

1 Q. **Reference: Response to CA-NLH-212, part c**

2 Further to the response to CA-NLH-212, part c, please elaborate further on the differences
3 between cost recovery business units (Type 3 costs) which are charged directly to the benefiting
4 line of business without the use of allocators and Type 2 costs (Corporate Services) that are
5 directly assigned based on employee time recorded through timesheets, without the use of
6 allocators.

7
8
9 A. While both Type 2 costs (Corporate Services) and Type 3 costs (Cost Recovery Business Units)
10 are charged directly to the benefiting line of business without the use of allocators, they differ in
11 the mechanism used to accumulate and recover costs. Type 3 costs relate to specific cost
12 recovery business units that are established to accumulate costs incurred on behalf of one or
13 more lines of business. These business units function as holding accounts where costs are
14 gathered before being transferred to the benefiting line of business. The accumulated costs may
15 include labour, travel, telecommunications, subscriptions, consulting services, materials, and
16 other direct expenditures. Labour costs associated with these activities are initially recorded to
17 the cost recovery business unit rather than directly to the benefiting line of business.
18 Periodically, the total accumulated costs are transferred through a journal entry to the
19 appropriate recipient line of business.

20 Accordingly, the primary distinction is that Type 2 costs are charged directly to the benefiting
21 line of business through employee time reporting, whereas Type 3 costs are first accumulated
22 within a dedicated cost recovery business unit and subsequently transferred in aggregate to the
23 benefiting line of business. Type 3 cost recovery business units are used in limited circumstances
24 and are not the primary method used to charge costs among entities but are maintained where
25 the accumulation and subsequent transfer of related costs is administratively more practical.