

July 1, 2016

To: Contracts & Grants Officers

Subject: Indirect Cost Exception Procedures

Memo History

This RPAC Memo cancels and replaces [RPAC Memo 10-02](#).

Purpose

The purpose of this memo is to provide guidance on the University's current practices and procedures for managing indirect cost exceptions.

Background

Under Delegation of Authority DA-2254/2592, the Chief Financial Officer has delegated authority to the [Chancellors](#) and the [Vice President - Agriculture and Natural Resources](#) to approve indirect cost exceptions other than (1) funding from the US federal government and (2) State of California funding below an established rate (see #1 below).

This delegation of authority to campuses and ANR to approve indirect cost exceptions represents a shift from previous practice where the Office of the President (UCOP) reviewed and approved all indirect cost exceptions on behalf of the University.

Guidance

The principle that the University should make every effort to recover all costs of extramurally-funded projects is found in the [University of California Academic Personnel Manual](#) at [APM-020](#):

“For all tests and investigations made for agencies outside the University, a charge shall be made sufficient to cover all expenses, both direct and indirect.”

An approved indirect cost exception is the official authorization to accept indirect cost recovery other than what would be recovered under the appropriate federally-negotiated rate agreement or UC Rate (see #3, below) for a given award.

Effective July 1, 2016, to accommodate campus-based approval of IDC exceptions, the

University has implemented new practices and procedures in managing indirect costs exceptions. This memo provides initial guidance on these changes.

1. Delegations of Authority to Approve Indirect Cost Exceptions

The Chief Financial Officer has delegated to the [Chancellors](#) and the [Vice President - Agriculture and Natural Resources](#) the authority to approve exceptions to certain indirect cost rates in DA-2254/2592.

Chancellors have been delegated authority to approve IDC exceptions except:

- When the sponsor is the State of California and recovery is less than 25% of the Modified Total Direct Cost (MTDC) as defined in UC's federally-negotiated rate agreement.
- When the sponsor is a Federal agency.
- When the sponsor is a pass-through entity issuing a subaward of federal funds to UC.

The Chief Financial Officer has delegated to the Vice President–Research and Graduate Studies the authority to approve any indirect cost rate exception. That authority has been redelegated to the Research Policy Analysis and Coordination unit (RPAC). If it wishes to, a campus or ANR may request that RPAC/UCOP consider the approval of any exception that normally would be reviewed and approved under the campus or ANR delegation.

2. Expiration of Class Exceptions & Implementation of a Verified Sponsor Policy List

Historically, UCOP approved two kinds of indirect cost exceptions: (1) “Individual” exceptions, which were valid only for a named single award, and (2) “Class” exceptions, which could apply to multiple awards issued under a specific sponsor program or policy.

In its [July 2012 Recommendations Report \(hereinafter 2012 Report\)](#), the UCOP Indirect Cost Waiver Policies and Practices Workgroup recommended that Class exceptions be eliminated. Instead, “UCOP should establish a regularly maintained and updated Verified Sponsor Policy List. To qualify for the Verified Sponsor Policy List, a sponsor’s policy must be a publicly published and universally applied to all awardee institutions. For-profit sponsors will not be permitted on the Verified Sponsor Policy List.”

Per the recommendation, effective July 1, 2016, all historic Class exceptions have been deactivated and cannot be applied to new proposals submitted on or after July 1, 2016.

A Class exception remains valid if it was applied to a new proposal submitted prior to July 1, 2016. At the time of a competitive renewal, after July 1, 2016, the historical Class

exception should no longer be used; a new case-by-case exception should be requested locally under the delegated authority discussed above, or the appropriate UC Rate or Verified Sponsor Policy (VSP) listing should be applied.

Records of historical Class exceptions are available in the indirect cost exception module of the Research Enterprise Management System (REMS) so that post-award accounting may validate the application of a particular exception.

Per the recommendation above, UCOP has created a Verified Sponsor Policy list of sponsors whose policies limit indirect cost recovery. The sponsors listed in the VSP list have been reviewed and vetted by UCOP as having published, uniformly applied policies limiting indirect cost recovery. Inclusion of a sponsor's policy on the VSP list is prompted when a policy is verifiable and the campuses frequently submit proposals and receive awards from that sponsor. UCOP will review the VSP list on a periodic basis to ensure that it is current and reliable. RPAC will work with campuses to refine the VSP list and include additional entries as needed.

The VSP list is maintained in the indirect cost exception module of the [Research Enterprise Management System \(REMS\)](#). When applied to a specific proposal or award, the VSP identifier code should be noted in quarterly reporting in the Corporate Sponsored Projects Information System (SPX). There is no requirement to request a case-by-case exception when the VSP listing is applied. Campuses may use this list as part of a local expedited approval process.

3. UC Rates

UCOP has established indirect costs rates for certain classes of sponsored activities separate from federally-negotiated rates (UC Rates).

UC Rates were created in response to a recommendation in the [2012 Report](#) to “Centrally publish a set of systemwide minimum rates for specific types of projects or sponsors where expectations for cost recovery may differ from standard practices (e.g. clinical trials, industry-sponsored research).”

UC Rates have been established for, but not limited to, the following classes of sponsored activity:

- Human Clinical Trials at a minimum of 26 percent of Total Direct Costs.
- State of California awards made under Model Agreement terms (UTC-116). As of the issue date of this Guidance Memo, the calculation is 25 percent of the Modified Total Direct Costs (MTDC), where MTDC is as defined in UC's federally-negotiated rate

agreements. This rate will be raised through a series of escalations, reaching 40% of MTDC effective July 1, 2019. [Read more about the State of California UC Rate in Memo RPAC-16-01.](#)

4. Guidance and Application Changes

The revisions to the indirect cost exception process require significant changes to previously issued guidance, including the Contract & Grant Manual and websites, and the REMS application.

- A revised version of Chapter 8 of the Contract & Grant Manual is expected to be published this summer. The revised chapter will include criteria for campuses to consider in approving IDC exceptions and to reflect current practices and concepts related to indirect cost recovery.
- RPAC will issue revised webpages to document the new process for indirect cost exceptions and provide guidance on concepts related to indirect cost recovery. These webpages will be revised this summer.
- The REMS application has been updated to handle the delegation of authority to campuses; however, certain fields still need to be updated or added to support the revised process.
- Under the expanded guidance in revised Contract & Grant Manual Chapter 8 and consistent with the recommendation of the [2012 Report](#), the criteria-based concepts of “vital interest” and “sponsor policy” exception no longer exist. The “vital interest” indicator will be removed from REMS at a future date. Most indirect cost exceptions, however, arise from a sponsor’s restriction on indirect cost recovery; therefore, to assist the University in its advocacy with sponsors and the on-going curation of the Verified Sponsor Policy list, an indirect cost exception record in REMS should indicate if a sponsor policy is the reason for the exception.

Further systems and guidance changes will be implemented as procedures evolve and as we receive feedback from campuses about how the new process is working.

Additionally, each UC location should develop its own internal practices and procedures in accordance with DA-2254/2592 and UCOP-issued guidance.

5. Approval authority in REMS

The sponsored projects Director for each campus and ANR should provide RPAC with information on which staff has been redelegated authority to approve indirect cost exceptions, so they can be assigned the appropriate “role” in REMS.

Contact

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A handwritten signature in black ink, reading "Wendy D. Streitz". The signature is fluid and cursive, with the first and last names being more prominent than the middle initial.

Wendy D. Streitz
Executive Director
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