

Allocations and Offsets

Authority This Guide Memo is approved by the Vice President for Business Affairs and Chief Financial Officer.

Applicability This policy applies to all Stanford employees responsible for accounting transactions.

Summary This Guide Memo sets out policies and procedures for expense allocations and salary distribution offsets, which are a form of cost transfer. Section headings are:

1. EXPENSE ALLOCATION POLICIES
2. SALARY DISTRIBUTION OFFSET POLICIES
3. ALLOCATION AND OFFSET PROCEDURES

1. EXPENSE ALLOCATION POLICIES

An expense allocation is a method that enables apportionment of a particular expense or expenses to Projects-Tasks-Awards (PTAs) that specifically benefit from those charges. Allocations are used in situations where it is difficult to determine in advance how much to charge each PTA for a shared supply or service. They are used to distribute expenses to PTAs receiving the benefit of the good or service. Allocations are often used to distribute costs from expenditure allocation PTAs (formerly known as "clearing accounts") or service centers. They may also be used to distribute costs between benefiting PTAs when a purchase was originally charged to one PTA and one or more other PTAs also benefited from the purchase. Allocations are also used to distribute charges from independent systems (known as "feeders") into the financial system. Often allocations are repetitive or are required on a regular basis.

- a. **Expenditure Allocation PTA Definition** – An expenditure allocation PTA, as described in Guide Memo 34.2, http://adminguide.stanford.edu/34_2.pdf, is a special PTA in which charges for materials, supplies, services, or salaries are accumulated, and then allocated each month to PTAs receiving the benefit of the good or service. Salary and material costs cannot be combined in the same expenditure allocation PTA. If salary and material expenses must be combined, a service center must be used. Sponsored project PTAs may not be used as expenditure allocation PTAs.
- b. **Allocation Basis** – The basis of allocation/distribution (e.g., effort, square footage, headcount) must logically relate to the type of costs being allocated. It must produce an allocation to each activity/account in reasonable proportion to the benefits received. The allocation methodology must produce a result that is allowable, allocable, reasonable and consistent. Feeder systems typically charge other departments based on usage or services provided at specified rates.

Administrative expenses may not be distributed or rotated among sponsored agreements. Departments shall not use any type of pooled allocation method to charge expenses to federal sponsored agreements except from a service center with approved rates, or as described in the Research Policy Handbook Document 3.6, <http://www.stanford.edu/dept/DoR/rph/3-6.html>.

- c. **Documentation** – Online expense allocation documentation must clearly show the nature of the cost being allocated. The originator of the journal must include comments about the distribution basis in the online documentation and retain documentation of the allocation methodology and calculation results in accordance with the government and University's record retention requirements. Feeder systems track the charges and maintain documentation in their own systems.

d. Approvals – Before an allocation journal or feeder is submitted to the financial system, the department processing the journal/feeder must have received approval from an authorized individual for each PTA charged. Certain feeder transactions, such as utility charges, are approved implicitly as part of the annual budget process. Approval for other allocations and feeders can be a "blanket" approval for regular ongoing costs allocated in a consistent manner. Approval can be evidenced in writing in a memo, on a request form (e.g., SU-13 or similar form) or via electronic means. The department originating the journal/feeder must maintain documentation of written approval. For allocation journals, written approval must be on file from individuals with signature authority over the PTAs being charged, while online approval is required for the PTA or Project-Fund-Object being credited. The originator of the journal attests to the following when creating the allocation journal:

- This allocation is being processed in accordance with policy
- The cost is an appropriate charge to the PTAs sharing the expense
- The PTA actually benefited from the cost of the goods and services
- The transaction is documented according to policy

Feeder transactions are not routed for online approval, nor does the originator make the above attestation in the financial system. The ability to act as a feeder into the financial system is granted by the Controller's Office with the understanding that the transactions follow University policy. Feeder owners must sign an annual attestation that they understand and accept their responsibilities and have followed the policies, and must pass Cost Policy Training as described in Memos 34.5, Cost Policy, and 36, Authorizing Expenditures, at: <http://adminguide.stanford.edu/ch3contents.html>.

e. Deadlines – Allocation journals should be prepared and submitted before the end of the month following the month the expense was posted.

Example: A cost that appears on an expenditure allocation PTA's March expenditure or operating statement should be allocated to the PTAs that benefited from the service by the last working day in April.

