

Allocating Allowable Costs

Case Studies and
Analyses

Presented by:

Office of Sponsored Projects







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Agenda

- Understanding the Basics
- Review of Allowable Costs
- Allocation Cost Methodologies
 - Proportional Benefit
 - Interrelationship
- Case Study and Discussion
- Question and Answers

A Review of the Allowability of Costs

The Principles To Test The Allowability Of Costs:

Term		Definition
Necessary, reasonable and allocable		Goods or services acquired and amount involved reflect an action that a prudent person would have taken (prudent person rule).
Conform		Items not restricted by federal regulations (2 CFR Part 200) or the specific award terms and conditions and agency requirements.
Consistent with policies/ procedures of the University and Treated Consistently		Consistent with policies and procedures that apply uniformly to both federally financed and other activities of the University. Like costs in similar circumstances treated consistently throughout the University.
Be determined to be in accordance with GAAP		Financial information should be useful to individuals when making financial decisions, assessing resources, and maintaining records.
Not be included as a cost or used to meet cost sharing on any other federal award		A cost cannot be used to satisfy cost sharing requirements and also be charged to the award.
Be adequately documented		Departments should keep complete records of all costs, including justifications of charges and any prior approvals.

Costs that do not meet these principles should not be charged to the sponsored award

A Review of the Allowability of Costs

Typical Allowable Costs

- Salaries and benefits for employees who work directly on the sponsored award
- Supplies and materials used in the performance of the sponsored project including computing devices < \$5,000 that are essential and allocable to the performance of the award
- Travel associated with the project or presenting results of the project
- Equipment
- Consultants
- Subawards
- Laboratory fees and patient care costs
- F&A (Overhead or Indirect Costs)

Typical Unallowable Costs and Activities

- Alcoholic beverages
- Alumni/ae activities
- Bad debt, losses, collection and related legal costs
- Commencement and convocation
- Contingency provisions
- Donations and contributions
- Entertainment costs
- Fines and penalties
- Fund raising and investment costs
- Housing and personal living costs
- Lobbying
- Losses on sponsored awards

A Review of the Allowability of Costs

Common Expense Types Excluded from F&A Rate Calculation:

Expenditure Type	Expenditure Type Name
• 712300	Faculty Salaries—Unallowable (if for example, the portion of faculty member’s salary if participating in fundraising or convocation activities)
• 724500	Staff—Unallowable
• 831700	YSM Supplemental Telecom Charge
• 832300	Services--Student
• 833300	Advertising, Public Relations (excluding recruitment of personnel)
• 8503xx	Rare Books
• 8506xx	Manuscripts
• 850900	Art and Museum Acquisitions
• 876000	Domestic Travel – Unallowable
• 876001	International Travel - Unallowable
• 894000	Professional Service Fees--Unallowable
• 9102xx	Losses
• 910300	Materials for Resale
• 910700	Prizes & Awards
• 911000	Commissions
• 911150	Unallowable Credit Card Losses
• 911200	Subsidies
• 911800	Parking Tickets
• 915200	Dues & Membership--Unallowable

Unallowable expenses that cannot be appropriately charged to a specific unallowable expenditure type (e.g., cost of flowers or lobbying activities) use expenditure type **911100** *Other Unallowable Costs*. DO NOT CHARGE TO SPONSORED AWARDS.

Allowable or Unallowable?



Sponsored	<p>Pantyhose: Supply item that directly benefits the award</p>		<p>Freezer: Piece of equipment that directly benefits the award</p>	
	<p>↑ Allowable ↓</p>			
	<p>Flowers: Used for table decoration at conference hosted by the grant.</p>	<p>Pantyhose: Used to collect ticks for Lyme disease research.</p>	<p>Freezer: Required to hold research samples resulting from work performed on the project.</p>	<p>Speeding Ticket: Investigator was driving to New York to attend a steering committee meeting as part of the project.</p>
Examples	<p>↓ Unallowable ↓</p>			
	<p>Flowers: Charging of flowers to an award is not considered allowable or reasonable</p>		<p>Speeding Ticket: Fines and penalties are unallowable.</p>	
GA/Special Use			<p>Consultant: While an allowable direct charge. Losses (deficits) on other sponsored awards are unallowable.</p>	
			<p>Consultant: Any form of an expense paid for lobbying activities is not allowed on sponsored awards.</p>	

Allowable or Unallowable?



Sponsored

Consultant: Allowable to award if permitted by the sponsor and charges are for the direct benefit of the award.

Snacks and Drinks: Allowable when providing for human subjects care and well-being.

Nooks: Necessary for the conduct of the research and justified in the proposal.

