THE UNIVERSITY OF ALABAMA
Office for Research
Budget Procedures for Grants and Contracts

   I.   **Budget Preparation - Proposal**
  II.   **Budget Modification for Award Reduction**
 III.   **Budget Management**

I. Budget Preparation - Proposal

The budget is the financial representation of the statement of work and should provide to the funding agency a clear picture of your anticipated financial needs. The format and/or allowable costs may vary from one agency to another but the items comprising the budget are generally the same. Sponsors typically require, or encourage, budgets that present the total amount requested for the life of the award by annual increment and budget component (e.g. total salaries, salaries for year one, salaries for year two, etc.) http://osp.ua.edu/AA-sample-5_yr_budget_with_formulas.xls

Direct costs:

Direct costs of sponsored projects are those that can be directly associated with the project with a high degree of accuracy. Direct costs are essential to the project's fulfillment. For proposal purposes, OSP encourages providing budget information in as summarized a form as allowed by the sponsor but for some items may need more detail in order to analyze the budget for sufficiency. Also, more detail will typically be required, if awarded, in order to establish the budget in Banner.

 Some examples of direct costs:

Salaries
List each UA person/position to be included. Using annual salary rate and percentage of time to be devoted to the project, compute the salary allocable to the project for each individual. The salary charged to the grant should be an accurate estimate of the percentage of time each person will spend on the project. A cost-of-living increase of 3-5% should be added to each base salary in each subsequent year of the proposal. Grants.gov and some sponsors require proposed effort to be shown in person-months, which can be calculated from the proposed percentage of effort and the number of months in the individual's appointment (typically 9 months or 12 months). An explanation of person-months and a person-month calculator are available at,
http://grants.nih.gov/grants/policy/person_months_faqs.htm#q2.

A faculty member on a nine-month appointment can request summer salary of up to 33% of his/her base salary. These additional funds will be paid out during the summer and will not affect the faculty member's academic year base salary.

Additional pay (supplemental or extra-compensation) during the academic year or for an individual with a 12 month appointments is allowable ONLY in unusual cases. The University's Extra Compensation/Supplemental Pay Policy can be found at http://osp.ua.edu/policy_procedures.html.

Some sponsors impose restrictions on faculty salary. For example, many NSF programs will fund only 2 months of faculty salary. Occasionally, a foundation or other sponsor will pay for no faculty salary. If faculty effort will be required but the sponsor's policy will not allow funding of it, the sponsor is in effect requiring cost share and the University's Cost Sharing Policies and Procedures, found at http://osp.ua.edu/policy_procedures.html, should be followed.

Salaries of administrative and clerical staff are only allowed as a direct charge if the project meets the federal requirements to be considered a major program. (Please see "Justification to Charge F&A Type Costs as Direct Costs" at http://osp.ua.edu/Direct Charge Justification Form UG.doc.)

Once awarded, effort included in the proposal for a PI, Co-PI or other Key person becomes a commitment. For more information see **III. Budget Management, Revision of Budget and Program Plans, Requirements**, below.

Fringe Benefits
The fringe rate is expressed as a percentage of salary and the dollar amount is calculated by applying the appropriate rate to each UA employee's salary to be charged to the grant (see Salaries, above). The Proposal Fringe Benefit Rates to be used vary based on employee classifications such as full or part-time. Proposal Fringe Benefit Rates and GRA Health Insurance rates can be found at: http://osp.ua.edu/Proposal_administration.html.   These rates are an ESTIMATE of the actual costs that might be charged based on University averages. ACTUAL fringe charges will be based on an individual's elections and may, therefore, vary significantly from the estimate used in the proposed budget. UA is responsible for reasonably estimating costs, while not knowing for certain what an individual's fringe benefits will really cost in the future. The Proposal Fringe Benefit Rates are used to accomplish this objective. Summer salary for faculty and staff requires budget for fringe benefits at the same rates as for academic year salary.

GRAs are subject to the same health insurance rates (calculated on a monthly basis for estimation purposes) in the summer. Additionally, if a GRA will not be taking summer classes, a fringe rate of 7.7% should be budgeted for the GRA's summer salary.

Undergraduate students are not eligible for UA paid health insurance and are only subject to the fringe rate of 7.7% if not enrolled during the semester.

Tuition
If tuition is expected to be an expense of the project but there is not a separate line for it on the sponsor's budget form, include tuition in Other Direct Costs (see below). Graduate Research Assistants receive tuition (tuition remission), in addition to salary and the student health benefit (see Fringe Benefits, above), as part of their compensation. Tuition remission is required for GRAs so if it is not reimbursable by the funding agency, OSP will need to be made aware that other UA funds will cover the tuition expense of any budgeted GRAs.

