



## **Boston College: OFFICE FOR SPONSORED PROGRAMS Guide on Cost Allocation Methodologies**

### **Introduction**

A cost is allocable to a particular sponsored award if the goods or services involved are chargeable or assignable to that sponsored award in accordance with relative benefits received. This standard is met if the cost: 1) is incurred specifically for the award, 2) benefits both the award and other work of Boston College and can be distributed in proportions that may be approximated using reasonable methods; and 3) is necessary to the overall operation of Boston College AND is assignable in part to the award.

Goods and services purchased by Boston College under a sponsored award may benefit more than one sponsored award or cost objective. Such costs must be allocated to a sponsored award in proportion to the actual benefit received by the award. To determine how much of the goods or services are actually chargeable to an award, an allocation methodology must be developed that reasonably estimates the actual benefit to the award. Costs are then distributed to each benefiting sponsored award or cost objective using the allocation methodology.

### **Restrictions**

It is important to note that costs may not be charged to an award to overcome fund deficiencies, to avoid restrictions imposed by laws, regulations, or a sponsor's terms and conditions, or for other reasons of convenience (e.g. charging a cost to a project simply based on the availability of funds on that project).

### **F&A**

Indirect costs, or costs considered to part of Facilities and Administration (F&A), are not eligible for allocation directly to a sponsored award.

### **Proportional Benefit**

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, then the cost must be allocated to the projects based on the proportional benefit. This **must** be done for Federal awards per the Office of Management and Budget's Uniform

Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”), §200.423.

### **Interrelationship**

If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the cost may be allocated to a benefiting project on any reasonable documented basis, provided it is not to overcome fund deficiencies, to avoid restrictions imposed by laws, regulations, or a sponsor’s terms and conditions, or for other reasons of convenience.

### **Allocation Methodology Examples**

Allocation to benefiting sponsored projects is generally based on Usage or proportional project budgets obligated to date as defined by Modified Total Direct Costs (MTDC) excluding sub-awards.

#### Allocation Based on Usage

Example: Costs of lab supplies charged based upon the quantity used on each project.

The monthly cost of supplies/expendables to maintain a lab computer system is \$1,000. The computer system is used solely for projects A and B. The computer operating system keeps a log of users and their time on the system. A reasonable base to allocate the expense would be computer user hours. Project A assistants have 100 combined user hours a month and project B assistants have 80 combined user hours a month. Then the \$1,000/month cost would be allocated \$560 to project A and \$440 to project B.

Project A  $100/180 = 56\%$ ;  $\$1,000 * 56\% = \$560$

Project B  $80/180 = 44\%$ ;  $\$1,000 * 44\% = \$440$

#### Allocation Based on MTDC

A lab is supporting three projects Project A, B, and C, and spends \$200/month for chemical supplies. If Project A has an obligated MTDC budget of \$100,000 and Project B has MTDC of \$200,000 and Project C has MTDC of \$200,000. Then the \$200/month of chemical supplies would be allocated \$40 to Project A and \$80 to Project B and \$80 to Project C.

Project A  $\$100,000/\$500,000 = 20\%$ ;  $\$200 * 20\% = \$40$

Project B  $\$200,000/\$500,000 = 40\%$ ;  $\$200 * 40\% = \$80$

Project C  $\$200,000/\$500,000 = 40\%$ ;  $\$200 * 40\% = \$80$

## **Documentation**

The Principal Investigator (PI) working with the Department Research Administrator (DRA) must ensure that the costs are reasonable and that costs allocated for more than one project have appropriate documentation. The documentation must show any judgments made (e.g. PI's judgment regarding allocation method used) and that each project benefits in the percentages or amounts indicated.

The documentation of the allocation methodology must be retained for future review and reference and include how the allocation method is logically related to the cost being allocated. This documentation can be uploaded to PeopleSoft for requisitions and certain other transactions. If it is not uploaded to PeopleSoft, then it is the responsibility of the PI to ensure the allocation methodology documentation is maintained for the life of the award plus three years.

It is essential that the cost allocation be documented, supportable, understandable, and reasonable based on the benefit each project receives. When documenting an allocation methodology, keep the third-party/two-years-from-now rule in mind. Would a third party understand the explanation? Will the explanation be understandable two or more years from now? Basically, the documentation should be easily understood by any reader and support the allocation methodology without the need for those involved in the transaction to add any further explanation/information. The documentation should be able to stand on its own.

### **Allocation methodology “Do’s and Don’ts”**

- **Don’t** use allocation methodologies that result in an over- or under-recovery of a cost/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.
- **Do** ensure that the interrelationship allocation methodologies are documented contemporaneously with the cost being incurred and allocated.
- **Do** document how measures such as MTDC logically relate to the cost being allocated and the benefit received by an award being charged.
- **Do** retain the supporting documentation in the department, if it is not uploaded into PeopleSoft, so it is available for review and audit.
- **Do** review allocation methodologies periodically to ensure they are reasonable. 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 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).

## **Questions**

If you have any questions about cost allocation, how to treat a specific cost, or need additional information, please contact the Office for Sponsored Programs.