Allowable

Examples

<p>Consultant: Payments made to a non-Yale employee to interview human subjects in their homes for a research study.</p>	<p>Snacks and Drinks: Provided to human participants in a blood draw study. Outlined in budget & budget description</p>	<p>Nooks: provided for the research for a ED award on literacy. The participants are allowed to keep the Nooks after the study. Outlined in budget & budget justification.</p>	<p>Air Fare and Travel: PI and Co-Investigator purchase first class airline tickets to attend the annual Bimolecular conference held in Beijing, China.</p>	<p>Air Fare and Travel: Investigator purchases airline tickets on Aeroflot airways rather than an US flag air carrier to attend the International conference on genomic advances held in Moscow.</p>	<p>\$100 Airline Fee: PI changed his return flight to an earlier departure time so he could get back for a dinner with department faculty.</p>
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Unallowable

GA/Special Use

<p>Air Fare and Travel: First Class tickets are not allowed to be charged on a federal award.</p>	<p>Air Fare and Travel: Neither Fly America nor Open Skies permit the purchase of airline tickets on a Soviet Union air carrier when US flag carriers are available.</p>	<p>\$100 Airline Fee: Unallowable to the grant as there is no benefit to the award.</p>
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Allocation of Costs

Allocation of Costs

Has this ever happened to you?

A PI in your department has just been awarded their second research award. The PI or Lab Manager is not certain how to equitably charge the two awards for commonly used lab supplies and chemicals and needs assistance.

Do you know how to help? Let's go through the steps!

Allocation of Costs

Allocable – Directly benefits the project(s) charged:

A cost is allocable to a sponsored award if:

1. It is incurred solely to advance the research supported by the sponsored agreement;
2. It benefits both the sponsored award and other work of the institution, in proportions that can be approximated through use of reasonable methods; or
3. It is necessary to the overall operation of the institution and, in light of the principles provided in 2 CFR Part 200, is deemed to be assignable in part to sponsored projects.

2 CFR Part 200 provides two methods for allocating an allowable direct cost to two or more sponsored awards, they are:

1. Proportional Benefit
2. Interrelationship Method

2 CFR Part 200

<http://www.ecfr.gov/cgi-bin/text-idx?SID=15d5184c2810c3eef54cd7109663b443&node=pt2.1.200&rqn=div5>

Allocation of Costs

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.

- Initiator (PI or PI designee)
 - First-hand knowledge that purchase is reasonable and necessary
 - Determines the direct benefit and the proportional allocation. Detailed documentation supporting calculation of proportions is not required to execute the transaction.
- Preparer
 - Must have appropriate proportional allocation instructions (i.e., email, fax, departmental request form, etc.) from the initiator prior to executing the purchase.

Example: A PI has two awards which require the purchase of mice to conduct experiments. The Specific Aims for one award requires 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.

Allocation of Costs

Interrelationship Method

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.

Example: Acetone purchased for use in a laboratory is needed for the technicians working concurrently on three research projects. A reasonable method of allocating the cost of the Acetone could be based on the number of research personnel FTEs in the lab that are supporting the award.

Allocation of Costs

Interrelationship Method (cont.)

The methodology chosen should produce an allocation of costs to each sponsored award that ***reasonably reflects the proportion of benefit received by each award.*** Therefore, if reasonable, no after-the fact reconciliation is necessary.

Examples of methodologies that could be used as a basis for allocating costs (depending on the type of expense) include:

- Effort of research personnel (headcount or 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 (Salaries, fringe benefits, materials and supplies, services, travel but excluding subawards entirely) budget of the benefiting sponsored award

Allocation of Costs

Back to our original example:

A PI in your department has just been awarded their second research award. The PI or Lab Manager is not certain how to equitably charge the two awards for commonly used lab supplies and chemicals and needs assistance.

You met with the Lab Manager and determined the following:

- The PI needs to charge his two awards for needed lab supplies (pipettes, kimwipes, culture dishes, test kits, etc.) and chemicals to support his research. The total cost is \$3,000.
- The Lab Manager is not certain as to the quantity of each supply item that will be used by each award and seeks your guidance in charging the two awards.
- The Lab Manager states there are 7 people working in the labs with 3.5 FTEs working on Award 1 and 1.5 FTEs working on Award 2. The FTEs do not include the PI who is not actively performing these tests in the lab but does include Research Assistants and Lab Techs.

Allocation of Costs

- What allocation method would you use?

Interrelationship

- What methodology would you use to allocate the costs to the award?

FTEs

Allocation of Costs

A Sample Cost Allocation Form



Form 1304 FR.09

Cost Allocation Methodology

Revision Date: 5/3/10

Introductory Instructions:

1. Analyze and determine the appropriate method for the type of expense being allocated.
2. Record the PTAOs of the awards (can be both sponsored and non-sponsored awards) sharing the expense.
3. Fill in the number of FTEs, square footage percentage or the MTDC (as determined in Step 1.) for each award.