Other programs specifically for the purpose of providing training to participants often allow the cost of tuition, typically in the form of scholarships or fellowships as the payment is not in return for services.

Please see the Tuition, Stipends and Other Student Payments policy at http://osp.ua.edu/policy_procedures.html.

It is recommended that a tuition increase of 5-10% be included in each subsequent year of the proposal. The average annual tuition increase for UA from FY 2000 to FY 2011 was 10%.

Travel
List anticipated travel expenses of project personnel by purpose and show basis of computation. Include costs such as conference registration, personal car mileage, transportation (air and/or ground transportation, parking) hotel and meals. Domestic and foreign travel should be shown separately. If foreign travel is not specified within the budget, prior approval from the agency may be required before the travel takes place. Regardless of the funding source, UA travel policies must be followed and can be accessed at: http://accountspayable.ua.edu/pages/travel-policies.html. Additional guidance, Travel Charges to Sponsored Projects, can be found at http://osp.ua.edu/policy_procedures.html.

Participant Support
Expenses for Participant Support are for training projects, conferences, symposia, etc. These costs are for non-UA employees, which includes student trainees but not GRAs. Please see more information regarding both Participant Support Costs and Stipends (Tuition, Stipends and Other Student Payments) at http://osp.ua.edu/policy_procedures.html.

Supplies
Supplies include expendable items with a useful life of less than one year or a unit cost under $5,000. Include a description of each category (e.g. glassware) and an estimate of the cost for items directly related to the project and that are to be expended or consumed during the course of the project. Office supplies are generally not allowed as they are items that should be provided by the home department and their cost is to be recovered through the F&A rate. Office supplies include general purpose computers and computer accessories. Office supplies, postage, local telephone costs and memberships may not normally be treated as direct costs. Exceptions may be made ONLY for different purposes or circumstances (Please see "Justification to Charge F&A Type Costs as Direct Costs" at http://osp.ua.edu/justification.pdf).

Equipment
List any item of equipment having a unit cost of $5,000 or more and a useful life of one year or more and include the cost of shipping, installation and fabrication. Items costing less than $5,000 per unit should be included either in "Supplies" or "Other"

General purpose equipment (equipment not limited to research, medical, scientific or other technical activities) is generally not allowable as a direct cost unless used primarily or exclusively for the research project and under different circumstances or for a different purpose. Allowable general purpose equipment should be specified in the budget as it may be unallowable as a direct charge without advance approval of the awarding agency.

Groups of lesser valued items that will be fabricated into an item of equipment should be included, in total, under the equipment category and, if funded, **must be highlighted for special accounting treatment**, otherwise, F&A may inadvertently be charged on the components.

Consultants/Professional Services
In this category, list each consultant, the specialty or service to be provided to the project, the daily, weekly or monthly rate of reimbursement and the consultant's total projected cost on the project. Include in the proposal a letter of collaboration and the consultant's curriculum vitae. List other services to be purchased for the project such as service or maintenance contracts for equipment utilized on the project. Subagreements are partially excluded from application of F&A costs and are, therefore, included in a separate category. It is important to appropriately distinguish between a professional service relationship (consultant/vendor) and a subagreement as there are budget implications related to the applicable F&A costs (see below) and differing monitoring requirements. Please see the Subrecipient versus Vendor Checklist at http://osp.ua.edu/internalforms.html.

University faculty serving as consultants should be presented in the Salary section by including a portion of their UA effort in the proposed budget. Intra-university consulting is assumed to be undertaken as a university obligation requiring no compensation in addition to full time base salary. Additional pay during the academic year or for an individual with a 12 month appointment is allowable ONLY in unusual cases and must be specifically identified in the proposed budget. The University's Extra Compensation/Supplemental Pay Policy can be found at http://osp.ua.edu/policy_procedures.html.

Subagreements
A subagreement is a contract or award to another organization that conveys a portion of the UA project's scope of work. You should obtain an acceptable budget and scope of work, signed by the sub's authorized organizational representative, which may be required to be included as part of the proposal package. It is important to appropriately distinguish between a professional service relationship (consultant/vendor) and a subagreement as there are budget implications related to the applicable F&A costs (see below). Please see the Subrecipient versus Vendor Checklist at http://osp.ua.edu/internalforms.html. It should be noted that PIs have substantial responsibility for monitoring the progress and reviewing the financial reports of their subrecipients. The University's Subrecipient Monitoring Policy can be found at, http://osp.ua.edu/policy_procedures.html.

