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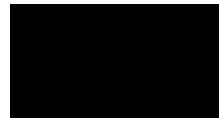
VICE CHANCELLOR – ADMINISTRATION & FINANCE

RE: Delegation of Authority – University Direct Costing Procedures (*Business and Finance Bulletin A-47*)

Effective immediately, in accordance with Business & Finance Bulletin A-47, University Direct Costing Procedures which delegates to Chancellors certain authorities with respect to recharge categories, I am delegating the Vice Chancellor – Administration and Finance to act on my behalf. The specific authorities can be found in VI. Recharges: Section D. 4. and Section F.3. This letter supersedes past re-delegations regarding these authorities.

If you have any questions or concerns regarding this delegation of authority, please contact Cindy Major, Campus Delegations Coordinator, at the Chancellor's Communications & Resource Center, 2-3115 or [cmajor@berkeley.edu](mailto:cmajor@berkeley.edu). Business & Finance Bulletin A-47 is attached for your reference.

Yours sincerely,



Robert J. Birgeneau

cc: Associate Chancellor B. FitzPatrick  
Associate Chancellor L. Williams  
Chief Campus Counselor C. Patti  
Director – Audit & Advisory Services Wanda Lynn Riley  
Campus Delegations Coordinator C. Major



University of California  
Business and Finance Bulletin

Office of the Executive Vice President  
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<p><b>Number</b> A-47</p>	<p><b>University Direct Costing Procedures</b> <i><a href="http://www.ucop.edu/ucophome/policies/bfb/a47.pdf">http://www.ucop.edu/ucophome/policies/bfb/a47.pdf</a></i></p>	<p>Refer all general questions to: Jorge.Ohy@ucop.edu</p> <p>Refer all campus questions to: _____</p>
<p><b>Business and Finance Bulletins Home Page:</b> <a href="http://www.ucop.edu/ucophome/policies/bfb/">http://www.ucop.edu/ucophome/policies/bfb/</a></p>		

I. REFERENCES

- Accounting Manual Chapter U-538-23, University Extension Concurrent Courses  
Business and Finance Bulletins:  
A-56, Academic Support Unit Costing and Billing Guidelines  
A-59, Costing and Working Capital for Auxiliary and Service Enterprises

II. INTRODUCTION

This bulletin sets forth general procedures for direct costing. University documents which provide additional costing procedures for specific areas are listed in section I., References.

Direct costs (or expenses) are recorded in the general ledger by authorized transactions for initial payments (e.g., invoices, payrolls), recharges from University administrative and service units, and adjustments of expenditures (cost transfers). These costing procedures are issued to improve uniformity and consistency in the recording of direct costs throughout the University.

Within the context of this bulletin, an accounting entity refers to a department, unit, office, project, or activity which is identified by a unique account/fund designation. Where a recognized organizational unit has several accounts all within the same function and associated with the same fund, expenditure adjustments and recharges among those accounts are not subject to the procedures set forth in this bulletin. Examples of such units are hospitals, student housing and food service operations.

This bulletin does not apply to the Department of Energy Laboratories.

III. BASIC DIRECT COSTING GUIDELINES

A. NATURE AND EXTENT

Each accounting entity shall charge its budget with all the readily identifiable direct costs associated with the conduct of the operations of that entity. Examples

of such charges are salaries and wages (when the effort devoted and the benefit derived are directly identifiable with a specific entity); associated employee benefits costs; supplies and other general expenditures (such as travel, storehouse purchases, and garage and telephone charges); equipment purchases; and, for self-sustaining operations, equipment depreciation, operation and maintenance of plant, and campus general administrative support recharges.

#### B. TYPES OF DIRECT COSTS OR CHARGES

There are three types of financial transactions by means of which an accounting entity is charged direct costs. These transactions are:

1. a direct charge or payment of an original transaction (for example, payrolls, vendor invoices, and sub-recipient invoices);
2. an expenditure adjustment from an account originally charged (including intercampus and pass-through charges); and
3. a recharge from an activity providing goods or services.

#### IV. DIRECT CHARGES OR PAYMENTS

Generally, costs shall be charged directly to the account to which they pertain. Direct charges of original transactions are effected through personnel action forms or time reporting forms for salary and wage expenses. For purchases from vendors and for other external payments, such as travel and honoraria, direct charges are effected through an invoice, travel, or other cash disbursement document. Forms and documents may be in hardcopy or electronic form.