NOTE: The same methodology does not necessarily have to be used for all charges on an award.

Rent, latex gloves and mice might each reasonably use a different cost allocation methodology using a single Cost Allocation Methodology form.

PTAO	PPPPPP.TT.AWARD1..00000	PPPPPP.TT.AWARD2..00000	PPPPPP.TT.AAAAA..000000	PPPPPP.TT.AAAAA..000000	PPPPPP.TT.AAAAA..000000	
Award						
Start Date/End Date	7/1/2012 - 6/30/2013	9/1/2012 - 8/31/2013				
A Square Footage	N	N	N	N	N	0
Allocation	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
B Number of Paid FTEs	3.5	1.5	N	N	N	5
Allocation	70%	30%	#VALUE!	#VALUE!	#VALUE!	
C MTDC budget total	N	N	N	N	N	0
Allocation	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	

AUTHORIZATION

I authorize that the above cost allocation methodology be used for purchasing: (identify type of expenditure, e.g., supplies, rent, etc.) Lab supplies and chemicals _____

Dr. Allen Miller 10/15/12

PI Signature and Date

OPTIONAL

As PI, I have identified and authorize _____ as a responsible individual to make purchases in accordance with the above cost allocation methodology, and I confirm that this individual has completed the following University training: *What Research Staff Need to Know About Spending Sponsored Project Funds*.

Responsible Individual's Signature and Date

Form 1304 FR.09 Cost Allocation Methodology

<http://your.yale.edu/policies-procedures/forms/1304-fr09-cost-allocation-methodology>

Allocation of Costs

Different allocation methodologies may be required for different types of costs

Example: It may be more appropriate to allocate lab supplies based on the proportion of effort devoted to each award (measured as FTEs).

Whereas, allocating rent could be based on the square footage of lab space needed for each award.

Regardless of the allocation method used, it is important that the basis for the allocation method be:

- documented contemporaneously with the cost being incurred and allocated;
- and
- approved in advance by the Principal Investigator(s) of the awards to which the costs are allocated.

For additional information on allocation methods, please refer to the following:

- **Guide 1304 GD.02 Cost Allocation Methodologies**
<http://your.yale.edu/policies-procedures/guides/1304-gd02-cost-allocation-methodologies>

Allocation of Costs

IMPORTANT

- Any cost allocable to a particular sponsored award under the standards provided in [2 CFR Part 200](#) may not be shifted to other sponsored awards in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by the terms of the sponsored award, or for other reasons of convenience.
- Any costs allocable to activities sponsored by industry, foreign governments, or other sponsors may not be shifted to federal awards.

For additional information on determining allowability, reasonableness, and allocability of costs for sponsored projects, please refer to the following:
<http://your.yale.edu/policies-procedures/guides/1305-gd07-determining-allowability-reasonableness-and-allocability-costs>

Proper Allocation Method? Yes or No

1. Dr. Smith receives monthly deliveries from Air Gas that is used for his four research awards. Dr. Smith instructed the Department Business Office (DBO) to alternately charge the awards with the monthly costs (i.e.: month 1 to award 1, month 2 to award 2, etc.). Is this a proper allocation method?

NO

No. If the costs can not be easily determined based on the interrelationship of the work involved the costs may be allocated or transferred to benefitted projects on any reasonable basis. In this example, the PI could use research personnel FTEs or laboratory space (square footage) method.

Proper Allocation Method? Yes or No

2. Allocating the cost of rental space using actual square footage of each lab.

Yes

Allocating rental space by square footage logically relates to the costs being allocated.

3. Dr. Smith has been allocating lab supplies for 2 years to his 5 research awards using the original FTEs budgeted on his awards. Staffing levels have changed during the 2 years.

No

According to Guide 1304 GD.02, allocation methodologies should be reviewed regularly to ensure they are reasonable. Allocations must be updated when changes in headcount and/or effort occur. Allocation methods should be reviewed at least annually.

Proper Allocation Method? Yes or No

4. PI instructs DBO to charge lab supply purchases to his special use account until he can decide how he wants the supplies allocated. **No**

Allocation methods should be documented when the cost is being incurred and approved in advance by the PI/initiator of the awards to which the costs are allocated.

5. PI instructed DBO to develop an allocation method and prepare a JSA to allocate 3 months of lab supply purchases from his special use account to his 3 federal awards. **No**

Allocation methods should be developed and approved by the PI or initiator in advance of purchasing (or at the time of) ordering goods. Costs should not be allocated after-the-fact by use of JSA resulting in cost transfers.