Other Direct Costs
Other costs typically include items such as research publications, lab usage fees, animal costs and/or other project related costs not proposed in the previously mentioned categories. Office supplies, postage, local telephone costs, and memberships may not normally be treated as direct costs. Exceptions may be made ONLY for different purposes or circumstances (Please see "Justification to Charge F&A Type Costs as Direct Costs" at http://osp.ua.edu/justification.pdf.).

Indirect costs:

Indirect costs of sponsored projects are those that cannot be directly associated with the project with a high degree of accuracy. Indirect costs should normally, therefore, be recovered by the University through the Facilities and Administrative Cost Rate.

Facilities and Administrative (F&A) Costs
Compute and include full F&A costs (also referred to as "Indirect Costs" or "Overhead") according to UA's federally negotiated rate, unless limited or prohibited by the sponsor's written policy. The negotiated rate is applied to a Modified Total Direct Cost (MTDC) base, which includes all direct costs

except equipment, other capital expenditures, tuition remission, rental cost of off-site facilities, scholarships, fellowships and the portion of each subagreement in excess of $25,000. The current UA rate agreement can be found at: http://osp.ua.edu/Proposal_administration.html.

Budget Justification:

The Budget Justification is the narrative explanation of the budget. It helps the sponsor to evaluate the reasonableness of the budget. The budget justification should explain and defend each major budget category.

Pay particular attention to the items listed below in your budget justification as these costs are often more carefully scrutinized by the sponsor.

- Tuition
- Travel (especially foreign travel)
- Equipment (especially General Purpose, which is not typically a direct cost)
- Administrative Costs (Please see "Justification to Charge F&A Type Costs as Direct Costs at http://osp.ua.edu/justification.pdf.)

General/Best Practices:

Compare the statement of work (SOW) to the budget and make sure all costs are accounted for in the budget (e.g. if the SOW mentions travel, make sure travel expenses are included in the budget) and all expenses in the budget can be explained by the SOW.

All budgets must comply with UA policies and must be approved by OSP prior to being submitted to the sponsor. Voluntary cost sharing is not routinely supported by UA. It is the recommendation of UA's Office for Research that cost sharing only be included in a proposal if it is mandatory cost sharing.   This includes voluntary cost sharing not included in the budget but quantified (or made quantifiable) in the budget narrative or any other section of the proposal. Please see the University's Cost Sharing Policies and Procedures and Instructions at: http://osp.ua.edu/policy_procedures.html.

Be conservative when listing senior/key personnel. While the federal government's standard Research Terms and Conditions (http://www.nsf.gov/awards/managing/rtc.jsp) require prior written approval for a change of the PI or for an absence of the PI for a continuous period of more than 3 months or a 25 percent reduction in time devoted to the project, NIH expands applicability of this requirement to also include ANY senior/key personnel named in the Notice of Award.

II. Budget Modification for Award Reduction

Awards are reduced for a multitude of reasons including a sponsor's budget constraints, the number of awards funded and the review committee's belief that the proposed aims can be accomplished on a leaner budget. Depending on the reason and the size of the cuts there are a number of different strategies for re-budgeting.

Scenario 1
Budget cuts are due to agency constraints and are small (under 10%).

Re-budgeting can be done on a local level. Work with your Grant Specialist in the Office for Sponsored Programs (OSP) to change the proposed budget to match the notice of award. This budget will need to be approved by OSP and the program officer.

Scenario 2
Budget cuts are due to agency constraints and are large (over 10%).

First, evaluate your project. Can the project be done for the awarded budget without shifting the scope?

-Yes. Work with your Grant Specialist to re-budget. Once a budget is drafted, matching the new funding level and approved by OSP, it can be sent to the program officer.

-No. Talk with your program officer.

- If the aims of the project can be cut back without significantly changing the scope, the project can probably proceed.   The revised aims and budget are to be submitted to the program officer for agency approval (Keep your Grant Specialist in the loop).
- If the aims are too intertwined and/or cannot be cut back without a significant change in scope, you might have to turn down the award. This option should never be exercised without fully discussing the situation and all other options with both the program officer and OSP, reaching a consensus that no other option is possible.

Scenario 3
Budget cuts are due to the review committee's recommendation.

In this case, the cuts are often large. Whether or not you agree with the findings, you will need to talk to your program officer. Typically, awards with this type of cut are contingent upon the PI conferring with the agency about the budget discrepancy.

