

## BUDGET PREPARATION

The budget has two functions. First, it estimates, as realistically as possible, the cost of completing the objectives identified in the proposal. The sponsor will use the budget details to determine whether the proposal is economically feasible and realistic. Secondly, the budget provides a means to monitor the project's financial activities over the life of the project. In this way, it's possible to determine how closely the actual progress toward achieving the project objectives is being made relative to the proposed budget.

**Many sponsors (especially government agencies) provide either a form or a format for the budget. It is imperative to follow the agency's instructions explicitly.**

### Budget Responsibilities of the Research Administrator:

- Determine whether the budget conforms with the applicable cost principles of the sponsor
  - ✓ Review the actual Program Announcement (PA) / Request for Proposal (RFP)
  - ✓ Review the sponsor's guidelines (federal agency websites often have additional information)
- Determine whether the budget conforms with the costing policies of UVa by reviewing:
  - UVa's Cost Accounting Standards policy document <http://www.virginia.edu/sponsoredprograms/casguidelines.html>
  - UVa's Financial Administration Policies & Procedures <http://www.virginia.edu/polproc/>
  - Compliance with Sponsor Requirements <http://www.virginia.edu/polproc/pol/viiic1.html>
  - Consistent Treatment of Sponsored Program Costs <http://www.virginia.edu/polproc/pol/viiia6.html>
  - Budgeting Direct Costs of Sponsored Programs <http://www.virginia.edu/polproc/proc/8-14.html>

### Budget Development

- The budget is generally divided into two classifications: **direct costs** and **facilities & administrative costs** (also referred to as F&A, indirect, or overhead costs).
- See the Office of Sponsored Programs' document UVa Cost Accounting Standards Guidelines for a detailed description of policies and procedures for the consistent treatment of costs of sponsored projects as required by Federal Regulations:  
<http://www.virginia.edu/sponsoredprograms/casguidelines.htm>
- Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs per federal regulation <http://www.virginia.edu/polproc/pol/viiia8.html>. In other words, if a particular item, e.g., a photocopier, is considered to be an indirect cost (an item associated with overhead or administrative activities), then it must not be budgeted as a direct cost (unless exceptions are warranted, requested, justified and approved).
- The categories below under direct costs detail the items for which you should budget within the direct costs category of your budget proposal. Those not related to personnel costs (salaries, wages and fringe benefits) are often referred to as OTPS (Other Than Personnel Services).

## Direct Costs

- Definition
  - ✓ Costs incurred to support a project are treated as direct costs and are charged to sponsored projects when the costs can be specifically identified (1) to the project with relative ease and (2) with a high degree of accuracy and (3) are allowed by all terms and conditions governing a particular award.
  - ✓ In other words, direct costs are those expenses that are essential to the conduct of project, are specifically related to the objectives of the science, and which can be readily attributed and directly charged to a specific individual project.
  - ✓ See <http://www.virginia.edu/polproc/proc/8-14.html> for procedural information concerning the budgeting of direct costs in sponsored programs.
- Salaries and Wages
  - ✓ Include faculty, technicians, post-doctoral associates ("post-doc's"), graduate students, and other personnel required by the project, including in some instances, administrative personnel.
  - ✓ Salaries should be expressed in terms of an "effort" percentage, i.e., the salary requested should be calculated by multiplying the individual's institutional base salary by the percentage of effort on a the specific project.  
  
**9 month appointment example:**  
**monthly salary rate X % of effort X # of months**  
 $\$5,000 \times 50\% \times 9 \text{ months} = \$22,500$   
  
**12 month appointment example:**  
**annual salary X % of effort**  
 $\$125,000 \times 50\% = \$62,500$
  - ✓ Regarding student researchers, stipends and fellowships aren't salaries, and thus should be listed under the 'Stipend' (Other) category, not 'Salaries and Wages' category. Note: stipends may be allowable as direct costs on training grants only.
  - ✓ Some non federal sponsors have restrictions on allowable forms of compensation, such as tuition remission. Read the guidelines carefully.
  - ✓ Partial or full tuition costs are requested as payment to a graduate research assistant (GRA), relative to the percentage of effort spent on the grant; the quantity of tuition requested should NOT be included in the Salaries/Wages section, but in the "Other" section.  
*NOTE: Tuition may not be award subsidized for wage paid students*
  - ✓ Some federal agencies (such as NIH) impose salary caps or effort limitations, so it is crucial that the guidelines are carefully reviewed and followed.
  - ✓ See <http://minerva.acc.virginia.edu/provost/98Wage.html> for policies concerning rates of pay for students, research assistants/associates, faculty and other groups with special wage authorizations.
  - ✓ If the project is multi-year, include a 4% annual increase (3% if NIH, DOD) each July;  
**NOTE: Some grants (such as modular grants) may restrict salary inflation in subsequent grant years. Know the restrictions!!**
- Fringe Benefits
  - ✓ Fringe benefits (which include the cost of the University and State retirement programs, health insurance, group life insurance, social security, disability insurance, workmen's compensation, and unemployment compensation) are expenses directly associated with

employment and are applicable to all University salaries and wages. See <http://www.virginia.edu/sponsoredprograms/fringe.htm>

