

Allocating Costs Effectively: How to Divide the Pie

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Welcome!

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Agenda

- Overview
- Uniform Guidance (2 CFR 200 – Regulations and References)
- The Importance of YOUR Institutional Policies
- Allocation Methodologies (Acceptable & *Unacceptable*)
- Best Practices
- Questions to Ask your Principal Investigators
- Throughout: Case Studies, Scenarios, Examples

- Join us for “Ask the Presenters”



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ALLOCATION OVERVIEW & BEST PRACTICES



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What is Allocation?



- Process of assigning resources (costs) to the funding sources that benefit from the use of those resources (costs)
- Early thoughts on best practices
 - Pre & Post – we all have responsibility!
 - For all stages – collect & apply policies


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What makes allocation challenging?

- Multiple projects benefit
- Projects are highly-related
- Costs are distributed by activity – regardless of funding source
- Determining a way to distribute cost based on benefit, where benefit value may be perceived differently
- The answer to the decision can change over time

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REGULATIONS & REFERENCES





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Regulations & References

2 CFR 200 (Uniform Guidance)
Subpart E: Cost Principles

Allowable §200.403	Costs that are not specifically prohibited by federal regulations or the specific grant/contract
Reasonable §200.404	Costs by their nature and amount support the research scope of work
Allocable §200.405	Costs are charged to sponsored projects in proportion to the relative benefit received
Treated Consistently §200.419	Costs in similar circumstances should be treated the same

48 CFR Part 9905
Subchapter B: Cost Accounting Standards

9905.502
Consistency in allocating costs incurred in like circumstances for the same purposes



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Importance of **YOUR** Institutional Policies

- Policies are unique to your institution
- Auditors (internal and external) expect you to follow them
- If your policy says you cannot allocate costs in X manner, you cannot
- Consistency



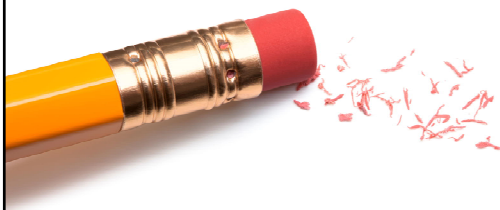
**Only 13 points in
Scrabble....but VERY
important in our world!**



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Allocation Approaches at **YOUR** Institution



Homework:

- Identify what you deem a reasonable approach and talk to people
- Locate your Institutional Office / Local Guru for the tricky questions



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ENOUGH RULES – LET’S GET TO THE GOOD STUFF




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Resources that Need Allocation Methods



Many Items in one order

- Bulk purchase supplies

One resource over many projects

- Equipment
- Effort of an individual
- Space


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Specifics to Allocation



Details are important.



Overly burdensome methods are NOT ideal.



Cost-benefit relationship MUST be defensible.



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Allocation Methodologies

- Acceptable/Standard approaches to distribution:
 - Actual usage
 - Employee effort or FTE (full time equivalents) on the projects
- Potential?
 - Square footage (space)



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Share in chat: Why is distribution by effort is a meaningful approach?

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Practice Choosing an Allocation Method

A lab needs to purchase a piece of **equipment**. The equipment will be used on four projects, and a even a little on a university-funded project. Each of these five sources will be paying a portion of the purchase cost...



for your
thoughts



What would be your method for allocation?

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Approach #1 - Actual Usage



Counting Method by unit of measure

- Cost distributed *after* use
- Controlled approach to measurement
- Any unused portion is institutionally supported



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Scenario: Actual Usage

POLL for Practice

- The monthly cost of supplies/expendables to maintain a lab computer system is \$10,000.
- The computer system is solely used for Projects A and B.
- The computer operating system keeps a log of users and their time on the system.
- Computer user hours are as follows:
 - Project A has 120 combined user hours per month.
 - Project B has 80 combined user hours per month.



How much would you allocate to Project A?

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What Is Required to Maintain?

- Know your denominator
- Documented procedure for tracking the computer log
- Acceptable timing to post charges to project finances
- An institutional source of funds to affiliate the charges...?



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What Happens If Next Month....



- The computer system is also used for an internally funded project?
- Some of the hours go unused?
- The computer operating system failed and didn't keep a log of user hours?

