

Guide 1304 GD.02 Cost Allocation Methodologies

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Overview

This Guide is designed to provide assistance to the community when direct charging costs to multiple benefiting sponsored projects. Goods and services purchased by the University to conduct research may often benefit more than one sponsored award. Such costs must be allocated to the sponsored awards in proportion to the actual benefit received by the awards. If it is impossible or impractical to determine how much of the goods or services are actually used for each award, an allocation methodology must be developed that reasonably estimates the actual benefit to each award. Costs are then distributed to each benefiting sponsored award using the allocation methodology.

The Office of Management and Budget Circular A-21 provides two methods for allocating an allowable direct cost to two or more grants, they are defined as follows:

1. Proportional Benefit

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects.

Example: A PI has two awards which require the purchase of mice to conduct experiments. The Specific Aims for one award indicates 150 mice are needed to conduct the research and the Specific Aims of the second award requires 50 mice to conduct the research. The PI orders 200 mice and allocates the cost of the mice 75%/25% between the awards.

2. Interrelationship

If a cost benefits two or more projects or activities in proportions that cannot be easily determined due to the interrelationship of the work involved, then the cost may be allocated to the benefiting projects on any reasonable basis.

Example: Acetone purchased for use in a laboratory is needed for the technicians working concurrently on three research projects. A reasonable method of allocating the cost of the Acetone could be based on the number of FTEs.

Regardless of the method used, A-21 states that the:

- a. University is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles; and
- b. University's financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.

Developing an Allocation Methodology

Allocation methodologies are often challenging to develop. The basis for allocating a cost among awards should logically relate to the type of expense incurred. The methodology chosen should produce an allocation of costs to each sponsored award that **reasonably** reflects the proportionate benefit received by each award.

Some examples of methodologies that could be used as a basis for allocating costs include:

- Effort of research personnel (headcount or FTEs)
- Laboratory space (square footage)
- Number of experiments or procedures performed
- Actual usage records for a representative sample (e.g., one week, one experiment cycle, etc.)
- Modified Total Direct Costs (excluding subawards entirely) budget of benefiting sponsored projects

Different allocation methodologies may be required for different types of costs.

Example: It may be most appropriate to allocate lab supplies based on the proportion of effort devoted to each award (measured as FTEs), whereas rent expense may be most appropriately allocated based on the square footage of lab space occupied by each award.

Regardless of the allocation method used, it is important that the basis for the allocation method be:

- documented contemporaneously with the cost being incurred and allocated; and
- approved in advance by the Principal Investigator(s) of the awards to which the costs are allocated.

System Restrictions

Occasionally, it may not be possible to allocate costs to the benefiting sponsored awards at the time the goods or services are purchased. Such costs must be recorded in a non-sponsored award (e.g., a General Appropriations or Special Use account). “Parking” costs on a sponsored award with the intention of later allocating some or all of the costs to other awards is a violation of federal regulations and is therefore prohibited.

Note: If costs are initially recorded in a non-sponsored award, the eventual distribution of these costs to sponsored awards is a cost transfer that must comply with the University’s Cost Transfer [policy](#) and [procedure](#).

Allocation methodology “Do’s and Don’ts”

- **Don’t** use allocation methodologies that result in an over- or under-recovery of expense. An over-recovery of expense may result in a refund to the sponsor. An under-recovery may need to be funded by the department.
- **Don’t** use any allocation methodology that is based on the funds available on sponsored awards.
- **Do** ensure allocation methodologies are documented and auditable.
- **Do** document the allocation methodology contemporaneously with the cost being incurred and allocated.
- **Do** document how measures such as headcount or square footage logically relate to the cost being allocated and the benefit received by the awards.
- **Do** include in your documentation support for the specific cost allocated (e.g., invoice).
- **Do** retain the supporting documentation in the department (in accordance with the University’s Retention of University Financial Records [policy](#) so it is available for review and audit.
- **Do** review allocation methodologies periodically to ensure they are reasonable. Methodologies based on sampling, surveys, etc., should be reviewed, updated and approved by the PI at least once each fiscal year and when new awards are received and awards expire. Significant changes to the population may signal the need to review the allocation methodology. Also, allocations based on FTE’s must be updated to reflect any changes in headcount or effort.
- **Do** allocate costs at the time of ordering the goods/services whenever possible (to avoid the need for cost transfers).
- **Do** allocate costs that have been temporarily charged to a non-sponsored award as soon as possible.
- **Don’t** wait until the end of an award or the fiscal year to allocate costs that have been temporarily charged to a non-sponsored award. Cost transfers (both LDAs and JSAs) must be done within 90 days from month end in which the expense was incurred.

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