Your program officer will be able to explain to you why the review committee cut the award and where the cuts were made. Once you have this information, you need to evaluate whether or not the project can be completed at the new funding level. If the aims and scope of the project can be completed, work with the Grant Specialist to draft a budget at the new funding level. Once approved by OSP, send it to your program officer. If the aims and scope of the project cannot be completed, further discussions need to take place with your program officer about a shift in scope or the hedging of some of the aims. If all this fails, the award may need to be declined (see Scenario 1, above).

Budget Reduction and Cost Share

Whenever re-budgeting is necessary and cost-share is mandatory, the cost-share also needs to be re-budgeted. The cost-share portion needs to be reduced in the same proportion as was the sponsor portion. If your budget was cut 10%, then 10% of the sponsor's funds would be cut and 10% of the cost-share should be cut.

III. Budget Management

Spending in Advance of Award Notice:

When it has been communicated by the sponsor that a particular project will be funded but the award instrument will be delayed, it may be appropriate to establish a grant fund to which allocable costs can be charged. The Advance Spending Authorization form, found at http://osp.ua.edu/internalforms.html, should be used for obtaining approval and a funding guarantee. While the federal government's standard Research Terms and Conditions (http://www.nsf.gov/awards/managing/rtc.jsp) state that the recipient in authorized "to incur pre-award costs 90 calendar days prior to award", they also state that "All costs are incurred at the recipient's risk (i.e., the Federal awarding agency is under no obligation to reimburse such costs if for any reason the recipient does not receive an award or if the award is less than anticipated and inadequate to cover such costs)." In addition, the terms and conditions do not apply to all programs and Sponsor and program specific rules related to advance spending should be followed. Advance Spending Authorization avoids cost transfers and potential misallocation of costs.

It is never appropriate to charge a grant or cost share fund for costs that are not allocable to it, even temporarily because another sponsored project agreement has not yet been received. Instead, the Advance Spending Authorization process should be utilized or charges should be applied, temporarily, to a departmental operating account and transferred when the award is received.

Original Budget:

The budget as awarded by the funding agency is followed by Contract and Grant Accounting (CGA) to establish the award in the University's accounting system, Banner. The sponsor's budget format, however, may not provide all the information needed for creation of the budget in Banner.   If not included in the sponsor approved budget, you can expedite establishment of the Grant by providing the following on the internal budget for CGA:

- Salaries - Any salaries need to be identified by category such as faculty, professional (non-faculty), graduate students, etc. in order to budget in the correct Banner account code (expense line). Remember an exception must be approved for charging the salary of clerical and/or administrative staff (see section I., above).   Only PI and Co-PI salaries need to be identified by individual. This is necessary in order to monitor for a change in effort that would require prior agency approval (25% or more reduction). Other categories can be presented in total.   Sponsored project funds are not budgeted by Position or Job.
- Travel – Domestic and foreign travel should be shown separately. If foreign travel is not specified within the budget and prior approval from the agency is required, the approval must

be obtained before the travel begins. Regardless of the funding source, UA travel policies must be followed and can be accessed at http://accountspayable.ua.edu/pages/travel-policies.html.

- Other direct costs – Other costs need to be identified in sufficient detail to budget them within the appropriate account code in Banner (e.g. lab supplies, consulting, subcontracts).
- Tuition – Although included as "other" in most sponsor budgets, tuition must be budgeted separately within Banner.
- Facilities and Administrative (F&A) rate – Please ensure the budget for F&A charges is calculated based on the appropriate account codes. If changes were identified in preparing the budget for Banner, F&A should be recalculated and adjustments should be made to appropriate categories to ensure the budget correctly adds to the amount awarded.

Revision of Budget and Program Plans:

Procedures

Departments are required to prepare their own budget changes in Banner. All budget changes to grant funds (2xxxx) are made using form FGAJVCD. Instructions for how to do a budget change in Banner can be found in the OSP Banner Training manual at http://osp.ua.edu/site/training.html (see pages 34-41).

Cost share funds (7xxxx) are managed differently, including additional UA required approvals. Please see the Cost Share Policies and Procedures for instructions on budget establishment and management: http://osp.ua.edu/policy_procedures.html.

Most grant fund (2xxxxx) budget revisions move funds from one expense line item (account code) to another. The TEXT page within Banner should give a thorough explanation for the budget revision; including why the budget change is necessary (see **Policy**, below, for requirements). All grant fund entries are routed into an approval queue for CGA. CGA then approves within Banner. At that point, the document is "posted" and will be reflected in Banner on FRIGITD. Some budget revisions, particularly those that affect F&A charges, can be more complex than others. Instructions for rebudgeting between expense lines (account codes) on which F&A is calculated (e.g. salaries, supplies) and those on which F&A is not calculated (e.g. tuition, equipment) can be found at: http://osp.ua.edu/budget_examples.xls.