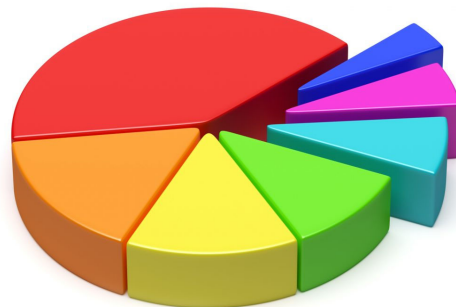


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Approach #2 – Effort/FTE Driven

- Distribution based on time spent by project staff
- Cost could be distributed *prior to use*
- Grounded in effort tracking



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Walk through Scenario: Effort Distribution

- A research assistant spends 80% effort on Project A and 20% effort on Project B. The projects are highly related.
- 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.

$$\begin{aligned} \text{Project A: } & \$3,000 * 80\% = \$2,400 \\ \text{Project B: } & \$3,000 * 20\% = \underline{\$ 600} \\ & \qquad \qquad \qquad \$3,000 \end{aligned}$$



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Many People / Many Projects

POLL for Practice

- A research team using specific chemicals has 3 people

	Project A	Project B
PI	10%	30%
Research Assistant	80%	20%
Technician	25%	25%

- The chemical cost is \$8,000/month on the two projects.
- Projects are highly related and usage is directly related to the amount of effort devoted to each project.



What method? And how much to Project B?

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What Happens If Next Month....



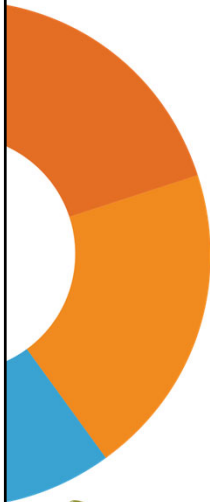
- The effort amounts change?
- Some of the chemicals go unused?
- There is a realization that there is an effort adjustment to 2 months ago...



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Honorable Mention: Allocation Based On Square Footage



- A student is paid a salary of \$1,200 a month to clean glassware in two labs 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.
- The square footage of the laboratories *might* be used as a reasonable basis to allocate the student's salary.
 - Lab A is 1,400 square feet.
 - Lab B is 1,000 square feet.



Share in chat: What might **YOUR** institution say about this approach?

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NOT Allocation Methodologies

- Project has available funding
- Choosing non-federal sponsored sources
- Awards that are ending and *clearly* could not benefit from the cost



We hear you out there screaming "It depends"... We know....
Come to the discussion after to share your examples!!

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The Key: Document, document, document...



- Hard to remember your thought process days, weeks, or months later.
- Auditors LOVE documents.



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Food for Thought

- Where might we run into problems related to allocation of costs?
- Costs that benefit only one award should only be budgeted for that award and not be allocated to more than one project based on budgetary convenience.



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BEST PRACTICES & TOOLS TO USE



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Best Practices in Costing



- “Park” the charge only on institutional funds



- Communicate between Pre & Post Award



- Ensure first-hand knowledge



- Review methodology & distribution *regularly*



- Document!



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PI Talk: What you need to know to decide the best method and allocation...

- This charge seems to apply to multiple awards.....would you describe how you think about (the resource) being shared among the projects?
- How does (the resource) benefit this award?
- Could you describe where else we might use (the resource)?
- If an auditor asked you, would you be able to tie back to the specific aims / program plan?
- Do you know why we cannot charge this cost to this award?



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Do you always have to use the same method?



- Situational dependence
- Consistency
- Litmus test: Federal government never (financially) penalized

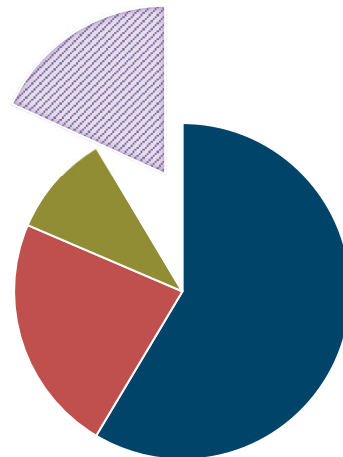
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Parting Consideration


Do you have to really work at an allocation method?

The item might be part of your F&A...



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HOME STRETCH LET'S TAKE A QUIZ





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Let's Take a Quiz - True or False?

Q1 - If consumables are being used on three projects, it's OK to evenly allocate \$ to each project when using equal amounts. 

 Q2 - It's OK to use up one project budget to stock up on supplies because the grant is ending soon and the next project is highly-related under the same PI.

Q3 - Allocating a laptop 100% to one project is fine if it is needed for only the one project. 



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**ASK THE PRESENTERS -
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JOIN US**




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