

**THREE RIVERS COLLEGE
FINANCIAL REGULATION**

Section: 3000 Financial	
Sub Section: 3100 Financial Management	
Title: FR 3108 Grant Cost Allocation	Page 1 of 7
Primary Policy: FP 3101 Budget and Financial Processes	
References: 2 CFR Chapter I, Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards	
Supersedes: NA	
Responsible Administrator: Chief Financial Officer	
Initial Approval: 12-09-2015	Last Revision: 09-21-2016

The Three Rivers College adopts policies and regulations to provide direction with the budget and financial processes to conform to all federal regulations, state and local requirements as set forth by the Missouri Constitution, state statutes, Department of Elementary and Secondary Education rules, Coordinating Board for Higher Education rules, and to all college policies.

Grant Cost Allocation

Federal regulations establish principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. As a general rule, there are four main guidelines to keep in mind when charging expenses to federal grants and contracts. All expenditures must abide by the following four principles.

All charges must be:

- **Reasonable**
A prudent person would have purchased this item and paid this price.
- **Allocable**
Expenses can be allocated to the federal grant or contract activity based on benefit derived, cause and effect, or other equitable relationship.
- **Consistently Treated**
Like expenses must be treated the same in like circumstances.
- **Allowable**
Permitted as a direct cost under the terms of a specific grant or contract.

Reasonable:

A cost may be considered reasonable if the nature of the goods or services, and the price paid for the goods or services, reflects the action that a prudent person would have taken given the prevailing circumstances at the time the decision to incur the cost was made.

To determine if an expenditure is reasonable, ask yourself the following questions:

**THREE RIVERS COLLEGE
FINANCIAL REGULATION**

Section: 3000 Financial	
Sub Section: 3100 Financial Management	
Title: FR 3108 Grant Cost Allocation	Page 2 of 7
Primary Policy: FP 3101 Budget and Financial Processes	
References: 2 CFR Chapter I, Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards	
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1. Is the cost a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement?
2. Does incurring this expenditure violate the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions?
3. Have the individuals incurring this cost acted with due prudence (discretion and good sense) in the circumstances? Have they considered their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large?
4. Were the actions that were taken in respect to incurring the cost consistent with established institutional policies and practices applicable to the work of the institution, including sponsored agreements?

Allocable:

A cost is allocable to a particular grant or contract if the goods or services involved are able to be directly assigned to the specific grant or contract.

To determine if an expenditure is allocable, ask yourself the following questions:

1. Is it incurred solely to advance the work under the sponsored agreement?
2. Does it benefit both the sponsored agreement and other work of the college, in proportions that can be approximated through the use of reasonable methods?
3. Is it necessary to the overall operation of the institution and, in light of sponsored research rules and regulations, is it deemed to be assignable in part to a sponsored project?

Expense Allocation Policies:

If an expenditure solely benefits one project, it should be charged entirely to that benefiting project. However, sometimes an expenditure can benefit two or more projects. Lab chemicals are an example of an expense that could potentially benefit more than one project. When this occurs, the expenditure must be charged in the same proportions as the benefits on the respective projects. (See "Examples" below.)

**THREE RIVERS COLLEGE
FINANCIAL REGULATION**

Section: 3000 Financial	
Sub Section: 3100 Financial Management	
Title: FR 3108 Grant Cost Allocation	Page 3 of 7
Primary Policy: FP 3101 Budget and Financial Processes	
References: 2 CFR Chapter I, Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards	
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Note: The allocation may need to be based on estimates at first because the correct allocation percentages may not be known until the item purchased has been used. If this is the case and the estimated percentages are not correct after the item has been consumed, a Cost Transfer will need to be completed to properly correct the allocation.

Any costs allocable to a particular project may not be shifted to other projects in order to meet deficiencies caused by overruns (deficits) or other fund considerations. Cost cannot be shifted to avoid restrictions imposed by law or terms of the sponsored agreement or for other reasons of convenience.

If a cost benefits two or more projects or activities, it must be charged in accordance with its benefits to each project respectively. Charges split between more than one grant must be split on the basis of proportional benefit or other reasonable method. **The division of the expenditure cannot be split based on available funding or any other type of synonymous methodology.** An expenditure that benefited two or more projects cannot be charged solely to one project because the other project is almost out of funding.

Federal regulations provide two methods for allocating an allowable direct cost to two or more grants:

The Proportional Benefit Rule

The proportional benefit rule applies when it is possible to determine the proportional benefit of the cost to each project. The cost is allocated according to the proportion of benefit provided to each of the projects.

The Interrelationship Rule

The interrelationship rule applies when it is not possible to determine the proportional benefit to each project because of the interrelationship of the work involved. The cost is distributed on any reasonable and rational basis because the proportional benefit cannot be identified and applied to the individual projects.

