

Cost Allocation for Construction Projects Policy

Unit: Shared Administrative Services

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Purpose

The purpose of this policy is to provide additional guidance and procedures for cost allocations associated with construction projects. Cost allocations differ from contract allocations, or split contracts, in that the contracted amount is budgeted on one project (funded project) and identified costs which are associated with another project are allocated to the project beneficiary (funding project) through a cost allocation Project Approval Form (PAF). For contract allocations, or split contracts, the original contracted amount is split between the benefiting parties and budgeted separately on the individual projects.

This policy is intended to clarify cost allocation criteria and standardize documents received by Business Administration for Construction and Physical Plant (BACPP) in order to execute cost allocations in a timely and accurate manner. Because a large majority of projects are funded through bond proceeds, appropriate supporting documentation is required for all allocations in order to be in compliance with state and federal rules and regulations.

Contract Allocation/Split Contract

If a contract is intended to be split between projects, the base bid and alternate bids should clearly define the amounts applied to each project. The accounting for a contract allocation/split contract will be managed by BACPP as coordinated with the Project Manager. The contractual document, board related documents, and other appropriate backup documentation will be used as an audit trail. (An example of a project with a split contract is the UA Strength and Conditioning Facility.)

Cost Allocation

Cost allocations are used when funding from one project is intended to fund a cost in another project. The cost may be a joint cost or a specifically identified cost associated with the funding project. If a cost allocation is required between projects, a journal voucher will be prepared by BACPP to allocate the distinguishable expenditures. The project that is incurring the cost (funded project) on behalf of another project will receive a credit and the project that should incur the expense (funding project) will be debited for the expenditure. (An example of a project with a cost allocation is the East Quad Energy Plant.)

Cost allocation PAFs will be prepared for the project that is incurring the cost(s). The PAF will specify the allocated expense(s) in the allocation section. All cost allocations requested by Construction Administration must be accompanied by appropriate documentation including the following:

1. Memo by Project Manager. Memo should provide justification for allocation of costs to or from another project
2. Breakdown of allocation. All individual calculations must also be provided. For example, if the costs to install utility piping are allocated to multiple projects based on square footage, this calculation must be provided.
3. Backup or documentation for anticipated/actual costs. Typical backup would include an amended contract, change order, or bid alternate detailing the portion that should be allocated to another project. A quote or purchase order from the vendor can also be used to justify allocated costs.

Allocations cannot be made based on available funding. Contingency amounts may be included in the initial estimate for the cost allocation so long as that amount does not exceed five percent of the allocated construction cost for new projects and ten percent of the allocated construction cost for renovation projects. Contingency included must be specific to the original scope of the cost of work allocated. If the final cost allocation is not supported by actual figures, a revised PAF will be issued to adjust the allocation to the actual cost amount. Cost allocation entries are not to affect the total approved project budget. All entries will be approved by the BACPP Executive Director.

Definitions

Contract Allocation - commonly referred to as a split contract; original contract is allocated across mutually benefiting projects.

Cost Allocation - the funding of one project based on actual costs incurred on behalf of another project.

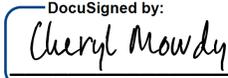
Funding project - project receiving the allocated cost and realizing the benefit for the goods or services executed through another project.

Funded project - project receiving the allocated funding to compensate the costs originally incurred as project expenditures on behalf of another project.

Scope

This policy applies to all cost allocations for construction projects issued by Construction Administration and received by Business Administration for Construction and Physical Plant (BACPP).

Office of the Vice President of Finance and Operations

Signed:  1/18/2019
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