Cost Allocation Guidelines

Expenses to sponsored awards must be allowable, allocable, reasonable, and consistently treated. A cost is allocable to a particular sponsored project if the cost:

- Is incurred solely to advance the work under the sponsored project;
- Benefits both the sponsored project and other University activity and can be distributed in proportions that can be approximated using reasonable methods; and
- Benefits multiple projects and can be distributed in proportions that can be approximated using reasonable methods.

If a cost benefits two or more projects or activities OMB Circular A-21 provides two methods for allocating the costs. Each allocation methodology is described below.

Allocation Methodologies:

I. 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 based on the proportional benefit.

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

II. Interrelationship Benefit
   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. The basis for allocating a cost among awards should logically relate to the type of expense incurred.

Acceptable interrelationship allocation methodologies must meet the following criteria:

- There must be a reasonable linkage between cost incurred and the benefit to the sponsored agreements.
- The allocation methodology must be identified in advance of the allocation and be documented in a way that a person unfamiliar with research administration would understand. 
  
  For example, a methodology should be determined in advance and used for an entire fiscal year or project period.
- The allocation methodology must be applied uniformly to the entire population of sponsored agreements among which similar costs are incurred.

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Examples of acceptable interrelationship methodologies:

- **Usage**: cost of lab supplies based upon quantity used on each project
- **Number of experiments**: cost of syringes based upon the number of experiments performed on each project
- **Number of hours**: the cost of computer equipment allocated based upon the number of hours logged on for each project
- **Number of clients served**: cost of personality tests based upon number of clients served

Prohibited methods:

- Placing the cost on only one award when the cost benefits more than one award
- Splitting the costs evenly across the projects (when benefit is not proportionally even)
- Basing allocation on project budgets without regard to actual benefit to the projects
- Placing all the costs on a project with available funds when the cost benefits more than one project

Different allocation methodologies may be required for different types of costs. When developing an interrelationship allocation methodology, it is important to **document the methodology contemporaneously**. The allocation methodology must also be **approved in advance** by the PI of the awards to which the costs are allocated.

**Restrictions**

Occasionally, it may not be possible to allocate costs to the benefited sponsored awards at the time goods or services are purchased. In such instances, the costs must be initially charged to a non-sponsored award. “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 charged to a non-sponsored account and subsequently moved, it is considered a cost transfer and must comply with the University’s Cost Transfer Policy.

**“Do’s and Don’ts”**

- **DO** contact OSR if assistance is needed in developing an allocation methodology
- **DO** retain the supporting documentation of the allocation methodology in the department so it is available for review and audit
- **DO** review allocation methodologies periodically to ensure they are reasonable
- **DO** identify the allocation method that will be used in advance of purchasing or at the time of ordering goods/services whenever possible
- **DON’T** rotate expenses among sponsored projects on an arbitrary basis without regard to the appropriate allocation of costs

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