

August 31, 2022

To: Contracts & Grants Officers

Subject: Indirect Cost Exception Procedures

Memo History

This RPAC Memo cancels and replaces [RPAC Memo 16-03](#).

Purpose

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

Background

On March 10, 2016, under Delegation of Authority DA-2254/2592, the Chief Financial Officer (CFO) delegated authority to the [Chancellors](#) and the [Vice President - Agriculture and Natural Resources \(ANR\)](#) to approve indirect cost exceptions other than (1) funding from the US federal government and (2) State of California funding below an established rate.

On August 24, 2022, the CFO expanded such delegated authority to include federal or State of California funding, received directly or indirectly, containing a documented IDC recovery restriction applicable broadly to all UC grantees. A "documented IDC recovery restriction" means a written restriction on the recovery of indirect costs broadly applicable to a sponsor's grantees, for example in a statute or regulation, a funding opportunity announcement, or a sponsor policy.

This expanded delegation of authority to campuses and ANR represents a shift from previous practice where the Office of the President (UCOP) reviewed and approved all indirect cost exceptions for federal- and California State-funded projects 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 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.

1. Expanded Delegation of Authority to Approve Indirect Cost Exceptions

The Chief Financial Officer 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 in 2016, and expanded such delegations in 2022.

Chancellors and the Vice President of ANR have been delegated authority to approve IDC exceptions except:

- When the sponsor is the State of California and recovery is less than 30 percent of the Modified Total Direct Cost (MTDC) as defined in UC's federally-negotiated rate agreement and there is no "documented IDC recovery restriction."
- When the sponsor is a Federal agency and there is no "documented IDC recovery restriction."
- When the sponsor is a pass-through entity issuing a subaward of federal funds to UC and there is no "documented IDC recovery restriction."

2. Verified Sponsor Policies

UCOP will continue to create and manage (with campus stakeholder input) 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.
- Absent a VSP record to the contrary, State of California awards have a minimum IDC rate of 30 percent of the Modified Total Direct Costs (MTDC), where MTDC is as defined in UC’s federally-negotiated rate agreements.

4. Guidance and Application Changes

As of August 25, 2022, campuses are no longer required to submit IDC exception requests for California State and federal awards if the federal or state sponsor provides a documented IDC recovery restriction, as defined above. Each UC location should develop its own internal practices and procedures in accordance with DA-2254/2592 and UCOP-issued guidance. Locations may choose to document location-authorized IDC exceptions in REMS at the award stage instead of at the proposal stage.

If it wishes to, a campus or ANR may request that RPAC/UCOP consider the approval of any particular exception that normally would be reviewed and approved under the campus or ANR delegation. Such requests should be routed to the “UCOP *Review*” inbox in REMS.

Exception requests that do not fall under campus or ANR delegated authority must be routed to UCOP via the “UCOP *Special Approval*” inbox in REMS. Requests must include evidence of VCR approval. The Chief Financial Officer has delegated to the Vice President–Research and Innovation the authority to approve any indirect cost rate exception. That authority has been redelegated to the Research Policy Analysis and Coordination (RPAC) unit. To enable visibility of systemwide consistency, a report of all UCOP-approved exceptions will be made available to the Council of Vice Chancellors for Research.

RPAC will update applicable materials including Chapter 8 of the Contracts & Grants Manual, Sponsor Guidance ID 306, and RPAC’s web pages.

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A handwritten signature in black ink, appearing to read 'D. Motton', with a long horizontal flourish extending to the right.

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Attachment: August 24, 2022 Letter from CFO Nathan Brostrom re: DA-2254/2592