

# SBIR Budgeting



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# SBIR Budgeting

1. Cost Considerations: Cost Principles and the four "tests"
2. Differentiating direct costs from indirect (Facilities and Administration, F&A) costs
3. Preparing the budget - specific costs and categories of costs
4. Financial and business management systems



# Cost Principles

Cost Principles establish standards for allowability of costs, provide detailed guidance on the cost accounting treatment of costs as direct or F&A (indirect) costs, and set forth allowability principles for selected items of cost.



# Cost Principles, Continued

- Cost Principles for Commercial Organizations: 48 CFR subpart 31.2 (Federal Acquisition Regulation)
- Cost Principles for Educational Institutions: OMB Circular A-21
- Cost Principles for Non-Profit Institutions: OMB Circular A-122



# The Four "Tests"

- Reasonableness
- Allocability
- Allowability
- Consistency



# Reasonableness

A cost may be considered reasonable if the nature of the goods or services acquired or applied and the associated dollar amount reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.



# Reasonableness - Continued

The cost principles address the following considerations:

- Whether the cost is generally necessary to operations or the grant's performance
- Whether the recipient complies with their own established policies
- Whether individuals expending Federal funds acted with due prudence



# Allocability

A cost is allocable to a specific grant, function, department, etc., known as a cost objective, if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received or other equitable relationship.



# Allocability - Continued

- A cost is allocable to a grant if:
  - The cost is incurred solely in order to advance work under the grant
  - It benefits both the grant and other work of the company (including other grant-supported projects)
  - It is necessary to the overall operation of the company and is deemed to be assignable, at least in part, to the grant



# Allowability

- Applicable cost principles establish standards for allowability of costs and set forth allowability principles for selected items of cost
- Applicability of a particular set of cost principles depends on the type of organization making the expenditure
- In order to be allowable costs must also conform with agency specific limitations and exclusions as contained in the terms and conditions of award



# Consistency

Grantees must be consistent in assigning costs to cost objectives.

Although costs may be charged either as direct or indirect, depending on their identifiable benefit to a particular program, they must be treated consistently for all work of the company under similar circumstances, regardless of the source of funding.



# Direct Costs

- **Direct Costs** - costs that can be identified to a specific project or that can be assigned to such projects relatively easily and with a high degree of accuracy
- Typical direct costs include, but are not limited to, salaries, travel, equipment, and supplies directly benefiting the grant



# F&A (Indirect Costs)

- **F&A (Indirect Costs)** - costs that cannot be identified to a single project OR for which it is not cost effective to identify to a single project
- Typical F&A costs include, but are not limited to, facilities operation and maintenance costs, depreciation and administrative expenses



# Budget Preparation

An applicant's requested budget is reviewed for compliance with the governing cost principles and other requirements and policies applicable to the type of funding, the type of recipient, and the type of award.

- Accuracy of mathematical computations
- Sufficient detail for proposed costs
- Materiality of proposed costs



# Budget Cost Elements Personnel

Name, Role on Project, Type appointment,  
Effort on project, Salary Requested

Do proposed hours for any individuals exceed the direct work year?

Are proposed salaries supported by source documents (a recent payroll run or a recent personnel action form) for each proposed employee?

Is the proposed labor appropriate for the scope of work? (Obtain input from appropriate officials)

Is any of the proposed labor also charged as indirect?



# Fringe Benefits

Allowances and services provided by the organization to its employees as compensation in addition to regular wages and salaries. Fringe benefits are appropriate charges to grants and are allowable to the extent that they are:

- Reasonable
- Required by law and or employer/employee agreement
- In accordance with established policy
- Treated consistently



# Consultants

Fees paid by an organization for services by experts or specialists in a field who are not employees of the proposing organization.

Consultants should be used when their expertise is essential to the project.

Documentation maintained by the grantee should include the name of the consultant; the nature of the services rendered and their relevance to the grant; the period of service; the basis for calculating the fee paid; and the amount paid.



# Equipment

Equipment may generally be classified as either "Project Specific" or "General Purpose"

Project Specific equipment is defined as equipment which directly facilitates the purpose of and is an integral part of the activities of a grant.

General Purpose equipment includes items such as office equipment and furnishings. Typically, the cost of general purpose equipment is recovered as depreciation through application of the F&A Rate.

Check for compliance with agency specific guidance regarding the purchase and disposition of equipment



# Supplies

Are supplies consistently treated as direct costs on other projects?

Are the proposed supplies reasonable for the scope of work?

