BUSINESS AND FINANCE DEPARTMENT
Grants Accounting

Effective Date: 8/1/2026

CONTROLS OVER COST ALLOCATION POLICY

Policy Number	551-01
Approval Authority	Chief Financial Officer
Responsible Administrator	Controller
Responsible Office	Business and Finance
Policy Contact	Director of Grants Accounting

1.0 POLICY STATEMENT

Tennessee State University is committed to ensuring the accurate, consistent, and compliant allocation of costs charged to federally sponsored awards. The University will maintain effective administrative, financial, and internal control processes to ensure that costs charged to sponsored awards comply with applicable federal regulations, sponsor requirements, and institutional policies.

All costs charged to federally sponsored grants, cooperative agreements, and contracts must be allowable under applicable federal regulations, sponsor terms and conditions, and University policies; allocable to the sponsored award based on the relative benefit received; reasonable and necessary for the performance of the sponsored project; consistently treated in accordance with established accounting practices; and adequately documented to support the allocation methodology and financial activity recorded.

TSU will ensure that cost allocation methodologies are based on documented, reasonable, and consistently applied criteria supported by reliable data and appropriate approvals.

No cost will be charged, transferred, or allocated to a sponsored award for the purpose of resolving funding shortfalls, spending down unobligated balances, correcting administrative errors, or using available grant funds without appropriate justification, documentation, and review.

2.0 IMPORTANCE AND REASON FOR THE POLICY

The purpose of this policy is to establish consistent standards and strengthen Tennessee State University administrative and financial controls governing the allocation of costs to federally sponsored awards.

Proper cost allocation is essential to maintaining fiscal integrity, ensuring accurate financial reporting, protecting the University from financial risk, and demonstrating compliance with federal cost principles. Costs charged to sponsored awards must represent the actual benefit received by the project and must be supported by documentation sufficient to demonstrate compliance during audits, sponsor reviews, and monitoring activities.

This policy provides guidance to ensure costs are charged to the appropriate sponsored award; shared costs are distributed using reasonable and supportable methodologies; cost allocation decisions are transparent and reproducible; financial records accurately reflect project activity; and improper, unsupported, or unallowable charges are prevented or identified timely.

Failure to properly allocate costs may result in disallowed costs; required reimbursement to sponsors; audit findings; increased sponsor oversight; restrictions on award expenditures; and/or corrective actions.

This policy applies to all federally sponsored grants, cooperative agreements, and contracts and includes all individuals and administrative units responsible for sponsored award management.

3.0 DEFINITIONS

Allocable Cost: A cost that benefits the award charged and can be assigned to that award in proportion to the benefit received.

Allowable Cost: A cost that complies with federal regulations, sponsor requirements, award terms and conditions, and University policies.

Allocation Methodology: The documented approach used to distribute costs among multiple benefiting activities, such as personnel effort, usage logs, square footage, participant counts, transaction volume, or other measurable factors.

Cost Allocation: The process of assigning costs to sponsored awards or other funding sources based on the relative benefit received or another reasonable and documented methodology.

Cost Transfer: The reassignment of a previously recorded expense from one account or funding source to another. Cost transfers require timely processing, justification, and approval.

Direct Cost: A cost that can be identified specifically with a particular sponsored project or activity with a high degree of accuracy.

Financial Transaction: Any activity that impacts the financial records of a sponsored award, including expenditures, cost transfers, journal entries, drawdowns, and revenue recognition.

Internal Controls: Processes and procedures designed to provide reasonable assurance regarding the achievement of objectives related to compliance, financial reporting, and operational effectiveness.

Period of Performance: The time during which sponsored award funds are authorized for obligation and expenditure, as defined by the sponsor.

Reasonable Cost: A cost that does not exceed what a prudent person would incur under similar circumstances and is consistent with the nature of the goods or services received.

Record Retention: The requirement to maintain financial and programmatic records for a specified period in accordance with sponsor and regulatory requirements.

Unallowable Costs: Costs that cannot be charged to a sponsored award based on federal regulations, sponsor restrictions, or University policy.

4.0 POLICIES AND PROCEDURES

The following procedures and control requirements govern the University's preparation, review, approval, reconciliation, documentation, and ongoing monitoring of sponsored awards at Tennessee State University. These requirements establish the minimum standards for adequate, financial compliance, supporting documentation, internal controls, and record retention in accordance with Uniform Guidance (2 CFR Part 200) and applicable sponsor terms and conditions.

All activities related to sponsored awards must be performed in a manner that ensures financial accuracy, regulatory compliance, and the availability of complete and verifiable supporting documentation for audit, monitoring, and oversight purposes.

A. Allocability Requirements

Costs charged to sponsored awards must directly benefit the project or be allocated based on a reasonable relationship to the benefit received.

