

# Process for Determining Allowable Costs, Budget Restrictions/Prior Approval and the Need for Budget Modifications

**Purpose:** These guidelines provide a best practice for determining when budget revisions are needed on a sponsored project as well as to assist in facilitating the process.

**1st Step - Federal Regulations Test for Allowability** - Review the [Allowable and Unallowable Direct Costs](#) matrix to determine if the cost is allowable per Federal regulations. If the cost is not allowable, **STOP**, as the cost can't be charged to the sponsored project. If the cost is allowable, proceed to the 2nd step.

**2nd Step - Sponsor Award Terms and Conditions** - Review the terms and conditions of the award for allowability and budget restrictions/prior approval requirements. If the cost is not allowable per the terms and conditions, **STOP**, as the cost can't be charged to the sponsored project. If the cost is allowable per the terms and conditions, but the award has budget restrictions defined by the sponsor, these restrictions must be followed. If the budget restrictions will be exceeded, a budget modification is required and prior approval must be requested from the sponsor. If the budget restrictions will not be exceeded or the award does not have budget restrictions, proceed to the 3rd step.

**3rd Step - Budget Modification Guidelines** - If the cost is allowable per the Allowable and Unallowable Direct Costs matrix, the terms & conditions of the award and there are no budget restrictions defined by the sponsor, Michigan Tech is still responsible for performing our due diligence in monitoring the expenditures by category and limits as defined in the chart below. If the anticipated expenditures will exceed the original budget category by the percent referenced in the chart, it may signify a change in scope; a Request for Modification form (RFM) and a revised budget will be needed from the PI. The Sponsored Programs Office (SPO) or Innovation and Industry Engagement (IIE) will determine if prior approval is needed from the sponsor or if the revised budget can be approved internally.

	Federal & Federal Pass Thru Grants, Contracts & Coop Agreements	State of Michigan & State of Michigan Pass Thru Grants & Contracts	Industry	"Other" Sponsors
<b>S &amp; W (Less Supported Student's Stipend &amp; Fringe)</b>	Yes if > 25%	Yes if > 25%	No	No
<b>Equipment</b>	Yes if > 25% *	Yes if > 25% *	No	No
<b>Travel</b>	No	Yes if > 25%	No	No
<b>Subcontracts and External Service Agreements</b>	Yes	Yes	Yes	Yes
<b>Supplies, Services &amp; Other</b>	No	Yes if > 25%	No	No
<b>Graduate Student Support (Stipend, Fringe &amp; Tuition)</b>	Yes if > 25%	Yes if > 25%	No	No

**Yes = RFM required, determination to be made by SPO/IIE and may need sponsor approval. "Yes if >25%" means if the original budget category is exceeded by > 25% a RFM is required. This also means, if the original budgeted amount for a category is \$0, any expenditure to this category will require a RFM.**

**No = RFM is NOT required (including when the original budget category is \$0).**

\* In most cases, equipment purchases must be approved in advance by the awarding agency.

The process for determining when a Budget Modification is required is outlined in the matrix above. Where a YES is indicated in the matrix (colored yellow), a RFM will need to be filled out. When NO is indicated, there is no requirement for a RFM. When the noted % of the original budget is close to exceeding the limit, a RFM will be required. The matrix refers to the main budget categories, such as S&W, Equipment, Travel, Subcontracts and External Service Agreements, Supplies, Services, Other and Graduate Student Support.

\*Revised 8/16/2016