



UNM HEALTH SCIENCES | UNM HEALTH

# Contract & Grant Accounting Business Purpose - Allocation

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February 24, 2023



# Business Purpose

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## Objectives for todays session:

- Gain a better understanding of allocability and why it is required
- Recognizing the difference of reasonable and unreasonable methods of allocability
- Provide examples and best practices of business purpose documentation related to allocability

# Business Purpose

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## Cost Guidelines (Policy 2410)

- **Allowable**
  - Allocable and reasonable
  - Complies with the terms of the award
- **Reasonable**
  - Prudent person test
- **Consistency**
  - Consistent with established practices at UNM
- **Allocable**
  - Specifically identifiable costs incurred solely to advance scope of work

# Business Purpose

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## Why is this step needed?

- Uniform Guidance – 200.405 Allocable Costs
  - A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
    - Is incurred specifically for the Federal award;
    - Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods

# Business Purpose

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## Allocable

- Because of the compliance requirements - this is an essential step in the business purpose documentation process
- Common areas that require robust documentation
  - Administrative/Clerical Expenditures (direct charged)
  - General purpose equipment and computing devices
  - Purchase split amongst different funding sources

# Business Purpose

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## Administrative/Clerical

- Direct charging may be appropriate if: (1) Integral to the project; (2) Specifically identified with project; and (3) Explicitly included in budget or with agency's prior written approval.

## General purpose equipment/computing devices

- Direct charging may be appropriate if devices are *essential* and *allocable*, but not solely dedicated, to the performance of a Federal award.

# Business Purpose

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## Sole Benefit

- Purchase of testing kits to run tests required to complete the scope of work on Project X.

## Multiple Benefits

- Purchase of non-capital equipment to complete testing and analysis for the scope of work on Projects X, Y and Z.

# Business Purpose

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## Allocable – multiple beneficiaries

- Acceptable allocation practices
  - Estimated usage (Number of tests, number of usage, etc.)
  - Square footage of shared lab/space
  - Follows percent effort allocation of individuals using equipment/supplies
  - Number of FTE's
- Unacceptable allocation practices
  - Available budget
  - To spend down remaining funds at closeout



# Practice Example #1

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- Cost of equipment - \$1,000
- Two awards will be using the non-capital equipment
- Grant A will use 80 percent of the time
- Grant B will use 20 percent of the time

**How much of the purchase should be allocate to each award?**

# Practice Example #1

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**How much of the purchase should be allocate to each award?**

- Grant A would allocate \$800 ( $1,000 \times 80\%$ )
- Grant B would allocate \$200 ( $1,000 \times 20\%$ )

# Practice Example #2

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- Cost of equipment - \$1,000
- Two awards will be using the non-capital equipment
- Grant A will use 80 percent of the time
- Grant B will use 20 percent of the time
- Grant A has available budget of \$600.
- Grant B has available budget of \$950.

**How much of the purchase should be allocate to each award?**

# Practice Example #2

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## Unreasonable

- Grant A \$600
- Grant B \$400
  
- Allocation based on available budget would not be appropriate as Grant B would be overcharged based on estimated usage.

## Reasonable

- Grant A \$600
- Grant B \$200
- Unrestricted \$200
  
- The deficit must be covered by unrestricted funding.

# Practice Example #3

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- Purchase general use software license - \$8,000
- Purchase will help advance the work and complete scope for Grant A
- This is essential to complete the scope of work
- Software license can be used for other projects

**Can this be direct charged to the award?**

**If so, how much of the purchase should be allocate to award?**

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Any  
Questions?