget is proposed, be sure to explain why, in detail, in the budget justification.

### Key Points

Grants and Contracts Accounting must document, for internal and external audit purposes, the percentage of time of all key personnel listed on the grant, all in-kind contributions, and all cash contributions. All in-kind contributions and cash contributions must be approved on the department and/or college level as well as OSP. Include a 4% annual salary increase (3% for NIH grants) for all USA personnel (faculty and staff only) for all subsequent budget years. Contact the funding agency program officer for relevant budget questions. Otherwise for standard types of questions, call the Office of Sponsored Programs. A budget justification should be included for each year of the proposal unless

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the guidelines state otherwise. Read the application guidelines very carefully and re-read several times prior to submission of your proposal.

### Cost Sharing

On certain proposals the University may be required to cost share certain expenses with the funding agency. These issues should be discussed with the department chair, dean, and Senior Vice President for Academic Affairs early in proposal development. All requests for the University to provide matching funds must be approved by the department, Dean, and University in advance.

### **F & A Cost Rates**

Please see the F & A Cost Rate Schedule at :  
<http://www.southalabama.edu/financialaffairs/grantsandcontracts/rates.html>

### *MTDC Base:*

Modified total direct costs (MTDC), consisting of all salaries and wages, fringe benefits, materials, supplies, services, travel and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Modified total direct costs shall exclude equipment, capital expenditures, charges for patient care, tuition remission, rental costs of off-site facilities, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of \$25,000.

### Fringe Benefits

Fringe benefits are specifically identified to each employee and are charged individually as direct costs. The fringe benefit rate on all full-time employees (faculty and staff) is 25% of their salary.

### **Programmatic and Budgetary Changes**

Revisions are changes to grant or contract awards. Revisions may involve changes in budget categories, reporting requirements, period of performance, scope of work, etc. These changes may be requested by the Principal Investigator or required by the sponsor.

Given the nature of research and the difficulty of making precise plans in advance for any undertaking, it is often necessary to revise budgets and even to change significant aspects of a project after the award has been made. Two basic questions must be answered when a principal investigator is considering a budget or scope of work modification.

- Does the sponsor require that the change be approved in writing?
- Who must provide the approval, the sponsor or the University?

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While the terms and conditions of the award are the definitive source of answers to these questions, the following information provides some general guidelines.

### General Procedures

The terms and conditions of the award, or if not outlined in the terms, OSP will provide guidance to determine if the change must be approved by the sponsor in advance or, alternatively, approved by the University in accordance with criteria established by the sponsor.

If the request can be handled without sponsor approval, the written request from the principal investigator will be reviewed and approved, if appropriate, by OSP. The approved request will be sent to the principal investigator and to OSP and Grants and Contracts Accounting so the official record can be updated.

If the change must be approved by the sponsor, the letter of request must be sent first to Grants and Contracts Accounting and then to OSP for review, approval, and signature before it is forwarded to the sponsor. When the sponsor approves the request, OSP will send copies of the approval notification to the principal investigator and to Grants and Contracts Accounting.

### Budget Revisions

Sponsor guidelines, federal and non-federal, for modifying a project's budget vary widely. The guidelines may even vary from program to program within a single agency. The terms and conditions of the award must be consulted in all cases to determine in which categories and/or at what level of spending the sponsor wishes to retain the authority to approve changes.

When rebudgeting funds, the impact on indirect costs must be considered.

All requests for budget revisions that require prior approval from the funding agency should be forwarded to the Office of Sponsored Programs. If and when the revision is approved by the agency, OSP will notify Grants and Contracts Accounting.

Budget revisions must include an adequate explanation for a budget change. A detailed explanation must answer the following questions:

- Why are funds available in the current line item?
- Why are funds needed in the new line item?

Seldom can the University approve shifting of funds for tuition, stipends, or any type of participant funding without prior approval from the awarding agency.

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USA has the authority to approve certain grant rebudgeting requests through the Organizational/Institutional Prior Approval System if the rebudgeting requests are made prior to the rebudgeting action. For corporate contracts, refer to the terms and conditions of the agreement to verify if rebudgeting is allowed.

For grants administered under Expanded Authorities, USA has the authority to approve rebudgeting between categories within the total budget on a project provided (1) the costs are necessary for the conduct of the project; (2) the costs are allowable under the award; (3) prior written approval is obtained when required, and (4) there is no change in the scope of work.

