

Budget Basics Part 1: Fundamentals



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Budget Basics Part 1

Objectives

- Understand some basic budget considerations.
- Apply basic cost principles to specific budget examples.
- Understand the four key cost principals.

Proposal Budget Considerations

- A good budget is easily understood, reflects the needs of the project, and complies with the appropriate guidance (OMB, sponsor, and institution).
- Be aware of what limitations or requirements are provided in the Request for Proposal (RFP), Solicitation, or Guidelines.
- Budget construction needs to be done so that the budget can be used by the PI and post award with as few adjustments as possible.
- Keep in mind that at proposal submission the budget is your 'best guess'; most sponsors will allow some change (but be reasonable). Also be aware that some sponsors will not allow change (or major change) from the submitted budget even if they are only asking for an estimate.
- Your budget and budget justification can be a determining factor on selection for award – does it show that you know what you are doing as you plan to project paying for the work you are proposing to do? (Are you asking for the right amount?). A slip shod cost proposal may indicate to a review panel that you won't pay attention to detail when it comes to managing expenditures.

Proposal Budget Considerations

Different types of proposals may have different budget requirements and elements.

Types of Proposals

Federal

Non-Federal

- ✓ State or local government
- ✓ Foundation/Non-Profit
- ✓ Industry
- ✓ International

Subcontract/Subaward

Internal Awards

Cost Principles

(Overview)

- ❖ What are Cost Principles
- ❖ Direct Costs
- ❖ Indirect Costs (IDC) – also commonly referred to as Facilities and Administrative Costs (F&A) or Overhead

What are Cost Principles

- Institutions that receive federal funds for research must abide by federal “Cost Principles”. The principles are designed to provide that the Federal Government bear its fair share of total costs.
- Provides that federal funding is treated on par with other sponsors.
- It should be noted that most agencies (non-profit and commercial entities) also follow many of the federal guidelines on cost principles in their grants management operations.

OMB Circulars/CFR Title 2

- A circular is a federally mandated set of principles and guidelines used to determine costs applicable to grants and contracts.
- The Office of Management and Budget (OMB) issues circulars/regulations that are applicable to various organizations.
- In 2004 an area of the Code of Federal Regulations (CFR) was established (Title 2) as the location of policy guidance for grants and other agreements.

OMB Circulars/CFR Title 2

These are the old circular numbers that you may still hear about occasionally but they have been replaced.

- [2 CFR part 220](#) (Circular A-21):
Cost Principles for Educational Institutions
- [2 CFR part 215](#) (Circular A-110):
Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
- [2 CFR part 230](#) (Circular A-122):
Cost Principles for Nonprofit Organizations
- [2 CFR part 500](#) (Circular A-133)
Audits of States, Local Governments, and Non-Profit Organizations

Circular A-81

Effective Dec 2014 the Office of Management and Budget activated the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards from the Office of Management and Budget (2 C.F.R. § 200) ...superseded requirements from OMB Circulars A-21, A-87, A-110, and A-122 (which have been placed in 2 C.F.R. Parts 220, 225, 215, and 230); Circulars A-89, A-102, and A-133; and the guidance in Circular A-50 on Single Audit Act follow-up” (it is often called the Uniform Guidance [UG]or Circular A-81 or the Omni-Circular)

Direct Costs

- ✓ Expenses identified specifically with a particular sponsored project, instructional activity, creative or artistic pursuit, or other institutional activity
- ✓ Expenses that can be assigned to a particular sponsored project with a high degree of accuracy
- ✓ Must be **allowable, allocable, reasonable** & necessary for the program, given **consistent treatment** and conform to sponsor limitations

Direct Costs-Allowable

- ✓ Is it a project related expense?
- ✓ Does it conform to the limitations or exclusions in the OMB/CFR guidance for your organization?
- ✓ Does it meet sponsor guidelines?
- ✓ Does it comply with institutional policies?

Direct Costs-Allocability

- ✓ Is the cost easily assignable to the proposed work the Primary Investigator is projected to accomplish?
- ✓ If a cost benefits two or more activities then you need to determine the costs for each one based on the proportional benefit; if you can't determine the proportion then the basis of allocation must be reasonable. (work with sponsors)
- ✓ Costs allocable to a project can't be shifted to another project to eliminate deficits or for convenience.

Direct Costs-Reasonable

- ✓ Would an average person agree that this cost is reasonable and necessary for the work to be performed?



Direct Costs-Consistently Treated

- ✓ Are the same types of expenditures treated in similar ways regardless of the sponsor? (consistency)
- ✓ Are any exceptions covered under institutional policy?

Let's talk

Dr. Smith is approaching the last three months of their grant and realizes there is a large amount of unspent funds so they decide to purchase a new spectrum analyzer to use on the grant for \$45,000. This would possibly violate which of the cost principles?

- A. Allowability
- B. Allocability
- C. Reasonable

Facilities & Administrative Costs

- ✓ Costs incurred for common or joint objectives which **cannot** be allocated to a specific direct cost activity
 - ✓ Facilities (lab and office space)
 - ✓ Salaries of administrative, clerical staff, custodian, HR staff, etc.
 - ✓ Libraries and other common buildings
 - ✓ Building maintenance, utilities
- ✓ Some sponsors and PI will refer to F&A/IDC as overhead, profit, funny money, a second tax – etc. This is usually because they don't understand what F&A/IDC is.

Facilities & Administrative Costs

- ✓ The University of Oklahoma has a federally negotiated rate agreement that is required to be used on all sponsored projects.
 - ✓ Some sponsors will limit the rate.
 - ✓ PI cannot negotiate indirect costs with a sponsor.
 - ✓ Default rate is Organized Research; however, there is more than one rate your proposal may qualify for depending on the type of work, sponsor, and location (talk with your Proposal Development Specialist (PDS)).
 - ✓ For-profit organizations are usually never allowed to use less than the full rate unless they are the lead on a submission, and we are a subcontract (in this case we may be limited by the solicitation).
 - ✓ You may request an exception.
- ✓ At OU, your PDS will help ensure you are using the correct rate and that your OU budget template will have the rate loaded on it.
- ✓ F&A/IDC is covered in more detail in Budget Basics Part 3.

Questions?