Allocation of Costs to Sponsored Awards

The University is responsible for ensuring that charges to sponsored awards are allowable, allocable, and reasonable under the federal cost principles as well as for ensuring that no one person has complete control over all aspects of a financial transaction.

*Allocation* is the process of assigning a cost, or a group of costs, to one or more projects. If a cost (such as travel, supplies, publication costs, or equipment) benefits two or more sponsored projects, the cost must be allocated to (i.e., shared among) the sponsored projects based on the proportional benefit to each. If a cost benefits two or more projects or activities in a manner that cannot be reasonably determined because of the interrelationship of the work involved, then the costs may be allocated using one of the cost allocation methodologies described below, in accordance with federal regulations, 2 CFR §200.405.

If an expense solely benefits one project, it should be charged entirely to that project. However, if a cost benefits two or more projects or activities, a split allocation is appropriate and allowable. Be sure to document the basis for the split allocation method that you choose at the time of the cost being incurred. Such a split must also be approved in advance by the Principal Investigator (PI) of the awards to which the costs are allocated. When it is not possible to allocate costs to the benefiting sponsored awards at the time when the goods or services are purchased, costs must be recorded in a non-sponsored account, such as a departmental account, instead of being charged to a specific grant.

There are two methods for allocating a cost to multiple funding sources:

- **The Proportional Benefit Rule**: when it is possible to determine the exact benefit of the cost to each funding source, the cost is allocated according to the proportion of benefit provided.
  - Example: A lab purchases 12 gallons of solution. 3 gallons of solution are used on Award A and 9 gallons on Award B. 25% (3/12) is charged to Award A and 75% (9/12) is charged to Award B.

- **The Interrelationship Rule**: when it is not possible or cost effective to determine the exact allocation or use for each funding source, the cost is distributed on a reasonable and rational basis.

Examples of methodologies that can be used as a basis for allocating costs (maintain documentation that details the methodology) include:

- **Effort**: The cost of lab supplies is allocated based upon the PI’s/lab personnel effort charged to each project. For example: A PI spends 70% effort on Award A and 30% effort on Award B. The PI uses lab supplies totaling $6,000/month on the two Awards. Award A is charged $4,200 (70% of $6,000) and Award B is charged $1,800 (30% of $6,000).

- **FTE**: The cost of renting space is allocated based upon the number of FTEs working on each project. For example: A center for research pays $10,000 in monthly rent. There are three FTEs employed on Award A, six FTEs employed on Award B, and one FTE paid from another non-award funding source. These are all the FTEs at this site and the only two Awards with work performed and managed at this site. Award A should be charged $3,000
monthly rent (3/10 FTEs x $10,000 monthly rent) and Award B should be charged $6,000 (6/10 FTEs x $10,000 monthly rent). The remaining $1,000 monthly rent cannot be charged to either Award.

- **Number of experiments**: The cost of syringes is allocated based upon the number of experiments performed on each project. For example: A Principal Investigator uses syringes to conduct experiments on two of his research Awards. The PI keeps a log of how many experiments are performed on each Award each week. Syringes are ordered every two weeks at $1 per syringe. The log indicates the following:

  Award A:
  - Week 1: 25 Experiments
  - Week 2: 39 Experiments

  Award B:
  - Week 1: 19 Experiments
  - Week 2: 16 Experiments

  The total cost of the syringes is $99 (99 experiments x $1/syringe). Award A should be charged $64 (64 experiments x $1/syringe) and Award B should be charged $35 (35 experiments x $1/syringe).

- **Number of hours**: The cost of equipment is allocated based upon the number of hours logged on for each project. For example: A researcher uses the same computer program for two Awards. Because the Awards require significantly different usage of the program and the tasks are long, the researcher keeps a log of how much time they use the program for each Award, rounded to the hour. The department is billed quarterly for use of the program. At the end of the quarter, the amount billed is $500 for 50 hours ($10/hour) of work on the two Awards. The researcher's log shows that 40 hours were used on Award A for a cost of $400 and 10 hours were used on Award B for $100.

- **Sampling**: Cost of laboratory supplies is allocated based on actual usage records for a representative sample. For example: A Principal Investigator uses 5 gallons of solution per month on Award A and 7 gallons of the same solution per month on Award B. The department orders 12 gallons of solution per month at $10 per gallon including tax and shipping for a total cost of $120. Award A should be charged $50 ($10/gallon x 5 gallons) and Award B should be charged $70 ($10/gallon x 7 gallons).

- **Square footage**: Two laboratories that are conducting similar research is allocated based upon the square footage of the two laboratories. For example: A student is paid a salary of
$1,200 a month to clean two laboratories conducting similar research. The only research performed in Lab A is on Award A and the only research performed in Lab B is on Award B. In this example, the square footage of the laboratories could be used as a reasonable basis to allocate the student's salary. Lab A is 1,400 square feet and Lab B is 1,000 square feet. Award A should be charged $700 (1,400 sq. ft./2,400 sq. ft. x $1,200) and Award B should be charged $500 (1,000 sq. ft./2,400 sq. ft. x $1,200).

Costs may not be allocated based on:

1. Amount of available funds on an Award;
2. Budgetary convenience, e.g., accommodating an Award that is either over or under budget;
3. Avoidance of restrictions on an Award; and/or
4. Offset where costs are charged to Award A one time and Award B the next time.

Best Practices

- **Document the allocation methodology.** Documentation should explain how the allocation methodology is reasonably related to the costs being allocated. Document how measures such as headcount, square footage, or hours directly relate to the benefit received. Documentation should be retained and made available for review.
- **The allocation methodology must be used consistently in like circumstances.**
- Routinely **review the methodology** to ensure it continues to represent a reasonable basis for distributing costs. The methodology should be updated if it is determined that it no longer represents a reasonable distribution of costs.
- Review estimated allocations on a routine basis. If a cost has been allocated based on an estimate, that cost can be reallocated - if needed - using a **cost transfer**. Ensure that reallocations are completed promptly so that accurate costs are recorded on the appropriate funding source within 90 days of the original expense posting date.
- **Update allocations** when a funding source is no longer available or a new source has been added. The methodology should not change unless it no longer provides a reasonable representation of the benefit provided.
- The **end dates of all Awards** should be taken into consideration. The benefit received on each Award may be impacted if, for example, two Awards have significantly different end dates.