

## GUIDELINES FOR GENERAL FUND COST ALLOCATION PLANS

### ACKNOWLEDGEMENT GUIDELINES FOR GENERAL FUND COST ALLOCATION PLANS

These guidelines were developed by the CSU Financial Officers Association to assist campuses in implementing Executive Order 753, *Allocation of Costs to Auxiliary Enterprises*. These guidelines are not system policy and do not establish requirements. They are intended to assist campuses to comply with the Executive Order.

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Any suggestions for improving the content of these guidelines should be communicated to the FOA chair.

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## 1.0 INTRODUCTION

Executive Order No. 753 assigns responsibility to the campus chief financial officer to ensure that auxiliary enterprises are charged for allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services funded by the University's General Fund appropriation. The following guidelines are intended to assist the University's chief financial officer to develop a plan to document the basis and allocation of General Fund costs to auxiliary enterprises.

While each campus is required to develop a cost allocation plan, it is recognized that campus plans may differ in content and approach. These guidelines provide definitions, general principles, cost components and alternative methods for addressing the allocation of General Fund costs. The guidelines do not constitute a cost allocation plan and any specific examples referenced herein are not to be considered as prescriptive.

## 2.0 DEFINITIONS

- 2.1 "CSU" and "University" refer to The California State University or any of its institutions as specified in Education Code 89001. "State employee" refers to employees of the University or the CSU. "State General Fund" or "General Fund" refers to the state legislature's Budget Act appropriation items for support of The CSU that are recorded in the General Fund.
- 2.2 "Auxiliary Enterprise" refers to a University-related entity (program, activity, or fund source) that furnishes facilities, goods or services to students, faculty, staff, or incidentally to the general public. An auxiliary enterprise typically charges a fee directly related to, although not necessarily equal to, the cost of the facilities, goods or services. A distinguishing characteristic of an auxiliary enterprise is that it is managed as essentially a self-supporting activity. For the purposes of these guidelines, auxiliary enterprises include the following:
  - 2.2.1 "Auxiliary organization" and "auxiliary organization in good standing" refer to any separately organized non-state entity that operates in compliance with auxiliary organization policies of the CSU Board of Trustees, the terms of leases and operating agreements with the CSU, and policies established by the University. Examples of auxiliary organizations include foundations for administration of gifts to the University, student body organizations, bookstores, and other commercial services operated for the benefit of the University (Education Code sections 89900-89912).
  - 2.2.2 "Enterprise Funds" or "State Enterprise Funds" refer to state fund entities created by an act of the legislature and supported by user fees, rents, or charges under the administration of the University. Enterprise fund activities may be accounted for in sub-funds of a revenue fund or in

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sub-funds of the CSU Trust Fund. Examples include housing, parking, and continuing education.

- 2.2.3** Auxiliary enterprise also refers to an alumni association organized and operated in accordance with rules and policies adopted by the CSU Board of Trustees. (Title 5, Article 15).
- 2.2.4** Auxiliary enterprise refers to other self-supporting activities operated by the University in funds other than the General Fund including: student health services if self-supporting from fees and not subsidized by the General Fund; self-supporting activities operated through the CSU Trust Fund or the Special Projects Fund, such as Instructionally Related Activities or centers and institutes; and other campus support organizations, such as a faculty club or athletic boosters.
- 2.3** “Costs” refers, for purposes of these guidelines, to expenditures incurred by the General Fund to provide facilities, goods, and services to an auxiliary enterprise. These costs could be recorded as personal services (salaries and benefits), operating expenses and equipment, or capital outlay.
  - 2.3.1** “Direct Costs” refers to costs that can be readily assigned to a particular cost objective, i.e. identified and charged (or billed) to a specific auxiliary enterprise, with a high degree of accuracy and without an inordinate amount of accounting. Some services provided to an auxiliary enterprise that are of a direct nature are recharged using a campus approved recharge rate, e.g. telephone, postage, electronic mail, reprographics, non-maintenance services, etc. Approved recharges are considered direct costs for purposes of these guidelines.
  - 2.3.2** “Indirect Costs” refers to costs that cannot be readily assigned to a particular cost objective without effort disproportionate to the benefits received. Indirect costs are those incurred for purposes common to a number or all programs or activities of the campus, but which cannot be identified and charged directly to such programs or activities (e.g. auxiliary enterprises) with a reasonable degree of accuracy and without an inordinate amount of accounting. Indirect costs may be called by other terms such as overhead or administrative expenses.
  - 2.3.3** “Incremental Costs” refers to the change in General Fund out-of-pocket expenses related to activities, projects, or programs assigned to an auxiliary enterprise. Incremental costs are expenses that would not have been incurred if the auxiliary enterprise were not present. Incremental costs are usually direct costs but may include indirect costs.