Case Reviews

Case Review # 1

Two of Dr. Muridae's NIH awards require the use of animals. Both awards (Award A and Award B) received approval for the use of animals with Award A needing 300 mice in order to conduct the research while Award B required 100 mice. Unfortunately, the protocol number was only successfully linked to Award A and not to Award B. The PI orders 400 mice and allocates the cost of the mice 75% - 25% between the awards.

Q: Is this allocation methodology appropriate?

Q: Because the protocol was not linked, YARC will not permit the charge to the second award. Knowing the first NIH award was properly linked, Dr. Muridae requests that all 400 mice be charged to the first NIH award. Is this appropriate? Why or why not?

Case Review # 1: Analysis

Q: Is this allocation methodology appropriate?

A: Yes, 2 CFR Part 200 provides two methods for allocating an allowable direct cost to two or more grants. Proportional Benefit is one of the two methods defined when proportions can be determined and allocated without undue effort or cost.

Q: Because the protocol was not linked, YARC will not permit the charge to the second award. Knowing the first NIH award was properly linked, Dr. Muridae requests that all 400 mice be charged to the first NIH award. Is this appropriate? Why or why not?

A: No. The 100 mice on Award B does not benefit Award A and would not be an appropriate charge to the award. You would contact the IACUC office and request the appropriate award linkage and ask YARC to charge the Award B.

Case Review # 1A

All of Dr. Muridae's research awards require the purchase of common lab supplies and chemicals in order to conduct the research. Dr. Muridae has two NIH awards and three industry sponsored awards. It is very difficult to know the benefit to each of the awards so he allocates an equal portion of 20% to each.

Q: Is this allocation methodology appropriate?

A: No, as it is very difficult to identify the benefit to each award, the proportional benefit method would not be appropriate. The interrelationship method would be the more appropriate allocation, as interrelationship is used 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.

Case Review # 1B

- Q:** Which of the following would an appropriate method for allocating Dr. Muridae's lab supply and chemical charges among his five awards (A, B, C, D, E)?
- A. Charge all of the costs to the grant with the most money available.
 - B. Charge the costs to grant A in month #1, B in month #2, C in month #3, D in month #4, and E in month #5; then start over again.
 - C. Charge the 5 awards upfront based on the proportion of FTEs working on each award.
 - D. Charge all of the costs to the NIH awards and allocate the charges via cost transfer among the non-federal awards once they end.
 - E. Charge each award a proportionate amount of cost based on the modified total direct cost of each award as a percentage of the total.

C. Charge the 5 grants up front based on full time equivalents (FTEs) working on each grant,

AND

E. Charge each award a proportionate amount of cost based on the modified total direct cost of each award as a percentage of the total.

Case Review # 2

Dr. Jones is attending a conference in San Francisco to present the findings from his research funded by two federal awards. Dr. Jones purchased his business class round-trip fare on Air Canada. When submitting the charge for reimbursement he instructs his business office to charge half the airfare to each award.

Q: Is this allowable and allocable to the two federal awards?

A: No. The department business office should not process this reimbursement request to any Federal award as it violates the Fly America Act. Dr. Jones must use a U.S. flag carrier on domestic flights within the U.S. Also, the purchase of business class fare is not typically allowed on federal awards (exceptions prescribed in 2 CFR Part 200 section 200.474 and University Policy).

Policy 3301 Travel on University Business

<http://your.yale.edu/policies-procedures/policies/3301-travel-university-business>

Course Recap:

Take aways:

- ✓ Meet with your PI to create a reasonable allocation methodology prior to charging a sponsored award.
- ✓ Expenses and activities must be allowable in order to be allocated to sponsored awards.
- ✓ Allocation methodologies must be documented and approved by the PI.
- ✓ Allocation methodologies should logically relate to the costs being allocated.
- ✓ Retain supporting documentation in your department's award file.
- ✓ Review allocation methodologies at least annually.
- ✓ Make sure no one person has control over all aspects of the transaction.

Web Links and Resources

2 CFR Part 200

<http://www.ecfr.gov/cgi-bin/text-id?SID=15d5184c2810c3eef54cd7109663b443&node=pt2.1.200&rgn=div5>

Guide 1304 GD.02 Cost Allocation Methodologies

<http://your.yale.edu/policies-procedures/guides/1304-gd02-cost-allocation-methodologies>

Form 1304 FR.09 Cost Allocation Methodology

<http://your.yale.edu/policies-procedures/forms/1304-fr09-cost-allocation-methodology>

Guide 1305 GD.07 Determining Allowability, Reasonableness, and Allocability of Costs for Sponsored Projects

<http://your.yale.edu/policies-procedures/guides/1305-gd07-determining-allowability-reasonableness-and-allocability-costs>

Please click [here](#) to start the Quiz

**You must complete and pass the quiz in order to get credit
for the course**