CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS

Cost Recovery

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CSUDH
I. Introduction to Cost Recovery
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What is Cost Recovery?

Cost Recovery is a concept that translates to literally recovering costs.

What this means is that if one entity incurs an expense on behalf of second entity, they can charge the second entity in order to pay for the expense.

These charges between the entities are how we “recover” costs.
Why do these costs need to be recovered?

The campus is comprised of several separate organizations, which each have their own funding sources and uses (ex: parking, theater department, course fee).

Because these organizations are smaller, it doesn’t necessarily make sense for them to have full-time staff for certain operations.

These organizations work together for a common mission of serving the students and may often share resources.
Why do these costs need to be recovered?

Each organization needs to pay their portion of the shared expenses that take place.

By charging back expenses internally, each organization can pay for the services or portions of expenses that they are using.

Recovering costs eliminates the issue of one entity subsidizing another.
What types of costs are recovered?

There are two broad categories of expenses that are recovered:

1) **Direct Costs**: Direct costs are specific expenses that are charged back for the exact cost (ex: utilities on a building, background checks)

2) **Indirect Costs**: Indirect costs are generally support areas that require a methodology to determine share of expense (ex: facilities services, HR)
EO1000

Executive Order 1000 (EO1000) is the type of cost recovery that usually receives the most attention and discussion.

EO1000 states:

“Ensure that costs incurred by the CSU Operating Fund for services, products, and facilities provided to other CSU funds and to Auxiliary Organizations are properly and consistently recovered with cash and/or a documented exchange of value. Allowable direct costs incurred by the CSU Operating Fund shall be allocated and recovered based on actual costs incurred. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation.”
That’s a lot of words! What does it all mean?!

When the state of California gave funding for the campus, The Operating Fund, it was expected that funding would be used for specific uses.

Any activities outside of the Operating Fund live within their own funds, which we’ve been referring to as “entities”.
We’ve already established that the Operating Fund and different entities on campus work together to advance the University, and often share resources.

The state of California doesn’t want the Operating Fund to subsidize these entities, so EO1000 is the policy that requires the Operating Fund to recover its costs.
Chargebacks

Chargebacks are a form of direct cost recovery that are managed within on the campus and do not usually require a Memorandum of Understanding (but might).

If a department provides a service to a different department outside of their regular scope, they may charge that department back for the specific service.

Example: If I ask Facilities to paint my office red, that is outside of the services they normally provide to the Budget Office. They may then choose to charge back the cost of labor and supplies.
Administrative Fees

Administrative Fees are a type of indirect cost recovery.

When an administrative fee is charged, that fee reimburses departments for the work they are providing to support activities.

Example: There is a 7% administrative fee charged on trust funds. These funds rely on Operating Fund support to conduct business: Accounts Payable for invoices, HR for any personnel costs, IT for network access, etc. By paying the 7% administrative fee, these funds can access these services without hiring their own AP, HR, and IT teams.
Summary

Cost Recovery

Ultimately, cost recovery is a way for the University to share and maximize the resources it has.

Through recovering costs, we ensure that a single area doesn’t subsidize the cost of services for the rest of the campus community.