

**TCE
POLICIES AND PROCEDURES**

DEPARTMENT: Finance

SUBJECT: Grant budget policies

NO.: TBD

PURPOSE: To establish policies that guide grant makers, applicants and grantees when developing and modifying grant budgets.

APPROVED: /s/ _____
Vice President, Finance & CFO Date
Dan DeLeon

EFFECTIVE DATE: January 14, 2009

REVISION DATE: June 10, 2010

1) Indirect Costs

a) Indirect costs are those expenses that are necessary for the general operation of an organization and are not specifically identified by TCE with a particular grant, contract, project or activity. TCE allows indirect costs up to 15 percent of direct costs to a maximum of \$200,000, exclusive of subcontracts, capital improvements, renovations and equipment purchases. TCE is not bound by any federally-recognized indirect cost rate or by any other funder's indirect rate, and makes its own determination of allowable direct and indirect costs based only on TCE policies and practices.

Among items that TCE classifies as indirect costs are:

- Facilities-related expenses such as depreciation and use allowances – including rent – on buildings and equipment; interest on debt or insurance associated with certain buildings, equipment and capital improvements; and operations and maintenance expenses.
- Administration-related expenses such as the accounting, personnel, library expenses and internet services, among others.

b) Grant makers are responsible for distinguishing between direct and indirect costs in application budgets, negotiating costs that are consistent with TCE's policy and ensuring that costs are reflected correctly in a recommendation's budget.

Recommendations with budgets that mistakenly have indirect costs listed as direct costs will not be approved. To assist in making those determinations, note that:

- The test for a direct cost is that it is uniquely required to achieve a specific outcome of a grant; direct costs may be listed under either Personnel or Non-Personnel.
- Under Personnel, executive staff and administrative staff are often misrepresented as direct costs. Listing a portion of the staff's time that is less than 10 percent or listing an incremental amount are common signals that an indirect cost has been mistakenly included as a direct cost; those costs should be removed from the budget.
- Under Non-Personnel, office supplies, internet access and various insurances (among other things) are often listed as direct costs, but are typically indirect costs. Any of those items *could* be a direct cost but in practice they rarely meet the test and must be removed from the budget.

c) TCE expressly classifies rent and some ancillary administrative costs such as office supplies, telephone charges, internet connection fees, insurances, etc., as an indirect costs, but provides two general exceptions.

i) TCE will allow rent to be classified as a direct cost provided the space is:

- New and required solely to achieve the outcome of the specific project being funded
- Existing space if it is dedicated solely to achieve the outcome of the specific project being funded,
- Part of the direct costs of an organization that meets the test for ancillary costs at (ii) below, or
- Part of an off-campus, university-affiliated center (an exception that is consistent with current federal grant-making practices) or an institution where costs are determined by full-time-equivalent staff allocations or other means *specifically approved by TCE administration*

When rent expenses are included in a project budget, TCE requires applicants to provide a justification for such classification in the applicant's budget narrative. When rent expenses are included in a recommendation budget as a direct cost, grant-making staff must include a budget note that indicates how the expense meets the test for an exception.

ii) TCE will allow some ancillary administrative costs to be covered as direct costs provided the applicant:

- in the judgment of a TCE Vice President, conducts work or has the capacity to conduct work that is essential to TCE's ability to achieve its goals (i.e., is a vital strategic partner);
- has a business model to which TCE's indirect policy guidelines do not respond sufficiently to cover the applicant's essential costs; and
- has a limited capacity to raise unrestricted funds to cover whatever shortfalls might result should TCE award a grant under its existing indirect policy guidelines.

A grant maker seeking authorization for an exception must make a request addressing each of the three criteria to the department's Vice President. Only with a Vice President's specific, written authorization will grants with such costs be approved. Organizations that qualify for the exception may include Public Health Institute, Tides Center, Community Partners, Prevention Institute, RAND and certain affiliates of the UC system.

