

Overview

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](#).

Allocation Principles:

Costs must be allocated among projects:

- 1) when they benefit two or more projects; and
- 2) in proportion to the benefit to those projects.

The basis for an allocation methodology **must** be documented **PRIOR** to a purchase or at the time of ordering the goods/services whenever possible in order to avoid cost transfers. (Please refer to the [DOs and DON'Ts](#) below.)

Situations requiring special attention:

- A. *Purchases at the end of an award* are considered by auditors to be at high risk for disallowance. Generally, the purchase of equipment, computing devices, or restock materials and supplies in anticipation of grant expiration where there is little, or no time left for such items to be utilized during the period of the award is highly discouraged. In those situations where an item is necessary to complete the research, determine the benefit to the award, document by specific reference to the proposal or subsequent RPPR submissions why the purchase is required, and describe the allocation methodology. When in doubt about the appropriateness of an end-of-award purchase such as capital equipment, consult with the sponsor as to its allowability and allocability, and document the sponsor's approval.
- B. *Publication Costs* must be allocated to all Yale active awards cited in the publication on the assumption that the cited awards contributed to and benefitted from the publication. Otherwise, any Yale awards not contributing to or benefitting from the publication should not be cited or be charged for publication costs.
- C. Where the purchase of equipment or other capital asset is specifically authorized in a federal award notice, the costs are fully assignable to the federal award regardless of whether the equipment or other capital asset is used on other projects contemporaneously or when no longer needed for the purpose for which it was originally required. See CFR §§[200.310](#) through [200.316](#) and [200.439](#).

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.

Example: A PI has two awards which require the purchase of mice to conduct experiments. The specific aims for one award indicate 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.

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 documented basis.

Example: Acetone purchased for use in a laboratory is needed by 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.

Developing an Interrelationship Allocation Methodology

When costs cannot be easily allocated and determined due to the interrelationship of work involved, it may be necessary to determine a method for allocating costs that supports a reasonable distribution across multiple awards. The basis for allocating a cost among awards should logically relate to the type of expense incurred. For example, it would be appropriate to allocate lab supplies based on the proportion of effort devoted to each award (e.g., measured as FTEs), whereas rent expense may be more appropriately allocated based on the square footage of lab space occupied by each award rather than FTEs in the space.

The methodology chosen should produce an allocation of costs to each sponsored award that **reasonably** reflects the benefit received by each award. Some examples of methodologies that could be used as a basis (i.e., the denominator) for allocating costs include:

- Effort of research personnel (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. When developing an interrelationship allocation methodology, it is important that the basis for the allocation method:

- Be documented **contemporaneously** with the cost being incurred and allocated;
- Approved in advance by the Principal Investigator(s) or authorized designee of the awards to which the costs are allocated; and
- Is not solely related to the availability of funds in the interrelated projects.

III. Documentation of Benefit and Allocation

The requestor of the transaction (Principal Investigator (PI)/Co-PI/authorized designee) must have personal knowledge of the benefit to the sponsored project, that the goods or services are reasonable, are appropriate to be charged to the accounts, and are allowable according to University and applicable sponsor policies.

If a preparer is processing a request on behalf of the requestor, the preparer must have received the appropriate proportional allocation methodology and instructions from the requestor in order to execute the purchase. Instructions may be in the form of an email, fax, or departmental request form, etc. and must be maintained in accordance with University policy and procedures.

IV. System Restrictions

Occasionally, it may not be possible to allocate costs to the benefiting sponsored awards due to a system limitation 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 charged to 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](#).

V. Allocation Methodology "Dos 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.

Don't exclusively charge sponsored projects when the expense also supports non-sponsored activities.

Don't allocate costs after-the-fact by use of cost transfers.

Don't allocate publication costs to a single Yale award when other active Yale awards are cited in the publication.

Don't allocate costs based on the anticipated balance of an award.

Do ensure that both proportional and interrelationship allocation methodologies are documented **contemporaneously** with the cost being incurred and allocated.

Do document why the specific methodology (e.g., FTEs or square footage) logically relates to the cost being allocated and the benefit received by the awards.

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, but no less than annually, or sooner if circumstances such as related awards change, to ensure they are reasonable. Significant changes to the number of FTEs may signal the need to review the allocation methodology. Also, allocations based on FTE's must be updated to reflect any changes in effort. Methodologies based on sampling, surveys, etc., should be reviewed, updated, and approved by the PI at least once each fiscal year and/or when new awards are received and/or awards expire.

Do identify the allocation method that will be used in advance of purchasing or at the time of ordering the goods/services whenever possible (to avoid the need for cost transfers).

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