For example: Campus infrastructure, such as a utility system or broadband network, is not an incremental cost, but any additional expense to link or connect to a facility used solely by an auxiliary enterprise is an incremental cost. The costs of operating a

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cashiers/bursars office to collect General Fund fees is not an incremental cost; the cost of additional workload and supplies to collect fees for an auxiliary enterprise is an incremental cost. For faculty paid by General Fund who are working on research or sponsored projects funded by contracts and grants from external sources, the salaries and benefits for the portion of time working on the contract or grant are direct and incremental costs.

### 3.0 PRINCIPLES

- 3.1 State legislative appropriations in the General Fund are the primary but not the only source of support for the University's educational mission. Enterprise funds provide supplemental services critical to the delivery of state supported programs. Auxiliary organizations are formed to provide essential functions that are an integral part of the educational mission of the California State University. It is appropriate to recognize these interdependencies between the General Fund and auxiliary enterprises in the cost allocation plan.
- 3.2 No more than the full costs of a General Fund activity, inclusive of direct and indirect costs, may be allocated.
- 3.3 Allocations of General Fund costs may be offset with unrecovered costs incurred by an auxiliary enterprise on behalf of the General Fund. If a cost allocation plan incorporates such exchanges of value they should be documented.
- 3.4 All significant incremental costs should be included in the cost allocation plan.
  - 3.4.1 Generally, significant means that the effort and cost of allocating the cost is in line with the benefit. The University should document the reasons for excluding incremental costs.
- 3.5 Allocation of indirect costs should be based on a process that is reasonable relative to the activity and the related costs.
- 3.6 The basis of allocation for a service may vary as the University determines appropriate and reasonable. If a different allocation approach is used for the same General Fund service, the costs of the service should be allocated only once and any duplication eliminated.

Expenditure data might be a reasonable basis for allocating accounts payable costs in some cases but not in others. For example, a project might have a single expenditure of \$10 million. This would obviously represent much less effort for accounts payable than \$10 million in transactions averaging \$500 each (20,000 transactions).

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- 3.7** Allocation of indirect costs by the General Fund to auxiliary enterprises is independent of indirect costs that an auxiliary enterprise may be recovering from a non-General Fund entity (e.g. the federal government).

### **4.0 STEPS FOR ESTABLISHING A COST ALLOCATION PLAN**

- 4.1** Identify University auxiliary enterprises (See Section 2 for Definitions).

The auxiliary enterprises identified may vary across the CSU due to support provided by the General Fund. For example, Health Services may be classified as an auxiliary enterprise because it is self-supporting from fees.

- 4.2** Identify General Fund supported facilities, goods, and services provided to auxiliary enterprises, including the department providing the goods or services.

- 4.3** Determine whether the facilities, goods, and services can be categorized as a direct cost, e.g. metered utilities for the residence halls, or an indirect cost, e.g. accounting services. (See Section 2 for Definitions.)

- 4.3.1** Direct costs may be recorded directly by the auxiliary enterprise or they may be allocated by the General Fund to the auxiliary enterprise through a campus approved recharge.

A public safety officer may be hired to patrol the residence halls and those payrolls could be charged to the auxiliary enterprise accounts. Or the costs of the payrolls could be recharged by the General Fund to the auxiliary.

- 4.3.2** Direct labor costs may be based on actual or average salaries and benefits equated to an hourly rate based upon the actual number of working hours (reference State Administrative Manual 8740 for guidance.)

- 4.3.3** Direct labor costs for a service may incorporate an overhead component that includes supervision, operating expense and equipment depreciation.

- 4.4** Indirect costs may be either incremental or non-incremental. Campus management should determine whether non-incremental indirect costs are allocated and document the basis for the decision, e.g. President's salary might not be allocated.

- 4.5** Identify a simple and equitable cost allocation methodology for each of the services that is reasonable relative to the activity and the related costs, e.g. square footage, expenditures, etc.

- 4.6** The cost allocation plan should quantify the costs being allocated and document the basis of the allocation and any exchange of value recognized.

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- 4.7 The basis of and procedure for the allocation of costs should be communicated in writing to the managers of the auxiliary enterprises as appropriate and, in the case of auxiliary organizations, consistent with the relevant operating agreement.
- 4.8 The cost allocation plan should be reviewed, modified as necessary, and approved by the Chief Financial Officer annually.

### 5.0 INDIRECT COSTS -- EXAMPLES OF SERVICES PROVIDED BY GENERAL FUND

The following are examples of services that, if provided by General Fund departments to auxiliary enterprises, would usually be classified as an indirect cost for allocation purposes. This list is not exhaustive and does not preclude campuses from identifying other services being provided to auxiliary enterprises or from offering these services on a direct cost basis. A possible basis of cost allocation is indicated in parentheses. A percentage, transaction cost, or pro-rata distribution would be applied to the applicable auxiliary enterprise workload measure.