# Subcontracts

Subcontract costs should be proposed in accordance with the governing cost principles

F&A (indirect costs) on subcontracts are proposed as direct costs of the grantee



# Travel

Costs incurred for project related travel.

Budget costs in accordance with the grantees established travel cost reimbursement policy.

If there is no written travel policy, Government policies may/should/shall be used as a basis for charging travel costs to the grant.

Check for agency specific requirements regarding travel costs and approval.



# F&A / Indirect Costs

Check the agency specific requirements and award guidelines for:

- Allowability
- Limitations
- Rate Negotiation Requirements



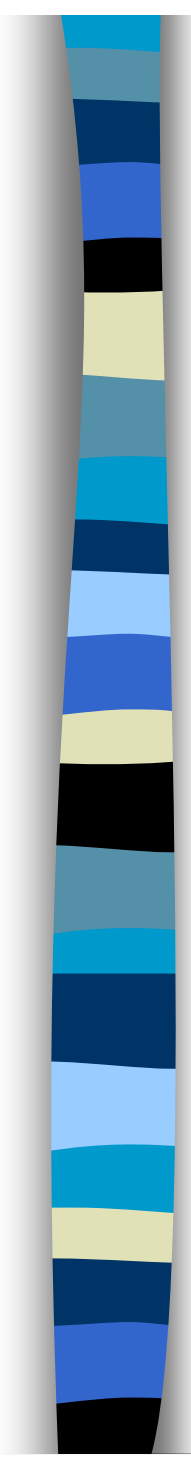
# Rate Negotiation

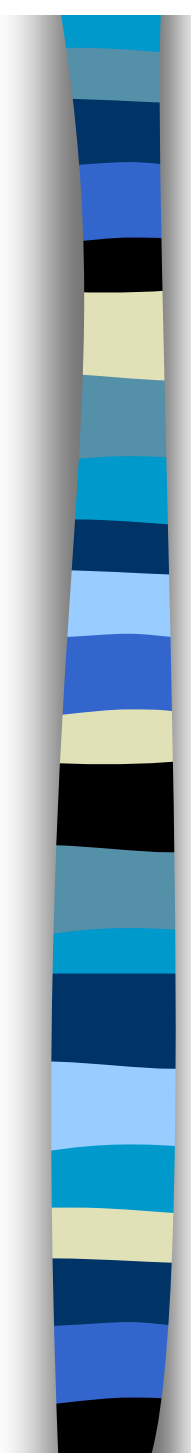
- Indirect Cost Proposals must be prepared in accordance with the applicable cost principles and guidance provided by the cognizant agency
- Once established - use the correct rates, and apply the rates to the appropriate base

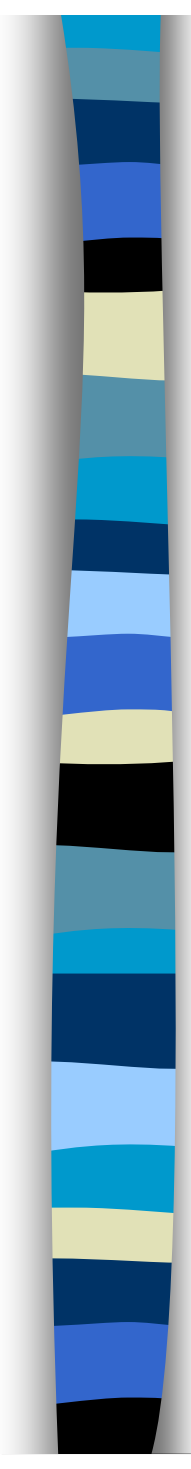


# Financial & Business Management Systems

The standards and requirements for a financial management system are essential to the grant process. The Federal Government cannot support research unless it has assurance that its funds will be used in an appropriate manner, adequate documentation of transactions will be maintained, and assets will be safeguarded

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- **Accounting Records** - Records must identify the source and expenditure of funds, unobligated balances, assets, liabilities and income
  - **Internal Control** - Effective control and accountability must be maintained. Property and other assets must be adequately safeguarded and must be used solely for authorized purposes
  - **Budget Control** - Actual expenditures must be compared with budgeted amounts

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- **Allowable Cost** - Applicable cost principles, agency program regulations and the terms of grant agreements must be followed in determining reasonable, allowable and allocable charges to grants
  - **Source Documentation** - Accounting records must be supported by source documentation such as cancelled checks, paid bills, payrolls, time and attendance records, contract and sub grant award documents, etc.

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- **Cash Management** - Procedures must be in place for minimizing the time elapsing between the transfer of funds from the awarding agency and disbursement by the grantee