#### V. EXPENDITURE ADJUSTMENTS

##### A. CONDITIONS

Once an expense entry has been recorded in an account in the general ledger, it is appropriate to make expenditure adjustments only in the following situations:

1. To correct an erroneous recording, such as when the original source documents(s) (e.g., invoice, payroll, purchase order) cited an incorrect account, fund, sub-budget, or object.
2. To record a change in the decisions made originally as to the use of goods or services (e.g., a case of beakers originally ordered for and charged to a teaching program may be subsequently transferred to a research project). In requesting expenditure adjustments, a unit administrator is certifying that the original (direct charge) recording was not a proper and legitimate charge against the account/fund cited; that the original charge is now being invalidated; and that the second account/fund is the correct one to charge.
3. To redistribute certain high numerical but small individual and/or minor charges (e.g., copy machine rental and paper costs, telephone charges, mailing charges, or charges for office supplies) which are billed to departmental

accounts(s)/fund(s), but a portion of which may apply to other accounts under the jurisdiction of the department. While this type of expenditure adjustment is exempt from the requirement of section V.B.2. of this bulletin, which requires reference to the original source document(s), departments must maintain internal records/logs of such usage to support the adjustment.

4. To redistribute payroll costs based on the after-the-fact verification of effort reported through the campus effort reporting system used to certify individual effort on federal contracts and grants.

#### B. CRITERIA

A request for adjustment of expenditures shall meet the following tests when the adjustment is to transfer a cost to a restricted fund provided by an external agency for a specific purpose (e.g., funds provided under a gift, endowment, grant, or contract for a specific purpose):

1. It must relate to individual items of expenditures (e.g., a cylinder of oxygen or fraction thereof, two hours of technical staff when identifiable to a specific cost objective) incurred by the unit requesting the adjustment.
2. It must contain a reference to the invoice, payroll, or other disbursement document(s) which initiated the original direct charge.
3. It should be in the same amount originally recorded in the University general ledger (i.e., the whole amount or the appropriate fraction charged to and/or paid by the unit requesting the adjustment). If transferring a fractional amount the transfer request must contain an explanation supporting a reasonable and equitable method of allocation.
4. It must be fully explained, justified, and approved by the unit administrator(s) involved in the transaction. (An explanation which merely states that the adjustment being made is "to correct an error," "to transfer to correct project," or "expenditure inadvertently charged to incorrect account/fund" is not sufficient.) In the case of adjustments which involve Federal grants and contracts, the certification and approval signatures must include that of the principal investigator, department head, or other academic official. For transfers processed electronically or using on-line systems, the certification and approval of the department head, principal investigator or other academic official must be maintained by the department in accordance with local campus requirements.
5. It must be recorded via the appropriate hardcopy or electronic form (such as the payroll expenditure adjustment request, the non-payroll expenditure adjustment request, or the financial journal).
6. It must be monitored by the Controller of the given campus for compliance with applicable campus and University policies and terms of

funding source agreements. The Controller may delegate this authority to his/her subordinate(s) responsible for the accounts/funds involved.

7. The University is committed to the accurate and timely maintenance of its financial records. Situations requiring the transfer of recorded costs must be identified and processed expeditiously. Additionally, special considerations must be given to transfers of cost to federal funds to ensure that the University action meets the administrative standards established by the federal government.

For conditions described in V.A.1, 2, or 3, if the expense is being transferred to a federal or federal flow-through account, it must be recorded in the general ledger within 120 days from the close of the month in which the original charge posts to the ledger. (For example, the deadline for adjusting a charge which appears in the January ledger will be the May ledger.) If because of unavoidable circumstances an adjustment has to be made beyond the 120-day period, a full explanation, including a well-documented account of all the events leading to the tardy adjustment, must be provided. Campuses have the option to establish their own criteria when the adjustment is to transfer a cost between unrestricted University funds, as long as the requirements listed in items 1. through 6., above, are met. (See Appendix I for a comparison of this policy with the NIH Policy Statement on cost transfers.)

8. For conditions described in V.A.4, redistribution of payroll costs based on reported efforts; the payroll cost transfer must be recorded within the same cost transfer timeframe described above in V.B.7.

