

Every cost on a sponsored project must meet the allowability test described below. Additional considerations are listed on [page 2](#).

Allowability Test

1. Reasonable

- 1.1 An expense may be considered reasonable if the nature of the goods and services acquired, and the amount involved, reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the expense was made.

2. Allocable

- 2.1 An expense is allocable to a particular project if the goods or services involved are incurred solely to advance the work under such project. If an expense benefits two or more projects, it is necessary to determine a method of allocation and document the method utilized. If the benefit to each project is easily determined, the proportional benefit rule should be used. Some examples of reasonable allocation methodologies are based upon usage, number of experiments, number of hours, effort, and FTE's. See [pages 4 - 7](#) for examples. If it is more difficult to determine the proportional benefit due to the interrelationship of the projects, the costs should be distributed on a reasonable basis. See [page 3](#) for specific instructions for establishing interrelatedness between projects.

3. Consistent

- 3.1 An expense is given consistent treatment if other costs incurred for the same purpose, in like circumstances, have been accounted for in the same manner. This is extremely important when determining whether an expense will be categorized as a direct or indirect cost.

4. Conforms to Limitations

- 4.1 An expense conforms to limitations if it complies with limitations or exclusions on costs included in such areas as the award agreement, the proposal, and the sponsor's general terms and conditions. The funding announcement can often lend further clarity if needed.

Additional Considerations

1. Is the expense considered a CAS exception item?
 - 1.1 Review the [CAS Exceptions Guide](#) to determine the type of expenses considered a CAS exception item.
2. Was the charge incurred during the allowable spending period?
 - 2.1 Confirm the goods or services purchased were used or rendered (incurred) during the allowable spending period. It is possible for an expense to be incurred during the allowable spending period but the invoice for the goods or services was received after the allowable spending period ended. Ensure that your documentation shows that the expense was incurred before or by the end-date.
 - 2.2 If the expense was incurred near the end of the allowable spending period, be certain to allocate only as much of the expense amount to the project as is reasonable based on the benefit of the goods and services relative to the portion of the entire project period remaining at the time the expense was incurred.
3. Are funds available to absorb the charge?
 - 3.1 Prepare an F&A reconciliation, if needed, to verify the available balance found in the financial reports.
4. Is the charge coded correctly?
 - 4.1 Review the [Expenditure Code List](#) to confirm the expenditure code used appropriately matches the expense being charged.
 - 4.1.1 Be especially cognizant of capital equipment charges – if they are coded incorrectly, the sponsor may be overcharged on F&A. MyReports queries can be created to internally audit expenses that are equal to or less than +/- \$5,000. See <https://cfo.asu.edu/property> for further information.
 - 4.2 Employee Reimbursement spend categories should never be used on a sponsored project. These expenses should be reviewed and re-coded to ledger accounts/spend categories which more appropriately match the type of expense.
 - 4.3 Miscellaneous - Other is strongly discouraged and rarely should be used on sponsored projects. These expenses should be reviewed and, if able, should be re-coded to object codes/sub-object codes which more appropriately match the type of expense.

Allocation of Costs between Interrelated Projects

Members of the Federal Demonstration Partnership (FDP) can utilize a simplified process for the allocation of costs between interrelated projects. Through this partnership, clarification has been given to the language in 2 CFR 200 Uniform Guidance”, which directs how to allocate costs between interrelated projects supported by multiple Federal awards. Interrelationship between or among projects from the participating agencies do not have to be formally stipulated but must be demonstrable through certain criteria. Use the following process for confirming and utilizing the ability to allocate expenses more simply:

ESTABLISHING INTERRELATEDNESS

1. Confirm that the awarding sponsors in question are members of the FDP.
2. Confirm that the awards meet one of the following criteria:
 - 2.1 The theoretical approaches are interrelated
 - 2.2 Studies of the same phenomena are conducted by the same or different techniques
 - 2.3 Studies of different phenomena are conducted by the same technique.

DETERMINE ALLOCATION STRATEGIES

1. Use one of the following allocation strategies based upon the determination of cost benefit:
 - 1.1 For costs benefiting 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 based on the proportional benefit.
 - 1.2 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 costs may be allocated or transferred to benefited projects on any reasonable basis.
2. Ensure that costs are not being shifted between projects to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

DOCUMENT PROJECT INTERRELATEDNESS

1. Document the interrelatedness of the projects via the “Documenting Interrelated Projects Form” found on the Research Admin website > [Forms and Templates](#).
- 2. ORSPA will notify PI and RA, via Award Change Request notification when form is approved or denied.**

ALLOCATION EXAMPLE #1

Primary Scenario:

Cost of Non-Capital Equipment: \$500

Total Number of Awards Using Non-Capital Equipment: 2

Grant A: Use time of 20 hours

Grant B: Use time of 30 hours (Grant B has a \$200 available balance)

Reasonable Allocation Method:

1. Allocate based on number of hours used
 - a. $\$500 / 50 = \10 per hour
Grant A Cost: $20 * \$10 = \200
Grant B Cost: $30 * \$10 = \300
Total Cost: \$500 [Equivalent to total cost of equipment]
 - b. This scenario creates a \$100 direct cost deficit on Grant B. That deficit must be covered by the PI.
 - c. There are many other allocation methods that could be used in this scenario; this is only one example given that the number of hours can be readily determined.

