Background statement: Three and a half years ago, a modification to the formula for distributing overhead earned on sponsored projects was put in place which froze administrative costs to encourage research activity. The plan was to return more funds to schools, departments, and faculty. In the past few years, there has been an increase in proposal activity and sponsored grants. The number of proposals sent off campus has almost doubled, and Cal Poly's grants have increased from $2.2 million in AY 1985 to over $4.4 million in AY 1987.

It is difficult to ascribe this increase to any single cause. A good many other changes were made during that period which were directed to improving grant activity. However, it is understood that an important element in continuing grant activity on campus is the seeding of related work through development activity and small grants. The proposed revision to CAM 543 will support both those ends.

AS-277-88/RC
RESOLUTION ON INDIRECT COSTS UTILIZATION: CAM 543

WHEREAS, An experiment in the distribution of indirect costs earned on sponsored projects was implemented beginning with AY 1985; and

WHEREAS, It has been tested for a three-year period; and

WHEREAS, It is a complicated procedure; and

WHEREAS, It is desirable to simplify the procedure and maintain the value of the original plan; and

WHEREAS, Administrative changes have also occurred which should be reflected in CAM 543; therefore, be it

RESOLVED: That the attached changes to CAM 543 be endorsed and forwarded by the Academic Senate to the President for consideration.

Proposed By:
Academic Senate Research Committee
November 18, 1987
PROPOSED CAM REVISION

543 Indirect Costs--Definition

Indirect costs are defined by the Department of Health and Human Services (DHHS) as those costs incurred in the development, administration, and running of sponsored programs that go over and above the direct costs of any specific project. These costs include expenses for space and facilities, office and laboratory equipment, maintenance, utilities, library use, accounting functions, departmental and school administration, university administration, and program development, as they are incurred on government and privately sponsored research, development, instructional, training, service, and demonstration projects.

The indirect cost rate is negotiated periodically with the DHHS and changes to reflect shifts in costs. Project developers should consult the Research Grants Development Office to determine current rates before discussing indirect costs with prospective sponsors.

543.1 Policy on Indirect Cost Recovery

The university will seek full indirect costs reimbursement for each sponsored activity, whether administered through the university or through the Foundation. Because indirect costs are real expenses, funds recovered through indirect costs reimbursement are not available to provide additional support for the direct expenses of a project.

543.2 Utilization of Indirect Funds

As indirect cost reimbursements for projects administered fiscally either by the university or by the Foundation are accumulated, they may be utilized by the respective business office to pay for the financial administration of the projects according to the approved rate. All other funds shall be placed in appropriate Foundation or university trust accounts designated "Unallocated Overhead," which is to be used for covering associated costs as well as for sharing throughout the university.

543.3 Report on Expenditure of Indirect Costs and Proposed Utilization

At the beginning of each fiscal year (or more frequently if required) the Director of Research Development and the Associate Vice President for Graduate Programs, Research, and Faculty Development in cooperation with the Vice President for Business Affairs and the Foundation Executive Director will develop a summary statement that will include the following:

A. Indirect cost income during previous fiscal year, including any balance of unused direct costs reimbursements remaining in the trust accounts.

B. Charges during the previous fiscal year for:
1. University fiscal administration  
2. Foundation fiscal administration and reserves  
3. Other, including space reimbursement, professional association dues for the Foundation, fees for partial support of the University Services and the CSU-University Services Program, and so on.

C. The Director of Research Development Associate Vice President for Graduate Studies, Research, and Faculty Development will use the above statement as the basis for developing a proposal for the use of unallocated overheads during the current year. The proposal will be developed in consultation with the University Academic Senate Research Committee. Its objective shall be to fund adequately each of the following in priority:

1. Reserves for audit purposes;  
21. Operating Supplementary budget support for the Research Grants Development Office;  
32. Reserve for program development/contingency; and  
43. Uncommitted funds for use by the university, including funds remaining after the termination of fixed-price contracts.

The above summary statement and proposal will be reviewed and endorsed by the Vice President for Academic Affairs and sent to the President for approval.

543.4 Policy for Maintenance and Utilization of Reserve for Program Development/Contingency

The goal of the reserve for program development/contingency is a level sufficient to assure adequate resources for the continuing support of the research grants development activity. Its use will be restricted generally to costs associated with major proposal development or grant negotiation and to reserves necessary to ensure continuity in funding for the Research Grants Development Office. Recommendations for expenditures are made by the Director of Research Grants Development and approved by the Associate Vice President for Academic Affairs Graduate Studies, Research, and Faculty Development.

543.5 Policy for Allocating Uncommitted Indirect Cost Reimbursements

Uncommitted overhead funds approved for allocation will be distributed in the following manner and for the following purposes. Seventy-five percent of the uncommitted overhead will revert to the dean of the school responsible for securing the grant or contract. The dean may use this money for equipment and supplies, travel, student assistance, or research or project development, subject to the approval of the Vice President for Academic Affairs.