- 5.1 Finance and Business Services- Financial services provided to auxiliary enterprises including cost of administrative information systems support. (General Fund budget for applicable services as percent of total General Fund budget. Alternatively, number of transactions processed)
- Internal Audit
  - Budgets
  - Accounting
  - Purchasing and contracts
  - CMS/Business Systems support
  - Cashiering and Student Accounts Management
  - Payroll
  - Material Management (Property/Shipping and Receiving)
- 5.2 Human Resources – Human resources services provided to auxiliary enterprises. (HR General Fund budget as percent of total General Fund salary and benefit budget)
- Recruitment
  - Classification review
  - Benefits administration
  - CMS Support
- 5.3 Library and Media Technology – The library and media technology provide services to students enrolled in both state supported and self-supported instruction. This cost allocation allocates the cost of providing services to students enrolled in self-support instruction. (Number of students or usage data)

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- 5.4** Academic Records (Registrar) – The academic records function provides support for students enrolled in state-supported and self-supported instruction. The cost allocation allocates the cost of providing services to students enrolled in self-support instruction. (Number of students)
- 5.5** Capital Planning, Design, and Construction Services – Major and minor capital outlay projects require campus administrative services related to the project, e.g. project management, construction related services, contract management, and business and financial services. (Up to seven percent of construction cost)
- 5.6** Risk Pool/Insurance - The University is a member of the CSU Risk Management Authority (CSURMA). The CSURMA provides liability insurance, workers compensation coverage, and property insurance to the University. The costs of participating in the risk pool should be allocated to the University's auxiliary enterprise funds. CSU Auxiliary organizations participate in an auxiliary funded pool and are not subject to this cost allocation as it relates to auxiliary organization employees or property. Student unions financed by student body center fees are University, not auxiliary organization facilities and are required to fund property insurance coverage. (Annual payroll, actual claims cost over multi-year period or property values)
- 5.7** Risk Management – The risk management function provides risk analysis and environmental safety review to the campus. A portion of this function's operational costs may be allocable to the auxiliary enterprises. (Percent of risk pool cost or claims cost)
- 5.8** Fire Suppression and Prevention – Allocation of costs associated with contracting out for fire suppression/prevention and emergency services. (Facility square footage or number of inspections)
- 5.9** Public Safety and Environmental Health and Safety – Allocation of costs associated with providing public safety and environmental health and safety services to auxiliary enterprises. (Facility square footage, number of calls or inspections)
- 5.10** Mail Services – If the General Fund provides campus mail delivery service to all University departments, a portion of these costs may be allocable to the auxiliary enterprises. Postage costs are allocated on a direct cost basis. (Number of mail stops, pieces of mail)
- 5.11** Computing Services – Allocation of costs associated with providing centralized computing services to auxiliary enterprises. (Number of servers, computer storage, special handling or software requirements)
- 5.12** Space

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- 5.12.1 Research:** The sponsored research activity performed by faculty in University space should be reimbursed on some reasonable basis that recognizes the research benefit to the instructional program. The University may elect to limit the cost allocation for space utilized for research activity to significant incremental costs. (Facility square footage)
- 5.12.2 Auxiliary Enterprises/Auxiliaries:** Many facilities occupied by the auxiliaries and auxiliary enterprises were constructed with auxiliary funding. Auxiliaries are responsible for the utilities, custodial, maintenance and repair of those facilities. (If a General Fund supported unit uses space in an auxiliary enterprise funded facility and is charged less than the market rate for such space, this savings may be used as an offset to the University's cost allocation to that auxiliary enterprise)

### **6.0 DIRECT COSTS -- EXAMPLES OF SERVICES PROVIDED BY GENERAL FUND**

Direct costs are expenditures initially incurred by the General Fund which can be easily determined and recharged to the auxiliary enterprise based upon the actual cost of the goods or services provided for which the General Fund must be reimbursed. This list is not exhaustive and does not preclude campuses from identifying other direct services. The recharge of direct costs is often documented by a work order, effort report or contract and either invoiced on some regular basis or transferred via a plan of financial adjustment.

- 6.1 Faculty Release Time** – The actual salary and benefit cost of faculty released to work on sponsored grants and contracts.
- 6.2 Reprographics** – The cost of printing or copying usually calculated on a per copy or per page basis.
- 6.3 Communications** – The cost of telephone service or long distance usage and telephone or data network equipment or software.
- 6.4 Postage** – actual or metered cost of outgoing mail and package delivery.
- 6.5 Utilities** – metered or actual cost of electricity, gas, water, sewer, trash or hazardous waste removal. May be estimated based upon square footage, acreage or specific equipment.
- 6.6 Physical Plant, Public Safety, and Environmental Health and Safety** – services provided by the hour usually charged via a work order or contract that includes appropriate salaries, benefits and an appropriate overhead rate plus actual materials used.