

INTERIM POLICY ON INDIRECT COST RECOVERIES AND ALLOCATIONS

INTRODUCTION

The federal and state government and private entities sponsor university research and other activities, as defined and described in the Interim Policy on Grants and Contracts Administration (APM 501), by awarding grants and contracts to the university or auxiliary.¹ The grant and contract awards typically provide support for both the direct and indirect costs of conducting these activities.

I. DIRECT COSTS

Direct costs, as defined by the federal government, are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity; or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Typical direct costs are the compensation of employees for work performed under the sponsored agreement, and the costs of materials consumed or expended in the performance of the work. In some cases, equipment for conducting the research under sponsored agreement is included in direct costs.

II. INDIRECT COSTS

Indirect costs² are those costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, but contribute to the ability of the university to support research projects and programs. Such costs are normally classified under the following indirect cost categories: sponsored projects administration expenses, operation and maintenance expenses, library expenses, department administration expenses, and student administration and services. Indirect costs derive from providing space and administering the activities, not from the actual performance of activities under the sponsored agreement.

Indirect cost recovery (ICR) is defined as the revenue received from a sponsoring agency, under the sponsored agreement, to pay a grant or contracts share to reimburse the university for the indirect costs it incurs. Indirect cost recoveries from awards sponsored by the federal government are governed by the Office of Management and Budget (OMB) Circular A-21. OMB Circular A-21 establishes a formula by which an ICR rate is calculated, and determines which costs are allowable.

To calculate the allowable indirect recovery rate, the numerator is the sum of all allowable indirect costs of an institution's grants and research program that are attributable to its externally sponsored research not directly charged to grant or contract budgets. The denominator is the sum of the modified total direct costs extended in a given prior year by the institution under those research programs. The rate is the ratio of the two numbers multiplied by 100. The rate is calculated using historic data based upon a prior year's experience and is awarded on grants in subsequent years. There is a two-year lag between actual expenditures incurred and the application of the adjusted reimbursement rate on direct costs.

In order to establish the ICR rate with the federal government, negotiations are held based on an indirect cost study prepared by the campus that allocates allowable indirect costs to the various cost centers of the campus. Each campus negotiates its rate individually. The federal agency with which the university negotiates ICR rates is the Department of Health and Human Services (HHS). The rate negotiated with HHS is applicable to all federal awards, unless a separate agreement is made for a particular award, or as otherwise specified by law. Rates are negotiated with HHS periodically. There are separate rates for on campus and off campus programs.

¹ "Auxiliary" means an auxiliary organization as defined in CSU Executive Order no. 698 and centers or institutes affiliated with the university regardless of 501(c) 3 status.

² Indirect costs are sometimes referred to as F&A facilities and administration costs by federal agencies.

There are occasions when the university recovers less than its full indirect costs on individual grants or contracts. In these instances only the University Grants and Research Office has the authority to negotiate and approve rates on individual grants and contracts that are less than the rates negotiated with HHS. The principal investigator or project director do not have such authority. In some cases, the university has established a *de facto* rate based on historical precedent.³

Sometimes, as part of individual grant or contract agreements, indirect costs may be recovered as part of direct costs; for example, a sponsor may be charged rent for the use of space rather than the indirect cost charge of building use. Sometimes the university negotiates an agreement in which full indirect costs are not recovered. This may be due to a decision that the sponsored activity is particularly beneficial to the university and community, or it may be due to a sponsor's published restrictions on paying indirect costs.⁴

When contracts and grants are accepted without providing the normal rate of ICR, two things happen. First, the costs that are incurred indirectly in the performance of work are not recovered; and second, those unrecovered indirect costs can not be included in the next calculation of the federally approved rate, which can lead to lower indirect cost recovery in future awards.

Within the university, indirect cost recoveries should be used in support of the grants and research mission. To serve as an incentive to stimulate sponsored research, a portion of these funds is often allocated back to the colleges/schools or departments to provide the infrastructure for additional contract and grant activity, as an investment in the continued ability of the departments to generate sponsored activities. It is important that colleges/schools and departments use these funds to enhance the research environment in accordance with a research infrastructure plan. The use of indirect cost recovery funds for nonrecoverable expenses, such as instructional expenses, will result in a lower indirect cost rate in future years by reducing the size of the indirect cost pool, and therefore the indirect cost rate from which is calculated.

III. COST SHARING IN GRANTS AND RESEARCH

Research awards do not usually cover their full costs. Cost sharing can occur explicitly, implicitly, or both. Some ways that costs of research are shared include:

1. Less than full recovery of indirect costs due to federal rules or regulations, such as use allowances that under recognize depreciation cost of equipment, or animal care standards that make full recovery of animal care costs too costly to charge;
2. Less than full recovery of indirect costs due to the negotiated rates;
3. Less than full recovery of indirect costs due to waiving all or a portion of the indirect cost rate on specific projects with special circumstances;
4. Less than full recovery of direct costs due to explicit cost sharing;
5. Less than full recovery of direct regular faculty time (and salary) such as charging backfill rates rather than full buyout for the time faculty devote to grant activity.