Requirements

It is the responsibility of the PI to ensure that the request is accurate and that any agency approval is requested when needed.

If the text screen has sufficient explanation to support the appropriateness of the budget change, CGA will "approve" the budget change request. More information may be requested should it be needed, particularly for items such as changes to senior personnel, addition of equipment or foreign travel. Budget change requests for sponsored funds must include an adequate explanation which answers the following questions (include answers to the questions below on the TEXT screen within Banner so that the documentation will be available to support the change if audited):

- Why are funds available in the current expense line (Account Code)?
- Why are funds needed in the new expense line (Account Code)?

In addition, standard Federal Terms and Conditions for Research Grants, http://www.nsf.gov/awards/managing/rtc.jsp, state that the recipient must obtain the prior written approval from the Federal awarding agency before making any of the following project changes:

1. Change in scope or objectives (even if no budget revision)
2. Absence (> 3 months or 25% reduction in effort) or change of PI
3. Need for additional federal funds (clearly no Federal liability)
4. Transfer of a significant part of the research (e.g. subagreement)

Not all agencies have implemented and agencies are allowed to supplement the core set with agency specific, program specific, or award specific administrative requirements.   For example, NSF incorporated effective 7/1/08 on all new grants and funding increments BUT, added a prior approval requirement for "reallocation of funds budgeted for participant or trainee support costs"

If agency approval is required:

1. To request approval for budget revisions, the recipient shall use the budget forms that were used in the application unless the Federal awarding agency states in its Agency-Specific Requirements that a letter of request suffices.
2. Within 30 calendar days from the date of receipt of the request for budget revisions, the Federal awarding agency shall review the request and notify the recipient whether the budget revisions have been approved. If the revision is still under consideration at the end of 30 calendar days, the Federal awarding agency shall inform the recipient in writing of the date when the recipient may expect the decision.

Prior agency approval should be routed through your Grant Specialist in OSP and must include an explanation for the need for the change and what impact the change will have on the scope of the project.

If/when the revision is approved by the agency, OSP will notify the PI and CGA. If adequate information is available, CGA will modify the budget when the approval is received but may need more information from the PI/department. Including the details of the change, even if just for internal purposes, with the request will help expedite the process.

Budget Management Best Practices:

When in doubt, please contact CGA with any issues related to post award budget management.

Monitor Budgets
Throughout the life of the grant, expenditures and budgets should be reviewed frequently, ideally monthly and at least quarterly. Timely identification of the need for a budget change will ensure the necessary processes (including potential sponsor prior approval) can be completed before problems occur.

Monitor benefits, particularly near the end of an award, as the proposed budget is based on estimated rates (see Budget Preparation – Proposal, above, for more information) and an unanticipated deficit may require funding from unrestricted sources if funds are not available for rebudgeting from other expense categories within the grant fund.

Equipment and large supply purchases near the end of a grant raise questions of allocability. CGA will require additional documentation to support the allocability of equipment, or other questionable items, purchased within the last three months of a project.

Monitor Spending Rates

Sponsors consider expenditure rates to be an indication of project progress. If, for example, the project is half way through the period of performance but only 25% of the funds have been expended, the sponsor may question whether appropriate progress is being made, even if progress reports have been submitted.

Also, standard Federal Terms and Conditions for Research Grants, http://www.nsf.gov/awards/managing/rtc.jsp, require that the Federal sponsor be notified if the amount awarded is expected to exceed the needs for the project period by more than $5,000 or five percent of the Federal award, whichever is greater (unless an application for additional funding is submitted for a continuation award).

Fixed Price terms (payment is not subject to adjustment based on costs incurred) do not eliminate the need to follow cost accounting principles. A large residual, such as 25% or more, may indicate a change in scope, a shift of expenses to departmental or other sponsored agreements or falsification or negligence during preparation of the proposed budget. If there is a residual of 25% or more at the end of the project, CGA will require justification (e.g. explanation of what expenses were less than anticipated), verification that the sponsor was satisfied with the deliverable and an assurance that all expenses allocable to the project were charged to the project. If appropriate, a no cost extension may be granted at the end of a fixed price agreement. For example, if the sponsor allows for more time to complete the project or related activities will occur subsequent to the end of the project period and completion of the deliverable. Please contact OSP for further information.