

**University of California, Berkeley**  
**Effective Date:** prior to **July 1, 2014**

## **Indirect Cost Policy and Calculation Process**

Responsible Executive: Assistant Vice Chancellor and Controller  
Responsible Office: Contracts and Grants Accounting  
Contact: Director, Contracts and Grants Accounting  
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### **A. Policy**

University policy requires extramural sponsors to pay full costs of sponsored projects.

1. Direct costs — readily identifiable with a specific project, e.g., salaries and wages, supplies, equipment
2. Indirect costs — not easily tied to specific projects, e.g., space-related costs, administrative services

U.S. Office of Management and Budget Circular A-21 determines costing policy and provides for standard methods of cost determination, allowability, and allocation. A-21 also provides for alternative methods if they can be shown to be reasonable and equitable.

### **B. Indirect Cost Calculations**

All year-end costs as reported in University financial statement must be accounted for.

- 1) **Exclusions**— Exclude costs as required by A-21 and Rate Agreement:
  - a) Unallowable costs, e.g., fund raising, public relations, entertainment
  - b) Modification Total Direct Cost (MTDC) base adjustments — excludes capital items, rent, patient care, student financial aid and tuition remission
- 2) **Classification**— Using the University's Chart of Accounts and other accounting codes, classify costs into eight indirect cost and four direct cost categories
  - a) Indirect costs
    - i) Building use allowance and or depreciation
    - ii) Equipment use allowance and/or depreciation
    - iii) Operation & Maintenance of Plant
    - iv) General Administration (campus administrative units, e.g., personnel, accounting)
      - i) Departmental Administration (deans' and departmental office costs)
      - ii) Sponsored Project Administration (SPO, contract and grant accounting, indirect cost analysis)
    - iii) Library
    - iv) Student Administration and Services

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- b) Direct cost objectives or major functions
  - i) Instruction
  - ii) Sponsored Research
  - iii) Other Sponsored Activities (e.g., public service projects)
  - iv) Other Institutional Activities (OIA), including auxiliaries, service enterprises
- 3) **Allocation**— Allocate indirect costs to other indirect cost pools (in above order) and to major functions
  - a) Often a multi-step process, e.g., use allowances are allocated to O&M, O&M plus use allowances is allocated to GA, GA to Library, Library to direct functions
  - b) Cost allocation bases vary:
    - i) Space related costs are allocated to buildings and then units on the basis of assigned square footage, then to function (if necessary) by space survey or salaries and wages
    - ii) Administrative costs are allocated on basis of Modified Total Direct Costs (total direct costs less exclusions), or salaries and wages
    - iii) Library costs allocated on the basis of total user population
- 4) **Rate Calculation**— Divide costs allocated to a function by modified direct costs (MTDC) of that function to develop rate component
  - a) On- and off- campus rates are calculated for Sponsored Research, Instruction and Other Sponsored Projects
  - b) Space Sciences Laboratory has a special rate equal to the Sponsored Research rate less building and equipment allowances because NASA provided original building and equipment

## C. Rate Negotiation

UC negotiates rates with U.S. Department of Health and Human Services Division of Cost Allocation Western Regional Office in San Francisco.

## D. University of California Distribution of Overhead Recovery

1. Private Contracts and Grants — Retained in the Office of the President Educational Fund
2. State Agreements — returned to the State