What Happened to the Budget?

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After twenty years of working with grants, I am still confounded when asked why we need to seek permission when making changes to a project budget. After all, it’s “our” money, isn’t it?

No, it’s not.

If the money comes from a private source—a foundation or corporation, for example—the money was given by a donor to an endowment or corporate giving program to accomplish a charitable purpose. If the money is from a public source—the federal government, for example—the money was provided by the taxpayers. The money was granted to your organization because you promised, in your grant proposal, to do something specific with it. In other words, that money has strings attached.

Many funders will provide specific guidelines in the grant agreement (or, in the case of the federal government, the OMB Circulars) about when permission needs to be sought.

Here are some guidelines I recently came across:

- “Changes to any specific line item in the enclosed budget greater than 5 percent should be approved in writing by…Foundation prior to making the budget change.”
- “You may, without seeking Foundation approval, reallocate up to 10 percent of funds from one budget category to another existing budget category. Prior to re-budgeting more than 10 percent of any category or creating a new budget line, a written request must be made to the Foundation.”
- “We ask that all major changes (adding or deleting line items or changes of over $1000 to a line item) to your budget as submitted with your original grant be submitted and approved by our office.”
- “A revised budget must be requested when changes to line items amount to more than 20 percent of the budgeted amount or when line items are added or deleted from the original approved budget.”

These seem clear enough—but what about the following: “It is…understood that no substantial variances will be made from the budget without the Foundation’s prior approval in writing.”

What is meant by “substantial variances”? My accounting colleagues offered a guideline used by external auditors—a variance of 10 percent or more. Common sense also comes into play here. If there seems to be a significant unexpected change in a line item, it is best to find out why, even if the amount is under 10 percent.
And what should you do if the grant agreement doesn’t address budget changes? Does that mean that you don’t need to ask permission to adjust the budget? In these cases, if the project is adding or subtracting line items and/or making significant changes within a line item, it is always best to check with a funder, even if it is not required.

Remember, a budget doesn’t exist in isolation – if there are shifts in the numbers then there are corresponding shifts in the program design. The funder may be less concerned about the numbers and more concerned about whether the program has strayed from its original purpose.

In summary, here are some tips for dealing with budget variances:

- Read your grant agreement thoroughly when you receive it, and look for instructions on what to do if the budget changes. If the funding is from a government source, check the relevant regulations.
- If you don’t have software that can do this for you, create a chart summarizing the various deliverables and requirements if the project is funded from multiple sources. This will help you keep on top of all the details.
- Monitor the project throughout the grant period and check periodically to make sure all is on track. If you notice something seems to be changing–more workshops were added, the project is taking longer than expected, more/less money was raised than expected–check to see what has shifted in the budget. Don’t wait until the final financial report to uncover and report variances.
- Follow the guidelines. If you need to file for a change in the budget, do so as soon as is required or prudent.

And above all, keep the lines of communication open with the funder. After all, they are the ultimate stewards of the money.