

REVIEWING PROJECT BUDGETS

Understanding project budgets is a challenge for program staff. Previous experience with finance issues, and approaches to budgets between programs vary greatly. With time and experience in reviewing these documents, the task gets easier. But to help you get started, and expand your list of questions you normally ask, the following are suggestions to guide your review of project budgets.

Use a Standard Template

Have all of the budgets in the same format – compare apples with apples. Institute a standard budget template for your program (samples you can use are available in the grantmaking community on KARL). You'll benefit by getting used to seeing the numbers presented in the same way since oddities will stand out. You may want to ask grantees to build the financial report off of the approved budget (have the budget as the first column of the reports, and then follow with actual expenses and end with the variance). Some typical items in project budgets include:

- Salaries and Benefits
- Travel & Conferences
- Professional Fees & Consultants
- Office Supplies and Equipment
- Telecommunications
- Shipping and Postage
- Publications & Printing
- Rent & Utilities

Compare Applicants

Compare budgets with others submitted at the same time. Pull out multiple budgets from organizations that are located in the same country and review side-by-side. Also utilize other grantmakers in OSI or the national foundations who have greater experience in this region to learn about local costs. Some things to consider:

- Are salaries across job type similar? If one organization has a budget with a much higher salary for the director, ask why.
- Compare other items in the budget too – rent, telephone, internet, etc.
- Is there a category missing from one of the budgets? Why wasn't it included?

Previous Funding

If the grantee has received previous grants, pull out their budgets and financial reports and look at what happened in the previous year. Some things to consider:

- Have rent expenses changed from the previous year? If there is an increase, is it explained by inflation or an expansion?
- Are there more equipment purchases budgeted for the next grant?

- If the renewal proposal is just a continuation, then is additional equipment necessary? If the plan is to scale up, then additional funding may be warranted.
- Have salaries gone up from year to year? Does this indicate organizational growth, higher incomes, or tax requirements?

Personnel Costs

Confirm that there is more than just salary in the personnel expenses. There should be payroll taxes and other benefits (e.g. health insurance, or sometimes retirement plan contributions) over the salary amount. Some things to consider:

- Are these percentages similar to other organization's rates in the same city?
- Are the salaries reasonable for the seniority of the position?
- Are the salaries good enough to attract qualified people for the job?
- Who will staff the project – current staff or new hires?
- Is the number of paid staff appropriate for the project scope?

Check the Math

Add up the numbers again, or check the Excel calculations. Finding errors lets the applicant know that we are paying attention. Encourage applicants to use some spreadsheet program for their budgets.

Overhead (Indirect) Costs

Overhead costs are general expenses incurred during the normal course of operating, and that are not project-specific. In 2006, Mr. Neier issued a memo to clarify OSI's position on overhead costs in project budgets. In general, 15% is the maximum amount to be considered. However, all of these guidelines should not be taken as definitive rules; use your discretion, or ask for clarification. The points to remember about this issue are:

- If an organization receives general support from OSI, then they should not include overhead costs in project budgets submitted to OSI.
- If an applicant organization is a small institution, then overhead costs should be included in the project budgets.
- Large entities, such as universities, often have a higher indirect costs.. Ask these institutions to explain what services are included in their indirect costs, and how these services are directly related to the project being proposed.
- Even if there is no separate line item for overhead, organizations that include ongoing operating expenses (director salaries, telecommunications, postage, office equipment, and audit fees) in project budgets are actually asking us to fund overhead. The total amount of these kinds of expenses related to the program typically should not exceed 15% unless it can be demonstrated that they are specific to the project.

So-called contingencies may just be another form of overhead. Such expenses should be discouraged in the budget.

Matching the Proposal and Budget

Outline the specific activities described in the narrative. As you read the narrative make some notes about what expenses will logically be required. Then compare your notes with the expenses actually proposed.

- Is the work being done by in-house staff or consultants? If it's being done by consultants, then why would there be significant overhead costs (rent, Internet, etc.) since consultants don't work out of the organization's office? [Yes, but even so shouldn't the organization have the same opportunity to have 15% overhead funded? After all, the consultants aren't working in a vacuum – someone on staff is probably managing them, for example. And there wouldn't be a project if there weren't an office to develop the project and hire the consultants in the first place...]
- Are all required travel costs included? Are the travel expenses excessive (business class airfare)? Could the travel be replaced with teleconferencing?
- How many staff people will be working on the project? Do the percentages of staff time assigned to the project make sense? For example, will the Executive Director really be spending 50% of her time on this project, when there are half a dozen initiatives running at the organization?
- Are there any other grants to this organization? Check the percentages of staff time to ensure that the organization isn't charging more than 100% of a staff person to OSI programs. [How could they know this if they only ask for a project budget and not an organization-wide budget?]
- Are the facilities expenses proportional to how this project fits into the full activities of the organization? [Same question]
- Are the equipment expenses related only to the project activity, or is there padding in this category?

Other Funders

Review the income from other sources for the project. Talk to the program officer at the other donor organization. [Shouldn't we have an income budget as well as an expense budget then so you can see who else they think is funding the project?]

General Financial Questions

If you are interested in exploring larger questions regarding the financial health and stability of the applicant organization, the following can provide a starting point for a discussion with the organization's director and/or management.

- Is the organization a registered charity?
- Is the organization current in its tax filings? [Ask for a copy of 990 or other most recent tax filing rather than asking.]
- What experience does the organization have in managing grants? Is there an accountant and/or a financial management system in place?
- Is there an accountant or bookkeeper listed among the staff? If the grant is for a large amount of money, it's a good idea to have someone with a financial background included. Yeah, but you all don't want to pay "overhead" so they might not be listed.

- If sub-grants are part of the project, does the organization have experience and/or systems in place to manage the sub-grantees?
- If the organization has a finance officer or department, is there a separation of duties regarding payments? How are project expenditures tracked and communicated from finance to the program staff?

Reviewing copies of an organization's audited financial statement and/or tax filings provides a very clear understanding of the organization's financial position. Grants Management can assist you if you'd like help in interpreting the information. Also, the New York Regional Association of Grantmakers (www.nyrag.org) and Support Center for Nonprofit Management (supportcenteronline.org) offer regular trainings on how to read financial statements and U.S. public charity tax filings