✓ **Rates for Grant Accounts for Fiscal Year 2005 - 2006:**

*(fringe benefit rates generally change each fiscal year)*

**Category One: Faculty Salaries** 27.3 %

\* includes faculty salaries paid over nine or twelve months

**Category Two: Classified Staff** 35.1 %

\* includes all classified salaries

**Category Three: Part-time Salaried Staff With Benefits** 8.5 %

**Category Four: Part-Time Salaried Staff Without Benefits** 4.2 %

**Category Five: Wage** 4.2 %

\* wages include hourly employees, 9-pay faculty payments made during June - August, amounts paid to students who are not registered during the summer, and overtime payments to classified employees

**Note:** The fringe benefit rate is not equivalent to the percentage deducted for a staff members pay.

• Equipment

- ✓ Include items necessary for the project; equipment is defined as a capital expenditure over \$2000. Be sure to specify unit costs. See <http://www.virginia.edu/pams/Guide.htm> for Procurement Services guidelines and policies.

• Supplies

- ✓ Include items necessary (unit cost under \$2000), which are **directly related** to the objectives of the project. Do NOT include office supplies, computer supplies or general purpose computer software - see <http://www.virginia.edu/sponsoredprograms/casguidelines.htm> for additional information regarding allowable expenditures.
- ✓ Consider the cost of biostatistics, cost of animals (contact the Vivarium: <http://www.med.virginia.edu/research/ccm/manual/admin.html>)

• Travel

- ✓ Travel should be treated as a direct cost of the grant or contract where such travel will provide direct scientific benefit to the program and is within specific sponsor restrictions.
- ✓ Domestic travel is considered to be travel within the United States and Canada
- ✓ Sponsors may have restrictions on foreign travel. Refer to the sponsor's program announcement, RFP, etc.
- ✓ See [www.procurement.virginia.edu/main/travel](http://www.procurement.virginia.edu/main/travel) for information on UVa travel policies and procedures.

• Consultants

- ✓ Consultants are individuals **outside the university**, whose expertise and skills will add value to the project; faculty or other institutional staff should not be listed as paid consultants on a project.
- ✓ Consultants are never listed in the Salaries & Wages section of a proposal's budget.
- ✓ Generally, consultant costs are expressed in per diem rates plus travel.
- ✓ Some sponsors, such as NSF, have per diem rate limits.
- ✓ Generally, consultant reimbursement is restricted to \$10,000 per year, where the relationship may be considered one of a subcontracting nature or procurement of services.

- ✓ See <http://virginia.edu/polproc/pol/viir12.html> for UVa policy/procedure on consulting.
- Subaward Costs
  - ✓ Note: Although the terms subaward and subcontract are often used interchangeably, subcontract is the most accurate term referring to: formal contractual agreements with participating institutions, organizations or individuals for the procurement of research collaboration and/or technical services under sponsored program projects
  - ✓ See the following websites for policy and procedural information concerning subcontracts
    - <http://www.virginia.edu/opra/subcontract.html>
    - <http://www.virginia.edu/polproc/proc/8-60.html>
    - <http://www.virginia.edu/polproc/proc/8-9b.html>
  - ✓ Some proposals represent a collaboration of work by more than one institution
  - ✓ Costs of such other institutional collaborations are represented in the budget as a single line item and are generally accompanied by a separate budget
  - ✓ The subaward total budget includes both direct and F&A costs in the single line item on the prime institution's proposal budget
  - ✓ Most institutions require a subawardee institutional official's signature before submission to the collaborating prime institution
- Other
  - ✓ May include such items as: animal care per diems; human subject incentive payments; publication charges, etc.
  - ✓ In-State and Out-of-State tuition and fees charged to regularly enrolled students should be budgeted and charged as a direct cost of TRAINING grants. Charges to this cost category are frequently subject to specific program restrictions and reference should be made to the sponsoring agency policy guidelines to determine allowability of charges.
  - ✓ Services and Service Centers - within the university are various centers from which a variety of services may be purchased to support research activities; the services have set fees/fee schedules which aid in the estimate of budget costing. Some examples include:
    - ✓ The Chemistry Storeroom from which a variety of chemicals and research supplies may be purchased:
      - <http://www.procurement.virginia.edu/main/departments/Chemstores.html>
    - ✓ The Technical Services Facility within the Physics department, which include a Machine Shop, Electronics Shop, and the Computer Facility:
      - <http://www.phys.virginia.edu/Administration/TSF/>
    - ✓ Other research and service centers may be found at the following websites:
      - ✓ <http://www.virginia.edu/rsch.html>
      - ✓ <http://www.med.virginia.edu/medicine/admin/grants/INSIDE.htm>

**Facilities & Administrative Costs** (also referred to as "F&A" or indirect costs)

- Definition
  - ✓ General institutional expenses; "overhead"
  - ✓ Costs incurred for common or joint objectives
  - ✓ Cannot be identified readily and specifically with a particular sponsored project
  - ✓ See this website for UVa's Financial & Administrative Policy on Indirect Costs:
    - <http://www.virginia.edu/polproc/pol/viid1.html>
  - ✓ Not a specifically budget figure, but a calculation based upon a federally negotiated rate unique to UVA