**THREE RIVERS COLLEGE
FINANCIAL REGULATION**

Section: 3000 Financial	
Sub Section: 3100 Financial Management	
Title: FR 3108 Grant Cost Allocation	Page 4 of 7
Primary Policy: FP 3101 Budget and Financial Processes	
References: 2 CFR Chapter I, Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards	
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External Locations:

If a project is to be located off-campus, the proposal budget should include funding for common external location-expenses (i.e. rent, telephone, office supplies) despite the size of the project. If two or more projects are located at the same external location, the external location-expenses cannot be charged to the larger project(s) because the smaller project(s) does not have sufficient funding. If a project moves to an external location during the life of the project, there may be a need to request re-budgeting authority from the project sponsor to cover expenses that were not included in the original proposed budget.

Allocation Methodologies & Guidelines:

All expenditure allocations must be done on a rational basis. Prohibited allocation methodologies include any methodology based on rotation of budgets, funding or available funds.

- ***Always* document the allocation methodology.** Allocation methodologies must be documented and auditable. Documentation should include support for the specific costs allocated and indicate how the allocation methodology is logically related to the cost being allocated. This support should be retained by the department and be made available for review. Always remember to document why measures such as headcount, square footage or hours directly relate to the benefit received.
- **Allocate expenditures on a routine basis.** Do not wait until the end of the fiscal year or the end of the grant year to allocate expenditures!
- **Allocation methodologies should be reviewed periodically to ensure they are reasonable.** Methodologies based on sampling, surveys, etc. should be reviewed and updated at least once each fiscal year. Changes to the population may signal the need to review the allocation methodology more frequently.
- **Allocation methodologies need to be reviewed when the project begins and ends to ensure compliance.**

**THREE RIVERS COLLEGE
FINANCIAL REGULATION**

Section: 3000 Financial	
Sub Section: 3100 Financial Management	
Title: FR 3108 Grant Cost Allocation	Page 5 of 7
Primary Policy: FP 3101 Budget and Financial Processes	
References: 2 CFR Chapter I, Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards	
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Examples:

The following are some examples of allocation methodologies. Other reasonable methodologies can be developed, provided that they meet the federal regulation allocation principles.

- **Allocation based upon usage:** The cost of lab supplies allocated based upon the quantity used on each project.
- **Allocation based upon number of experiments:** The cost of syringes allocated based upon the number of experiments performed on each project.
- **Allocation based upon number of hours:** The cost of computer equipment allocated based upon the number of hours logged on for each project.
- **Allocation based upon the number of clients served:** The cost of personality tests allocated based upon the number of clients served.
- **Allocation based upon effort:** The cost of lab supplies proportionately allocated based upon the Principle Investigator's/Grant Manager's percentage of effort charged to each project.
- **Allocation based upon square footage:** The salary of a student assistant cleaning glassware in two laboratories that are conducting similar research proportionately allocated based upon the square footage of the two laboratories.
- **Allocation based upon FTEs:** The cost of renting space allocated based upon the number of FTEs working on each project.

Consistently Treated:

All costs incurred for the same purpose, in like circumstances, must be treated uniformly either as direct costs or as facilities and administrative (indirect) costs. Since certain costs, such as salaries of administrative and clerical staff and office supplies are normally treated as facilities and administrative (indirect) costs, these costs cannot be charged directly to federal grants or contracts unless the circumstances related to a particular project are clearly different from the normal operations of the institution.

**THREE RIVERS COLLEGE
FINANCIAL REGULATION**

Section: 3000 Financial	
Sub Section: 3100 Financial Management	
Title: FR 3108 Grant Cost Allocation	Page 6 of 7
Primary Policy: FP 3101 Budget and Financial Processes	
References: 2 CFR Chapter I, Chapter II, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards	
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Allowable:

Costs expressly unallowable or mutually agreed to be unallowable shall be identified and excluded from any billing, claim, application, or proposal related to a sponsored research project.

Sponsoring agencies use the term "allowable" to mean permitted as a direct cost under the terms or a specific grant or contract. Expenditures which are generally allowable for federal reimbursement may not necessarily be permitted under the terms of a specific grant or contract.

**THREE RIVERS COLLEGE
FINANCIAL REGULATION**

Section: 3000 Financial	
Sub Section: 3100 Financial Management	
Title: FR 3108 Grant Cost Allocation	Page 7 of 7
Primary Policy: FP 3101 Budget and Financial Processes	
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DOCUMENT HISTORY:

- 12-09-2015:** Initial approval of regulation FR 3108 Grant Cost Allocation.
- 09-21-2016:** The College Board of Trustees approved the name change of the college from Three Rivers Community College to Three Rivers College.