Allocations submitted after the deadlines must include a valid reason for the delay.

2. SALARY DISTRIBUTION OFFSET POLICIES

The federal government and some nongovernment sponsors require that the University charge salaries and wages to sponsored projects as they are earned. However, many faculty members who are on 9-, 10-, or 11-month appointments choose to have a reduced salary amount paid over all 12 months of the year. To correctly charge sponsored project PTAs or the related cost sharing PTAs in such situations, departments may use the Labor Distribution Schedule method or the Salary Distribution Offset method. The Labor Distribution Schedule method is preferred, as it requires fewer accounting transactions to accomplish the result. In the employee's Oracle Labor Distribution Schedule sponsored or cost sharing PTAs are charged the appropriate percentage of the faculty member's 9-month salary (subject to any regulatory caps) for the academic period. The remainder of the amount to be PAID over 12 months is charged to an operating budget or other unrestricted PTA. For templates to aid in the calculation, see Faculty Labor Distribution Entry Templates at: http://fingate.stanford.edu/staff/payadmin/res_jobaid/faculty_laborDist.html. When following the Salary Distribution Offset (using after-the-fact Labor Distribution Adjustments for salary expenses originally incurred after March 31, 2005, or Salary Journals for salary expenses originally incurred before April 1, 2005) method the department must:

- Charge the faculty member's entire salary to the operating budget PTA paying for the nonresearch portion of salary. (For more information on payroll processing see Guide Memo 35, University Payroll, <http://adminguide.stanford.edu/35.pdf>, and Faculty Specific Payroll Administration at: http://fingate.stanford.edu/staff/payadmin/payadmin_faculty.html.)
- Record a transfer to allocate the amount of earned salary to the sponsored project PTAs based on effort devoted to the project(s).

The salary actually paid will show as a charge on the expenditure detail report for the operating budget PTA. The salary earned will show as a charge on the sponsored project expenditure detail report and as a credit on the operating budget expenditure detail report.

- a. **Approvals** – Online signature of the person responsible for the PTA to be debited is required. Signature for the PTA to be credited is not required.
- b. **Deadlines** – Salary Distribution Offset transfers should be prepared and submitted in the month the salary is earned.

Example: Salary earned during April should be recorded during April.

A Salary Distribution Offset transfer submitted after the deadline must include a valid reason for the delay.

3. ALLOCATION AND OFFSET PROCEDURES

- a. **Getting Started** – Allocations and offsets, including feeders, are submitted using iJournals or Labor Distribution Adjustments in the University's online financial system. Guidance on using the University's online accounting system, including procedures for using Allocation and Salary Journals, Uploads, Templates, and Labor Distribution Adjustments, is available from the Month-End/Year-End Close section of the Gateway to Financial Activities web site at: <http://fingate.stanford.edu/staff/moyrendclose/index.html>.
- b. **Nonsalary Charges** – Allocations from expenditure allocation PTAs, service centers or other PTAs may be made by the following methods:
 - **Allocation Journals** are used for submitting a new allocation, a transaction containing repetitive transfers where charges have been previously authorized. Journal transactions entered using this form are limited to non-salary/student-aid expenditure types.
 - **Allocation Templates** may be set up to save time in processing repetitive allocations each month.
 - **Upload Allocation and Feeder Journals** may be used to upload an allocation created in another system.
- c. **Salary Charges** – Allocations from expenditure allocation PTAs or offsets are made by using a Labor Distribution Adjustment or a Salary Journal. See Guide Memo 38, Cost Transfers, <http://adminguide.stanford.edu/38.pdf>, for further guidance
- d. **Identification Needed** – All users of the University's online financial system must have a SUNet ID and password. Approvers must also have received appropriate delegated authority through the Authority Manager system (tutorial available online at: <http://www.stanford.edu/dept/itss/services/authority/tutorial/introduction.html>) and passed the online test in the Cost Policy and Chart of Accounts class with 100% (available online at: http://ora.cardinal/level_1/cost_policy/default.asp). (See Guide Memo 36, Authorizing Expenditures, <http://adminguide.stanford.edu/36.pdf>.)
- e. **Review** – To ensure compliance with this Guide Memo, the Office of Sponsored Research will periodically sample and review the supporting documentation. Originators may contact the Office of Sponsored Research for further guidance, see: http://ora.stanford.edu/staff_directory.asp.