

3-2: Internal Cost Allocations Methodology

Issued: 6-30-97

Revised: 01-06

I. PURPOSE

The purpose of this policy is to establish guidelines and methodology for allocating costs of administrative services, administrative computing, building services, and utilities.

II. POLICY

The National Association of College and University Business Officers (NACUBO) has published a cost accounting handbook for colleges and universities. This handbook includes several costing standards of which the first states, "The purposes for which cost information is to be used should determine the framework within which cost information is developed."¹ Nearly all Fort Lewis College departments utilize administrative services, administrative computing, building services, and utilities. The College allocates these pooled costs to users in an effort to determine all operational costs (direct and indirect) relating to the Education and General Fund (E&G) and major auxiliary areas.

This policy will focus on cost allocations between the Education and General Fund (E&G) and Auxiliary Funds. Indirect costs recovered from Restricted Funds are generally governed by federal regulations and specific federal agency policies.

"Most auxiliary enterprises are managed basically as self-supporting activities . . . In order to be fully self-supporting, an auxiliary enterprise must generate sufficient revenue to cover both its direct and indirect costs....Certain auxiliaries, such as housing and food service, are sometimes subsidized by an institution....Cost data enable managers to make informed decisions concerning the prices or fees to be charged for auxiliary services and to identify high cost areas and evaluate the cost of providing alternative levels of service."² In applying the cost allocation methodology, the College may decide it necessary to support certain auxiliaries from the E&G cash funds.

Certain auxiliaries operate as revolving funds, i.e.: Central Stores, Telecommunications, Motor Pool, and Benefits Pool. Administrative services, administrative computing, building services, and utilities will not be allocated to these funds because all of their costs are subsequently allocated to their users which would result in a compounding allocation.

The development of cost allocation and costing standards is an evolving process and the College recognizes the need for continual monitoring of the methodology used. The allocation rates determined for each fiscal year will remain in effect for that entire fiscal year, but will be reviewed and may be changed in determining and calculating the rates to be used for the next fiscal year.

This policy is also established to comply with the AICPA Industry Audit Guide, "Audits of Colleges and Universities" and the State of Colorado Fiscal Rules.

A. Responsibilities - The Controller and Director of Budgets are responsible for developing and monitoring cost allocation methodology and making revisions from year to year if necessary.

The Director of Physical Plant is responsible for providing the Budget Office with updated figures to be used in computing allocations for (1) building services (based on assignable square footage), (2) water and sewer (based on number of toilets and urinals), and (3) electricity and gas (based on gross cubic feet).

The Director of Physical Plant is responsible for monitoring the various elements that are used to determine specific allocation of building services and utilities and to recommend such changes as conditions may warrant.

The Director of Budgets computes the actual allocation amounts for administrative services, administrative computing, and building services. The Budget Office provides the Controller's office with the allocation percentages necessary to directly allocate utilities between E&G and major auxiliary users.

The Controller is responsible for insuring allocations are properly recorded to the accounting system.

III. PROCEDURES

A. General - For purposes of this policy, the major cost centers that are allocated administrative services, administrative computing, and building services are:

Education and General Fund (excluding Operation and Maintenance of Plant)
Auxiliary Facilities Income Fund (Bookstore, Cafeteria, Housing, and Student Life Center are directly allocated their proportionate share of indirect costs)
Athletics Fund
Health Center Fund
Extended Studies Fund
Student Activities Fund

The budgeted base expenditures of the following organizations are included in the administrative services allocation:

Institutional Insurance
Board of Trustees for Fort Lewis College
President's Office
External Affairs
Institutional Support (only acct. 7314 - 911 No. Network)
Vice President for Business and Finance
Budget Office

Special Events
Human Resources Office
Employee Council
Controller's Office
Purchasing Office
Facilities Planning
Mail Service
Internal Audit
Institutional Printing
Central Receiving
Vice President for Academic Affairs (V.P.'s salary and benefits only)

A centralized computer center services the academic and administrative needs for computing. The computer center costs are allocated between academic usage and administrative usage. The administrative portion is further allocated between the E&G and auxiliary users in the cost allocation.

The budgeted base expenditures of the following organizations or accounts are included in the building services allocation:

Plant Administration
Fort Lewis College Police
Waste Control
Property Insurance
Grounds Maintenance
Structural Systems Maintenance
Equipment Systems Maintenance
Electrical Equipment Maintenance
Electronic Equipment Maintenance
Mechanical Systems Maintenance
Snow Management
Contract Maintenance
Project Management

An annual review should be made of any new organizations to assess whether they should be included as part of the administrative services or building services cost allocations.

B. Allocation of Administrative Services and Administrative Computing Costs - Administrative services and administrative computing costs are allocated between major users in the same proportion as their percentage base of modified direct costs to total modified direct costs.

In order to arrive at modified direct costs, total budgeted expenditures as of January 31 each year (net of transfers-in and transfers-out) are listed by major user categories. Then, reclassifications are made to properly classify expenditures between categories. Additionally, the current year's cost allocations are reversed so they are not included in expenditures.

The next step is elimination of non-operating reductions which may not necessarily reflect an accurate usage of indirect services. For example, because of time and personnel restraints, it is not feasible to do a precise allocation based on the number of transactions (i.e. Requests for Payment, Purchase Orders, etc.) flowing through the system. Therefore, non-operating reductions in expenditures are made when payables include large dollar items per transaction and would distort the allocation if not eliminated. Items eliminated to determine modified direct costs are student insurance premiums, bond debt payment, bookstore cost of goods sold, cafeteria contract board, innovative travel, capital outlay, utilities, and reserves (amounts not expected to be expended).

Additionally, a calculation is made which includes Restricted Funds in the modified direct cost concept. Actual costs will be recovered from the Restricted Funds based on amounts allowable by the grantors, but in order to accurately allocate costs to the Auxiliary Funds, Restricted Funds must be included in the calculation.

C. Allocation of Building Services Costs - Building services costs are allocated between E&G and Auxiliary Facilities Income Fund (Bookstore, Cafeteria, Housing and Student Life Center are separately allocated) based on the ratio of assignable square footage of buildings for E&G users and auxiliary users.

D. Actual Amount Allocated - The actual amount allocated between E&G and various auxiliary users is derived by multiplying allocable base budgeted expenditures (organizations or accounts included in the allocable base are listed in A above) by the amount computed as the user's percentage base (B and C above).

Since cost allocations are prepared before original budgeted expenditures are available, it is necessary to estimate the upcoming year's original budget. When the subsequent year's allocation is prepared, an adjustment is made to bring the previous year's estimated budget into agreement with the actual adopted budget.

E. Utilities - The cost of utilities includes electricity, natural gas, water, and sewer (waste control is included in the building and grounds allocation). The cost of electricity and natural gas are allocated between E&G and the Auxiliary Facilities Income Fund (Bookstore, Cafeteria, Housing and Student Life Center are directly allocated) based on the ratio of gross cubic feet assigned to E&G users and auxiliary users.

The cost of water and sewer are allocated between E&G and the Auxiliary Facilities Income Fund (Bookstore, Cafeteria, Housing and Student Life Center are directly allocated) based on the ratio of toilets and urinals located within E&G buildings and auxiliary buildings.