



## UNIVERSITY POLICY

<b>SUBJECT:</b>	FINANCIAL AFFAIRS	<b>TITLE:</b>	COST ALLOCATION: GENERAL		
<b>CATEGORY: Check One</b>	<b>Board of Trustees</b> <input type="checkbox"/>	<b>Presidential</b> <input checked="" type="checkbox"/>	<b>Functional</b> <input type="checkbox"/>	<b>School/Unit</b> <input type="checkbox"/>	
<b>Responsible Executive:</b>	Vice President for Finance and Treasurer		<b>Responsible Office:</b>	Finance	
<b>CODING:</b>	00-01-50-20:00	<b>ADOPTED:</b>	07/01/87	<b>AMENDED:</b>	08/23/10
				<b>LAST REVIEWED:</b> 08/23/10	

**I. PURPOSE**

To establish the mechanism for the allocation of costs among component units of UMDNJ.

**II. ACCOUNTABILITY**

Under the direction of the Senior Vice President for Finance, the Vice President for Finance and Treasurer is accountable for ensuring compliance with and implementing this policy.

**III. POLICY**

**A. Requirements:**

1. There are three alternative methods of allocating costs in the University. The first is that costs may be allocated for budgetary purposes and be part of the annual budget preparation process for the University. Secondly, costs may be allocated for financial statement purposes and be reflected in the monthly internal financial report issued to the Finance, Investment and Administration Committee of the University Board of Trustees. Finally, costs may be allocated for the purposes of third party cost reports and questionnaires. These allocations are primarily for medical/dental education cost studies or for hospital patient care costs which are reported to the Hospital Rate Setting Commission and Third Party payors.
2. It is the ultimate goal of the University to charge costs incurred in the operation of UMDNJ and its component units to the budget of the direct user or recipient within the University. When these allocations have been developed and implemented, each component institution of the University will have accurate information on its operating costs.
3. Funds may be included in one unit's budget for the cost of services to be used by another unit. The allocation of costs does not imply authority by the recipient unit to manage or direct the individual staff members of the funded unit whose staff costs are represented in the allocation. Instead, the designated services are "purchased" as determined by a prior agreement, thereby preserving the organization integrity of the provider unit.
4. The administration of the University will make such allocations as are desirable for providing information necessary for managing the University. Appropriate financial records will be maintained for these allocations, even if the records are only done on a

memorandum or subaccount basis. For budgetary reporting purposes, the University will keep such accounting records as are required to document actual vs. budget for certain state agencies.

5. Costs which are allocated for budgetary purposes must have written agreements in the prescribed form prior to the conclusion of the budget preparation cycle for the fiscal year in which they are to be effective. For example, cost allocation agreements for a future fiscal year must be done on a preliminary basis prior to the submittal of internal budget forms to the Budget Office. Final cost allocation agreements must be completed prior to submission of the budget to the Finance, Investment and Administration Committee of the University Board of Trustees for approval.
6. Budgetary cost allocations must be consistent with the University's understanding of the guidelines promulgated by the State in regard to which kind of costs are to be budgeted in various appropriation categories.
7. For purposes of third party cost reporting, costs are to be allocated for those functions which would exist in a freestanding institution, but are reflected in another component unit. These allocated costs are to comply with the guidelines for allowable costs for the respective third party cost report.
8. The allocation of costs for whatever purpose is to be done only through formal prescribed procedures. These procedures are designated to ensure that all parties to the allocation have been fully informed, have adequately participated and have concurred in the decision establishing the agreement. The prescribed procedures state that an allocation of costs must be in the form of a written agreement, must be processed in the specified manner and must contain the required authorized signatures before it is effective.
9. The basis for allocations among the component units of UMDNJ is to be reviewed by the Deans and unit CFO's as parties to each cost allocation agreement, subject to review and approval by the Vice President for Finance and Treasurer for consistency throughout UMDNJ.
10. Once established, each cost allocation is to be reviewed and revised, if necessary, no less than annually by the parties to the written agreement. The review will include the propriety and basis for the cost allocation.
11. A copy of the written cost allocation agreement will serve as the official document from which accounting will input the expense charges. These expense charges are to be generated monthly on a prorated basis for the annualized cost unless otherwise specified in the written agreement.
12. Disagreements between the parties and/or appeals will be reviewed and resolved by the Senior Vice President for Finance.

By Direction of the President:

## **Signature on file**

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Vice President for Finance and Treasurer