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OVERVIEW

What is the purpose of a budget?
A budget is a careful and detailed estimate of the expected costs of a project. It is presented to a potential funder/sponsor so that the funder knows how much the project will cost. It is extremely important to capture all possible project costs so that the sponsor pays these costs. If the sponsor does not pay all of these costs, Penn State has to pay for them using its general funds. The two sources of general funds in 2012-2013 were student tuition and fees (78.6%) and the appropriation provided by the Commonwealth of Pennsylvania (14.0%). In essence, if a sponsor is not charged the full cost of a project, the unpaid cost will be shifted to students. This is an unacceptable outcome at Penn State.

Is there a difference between the budget for a contract and the budget for a grant?
No, but there is a difference in the expectations and parameters of these two types of agreements. The Office of Sponsored Programs (OSP) defines a contract as the most formal type of award made to the University which identifies specific obligations for both the sponsor and recipient. Under a research contract the sponsor specifies in detail the research topic and the methods for conducting the research. Contract characteristics include the stipulation of specific deliverables, methods to be used by the sponsor to monitor the progress of the project, requirements for technical reports, and requirements for detailed financial reports. A grant is a type of financial assistance awarded to an organization for the conduct of research or other program as specified in an approved proposal submitted in response to a Request for Proposal (RFP). A research grant is used when the awarding office anticipates no substantial programmatic involvement with the recipient during the performance of the activities.

Where can I find out what different budget terms mean?
Definitions and explanations of budget and related terms are provided in the Research Administration Glossary. [http://www.research.psu.edu/osp/prepare-proposals/proposal-guides/research-administration-glossary#c](http://www.research.psu.edu/osp/prepare-proposals/proposal-guides/research-administration-glossary#c).

What are cost accounting standards (CAS)?
Cost accounting standards establish consistent methods for contractors to estimate, allocate, record, and report costs for federally funded projects. The use of consistently applied definitions and standards is designed to prevent such problems as over-charging on some cost items and double counting costs in a budget. These standards are specified in OMB Circular A-21. They are applied at Penn State as explained in Policy RA01 Determining the Allowability, Allocability, and Reasonableness of Costs on Sponsored Projects. [http://guru.psu.edu/policies/ra01.html](http://guru.psu.edu/policies/ra01.html).

Where can I find a budget template to use in estimating my project budget?
Click here for a basic budget template. [http://www.campuses.psu.edu/Basic_Budget_Building_Blank_spreadsheet.pdf](http://www.campuses.psu.edu/Basic_Budget_Building_Blank_spreadsheet.pdf). The University College Grants Manager can assist with the development of the project budget (see below: Whom do I contact for help preparing a budget?).
I would like to estimate my budget costs higher than I believe they will be in case my budget is cut. Is 10% a good estimator to use?
Funding agencies expect researchers to submit a budget that is a good-faith estimate of the actual anticipated costs of a project. It is an unacceptable practice to deliberately over-estimate a budget because it misrepresents the actual anticipated project costs.

ADJUSTING FOR COST INCREASES

How can I adjust my budget for cost increases over time? Is there a way to adjust for inflation for a project that will last two or more years?
When estimating a multi-year budget, it is reasonable to expect salaries, wages and some other costs to increase. To establish a consistent approach across the University to adjust for such reasonable and fair increases, the Penn State Corporate Controller establishes standard percentages to estimate future increases in (a) all costs except tuition, and (b) for tuition, which are referred to as “inflation factors.” The inflation factors are set at the start of each fiscal year and remain in effect for the entire fiscal year unless changed by the Corporate Controller’s office. The current rates are available on the Office of Sponsored Programs’ website.
http://www.research.psu.edu/osp/documents/rates/Inflation-Current

EMPLOYEE COSTS

How do I estimate faculty salary for the academic year?
Salary reimbursement for full-time personnel is calculated as percentage of effort (total effort = 100%), not by the number of hours worked. This requires an honest estimate of the amount of effort in your typical work week that will be dedicated to the project.
Example: Dr. A is including in the budget a release from teaching one course per academic year to provide more time for the sponsored project. Dr. A has a 36-week contract and a 3:3 teaching load for the academic year. The 3:3 load is equivalent to 75% effort, with the remaining 25% effort expended on research and service. Thus, each course equals 12.5% effort (75% ÷ 6 courses taught per year = 12.5%). Dr. A will ask the grantor to reimburse the University for 12.5% of her salary per year of the project.

How do I estimate faculty salary for work done during the summer?
A faculty member on a 36-week contract also can budget for work to be completed in the summer. Summer salary reimbursement is not calculated using percentage of effort as is done for the academic year. One summer month of work on the project is included in a budget as one-ninth of the faculty member’s academic year salary. Salary reimbursed after July 1 of any given year is inflated by Penn State’s standard cost of living/inflation factor as explained above.

Is there a limit to the amount of my summer time I can include in my project budget?
It is technically allowable within University College to budget for three months of summer work, including summer faculty salary reimbursement. However, it is not recommended. A faculty member who commits to three summer months of a sponsored project is not allowed to do anything else during the summer but work on that project. This means there can be no days off, no vacation, no research on other projects, no writing about other projects, no conferences other than ones related to the sponsored project, and no time spent on preparing course notes or syllabi.
for the upcoming academic year. A faculty member willing to abide by these strictures will be asked to prepare and sign a memo to that effect for the project files.

**How do I estimate payments for graduate assistants?**
A table delineating graduate assistant stipends by appointment (two-semester, one-semester, monthly), grade and availability (quarter-time, half-time, three-quarter time) is provided in GURU (https://guru.psu.edu/gfug/appendices/APP05.html). This information is updated at the start of the University’s new fiscal year. Graduate assistant stipends for multi-year proposals also are increased by the University’s standard cost-of-living factor. (See **Adjusting for Cost Increases** above.)

**How do I estimate costs for wage-payroll (hourly) employees?**
Often projects require more work than a principal investigator and co-PI can do. In such situations, the PI may enlist the assistance of promising undergraduate students. There are no hard-and-fast rules for budgeting for wage-payroll (hourly) employees. A judicious estimate of the time required for the project should be based on the number of hours per week the PI will need assistance, multiplied by the number of weeks worked in each academic year. For summer work, the formula is simply number of hours per week multiplied by the number of weeks worked. There also is no standard hourly wage. However, a PI should plan to pay above minimum wage to make the opportunity attractive to students who may need to work to pay their educational and personal costs. Since July 2009 both the federal and Pennsylvania minimum wages have been $7.25/hour.

**How do I include subcontractor costs in my budget?**
A co-PI at another institution (i.e., outside Penn State) assigned a defined portion of the proposed research is considered a subcontractor in a Penn State budget. Your co-PI should develop his or her own budget in conjunction with, and approved by, his/her home institution. Because of the administrative burden of issuing and administering the subcontract, Penn State receives indirect costs on the first $25,000 of the subcontract budget. If the subcontract is for more than $25,000, no indirect costs are assessed on the remainder.

**What are fringe benefits? Do I have to include them in my budget?**
Fringe benefits are the “extras” the University pays on behalf of its employees (medical insurance, retirement, Social Security/Medicare, group life and disability insurance, workers’ compensation, etc.). Every classification of employee (full-time, wage/payroll, graduate student, and undergraduate student) is provided with some fringe benefit(s). Because this is a real cost to the University, fringe benefits must be included in the budget to the sponsor. Fringe benefits are calculated as a percentage of the budgeted salary. The four different employee classifications each carry a different rate that changes with the new fiscal year. Current rates are published on the Office of Sponsored Programs’ website. http://www.research.psu.edu/osp/documents/rates/fringe-current.pdf.

**INDIRECT COSTS**

**What are indirect costs? Why do I have to include them in my budget?**
Indirect costs, also referred to as “Facilities and Administrative” or “F&A,” are project costs that cannot be easily calculated, such as routine levels of clerical and/or administration support. These costs, on a per-project basis, are small, but real, and therefore should be recouped from the sponsor and not from Penn State’s general funds budget. Included in indirect costs are percentages for utilities, space, salaries of Sponsored Programs and Research Accounting employees as well as salaries of staff assistants and administration, the library, office supplies, and other general-use items. The indirect cost rate varies according to type of project (research or continuing education/instruction, on-campus or off-campus) and is calculated according to a precise formula mandated by the federal government. The rate, shown as a percentage of project costs, is negotiated with, and approved by, an agency of the federal government. In Penn State’s case, this is the Office of Naval Research. These rates are available on the OSP web site. http://www.research.psu.edu/osp/documents/rates/FA-Current.

When can I include charges for administrative or clerical salaries?
If the administrative or clerical support will be substantially greater than routine levels of support, these expense may be included in a budget with a budget justification provided. Examples include the need for support for making extensive travel and meeting arrangements, or if significant staff support will be needed for a large mail survey.

Are there any funding agencies which do not pay indirect costs?
Unless specific project guidelines state otherwise, the mandated indirect cost rate will be used on all proposals to federal agencies and on any budget going to a sponsor that is itself funded by a federal agency (referred to as “federal flow-through”). If a project is funded solely by Commonwealth of Pennsylvania monies, the rate is not applied, unless allowed by the guidelines. Proposals to agencies (including private foundations) without guidelines covering indirect cost reimbursement policy will include indirect costs in the budget unless a waiver is received. Contact the University College Grants Manager to request a waiver from the Office of Sponsored Programs (for research proposals) or the University Controller’s Office (for continuing education or instruction).

Are fringe benefits and indirect costs the same thing?
No. Fringe benefits and indirect costs are completely different and are calculated separately. The only attribute they share is that they are calculated as a percentage of something else. In the case of fringe benefits, it is a percentage of salary or wages; in the case of indirect costs, as a percentage of direct costs. The two terms are never used interchangeably.

BUDGET JUSTIFICATIONS

Why are budget justifications required?
All items included in a budget must be directly related to the proposed project. The budget justification statement explains how each item included in the budget will be used. The justification must provide enough detail to permit an evaluation of the accuracy of the estimated cost and its relevance to the project.

Is there a way to justify the inclusion of items such as office supplies and telephone charges in a budget?
Since routine usage of many items is covered under F&A as explained above, costs such as office supplies and telephone charges may be included in a budget only if they will exceed routine levels of use while the project is underway. If usage beyond routine levels is anticipated, it must be explained in the budget justification statement. A justification must be provided when charging for any cost that normally would be considered F&A.

**Are there any limitations on what can be included in a budget?**
There are many types of expenditures that cannot be included in a budget; these are referred to as “unallowable costs.” These types of expenditures are not related to the purpose of the contract or grant, such as student activity costs, alumni activities, and fundraising. For a detailed discussion, review Guideline FNG05 Expenditures Guidelines for Costs Not Allowable Under OMB CIRCULAR A-21 and Attachment B- Unallowable Cost Provisions. [http://guru.psu.edu/POLICIES/FNG05.html](http://guru.psu.edu/POLICIES/FNG05.html). Visit the OSP Develop a Budget site for additional information. [http://www.research.psu.edu/osp/prepare-proposals/develop-budget](http://www.research.psu.edu/osp/prepare-proposals/develop-budget).

**WHERE TO FIND HELP**

**Whom do I contact for help preparing a budget?**
The University College Grant Manager will prepare a project budget based on the design of the project and the guidance of the PI. To contact the Grant Manager, call 814-865-6014 or email llw13@psu.edu.