#### C. EXCEPTION

Expenditure adjustments/transfers for University Extension concurrent courses are exempted from the procedures set forth in this section. Refer to Accounting Manual Chapter U-538-23, University Extension Concurrent Courses.

### VI. RECHARGES

#### A. DEFINITION

A recharge as a direct cost within the context of this bulletin falls within one of the following three categories:

Category 1. The cost charged to a University department for specific goods or services provided by another University department. Included in this category are goods and services provided by auxiliary and service enterprises, academic department support units, plant services departments, and other departments-other than central campus administrative offices-with approved recharge budgets.

Category 2. The cost charged to self-supporting activities which are primarily funded from external income for identifiable services provided by central campus administrative offices.

Category 3. The cost charged to University departments for special services and abnormal levels of services provided by central campus administrative offices which are beyond the normal services provided by those offices.

B. ESTABLISHMENT OF ACCOUNT-GENERAL

Recharge transactions may be initiated only by those units with approved recharge accounts (sub-account 9). Proposals to establish recharge accounts are reviewed in accordance with locally established campus procedures.

C. ESTABLISHMENT CRITERIA-RECHARGE CATEGORY 1

Proposals to establish recharge accounts for goods and services to be provided by the activities described in category 1, above, shall be based on the following criteria:

1. There exists a demand for the particular service by more than one University department.
2. There will be a significant volume of recharging, both in dollar amounts and in the number of transactions.
3. Service will be provided on a regular and continuing basis.
4. Service will be unique or specialized (for example, a glassblowing shop or a machine shop) as opposed to general administration or other institutional support services.

A separate budget for the recharge service function will normally be required.

If the predominant volume of the product or service is to be provided to the general campus, the recharge unit will be classified within the Institutional Support function.

D. COSTING AND PRICING GUIDELINES-RECHARGE CATEGORY 1

The amount to be charged for goods and services provided by the activities described in category 1, above, shall be governed by the following general guidelines:

1. All elements of cost resulting from the goods or services provided shall be recharged to users based upon a previously authorized established price or standard pricing method uniformly applied to all users. In complex pricing situations, such as for custom work, price computations shall be based on established wage rates and costs of materials and equipment used. Identical goods and services must carry identical prices for any and all customers, with the exception of dual-pricing structures for Federal and non-Federal activities.
2. Recharges shall not be based on prorations or other indirect methods of cost allocations.

3. Recharges shall be related to the cost of goods or services furnished and must provide for the recovery of actual costs, including applicable depreciation. Prices shall be adjusted at least annually to eliminate any surpluses or deficits. Every effort should be made to ensure that year-end surpluses do not exceed one month of the recharging unit's activity. Local campus recharge review committees may approve surpluses greater than one month of the recharging unit's activity when appropriate to address specific operating cash requirements.
4. All recharge activities shall publish a schedule of rates and prices which shall be reviewed and approved by the Chancellor or his/her delegate. These reviews shall give consideration to alternative methods and costs of accomplishing the objectives, such as purchasing goods or services from vendors outside the University.

Additional guidelines for costing and pricing procedures for auxiliary and service enterprises and academic support units are set forth in Business and Finance Bulletins A-59, Costing and Working Capital for Auxiliary and Service Enterprises, and A-56, Academic Support Unit Costing and Billing Guidelines, respectively.

E. ESTABLISHMENT CRITERIA--RECHARGE CATEGORIES 2 AND 3

Services to be charged by central campus administrative offices to self-supporting activities and other departments, as described in Section VI. A, categories 2 and 3 above, shall be based on the following criteria:

1. Specifically identifiable services will be provided to the activities.
2. Funds to provide for the services are not provided in the budgets of the administrative offices.

F. COSTING AND PRICING GUIDELINES - RECHARGE CATEGORIES 2 AND 3

The amount to be charged for services provided by the activities described in Section VI. A, categories 2 and 3 above shall be governed by the following guidelines:

1. Recharges shall be related to the cost of providing the services.
2. Recharges may be based on an acceptable cost allocation basis.
3. Recharges for these services shall be reviewed and approved by the Chancellor or his/her delegate.

G. RECHARGES TO SELF-SUPPORTING ACTIVITIES

Present policy requires that the following activities must be charged for the services provided by central campus administrative offices:

1. Teaching Hospitals
2. Dental Clinics and Neuropsychiatric Institutes

3. Auxiliary Enterprises
4. Summer Sessions

Other self-supporting activities may be charged for the above services at the option of the campus.

## VII. REAPPORTIONMENTS AND FUNDING ADJUSTMENTS

Under certain circumstances, a use of the recharge transaction mechanism is authorized which is not considered a direct cost transaction within the context of this bulletin. These types of recharge transactions are reapportionments or funding adjustments. They are limited to the following:

1. recharges assessing University Opportunity funds for replacement of medical tuition initially charged to General Funds budgets;
2. recharges assessing Educational Fee funds for institutional support and operation and maintenance of plant services to student service activities;
3. recharges assessing construction projects for costs initially charged to Building Program Clearing accounts;
4. recharges for station land and labor of Agriculture Field Stations as reviewed annually by the Field Station Research Advisory Committee;
5. recharges of administrative and supervisory costs of University Extension, Residence Halls, and the Physical Plant Department to the benefiting units within the function; and
6. recharges (Clinical Teaching Support) assessing General Funds for teaching patient care initially charged to hospital or clinic funds. Any other use of the recharge transaction mechanism must have the approval of the Vice President – Finance and the Vice President – Budget.



**Comparison of UC Policy and the NIH Grants Policy Statement**

The University is committed to the accurate and timely maintenance of its financial records. Situations requiring the transfer of recorded costs must be identified and processed expeditiously. Additionally, special considerations must be given to transfers of cost to federal funds to ensure that the University action meets the administrative standards established by the federal government.

The NIH Grants Policy Statement states: "Cost transfers to NIH grants by grantees, consortium participants, or contractors under grants that represent corrections of clerical or bookkeeping errors should be accomplished within 90 days of when the error was discovered." The University expects to discover errors within 120 days from the close of the month in which the original charge posts to the ledger. Thus, the University has established policy to require cost transfers to be recorded within 120 days of the end of the month in which the original charge posts to the ledger. While NIH policy does not restrict the time period for cost transfers until the error has been discovered, the University has elected to limit cost transfers to within a total of 120 days of the end of the month in which the original charge posts to the ledger to provide a more systematic control over cost transfers and in recognition of UC financial policy that expects timely reconciliation of ledgers. In general, the University policy is potentially more restrictive than the NIH policy based on the following timeframe for the timely and appropriate review of all charges recorded into the University accounting system.

1. Recording the original charge: Charges are recorded daily upon initial review and approval by authorized departmental personnel.
2. Monthly reports: Monthly reports of accounting entries are made available to each department at the end of each month.
3. Review of reports: University departments must review the monthly reports to verify the accuracy and validity of all revenues and expenditures recorded during the month. (Review must be completed within 30 days of issue of the reports.)
4. Cost transfers, if any, must be completed within 90 days of the end of the review period to comply with NIH policy (to record the transfer within 90 days of the discovery of the error).

Cost transfers recorded within 120 days of the close of the month in which the original charge posts to the ledger should meet the NIH policy to record cost transfers with 90 days of the date of discovery of the error.

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October 22, 2008

## CONTROLLERS:

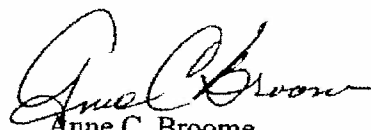
Subject: Revised BFB A-47, A-56, A-59

The following Business and Finance Bulletins (BFB) have been revised and posted to the UCOP website at: <http://www.ucop.edu/ucophome/policies/bfb/bfba.html>.

- A-47, University Direct Costing Procedures*
- A-56, Academic Support Unit Costing and Billing Guidelines*
- A-59, Costing and Working Capital for Auxiliary and Service Enterprises*

The revisions were made primarily to: 1) provide a measurable standard for timeliness of cost transfers in A-47; 2) provide flexibility for campus recharge review committees to establish appropriate levels of surplus balances allowable for the working capital of recharge activities in A-47, A-56 and A-59; and 3) update the bulletins to reflect general organizational and procedural changes implemented by the University since their last updates. These changes were finalized in consultation with you over the past several months.

Please contact Jorge Ohy at 510-987-9842 or at [jorge.ohy@ucop.edu](mailto:jorge.ohy@ucop.edu) if you have any questions about the revisions.

  
Anne C. Broome  
Vice President – Finance

cc: Executive Vice President Lapp  
Senior Vice President Vacca  
University Auditor Reed  
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