# Essentials of Budget Development & Avoiding Pitfalls

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# Objective

To help you navigate some of the thornier aspects of budget development by examining specific cost categories, commonly seen problems, and strategies to mitigate or avoid pitfalls



# **Topic Areas**

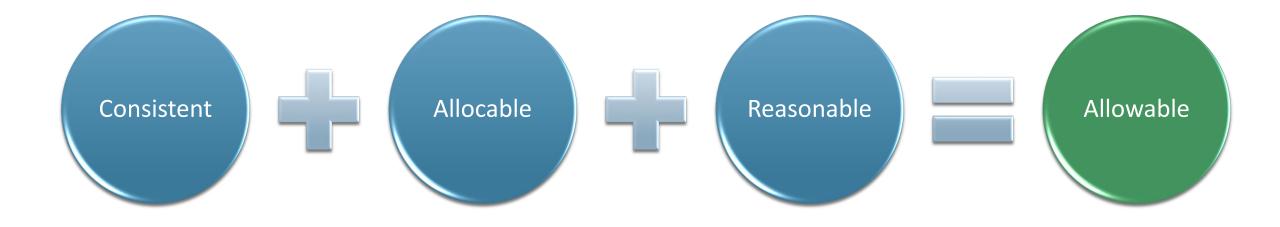
- The Cost Principles
- "Personnel"
  - Employees
  - Other Significant Contributors
  - Consultants/Contractors
  - Subawardees
- Indirect costs

## OSP Resources for Budgeting Fundamentals

- 2020 Research Symposium presentation "Proposal Budgeting Fundamentals"
- AWARD LIFECYCLE section of website, particular the Budgeting Concepts & Budget Categories sections under "Proposal Creation"
- "Financial Concepts" course as part of **Carolina RAPiDS**
- Budgeting sections in the **Research Proposal Playbook**
- OSP's Operating Standards & Procedures, Sections 300.05-300.09
- SPO <u>https://www.med.unc.edu/spo/</u>



#### Essential Background: The Cost Principles





#### **ALLOWABLE**

Necessary to the project, conforms with sponsor regulations *and with UNC financial policy* 

Sponsor has awarded \$50,000 to support the costs of a research conference. The sponsor has said the money cannot be used to pay speaker honorariums but placed no other limits. When charging the grant for catering costs, can you include wine served at dinners?



#### **ALLOCABLE**

Cost can be directly assigned as benefitting the specific project

Dr. Z has several grant funded projects open to study various complications of a particular disease. The freezer storing samples for Project 1 is dying, but only Project 2 has enough budget to make that expensive of a purchase. Can the freezer be bought with Project 2 money?

#### REASONABLE

A "**prudent person**" would consider the cost reasonable and necessary in similar circumstances

Professor X is traveling to NYC to present a paper based on research award data at an academic conference in June. Is it reasonable to budget staying at Prof X's favorite hotel with a daily rate of \$500/night (excluding taxes)? The hotel isn't hosting the conference.



#### CONSISTENT

Uniform treatment of cost types throughout UNC regardless of funding source

Your department administers multiple post-doctoral fellowships every year. Some are NIH funded, but others are sponsored by a non-profit foundation and one by a corporation. Do you need to budget Fringe Benefits for any of the Fellows?



# Cost Category: Personnel

#### **Common Pitfall:** Determining salaries

- Infoporte is used to determine Salary and Fringe rate for a UNC-CH employee at the time of application. (If individual is not listed in Infoporte, they are not a UNC-CH employee)
- Use the <u>Total Salary</u>
- Salary escalation of <u>up to 5%</u> is allowed in the first year of the budget.
- Other items that can be confirmed in Infoporte
  - Fringe rate to be used
  - FTE
  - Service Period
    - 12 Months = effort to be reported using CM
    - 9 Month = effort to be reported using AM
  - BONUS INFORMATION: Infoporte is used to determine PI Eligibility



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# Cost Category: Personnel

#### Common Pitfall: Miscategorizing "Other Significant Contributors"

Individuals committed to contribute to the scientific development or execution of the project, but who are not committing any specified measurable effort. These individuals are typically presented at "**effort of zero person months**" or "**as needed**."



# Cost Category: Personnel/OSC

#### Example

Dr. Janice Smith - \$0 charged to the grant (Other Significant Contributor) As a leading authority in this field Dr. Smith will provide consultation and expertise when needed in designing this study including study aims, methods, and analysis.

She will also aid in supervising the Study Coordinator, coordinating microbiological sample/cultures, and publishing results.

She will take a lead role as an epidemiologist in performing all statistical and study analyses. She will also participate in all project meetings, including weekly meetings with UNC investigators, and meetings with the Sponsoring University's PI.



# Cost Category: Personnel/OSC

#### But it's \$0, why does that matter for my budget?

- Effort must be properly recorded & reported
- "Voluntary" Cost Share at proposal time becomes mandatory at award time
- If Cost Share isn't properly captured we risk having to repay the award

**Remember: Effort not paid from the grant must be tracked as cost share!** 

#### Common Pitfall: Budgeting the wrong people as "CONSULTANTS"

There are tax, policy, and contractual reasons that UNC needs to get this determination right. Corrections at award time can effect the award's bottom line and require additional time and paperwork

**Budget risk:** More money is needed to complete the proposed. How will the PI make up the difference?

- Decrease UNC's portion of the budget to be able to fully fund a required subaward?
- Offer a subaward totaling the original dollar amount?
- Come up with a new plan to get that piece of work done?



Provides specific services or ancillary goods for a **limited period** necessary to conduct their portion of the research effort. Contractors are **not directly involved with the scientific direction of the project**, and they normally provide the same goods or services in a consistent manner for all their business customers, and they would **not be responsible for the research results** 

- No state employee can be paid as a CONSULTANT, even if they are only providing limited (consulting) services to the project.
- Consultants traveling on behalf of a project are subject to UNC travel subsistence allowance limitations
- External Faculty: Often must be paid via SUBAWARD instead Exceptions can occur, but will often require a letter from their employer allowing them to participate in the research as an independent contractor



#### **Resources: Independent Contractor Questions**

1. Did this person substantially contribute to the design of the study?	O Yes	🔵 No
2. Is this person conducting any experiments or activities?	O Yes	🔵 No
3. Is this person directly involved in or have control over the collection of data?	O Yes	🔵 No
4. Is this person involved in the analysis of the data?	O Yes	🔵 No
5. Is the person going to be an author on any public dissemination such as a manuscript, paper, presentation, abstract, etc. coming from this research project	Yes ?	🔵 No

#### **Resources: Available on OSP website**

- 2022 Symposium présentation (recorded) "Subrecipient v. Contractor"
- Independent Contracter & External Key Personnel Questionnaire (under Forms)
- Subrecipient vs Consultant Guidance document (pdf file, includes sample document needed from external faculty's employer to permit consulting rather than subaward)
- Policy: Office of Sponsored Programs 500.12 Consultants



#### **Common Pitfall: Choosing the right rate**

#### On campus vs off campus

OFF-CAMPUS DEFINITION: For all activities performed in facilities not owned by the institution or to which rent is directly allocated to the project(s) the off-campus rate will apply. Grants or contracts will not be subject to more than one F&A cost rate. If more than 50% of a project is performed off-campus, the off-campus rate will apply to the entire project.

Off campus A= within 10 miles Off campus B = outside 10 miles



#### Common Pitfall: A sponsor says they won't pay UNC's standard rates

#### When is it OK without further action?

Sponsor is FEDERAL or NON PROFIT, and the lower rate is published so it is publically known at proposal time.

#### When is further action needed?

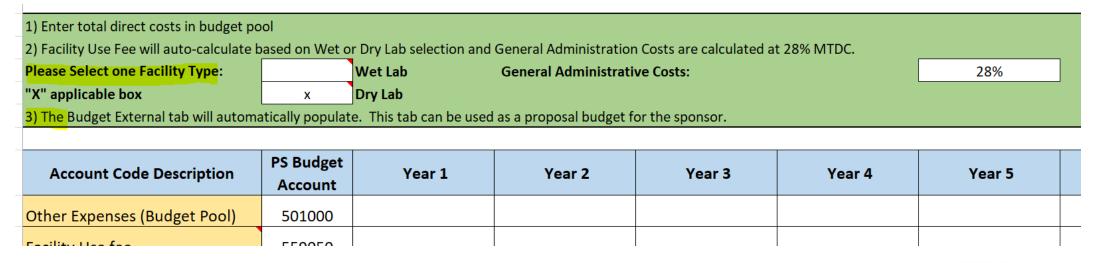
Sponsor is NON PROFIT but didn't publish their lower rate: use OSR-FA-Waiver-Non-Profit.pdf on website.

**BUT... if FOR PROFIT** sponsor wants to deviate from our standard rates...see next slides



# UNC cannot just absorb the uncollected F&A dollars a For Profit sponsor doesn't want to pay

**I. Facility Use Fee budget model**. Detailed and non-detailed versions available. Recoups part of the missing F&A by implementing a 'facility use fee' as part of the direct costs, but also **requires** use of 28% general administrative cost in lieu of normal F&A



2023 SYMPOSIUM

#### Common Pitfall: For Profit sponsor unwilling to pay UNC's standard F&A rates

**II. OSR-FA-Waiver\_For-Profit.pdf** Unlike the waiver for non-profit sponsors, this form Requires the department to specify how the missing dollars will be paid.

cost of Project at of	NC-CH F&A Rate		
Direct Cost Initial Year:		Direct Cost All Years:	
Indirect Cost Initial Year:		Indirect Cost All Years:	
TotalCost Initial Year:		Total Cost All Years:	
UNC-CH Full F&A Rate:		Proposed F&A Rate:	
Total Amount Lost due to reduction (All years):			
Internal Funding So	urces		
Internal Funding So Account		Account Description	Amount
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#### **Resources: Available on OSP website**

- OSP "Information Sheet" listing the various rates
- Pdf of UNC's official, federally negotiated F&A Rate Agreement (includes key exempt categories)
- OSP Policy 300.09



# Summing Up: Best Practices to Avoid Pitfalls

- Think through the details as much as possible and keep UNC's spending policies in mind
- Think about justification of items even if a sponsor isn't asking for a Budget Justification document
- Utilize the many resources available on the OSP website including guidance documents, templates and checklists
- Follow UNC IPF submission deadlines to allow for full review and feedback



# Questions?



THE UNIVERSITY of NORTH CAROLINA at CHAPEL HILL