Unreasonable Allocation Method:

1. Allocate based on Grant B available balance of \$200 as shown above
 - a. Grant A Cost: \$300
Grant B Cost: \$200 [Equivalent to remaining grant balance]
Total Cost: \$500 [Equivalent to total cost of equipment]
 - b. This method is unreasonable because the amount charged to Grant B is purely based upon the available balance, and not the proportional benefit that Grant B received from this piece of equipment. In this scenario, Grant A is being over-charged for the piece of equipment.
 - c. Any time you are splitting a cost between multiple awards and one award will be spent out completely (Grant B, in this case), it is very important to have a reasonable allocation method that is well documented.

ALLOCATION EXAMPLE #2

Primary Scenario:

Cost of Trip (to one location): \$2,000

Total # of Days in Travel Status: 10

of Days Speaking for Grant A: 4

of Days Speaking for Grant B: 1

of Hours Speaking for Grant A: 32

of Hours Speaking for Grant B: 6

Remaining Days/Hours are spent traveling to get to destination – none are for non-grant activities.

Reasonable Allocation Methods:

1. Allocate based on the number of days speaking for each grant

- a. % of Days Spent on Grant A: $[4 / (4+1)] = 80\%$

- % of Days Spent on Grant B: $[1 / (4+1)] = 20\%$

- Grant A Travel Cost: $80\% * \$2,000 = \$1,600$

- Grant B Travel Cost: $20\% * \$2,000 = \400

- Total Cost: \$2,000** [Equivalent to total cost of trip]

2. Allocate based on the number of hours spent speaking for each grant

- a. % of Hours Spent on Grant A: $[32 / (32+6)] = 84\%$

- % of Hours Spent on Grant B: $[6 / (32+6)] = 16\%$

- Grant A Travel Cost: $84\% * \$2,000 = \$1,680$

- Grant B Travel Cost: $16\% * \$2,000 = \320

- Total Cost: \$2,000** [Equivalent to total cost of trip]

- b. Use the method that is most reasonable for your situation.

Unreasonable Allocation Method:

1. Allocate based on number of grants being charged

- a. The trip was for 2 grants (A & B), the total cost is \$2,000, so each account is charged \$1,000 $[\$2,000 / 2]$.

- b. This method is un-reasonable because each grant did not receive the same proportional benefit from the trip, as can be seen in the large difference between the days/hours spent speaking for each grant.

ALLOCATION EXAMPLE #3

Primary Scenario:

Cost of Annual License: \$5,000

Total Number of Students Using License: 250

Total Number of Hours Annual License is Used: 1,250

College A: 50

College A: 200

College B: 100

College B: 500

Grant C: 25

Grant C: 175

Grant D: 75

Grant D: 375

Reasonable Allocation Methods:

1. Allocate based on the number of students

- a. $\$5,000 / 250 = \20 per Student

College A's Cost: $50 * \$20 = \$1,000$

College B's Cost: $100 * \$20 = \$2,000$

Grant C's Cost: $25 * \$20 = \500

Grant D's Cost: $75 * \$20 = \$1,500$

Total Cost: \$5,000 [Equivalent to total cost of license]

2. Allocate based on the number of hours is used

- a. $\$5,000 / 1,250 = \4 per hour

College A's Cost: $200 * \$4 = \800

College B's Cost: $500 * \$4 = \$2,000$

Grant C's Cost: $175 * \$4 = \700

Grant D's Cost: $375 * \$4 = \$1,500$

Total Cost: \$5,000 [Equivalent to total cost of license]

- b. Use the method that is most reasonable for your situation.

Unreasonable Allocation Method:

1. Allocate based on number of accounts using the license

- a. 4 accounts use the license (A, B, C, & D), the total cost is \$5,000, so each account is charged \$1,250 [$\$5,000 / 4$].
 - b. Each account did not receive the same proportional benefit from the license, as can be seen in the differences in the amount of students/number of hours. Therefore, this method is unreasonable.

ALLOCATION EXAMPLE #3 CONTINUED

Alternate Scenario A:

College A wants to pay more for the annual license: \$2,000

Adjusted cost of license: \$3,000 (\$5,000 - \$2,000)

Number of Student Using the License: 200 (B + C + D)

Cost per student: \$15 (\$3,000 / 200)

Reasonable Allocation Method:

1. Allocate based on number of students

a. College B's Cost: $100 * \$15 = \$1,500$

Grant C's Cost: $25 * \$15 = \375

Grant D's Cost: $75 * \$15 = \$1,125$

Total Cost: \$3,000 [Equivalent to adjusted total cost of license]

- b. This scenario shows the importance of not only allocating an expense properly, but also a cost-savings.
- c. Number of hours could also be used as a reasonable allocation method in alternate scenario A.

Alternate Scenario B:

College A has decided to pass on this expense to Grant E

All students in College A work on Grant E (50)

Original Price per Student: \$20

Reasonable Allocation Method

1. Allocate based on number of students

a. Total Cost Allowed on Grant E: $50 * \$20 = \$1,000$

Total Cost College A Absorbs: \$2,000 payment - \$1,000 transferred to Grant E = **\$1,000**

- b. Only PART of the expense can be passed on to the grant – since College A has in essence paid for part of College B, Grant C, and Grant D's expenses, these expenses would not be appropriate on Grant E.
- c. This scenario shows the importance of allocating an expense fairly across all grants – one grant cannot "volunteer" to disproportionately absorb more of an expense than the others.