

Cost Allocation / Reimbursement Plan for the California State University (CSU) Operating Fund - Process and Methodology

The CSU Operating Fund (Fund 485) has been established to exclusively report revenues, expenses, and net assets related to state-supported instruction and related programs and operations.

It is the policy of the California State University, Sacramento (University) that costs incurred by the CSU Operating Fund (primarily MDS01) for services, products, and facilities provided to University enterprise programs/activities/funds (University self-supporting funds), Auxiliary Organizations and entities external to the University are properly and consistently recovered with cash and/or a documented exchange of value. Allowable direct costs incurred by the CSU Operating Fund shall be recovered based on actual costs incurred. Allowable and allocable indirect costs shall be recovered according to a cost allocation/reimbursement plan that utilizes a documented methodology for identification of indirect costs and a basis for allocation.

The University Cost Allocation Plan is prepared annually by the University Controller and approved by the University's Chief Financial Officer (CFO), and is a consolidation of cost allocation plans created by each of the University's divisions. Each division that is supported by the CSU Operating Fund and provides services, products or facilities to Auxiliary Organizations and/or University self-supporting funds must annually submit a plan to the Controller. The plans must be documented and supported by a cost allocation methodology that has been approved by the University's CFO or designee. The methodology should ensure that the reimbursement rates are reasonable and that the CSU Operating Fund is adequately reimbursed.

METHODOLOGY

The University's CFO is responsible for ensuring proper, consistent, and timely recovery of costs incurred by the CSU Operating Fund by annually preparing a documented cost allocation/reimbursement plan for the University. The CFO must ensure that all costs incurred by the CSU Operating Fund for services, products, and facilities provided to Auxiliary Organizations, University self-supporting funds or entities external to the University are properly and consistently recovered with cash and/or a documented fair exchange of value. This includes all costs for services, products, and facilities borne by the CSU Operating Fund on behalf of Auxiliary Organizations and University self-supporting funds. The CFO may consider the cost-benefit of deriving the costs to be allocated / reimbursed.

In developing the methodology, each division should identify the services, products and facilities supported by the CSU Operating Fund which are provided to the Auxiliary Organizations and University self-supporting funds, including the department(s) providing the goods or services. The division then determines whether the facilities, goods, and/or services are direct or indirect costs. Direct costs are expenditures initially incurred by the CSU Operating Fund, which can be easily determined with a high degree of accuracy and without an inordinate amount of accounting, and recharged to an Auxiliary Organization or a University self-supporting fund based upon the actual cost of the goods or services provided. Direct costs can be documented by a work order, charge-back system or contract and are invoiced on some regular basis. Indirect costs cannot be readily assigned to a particular cost objective without effort disproportionate to the benefits received. These costs are those incurred for purposes common to some or all programs or activities, but which cannot be readily identified and charged directly to such programs or activities with a reasonable degree of accuracy and without an inordinate amount of accounting. If there are indirect costs, the department should identify a simple and equitable workload measure that is reasonable relative to the activity and the related costs, e.g., square footage, expenditures, number of transactions, etc.

A division's final plan should quantify the costs being allocated and document the basis of the allocation. Data used for the workload measures should always be taken from the prior fiscal year. Once approved by the University's CFO or designee, the division will continue to use the same methodology unless there are changes that would affect the cost allocation rates.

The cost allocation plan also relies upon the assumption that each department is in a "stable state", meaning that the level of service productivity and cost for services provided to an Auxiliary Organization or University self-supporting fund is the same as provided for the University. Stable state assumption is a commonly used basis for allocation and allows for a practical methodology for allocating indirect costs that is consistent and fair for all recipients and service providers.

The University's cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs. Due consideration must be given to the relative benefits received, the materiality of costs, and the amount of time and effort necessary to make such an allocation/reimbursement. The plan will also specifically identify direct and indirect costs requiring reimbursement. And, while there are different methodologies available for allocating costs that a University might use, the methodology used should result in a justifiable distribution of costs as determined by the campus CFO. Detailed documentation that demonstrates the factors that were taken into consideration in determining cost recovery are to be included as part of the plan. Costs for facilities, goods or services that should be recovered may be both direct and indirect. Direct costs are clearly identifiable and calculable. Indirect costs may be less easily segregated but nonetheless add expense to the CSU Operating Fund. Both types of costs should be considered in developing the cost allocation plan.

Mitigation

In some cases, CSU Operating Fund resources are used to support activities that are recognized as providing either tangible or intangible value that ultimately supports the overall benefit of the University's educational mission. These activities might reside in an Auxiliary Organization or University self-supporting fund. Annually, the University Controller reviews all non CSU Operating Funds for any potential exchanges of value and documents the benefit to the overall educational mission. At Sacramento State, examples of such activities are fundraising, student scholarships, and CSU bond financing.

Mitigation for expenses incurred by the Auxiliary Organizations and University self-supporting funds for indirect services, products, and facilities provided to the University, beyond the Auxiliary Organization purpose to support the University's mission, must be submitted to the University Controller for review. Final approval will be at the discretion of the CFO and the University President, who may make

provision for an All University Expense line item to offset the mitigating costs.

Approvals

A division's methodology must first be approved by the appropriate Provost/Vice President prior to submission for review and approval by the University's CFO or designee. Concerns with the methodology will be addressed in consultation with the division Provost/Vice President. Changes that would require a revision to an approved methodology must be resubmitted through the approval process prior to being utilized.

Invoices/Journal Entries

Divisions will annually submit their cost allocations plans, based upon the approved methodology, to the University Controller for consolidation into the University's plan. The University Controller will submit the consolidated plan to the University's CFO or designee for approval. Once approved, the University's CFO or designee will inform the Auxiliary Organizations and University self-supporting funds via a memo, of the indirect costs allocated to them. The University Controller will generate journal entries or request invoices to be prepared, as appropriate.

TIMELINES & DEADLINES

Changes in Methodology

If a division needs to make changes in methodology for cost allocations to Auxiliary Organizations or other University self-supporting funds, the following timeline must be followed:

- **March 31st** - Obtain appropriate division Provost/Vice President approval of the new terms/methodology and submit it to the University Controller for review. The University Controller will forward the request with comments to the University's CFO or designee for review and approval
- **June 1st** - The division will be informed of the University's CFO or designee's decision
- **September 1st**
 - If approved, the division's updated cost allocation plans are due to the University Controller for consolidation into the University's plan.
 - If not approved, the division is to submit the annual cost allocation plans using the previously approved terms/methodology to the University Controller for consolidation into the University's plan.

Continuing Methodology

- **September 1st** - If a division is continuing with the previously approved methodology, the divisions' updated annual cost allocation plan, as approved by the appropriate Provost/Vice President, are due to the University Controller for consolidation into the University's plan.

University's Plan

- **October 1st** - The University Controller will consolidate all the divisions' plans into a University Plan that will be submitted to the University's CFO or designee for review and approval
- **October 10th** - Once approved, the University's CFO or designee, will issue a memo to the Auxiliary Organizations and other University self-supporting funds informing them of their costs. This memo will be accompanied by a summary invoice and supporting documentation
- **October 31st** - The University Controller will request that journal entries or invoices be generated, as appropriate

AUDITS

The University's CFO reserves the right to call, at any time, for a complete review of any and all division's cost allocation plans and/or methodologies. These reviews will be performed by the Accounting Services office and/or the Auditing Services office. When appropriate and necessary, the University CFO should modify the existing cost allocation/reimbursement plan outside the annual cycle to recognize new costs or other changes in operations. Such modifications and/or the new plan are to be clearly documented.

ORGANIZATIONS AND FUNDS

The cost allocation plan applies to the following Alumni Association, Auxiliary Organizations, and University Self-Supporting funds outside the CSU Operating Fund:

- A. Alumni Association – an enterprise organized and operated in accordance with rules and policies adopted by the CSU Board of Trustees. (Title 5, Article 15). Sacramento State has the Sacramento State Alumni Association.
- B. Auxiliary Organizations – separately organized, non-state entities that operate in compliance with the Auxiliary Organization policies of the CSU Board of Trustees, the terms of leases and operating agreements with the Trustees, and policies established by the University. Examples of Auxiliary Organizations include philanthropic foundations, student body organizations, research foundations, student unions, bookstores, and other commercial services operated for the benefit of the University (Education Code sections 89900-89912 and Title 5 section 42500). (campus 501(c)(3) entities). Sacramento State Auxiliary Organizations include:

1. Associated Students, Inc.
 2. Capital Public Radio, Inc.
 3. University Enterprises, Inc.
 4. University Foundation at Sacramento State
 5. University Union, Inc.
- C. University self-supporting funds - those that furnish facilities, goods or services to students, faculty, staff, or incidentally to the general public. An enterprise typically charges a user fee, rent or other charge directly related to, although not necessarily equal to, the cost of the facilities, goods or services. A distinguishing characteristic of an enterprise is that it is managed as essentially a self-supporting activity under the administration of the University. University self-supporting fund activities are typically accounted for in designated CSU funds. Sacramento State self-supporting funds include:
1. Center for Collaborative Policy
 2. College of Continuing Education
 3. Housing & Residential Life
 4. Office of Water Programs
 5. State Hornet
 6. Student Health Services
 7. University Transportation and Parking Services
- D. Other CSU Funds
1. University Trust Funds – all other self-supporting funds outside of CSU Operating fund but held by the University

SERVICES PROVIDED BY THE CSU OPERATING FUND

Some service providers recover both Direct and Indirect costs. One example is Public Safety which has direct costs related to specific special events and indirect costs related to routine patrol services.

Direct Costs

Direct costs are expenditures initially incurred by the CSU Operating Fund, which can be easily determined with a high degree of accuracy and without an inordinate amount of accounting, and recharged to another University self-supporting fund or Auxiliary Organization based upon the actual cost of the goods or services provided. Direct costs can be documented by a work order, Campus Cost Recovery system (CCR), expenditure transfer or contract and are invoiced on some regular basis. Following are the common allocated direct costs incurred by the CSU Operating fund (not inclusive):

1. Academic Affairs
 - Faculty Release Time
2. Administration and Business Affairs
 - Environmental Health & Safety
 - Facilities Services
 - One Card
 - Postage (actual)
 - Public Safety
 - Reprographics
 - Space Management
 - Stockless Office Supplies
 - Utilities
 - Visitor Parking
3. Information Resources and Technology
 - Communication
 - Computing

Indirect Costs

Indirect costs cannot be readily assigned to a particular cost objective without effort disproportionate to the benefits received. These costs are those incurred for purposes common to some or all programs or activities, but which cannot be readily identified and charged directly to such programs or activities with a reasonable degree of accuracy and without an inordinate amount of accounting. Examples of collection methods:
 Management Fees – a reimbursement from miscellaneous Trust Funds (T##### or P#####) based on actual expenditures at a rate of 7%
 Cost Allocation – a reimbursement from Auxiliaries and Enterprise Funds based on a percentage of total campus budget

Following are the common allocated indirect costs incurred by the CSU Operating fund (not inclusive):

1. Academic Affairs
 - Graduate Studies

2. Administration and Business Affairs

Accounting Services
Accounts Payable
Auditing Services
Budget Planning & Administration
Environmental Health & Safety
Fee Collection and Processing
Mail Services
One Card
Property Accounting
Public Safety
Purchasing and Contracts
Receiving
Risk Management Services
Risk Pool/Insurance
Space Management
Student Financial Services
Travel

3. Human Resources

Benefits Administration
Classification Review
Disability Leaves
Employee Relations
Equal Opportunity/Affirmative Action
Payroll
Professional Development & Training
Recruitment

4. Information Resources and Technology

Business Information Services and CMS Process Support
Photocopy/Printing
Classroom Support
Help Desk Support
Media Technology
Network Use
SacLink Accounts
WebCT for Online Courses

5. Student Affairs

Admissions Advising
Student Records
Transfer Credit Evaluation

If you have any questions, please contact:

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