

Appendix B: Cost Allocation Methodologies

Whenever possible, expenses should be individually charged to a specific sponsored award. When it is not possible or efficient to determine how much of the cost is used for each award, allocation of the expenses is allowable. Allocation is the process of assigning a cost to one or more awards in reasonable and realistic proportion based on the expected benefit provided to the individual projects.

Allocation Methodology Criteria

At Washington University, allocation methodologies must meet ALL of the following criteria:

- The allocation must provide a reasonable linkage between the cost incurred and the benefit to individual sponsored agreements,
- The allocation methodology must be identified in advance for the allocation of expenses and documented in a way that a person unfamiliar with grants management would understand,
- Each methodology should be applied consistently for similar costs that meet the criteria of the allocation methodology, and
- Allocation methodology should be reviewed and adjusted periodically.

Documentation

Once the allocation methodology has been determined, it needs to be documented and the documentation retained within the department/center. Documentation should include the costs to be allocated and the basis for distribution.

If the allocation requires a calculation for each distribution, this backup should be attached to each transaction.

Allocation Methodology Best Practices

- Ensure that the allocation methodology is documented prior to, or contemporaneously with, the costs being incurred and allocated.
- Document how measures, such as FTE, logically relate to the costs being allocated and the benefit received by the awards.
- Retain the supporting documentation in the department (in accordance with the University's Records Retention policy) so it is available for review and audit.
- Review allocation methodologies periodically to ensure they are reasonable.
- Significant changes to the allocation statistics may signal the need to review the allocation methodology.
- **Do not 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 while an under-recovery may need to be funded by the department as cost sharing.**
- **Do not use any allocation methodology that is based on available sponsored funds, budgets, or to avoid restrictions imposed by law, terms of the sponsored award, or for other reasons of convenience**
- **Do not allocate expenses after the fact by use of journals and/or cost transfers without appropriate documentation.**

Some Acceptable Allocation Methodologies (and examples)

Different allocation methodologies may be required for various types of expenses.

- Allocation based on FTEs

- Acetone purchased for use in a laboratory is needed for the technicians working concurrently on Projects A, B, and C in the amount of \$500/month. There is one technician working on Project A, two working on Project B, and three working on Project C. The expense allocated to Project A is \$83/month (1 technician / 6 total technicians x \$500/month). The expense allocated to Project B is \$167/month (2 technicians / 6 total technicians x \$500/month). The expense allocated to Project C is \$250/month (3 technicians / 6 total technicians x \$500/month).
- Allocation based on usage
 - The monthly cost of supplies/expendables to maintain a microscope is \$1,000. The microscope is solely used for Projects A and B. The computer operating system keeps a log of users and their time on the microscope. A reasonable base to allocate the expense would be user hours. Project A assistants have 100 combined user hours a month and Project B assistants have 80 combined user hours a month. The expense allocated to project A is \$556 (100 user hrs / 180 total user hrs x \$1,000). The expense to Project B would be \$444 (80 user hrs / 180 total user hrs x \$1,000).
- Allocation based on effort
 - A research assistant spends 80% effort on Project A and 20% effort on Project B. The research assistant uses supplies totaling \$3,000/month on the two projects. Usage is directly related to the amount of effort devoted to each project. Therefore, \$2,400 (80% of \$3,000) is charged to Project A and \$600 (20% of \$3,000) is charged to Project B.

Unacceptable Allocation Methodologies

The following direct costing practices are generally unacceptable because they do not meet the standard for a high degree of accuracy in the assignment of costs to sponsored projects.

- Rotation of charges among sponsored projects by month without establishing that the rotation schedule credibly reflects the relative benefit to each sponsored project
- Assigning charges to the sponsored project with the largest remaining balance
- Setting the allocation based on the budgeted amount in contrast to charging an amount based on actual usage
- Assigning charges to a sponsored project in advance of the time the actual expense is incurred
- Describing an expense as something other than what it actually is
- Charging expenses exclusively to sponsored projects, when the expense also supports non-sponsored activities
- Assigning charges that are part of normal administrative support (indirect costs) for sponsored projects (e.g., computer charges, administrative salaries, office supplies, etc.)