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
Phone: (510) 642-1371

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
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 bailing 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