### Types of Changes/Requirements

#### Federal Awards

The following changes must always be approved by the federal sponsoring agency:

- Change of scope or objectives critical to the approved project.
- Change in grantee or contractee organization.
- Change of award terms and conditions.
- Actions requiring additional funds.
- Closely-Related Work: When salaries and/or other activities are being supported by two or more Public Health Service (PHS) grant projects from the same awarding component, grantees may charge costs to the project for which the costs are originally approved or to another closely-related PHS project only after approval by the Grants Management Officer of the sponsoring agency.
- Publications and audiovisual materials over \$25,000 for a single item.
- Pre-award costs incurred more than 90 days prior to the effective date of any new or competing continuation award.
- Alteration and renovation over \$10,000 (NSF) or \$50,000 (PHS).
- Indemnification against third parties. The government is obligated to indemnify the organization only to the extent expressly provided in the award.
- Contracting to a third party.
- Capital expenditures for land and buildings.
- Rebudgeting from minority supplement funds is not allowed.
- Retention of research grant funds when a Research Career Development Award (RCDA) is awarded.
- Participant or trainee support costs for NSF.
- Transferring funds out of the trainee category (stipends, tuition and fees) for Individual and Institutional Training Grants.
- Transferring funds to patient care when such costs have not been previously approved or transferring funds out of patient care.
- Equipment exceeding \$25,000 per unit for NIH grants. Equipment in excess of \$5,000 for NASA or any general purpose equipment for NASA research grants.

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Equipment purchases on NASA training grants are not allowed. Expenditures for general purpose equipment are not allowable on NSF grants unless the equipment is primarily or exclusively used in the actual conduct of scientific research.

- NIH - on the R29 (FIRST) awards, 50% effort (translating to 50% institutional base salary) is required. Therefore, if an investigator is rebudgeting out of the salary category on an R29, 50% effort needs to be reported on the effort report.
- NIH - significant rebudgeting must have sponsor approval. "Significant rebudgeting" occurs when expenditures in a single direct cost budget category deviates (increases or decreases) from the categorical commitment level established at the time of the competing award by more than 25 percent of the total amount awarded or \$250,000, whichever is less. The basis for determining significant rebudgeting excludes the effects of carryover of prior year unobligated balances, but includes competing or administrative supplements. Significant rebudgeting occurs when 25% of the total amount awarded of the current year is transferred into or from a single direct cost category.

Approval for the following will probably not require sponsor approval; however, the terms and conditions of the award should be consulted. Approval for OSP is required for these changes:

- Pre-award spending
- Carry-over of funds
- No-cost extensions
- Transferring funds into or out of a restricted category (e.g. travel, equipment, subcontracts, patient care, stipends and tuition). For rebudgets involving travel, information must be provided which identifies who is traveling, where and why the travel is necessary to the project.
- Transferring funds to the foreign travel category.
- Transferring funds to the patient care category when the category has been previously approved.
- Purchasing equipment over \$2,000 other than what has been previously approved in the award.
- For training grants, the Principal Investigator may transfer funds from training related expenses and trainee travel to training stipends and training tuition and fees.

### Non-federal Awards

All non-federal awards are different. The terms and conditions of the award should be consulted when programmatic and budget changes are desired. If the detail provided in the terms and conditions is insufficient, it may be necessary for OSP to contact the sponsor directly.

### Rebudgeting which is not allowed

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- Entertainment
- Bad debts
- Contingency funds
- Interest
- Tuition for research grants
- Office Supplies, postage, local telephone costs and membership dues
- All other items that are considered as indirect under the CAS guidelines cannot be rebudgeted.

### Significant Rebudgeting on NIH Grants

#### Purpose of the Policy

When a significant rebudgeting is anticipated on any NIH grant, the principal investigator must contact the project's Grant Management Officer (GMO). The purpose of the contact is to allow the GMO to make a judgement about whether or not the significant rebudgeting indicates a change in scope. If it does, the change in scope must be approved.

#### Definition of Significant Rebudgeting

Significant rebudgeting occurs when expenditures in a single direct cost budget category deviate (increase or decrease) from the categorical commitment level established for the budget period by more than 25 percent. For example, if the award budget for direct costs is \$200,000, NIH prior approval is required for any rebudgeting that would result in an increase or decrease of more than \$50,000 in a budget category. The baseline used for determining significant rebudgeting excludes the effects of prior year carryover balances but includes competing and non-competing supplements.

#### Procedure

If a proposed rebudgeting meets the significance criteria, the principal investigator must write a letter to the GMO which describes the proposed changes to the budget and explains why the changes do not represent a change in the scope of the project. The letter must be approved by OSP. Once the GMO has determined that there is no change in scope, the request to rebudget will be handled in accordance with the University's standard rebudgeting policy.

#### Contracts

Contracts are legal documents between the University and the sponsor. All contracts must contain the signature of USA's authorized organization representative. Revisions to contracts, often called Modifications or Amendments, are also legal documents that require the signature of USA's authorized official.

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If the desired rebudgeting is determined to be within USA's scope of authority for approval, the grant rebudgeting request should be made by the Principal Investigator and must provide information for justification of the rebudgeting. The justification must state why the previously unbudgeted expenditure is required and the specific way in which it relates to the project. An explanation should be provided about the originally budgeted expenditure and why it is no longer required. The purchase of an item to spend excess funds is not allowed.