

College Policy 5.06.01

Cost Allocation

Part 1. Definition

A Cost Allocation is utilized to accomplish an expenditure transfer between two internal departments, or cost centers, for goods or services provided by one department another.

This shall be accomplished by use of the “Cost Allocation Module” in MnSCU’s accounting system. This module allows the seller department to automatically bill individual areas and receive reimbursements from them for their portion of the cost.

Definitions

- **Direct Costs** are those that can be specifically identified and assigned with relative ease and with a high degree of accuracy to a program or activity. These are costs where it is practical to track actual usage by program or activity. Examples include labor and fringe benefits, telephone-related charges traced to a specific telephone account, copy costs where the number of copies are identified by cost center, and postage costs where these costs are accumulated by cost center.
- **Indirect Costs** often referred to as “overhead” are costs incurred for multiple programs or activities and cannot be readily or easily identified with those programs or activities. These costs are not accumulated in units easily traceable to individual activities and therefore must be allocated using a rationale and consistent method that approximates the activities’ proportional benefit derived. Typical costs in this category are facility costs, such as utilities, maintenance and other related costs; costs of administrative activities such as human resources and fiscal services, and; costs of executive staff, such as presidents and vice presidents.

Part 2. Purpose

The primary purpose of a Cost Allocation is for a department to recoup costs for providing goods and services to another department when these types of expenditures are not provided for through the College’s normal budgeting process. Cost information serves many purposes, both internal and external. Costs may be allocated in order to price goods or services. Another purpose is to assist in the allocation of resources.

Part 3. Procedure

This procedure covers the allocation of both direct and indirect costs to college programs, activities and cost centers.

Subpart A. Allocating Costs

- a. All direct costs paid centrally must be evaluated to determine if they should be allocated and charged back to the related programs or cost centers.
- b. Where required by program code structure, certain costs must be charged directly or allocated back to specified programs. Where any of these costs is immaterial, or where the effort to allocate as direct costs is prohibitive, the costs may be allocated in the same way as an indirect cost.

Subpart B. Guidelines

Indirect costs methods

The method used to determine an indirect cost rate to apply to activities and functions must be:

- Reasonable;
- Based on a documented principals and procedures; and
- Based on reliable financial and other information.

Indirect costs may be applied as a single rate or in multiple rates based on the cost factors involved. These may be square footage for facilities costs, including utilities, maintenance, and depreciation where applicable. Costs for the human resources and payroll functions may be based on the number of full time equivalent (FTE) employees. The number of staff hired during the year or some other reasonable basis. Costs for the business office function may be based on non-personnel costs incurred.

In each of these examples, the rates should be based on prior year actual data or an estimate for the current year. The rate applied normally would not change during the year unless a material event occurred to require a change.

For auxiliary and other student service activities, budget principals approved by the president may dictate that specific programs not be charged their share of all direct or indirect costs. However, all costs must be calculated, accounted for in the accounting system and included in program costs for purposes of financial reporting.

In order to be treated as an auxiliary activity, uncharged costs must be reasonable in relation to overall net income.

Subpart C. Costs for Contract Training/Services

Contract training/services include all instruction and related services designed and delivered to meet the needs of private and public sector companies/organizations. Such instruction includes closed enrollment, credit or non0-credit, provided under a contract with market pricing. This is Customized Training Network sponsored/state appropriation supported activity and must be recorded in MnSCU Fund 120. A college/university may determine classes, such as preparing a will, are excluded as provided for in a college/university procedure.

Subpart D. Method

Cost allocation will be accomplished by utilizing the reasonable cost allocation model, depending on the area, types of costs, and reasonableness of the costing. Considerations for appropriate usage of and allocation nodule include:

1. Establish campus objectives for allocation.
2. Identify direct and indirect costs to me allocated.
3. Identify cost centers where direct and indirect costs are to be posted.
4. Identify and establish allocation methods using the following guidelines:
 1. Objective and Reasonable
 2. Based on documented principals and procedures
 3. Based on reliable financial and other information
 4. Applied consistently
5. Identify tools and methods to complete allocations
 1. Consumable Inventory (C/I) module
 2. Cost Allocation (C/A) module
 3. Spreadsheets
6. Establish written procedures for allocation of direct and indirect costs, to include the method and timeline for posting costs.
7. Create templates for allocation of direct and indirect costs.
8. Create applicable journal entries for direct and indirect costs not already posted or moved.
9. Test allocation methods to ensure the method supplies the outcome desired to meet the campus objectives. (Item one of this list)
10. Implement system(s)

Date of Adoption: 2/22/2006

Date of Implementation (if different from from adoption date):

Date of Last Review: 2/22/2006

Date and Subject of Revisions: