

## Guidance on Cost Allocations across two or more Projects

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Step 1: Ensure the direct cost meets the allowability criteria as follows:

1. Allocable: cost can be assigned to the activity on some reasonable basis. The project that pays the expense must directly benefit from it.
2. Reasonable: if the nature of the goods or services and the amount involved reflect the actions of a prudent person.
3. Treated Consistently: Like costs must be treated the same in like circumstances, as either direct or indirect costs.

Examples of direct Costs:

- Salaries
  - Benefits
  - Travel
  - Special Purpose Equipment
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Step 2: Identify cost allocation method

### OMB Principle 1: 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 based on the proportional benefit.

An example of a proportional benefit allocation may be a computing device that is purchased specifically for two projects. The computing device will be used 40% for Project A and 60% for Project B. The cost of the computing device would be charged to the projects based on the proportionate benefit to each project. Therefore, 40% of the cost is allocated and directly charged to Project A, and 60% of the cost is allocated and directly charged to Project B.

### OMB Principle 2: Reasonable Basis:

If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved ... the costs may be allocated or transferred to benefited projects on any reasonable basis.

Examples of reasonable allocation methods for a beaker purchase costing \$2,300 that benefited three sponsored projects:

◦ **Method A. Allocation based on Award Personnel**

Award	Number of FTEs	Percentage	Allocation Amount
A	2.5	26%	598
B	4	42%	966
C	3	32%	736
TOTAL	9.5	100%	\$2,300

- **Method B. Allocation based on Lab Square Footage**

Award	Square Footage	Percentage	Allocation Amount
A	1,500	48%	1,104
B	600	20%	460
C	1,000	32%	736
TOTAL	3,100	100%	\$2,300

- **Method C. Allocation based on Equal Distribution of Cost**

Award	Equal Percentage	Allocation Amount
A	33.3%	766
B	33.3%	766
C	33.4%	768
TOTAL	100%	\$2,300.00

**Step 3: Document your cost allocation**

Documentation that supports how costs were allocated should be retained by the department in the event of an audit. The allocation must be fair, rational and verifiable.