

## 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 Policy on the Administration of Sponsored Programs (APM 501), by awarding grants and contracts to the university or auxiliary. 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 costs, which are also referred to as F&A (facilities and administration) costs, 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 contract's 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.

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.

There are occasions when the university recovers less than its full indirect costs on individual grants or contracts. In these instances only the President, Provost and Vice President for Academic Affairs or designee (Associative Vice President for Research and Sponsored Programs), or the Vice President for Administration/Chief Financial Officer have 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 does not have such authority. In some cases, the university has established a *de facto* rate based on historical precedent. For example, the university normally receives fifteen percent (15%) of total direct costs as indirect cost recovery on state and county grants or contracts. 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.

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 cannot 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 it is calculated.

### **III. COST SHARING OF INDIRECT COST RECOVERIES**

Research awards do not usually cover their full costs. Cost sharing using indirect costs can occur explicitly, implicitly, or both. Some ways that indirect 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; and
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.

### **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 an auxiliary. A potential 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/Chief Financial Officer 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 President, Provost and Vice President for Academic Affairs (Provost) or designee, the Associate Vice President for Research and Sponsored Programs, and the Vice President for Administration/Chief Financial Officer shall have the authority to negotiate reduced indirect cost recovery and/or substitution of direct cost recoveries for indirect cost recoveries where appropriate from sponsors or contracting parties.
- E. Prior approval by the President, Provost and Vice President for Academic Affairs (Provost) or designee, the Associate Vice President for Research and Sponsored Programs, or the University's Chief Financial Officer is required prior to negotiating a reduced indirect cost rate less than the rate negotiated with the federal government.
- F. In accordance with university policy, the Sponsored Program Administrator (could be either the university or foundation, as per 501) 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, after consultation with the Grants and Research Advisory Board and with the approval of the President or Provost, may assess a surcharge for grants or contracts that have no ICR. [what about the current 1% surcharge in lieu of indirect? I'm not sure what this question means? I take it that the 1% is an example of an assessed surcharge, but should probably not be included in this policy. I think we should leave this section as is because it allows the SPA leeway).]

## V. GRANTS AND RESEARCH ADVISORY BOARD

- A. The Grants and Research Advisory Board (see APM 501) shall
  - 1. Recommend to the Provost a plan for allocating indirect cost recoveries (ICR) 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. The recommendation shall be based on the needs of the university and the following assumptions:
    - a. ICR is reimbursement for past expenditures and should not be used simply for incentive for new development of future awards;
    - b. Investment in the development and maintenance of an infrastructure of research, including adequate administrative support staff, is the primary purpose of indirect cost recoveries;
    - c. 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;
    - d. Funds should be viewed as a means of supporting the infrastructure necessary to support the research mission and to attract future awards;
    - e. Funds shall not be directly allocated below the department level and shall not be provided, by policy, to a specific individual for discretionary use;
    - f. 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;
    - g. 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;

h. ICR funds are not restricted funds and therefore are allocated at the discretion of the university;

i. Recognizing this, unallocated ICR funds may be used to build revenue reserves for additional research space, equipment, personnel, and other infrastructure;

j. All funds must be budgeted, allocated, and expended in conformance with state and federal law, and CSU and university policies.

2. Recommend approaches that assure, through the assistance of the Office of Research and Sponsored Programs, 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. Perform a regular review of ICR waivers, including the number and types of ICR waivers being made;
  4. Perform a regular review of existing policies and procedures and recommend new or revised policies and procedures as necessary.
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