- Application of Indirect Costs Rates (taken from UVa's Financial & Administrative Policies Manual Policy VIII D. 3. - Application of Indirect Costs Rates)

#### Overview

The general policy of the State of Virginia and the University is to recover full indirect costs. This policy is consistently applied except, where there are limitations imposed by the sponsor, where a private foundation sponsor has no formal policy on the reimbursement of indirect costs, or where the uniqueness of the project warrants exceptional action. Provisions for the recovery of indirect costs are as follows:

#### Federal Sponsors

Federal sponsors support full indirect cost with minor exceptions. Where the Federal sponsor's formal indirect cost recovery limitation is less than the University's approved rate, the sponsor's limited rate shall be applied. Some examples of Federal limitations are training grants and research career development awards which limit indirect cost recoveries to 8% of total direct costs.

#### Non-Federal Sponsors

Non-Federal sponsors include Commonwealth of Virginia agencies, local governments, industry and foundations. Where these sponsors support full indirect cost recoveries, the University will apply its approved indirect cost rate. However, if a sponsor has a formal written policy to limit indirect cost recoveries, the University will apply the lesser of the sponsor's limited rate or the University's approved rate. Where foundations have no formal policy concerning indirect cost recoveries, the University will apply the appropriate rate.

#### Exceptions

Exceptions to the application of full indirect costs rates within the University policy are contingent on conditions established by the University and approved by the State Department of Accounts. The conditions for such exceptions are as follows:

- The academic merits of the program are exceptional,
- The program is part of an unusually important instructional or service role within the overall mission of the University of Virginia, and
- Available funding is very limited, or
- The application of the full rate would result in an inequitable recovery as in the case of a conference or institute involving a short period of time.

For any of the above exceptions to apply, a request for deviation from the standard rates must be forwarded in writing with the proposal through the respective department head and dean, to the University Comptroller. A discussion with the Vice President for Research, the dean and principal investigator will be held to resolve the exception request. Note: at the time of publication, this specific procedure is under review. Contact OSP at 924-4270 to inquire about any changes to this procedure.

- Negotiated Indirect Cost Rate
  - ✓ There is a formula provided by federal government which allows universities to calculate an amount which can be included in budget proposals, and which corresponds to the indirect costs incurred for research activities. The cost of operating and maintaining buildings, use of equipment, general and departmental administrative expenses, sponsored projects' administration, and library costs are usually considered indirect costs. These costs are essential in the support of sponsored program activities. Indirect costs differ from direct costs in that indirect costs cannot be broken down and directly

charged to a specific program. An institution's negotiated indirect (or F&A) cost rate agreement will normally have a different rate for on-grounds projects than for off-grounds projects.

<b>Indirect Costs as per Department of Health and Human Services (DHHS)</b> Rate Agreement Updated 5/23/05 Approved for July 1, 2005 - June 30, 2006	<b>On-Grounds Research</b> (usual rate)	<b>Off-Grounds Research</b> (with prior approval and justification)
Organized Research	52.5%	26.0%
Public Service and Other Activities	32.8.0%	26.0%

- ✓ NOTE: Sponsored research will be classified as taking place "off-grounds" if the research takes place (or predominantly takes place) in a facility not owned by the University and the "off-Grounds indirect cost rate applies. If the work has been approximately evenly divided between "on-Grounds" and "off-Grounds," then the program will use both rates in the same proportion. Requests for approval to use "off-Grounds" indirect cost rates must be made in writing to the University Comptroller.
- ✓ MTDC Base or the "Modified Total Direct Cost" base is all direct sponsored program costs MINUS equipment, subcontracts over \$25K, tuition remission, patient care, capital expenditures, rental costs, scholarships and fellowships, etc.
- ✓ Use the table below to identify the appropriate indirect cost rate to use in the budget proposal:

• **Calculation of Indirect Costs**

- ✓ Calculate the Modified Total Direct Cost (MTDC) base by subtracting the excluded costs listed below from the (direct costs') budget total
- ✓ Multiply the result (MTDC base) by the appropriate indirect cost rate to find the indirect cost amount to include in your proposal budget.
- ✓ The MTDC base consists of the Total Direct Costs less costs budgeted for:
  1. Equipment and capital expenditures
  2. Patient care costs for services provided by a hospital or clinic, but not the laboratories of academic departments or organized research units or salaries to personnel providing the services
  3. Tuition and fee remission
  4. Scholarships and fellowships paid directly to university students, but not as salaries and wages, when allowable under the terms of the award
  5. The portion of each subgrant, subcontract and subaward modification that is in excess of \$25,000. Basically, UVa indirect costs are assessed on the first \$25,000 only of each subaward. Renewal of a prime award generally required the issuance of a new subagreement, and the indirect costs are charged to the first \$25,000 of the renewed subagreement. The indirect costs charged by a subcontractor or subgrantee are not limited by this exception.
  6. Rental costs for off-site facilities