Allocation methodologies must be based on documented and reasonable criteria; use measurable and verifiable data when applicable; be consistently applied in similar circumstances; and be reviewed periodically to ensure continued appropriateness.

Examples of acceptable allocation methodologies may include personnel effort distribution; usage logs; square footage calculations; equipment utilization records; participant counts; transaction volume; and other documented measures of benefit.

B. Prohibited Cost Allocation Practices

The following practices are prohibited charging costs to a sponsored award solely to spend down available balances; transferring costs to federal awards to resolve overruns or funding deficits; allocating costs using unsupported or arbitrary percentages; charging costs based solely on

budget availability; delaying cost transfers without documented justification; and allocating institutional administrative costs as direct costs without appropriate justification.

C. Shared and Split-Funded Costs

When costs benefit multiple funding sources, departments must allocate costs based on the proportional benefit received.

Requirements include documentation of the allocation methodology; support demonstrating how the benefit was determined; appropriate approvals; maintenance of supporting documentation within the official grant file; and review and justification of changes to allocation methods.

Allocation methodologies must be established at the time costs are incurred whenever practicable.

D. Administrative and Accounting Controls

TSU will maintain controls over the cost allocation process during the following:

Pre-Award and Award Setup: Review of approved budgets; establishment of accounts aligned with sponsor-approved categories; identification of funding restrictions and limitations; and verification of appropriate cost categories.

Transaction-Level Review: Departments will verify allocability before processing charges; review split-funded transactions; obtain supervisory approval when required; and maintain cost allocation justification documentation.

Monthly Reconciliation: Sponsored accounts will be reviewed and reconciled regularly to ensure charges align with project scope; expenditures are reasonable and allowable; errors are identified and corrected timely; and documentation supports financial activity. Department leadership will certify completion of required reconciliations.

Cost Transfer Oversight: Cost transfers must include detailed written justification; explain the reason for the transfer; demonstrate benefit to the receiving award; be reviewed and approved by appropriate officials; and be processed within institutional deadlines.

Frequent, late, or unsupported cost transfers may require additional review.

E. Training and Guidance Requirements

TSU will provide guidance and training to individuals responsible for sponsored award management.

Training will include federal cost principles; allowability and allocability requirements; appropriate allocation methodologies; cost transfer requirements; and documentation expectations.

Written procedures and examples will be maintained and made available to applicable personnel.

F. Documentation Requirements

Documentation supporting cost allocations must include description of the cost and purpose; explanation of the allocation methodology; evidence demonstrating proportional benefit; supporting financial records; required approvals; and documentation supporting any adjustments or transfers.

Records must be maintained in accordance with federal, sponsor, and University retention requirements.

G. Monitoring and Compliance

TSU will conduct periodic monitoring activities to assess compliance with this policy.

Reviews may include sampling of split-funded transactions; review of payroll allocations; review of equipment and other high-risk costs; analysis of frequent or late cost transfers; and evaluation of allocation methodologies.

Identified deficiencies will require corrective action plans with defined timelines.

Repeated or material noncompliance may result in removal or restriction of spending authority; increased monitoring; cost disallowance; required corrective actions; disciplinary action consistent with University policy.

H. Roles and Responsibilities

Principal Investigators (PIs), Project Directors, and Co-Investigators are responsible for ensuring costs charged to awards directly benefit the project; reviewing financial activity timely; approving appropriate cost allocations; and supporting documentation requirements.

Department Administrators and Fiscal Staff are responsible for reviewing documentation before processing transactions; maintaining allocation support within grant files; performing reconciliations; and ensuring compliance with University procedures.

Office of Research and Sponsored Programs (RSP) are responsible for providing sponsored award oversight; reviewing compliance concerns; supporting cost transfer and high-risk allocation reviews; and providing sponsor requirement guidance.

Office of Business and Finance / Grants Accounting Office are responsible for maintaining financial system controls; monitoring allocation trends and compliance metrics; performing financial reviews; and supporting audits and corrective actions.

5.0 AUTHORITY AND REFERENCES

This policy is administered in accordance with applicable federal, sponsor, and University requirements governing sponsored award drawdowns, federal cash management, sponsored award financial administration, cost allowability, award-level documentation, and internal controls, including but not limited to:

a. 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;

b. 2 CFR § 200.302, Financial Management

c. 2 CFR § 200.303, Internal Controls

d. 2 CFR § 200.305, Federal Payment

e. 2 CFR § 200.403, Factors Affecting Allowability of Costs

f. 2 CFR § 200.405, Allocable Costs

g. Applicable sponsor terms and conditions

h. University policies and procedures governing sponsored awards, grants accounting, cost transfers, records retention, and financial management.

i. Applicable grant, contract, cooperative agreement, or award documents

6.0 HISTORY

Policy 5-11-13	Unallowable Costs