- d) TCE may fund organizations acting as fiscal sponsors, but will not fund both fiscal-sponsor fees and indirect costs if together they exceed 15 percent of direct costs. TCE may also fund organizations acting as administrative agents, but will not fund both administrative fees and indirect costs if together they exceed 15 percent of direct costs.
- e) TCE allows only a grantee's actual indirect costs at the time of the grant. As assurance of actual indirect cost, TCE requires applicant's to include a description of its indirect cost calculation in the budget narrative, including a description of those categories or items included as indirect costs.

2) Employee benefits

Employee benefits are those expenses that comprise indirect and non-cash compensation provided to an employee, some of which are mandated by law, others which – health benefits, life insurance and education, for example – are provided at the discretion of the employer. TCE allows grantees' employee benefits up to 32 percent of personnel salary expenses. TCE may allow grantees' benefits of more than 32 percent at its discretion when an applicant's employee benefits include singular items unique to the applicant. In those instances, TCE requires a justification for an exception to the 32 percent rate in the applicant's budget narrative and in the budget notes. The justification must describe that characteristic so unique to the applicant that it warrants TCE making an exception to its policy. In all instances the applicant must provide its employee-benefits calculation by item and percentage in its budget narrative.

3) Flexibility to reallocate budget by category and line item

TCE will allow grantees up to 100 percent flexibility between the Personnel and Non-Personnel categories, and 100 percent line-item flexibility within those categories, without prior approval, except for changes to or additions of employee benefits or indirect costs or any capital expenditure, consultant cost or incentive. Changes to the

preceding exceptions may be allowed, but only with prior written consent by TCE. Line-item flexibility notwithstanding, each grantee must use all funding provided in a TCE grant pursuant strictly to the outcomes listed in that grant agreement and are required to maintain adequate financial records of the grant-funded activity. TCE retains the right under its grant agreement, upon written notice, to audit grantee's books and records relating to grant expenditures.

4) Automatic no-cost extensions

TCE will allow grantees a one-time 90-day extension of a grant's end date without prior approval provided no additional funding is required and the grantee submits a request for the extension in writing to TCE 10 days prior to the end of the grant.

5) Subcontractors

TCE will allow grantees to include allocations for subcontractors in their grant budgets. Subcontractors must contract directly with the grantee, may be organizations or individuals and may include consultant salaries, stipends or honoraria. Subcontractors may not be staff employed by the grantee. Subcontractors may be included in write-up documents provided:

- Subcontractor costs are listed in the budget's Other Costs category by type of work or contract and not by subcontractor name, and
- Subcontractors are listed by name on the write-up cover sheet, where any disclosable relationship associated with the subcontractor should also be listed with the accompanying disclosable-relationship language.

6) Unexpended funds

Unexpended funds occur when a grantee completes the work associated with a grant, but its final expenditure report shows a positive balance.

For grants 10K or more for which TCE does not take expenditure responsibility:

- When the unexpended funds total \$1,000 or less, notice should go to the grantee that it need not return the funds to TCE provided it uses them in a manner consistent with the grant. The grant should then be closed in GIFTS and no subsequent expenditure report from the grantee is required.
- When the unexpended funds total more than \$1,000, two alternatives are possible: Either notice should go to the grantee that it must return the funds, upon receipt of which by TCE the grant should be closed in GIFTS and no subsequent expenditure report from the grantee is required. Or the grant term may be extended, with an additional scope of work if appropriate, to continue work in a manner consistent with the grant, and upon the term's conclusion a final expenditure report detailing how the funds were spent in full is required.

- When the unexpended funds of any amount are received six months or more after the receipt of a grantee's final expenditure report, the funds must be returned.

For expenditure responsibility grants and grants less than 10K:

- When there are any unexpended funds, no matter the amount, the funds must be returned, or the grant term may be extended, with an additional scope of work if appropriate, to continue work in a manner consistent with the grant, and upon the term's conclusion a final expenditure report detailing how the funds were spent in full is required.

Unexpended funds with significant budgetary impact:

- Unexpended funds received by TCE will generally be credited back to the originating department budget. However, when those receipts impact the current year budget by more than \$100,000, the coding will be determined by senior management. The CFO will provide coding instruction after a programmatic review is conducted by the CEO, the COO and the SVPs.