Twenty-five Sixty percent of uncommitted indirect cost reimbursements will be available to the University Academic Senate Research Committee, which will
solicit proposals from the faculty for research, development, or other scholarly and creative activities, equipment and supplies, travel to professional meetings, publication costs, or and recommend grants other projects consonant with the educational functions and policies of the university, subject to the approval of the Vice President for Academic Affairs. The program under which the University Academic Senate Research Committee recommends proposals to the Vice President for Academic Affairs is called CARE, for Creative Activity/Research Effort.

The ceiling for the distribution of uncommitted overhead to the University Research Committee and deans is set by the Vice President for Academic Affairs upon recommendation of the Director, Research Development:

**543.6 Policy for Allocating Incremental Indirect-Cost Reimbursements**

Thirty percent of the uncommitted overhead will go to the administrative unit directly sponsoring the project (e.g., department, dean's office, institute, or center). Such funds are not discretionary, but are restricted funds, intended to be used to reinforce and foster such activities as those that led to the grant that earned them. These activities may include, but are not limited to, support for research assistants, equipment, travel to attend professional meetings, books and journals, and society memberships.

Remaining indirect costs, called incremental overhead, are distributed according to the following formula: 25% to the department for the promotion of sponsored activities; 25% to the sponsoring unit (institute or center or, if none, the department) for similar activities; and 25% to the Vice President for Academic Affairs' Office.
### EXHIBIT A

**Overhead Utilization: CAM 543 Present Formula**

<table>
<thead>
<tr>
<th></th>
<th>84-85</th>
<th>85-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foundation Administered Projects</td>
<td>$237,481</td>
<td>$233,516</td>
</tr>
<tr>
<td>University Administered Projects</td>
<td>$44,040</td>
<td>$38,979</td>
</tr>
</tbody>
</table>

**Grants Development and Administration**

<table>
<thead>
<tr>
<th></th>
<th>84-85</th>
<th>85-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>$239,238</td>
<td>$271,209</td>
<td></td>
</tr>
</tbody>
</table>

**Uncommitted Overhead**

<table>
<thead>
<tr>
<th></th>
<th>84-85</th>
<th>85-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.S. Res. Committee*</td>
<td>$4618</td>
<td>$808</td>
</tr>
<tr>
<td>Deans*</td>
<td>$12,388</td>
<td>$2424</td>
</tr>
</tbody>
</table>

**Incremental Overhead**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Director</td>
<td>$7680</td>
<td>-0-</td>
</tr>
<tr>
<td>Department</td>
<td>$15,360</td>
<td>-0-</td>
</tr>
<tr>
<td>Center or Institute</td>
<td>0- 0-</td>
<td>(If none, to dept.)</td>
</tr>
<tr>
<td>Vice President, Academic Affairs</td>
<td>$7679</td>
<td>-0-</td>
</tr>
</tbody>
</table>

*Fixed price reserve included for ASRC and Deans.*
EXHIBIT B

Overhead Utilization: CAM 543 Effect of New Formula if Used 1984-85 and 1985-86

<table>
<thead>
<tr>
<th>Income</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>84-85</td>
<td>85-86</td>
</tr>
<tr>
<td>$237,481</td>
<td>$233,516</td>
</tr>
</tbody>
</table>

**Foundation Administered Projects**

**University Administered Projects**

CAM 543.3 Grants Development and Administration

<table>
<thead>
<tr>
<th>84-85</th>
<th>85-86</th>
</tr>
</thead>
<tbody>
<tr>
<td>$239,238</td>
<td>$271,209</td>
</tr>
</tbody>
</table>

CAM 543.5 Uncommitted Overhead (Fixed-price Contract Reserve)

- **60%** Academic Senate Research Committee
  - Care Grants
  - $28,063 $1,939

- **30%** Dept. Dean’s Office, Center, or Institute
  - $14,136 $969

- **10%** Project Director
  - $4,772 $323
Memorandum

To: A. Charles Crabb, Chair
   Academic Senate

From: Warren J. Baker
      President

Subject: ACADEMIC SENATE RESOLUTION ON INDIRECT COSTS UTILIZATION: CAM 543 (AS-277-88/RC)

I have had an opportunity to review the subject resolution which you transmitted on March 7, and have also received and reviewed a recommendation from the Deans' Council transmitted by Vice President Wilson. A copy of his April 13 memo is attached for your information.

Based upon my review of the recommendations, I am approving the proposed changes in CAM 543 with the following changes:

1. the distribution of indirect costs will be 50 percent to the Research Committee, 40 percent to the Administrative Unit, and 10 percent to the project director; and

2. adding the following wording to the next to last sentence of section 543.5 . . . "including additional support to the individual project investigators."

In addition, this approval is with the provision that the distribution issue will be reexamined after the campus learns how much the State provides for research in the CSU and what constraints will be put on the use of those funds.

The purpose of my modifying the percentage distribution from that recommended by the Academic Senate and the Deans' Council and to include the additional wording is to provide additional incentive to the units developing proposals, without foreclosing the possibility of additional funds going to the individual investigators who are responsible for grants.

By copy of this memo to Howard West, Editor of CAM, I am requesting that he develop and distribute a change in CAM Section 543 as proposed by the Academic Senate with the changes as noted above.

Attachment