³ For example, the university normally receives fifteen percent (15%) of total direct costs as indirect cost recovery on state and county grants or contracts.

⁴ For example, the California Endowment provides for recovery of fifteen percent (15%) of total direct costs as indirect costs.

IV. POLICY

- A. All grants, contracts and research projects, whether administered through the university or an auxiliary, should initially seek to obtain the maximum allowable indirect cost recoveries on all sponsored awards based upon the appropriately developed, fully charged indirect cost recovery rate as determined by federal rules and regulations (currently OMB A-21). The policy applies to all grants, contracts and research, whether administered through the university or the foundation or one of the auxiliaries. A potential donor, grantor or contracting party shall not be advised that indirect cost recoveries can be avoided or reduced by processing the transaction through an auxiliary or by treating a grant or contract as a gift.
- B. The Vice President for Administration or designee shall conduct negotiations with the appropriate federal government representative to establish the campus indirect cost recovery rate.
- C. The appropriate approved ICR rate shall be sought on all sponsored awards whether they are from public or private sources, and whether they are made through the regular university procedure or through an auxiliary.
- D. The Provost and Vice President for Academic Affairs (Provost) or designee ⁵ shall have the authority to negotiate reduced indirect cost recovery and/or substitution of direct cost recoveries for indirect cost recoveries where appropriate from non-federal sponsors.
- E. Unless the Provost or designee has negotiated and approved a reduced indirect cost rate with commercial and other for-profit sponsors, these entities should pay full costs and generally not receive any lower indirect cost rate than the rate negotiated with the federal government.
- F. In accordance with university policy, the sponsored program administrator may negotiate a royalty from the sale of the product that results from the sponsored activity in accordance with university policy.
- G. The sponsored program administrator may assess a surcharge for grants or contracts that have no ICR.

V. ADVISORY COMMITTEE ON GRANTS AND RESEARCH ⁶

- A. The Advisory Committee on Grants and Research shall
 - 1. Recommend to the Provost a written policy regarding the allocation of indirect cost recoveries that provides incentives to colleges/ schools, departments, and centers to seek full ICR rate on awards, or that include adjustments such as having inappropriate waivers or reductions in the ICR rate result in final dollar reduction of any indirect cost recovery sharing provided to the school, center, or department;
 - 2. Recommend approaches that assure, through the assistance of the University Grants and Research Office, that policies and procedures regarding ICR shall be applied as consistently as possible across all colleges/schools, departments and centers with allowances for formal sponsor's policies regarding the payment of indirect costs;
 - 3. Develop guidelines for determining whether an award shall be processed through the accounts of the university or through an auxiliary;

⁵ The Associate Vice President for Grants and Research has been designated by the Provost for this purpose.

⁶ For a description of this committee, see Interim Policy on Grant and Contract Administration (APM 501)

4. Perform a regular review of ICR waivers, including the number and types of ICR waivers being made;
 5. Perform a regular review of existing policies and procedures and recommend new or revised policies and procedures as necessary.
- B. The Advisory Committee shall also provide annually to the Provost a recommendation for the allocation of all indirect cost recoveries, whether recovered in university or auxiliary accounts. The recommendation shall be based on the needs of the university and the following assumptions:
1. ICR is reimbursement for past expenditures and should not be used simply for incentive for new development of future awards;
 2. Investment in the development and maintenance of an infrastructure of research, including adequate administrative support staff, is the primary purpose of indirect cost recoveries;
 3. ICR may allow the sharing of a portion of ICR to be provided to the college/school, department, or center or division that attracted the sponsored award;
 4. Funds should be viewed as a means of supporting the infrastructure necessary to support the research mission and to attract future awards;
 5. Funds shall not be directly allocated below the department level and shall not be provided, by policy, to a specific individual for discretionary use;
 6. ICR funds shall be budgeted as part of the regular budgeting process of the campus and recognized as part of a college / school, department, or center expense allocation;
 7. Colleges / schools, departments, centers, and other units that have waived all or part of indirect cost recoveries may have a commensurate amount of funds deducted from the ICR they may have received had they not waived indirect costs;
 8. ICR funds are not restricted funds and therefore are allocated at the discretion of the university;
 9. Recognizing this, unallocated ICR funds may be used to build revenue reserves for additional research space, equipment, personnel, and other infrastructure;
 10. All funds must be budgeted, allocated, and expended in conformance with state and federal law, and CSU and university policies.

Approved by the President as Interim Policy

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