Background statement:

Sponsored project direct costs are usually identified as those costs directly related to the project itself. Other costs are incurred which are called indirect costs or overhead and include the purchase of desks, tables, and equipment, which are one time purchases, as well as such items as telephone use, heating, fiscal and programmatic administration, development costs, and custodial services. Start up costs are a special case of the normal overhead. This resolution addresses the normal overhead and the special start up costs associated with the initiation and operation of Building 04, ARDFA.

Indirect costs have been traditionally used at Cal Poly to cover administrative costs of sponsored programs in the Foundation and university Business Office and sponsored programs development in the Grants Development Office. Indirect costs remaining after these costs have been met have been distributed according to a formula that sends 50 percent to the Academic Research Committee for CARE grants, 40 percent to the department responsible for the award to assist in the continued development of that grant an similar ones, and 10 percent to the principal investigator for her/his professional development. This formula was most recently reviewed by the Academic Senate and revised in 1987.

Grants are normally conducted in campus facilities supported by the instructional program. A faculty member may use her/his own office, or a portion of a laboratory when it is not used for a classroom activity. As such, a research activity may encounter only minimal problems in getting set up.

When the School of Engineering vacated Building 04, the building was reassigned for Applied Research and Development Facility and Activities (ARDFA). When the Engineering departments relocated to Building 13, they removed from Building 04 many useful appurtenances and relocated their programs to the new building. In doing so, they left what is essentially a warehouse. A three-year attempt to develop this building as a university-wide research facility failed because of a lack of funds to initiate and sustain it.

Building 04 has now been made available to the School of Engineering as an applied research and development facility. Since the research activities in the ARDFA facility have no ongoing instructional program to use as a base for the development and maintenance of its research facilities, and funds are needed to make it operational and sustain its activity, it is proposed that the indirect costs recovered from Foundation ARDFA Sponsored Projects be used in assisting ARDFA development. In order for the School of Engineering to properly use the building for the purposes intended, funds are required to renovate and install equipment which can be used for research grants and contracts, and to maintain overhead for direct project costs.

The Campus Administrative Manual places limitations and restrictions on the use of overhead for direct project costs: "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" (CAM 543.1). It does not, however, restrict the use of indirect costs for overhead type activities such as general equipment purchase, equipment maintenance, and operational costs. This resolution proposes another way of treating indirect costs consistent with the current policies in CAM.

AS-327-89/RC

RESOLUTION ON CAM 543 REGARDING INDIRECT COST SHARING (ARDFA FACILITIES)

WHEREAS, Indirect cost recovery is intended to assist the university in the development and maintenance of research facilities; and

WHEREAS, The State currently allocates no direct dollars to support research facilities; and

WHEREAS, The current overhead sharing plan does not allow for advances to a grant or a contract to assist in the development of facilities; and

WHEREAS, The current guidelines for CARE grants recognizes the development of research facilities as an important method for encouraging research on campus; therefore, be it

RESOLVED: That the Academic Senate endorse the concept that up to 40 percent of the indirect costs recovered on Foundation Sponsored Projects using the Applied Research and Development Facility (ARDFA) exclusively, may be utilized for the development, operation, and maintenance of the facility. This concept will be an administrative exception to the Campus Administrative Manual Section 543 for a five-year trial period with annual review by the Research Committee. The concept should ensure that the committee receives from the projects utilizing the ARDFA facility a proportional share for CARE grants that is not less than the percentage allocated for CARE grants from the total indirect costs recovered by the university in the previous Academic Year.

Proposed By: Research Committee
July 18, 1989
Revised: October 12, 1989
Revised: October 24, 1989
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 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 offices 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 Associate Vice President for Graduate Studies, 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 indirect 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

C. The 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 Academic Senate Research Committee. Its objective shall be to fund adequately each of the following in priority:
   1. Supplementary budget support for the Grants Development Office;
   2. Reserve for program development/contingency; and

Revised June 1988
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.

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 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 Grants Development Office. Recommendations for expenditures are made by the Director of Grants Development and approved by the Associate Vice President for Graduate Studies, Research, and Faculty Development.

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.

Fifty percent of uncommitted indirect cost reimbursements will be available to the Academic Senate Research Committee, which will solicit proposals from the faculty for research, development, and other scholarly and creative activities and recommend grants subject to the approval of the Vice President for Academic Affairs. The program under which the Academic Senate Research Committee recommends proposals to the Vice President for Academic Affairs is called CARE, for Creative Activity/Research Effort.

Forty percent of the uncommitted overhead will go to the administrative unit directly sponsoring the project (e.g., department, dean’s office, institute, or center. These 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, including additional support to the individual project investigators. Ten percent will go to the individual project director for professional development activities.

Patent Policy and Procedures

The university, by its very nature has an obligation to serve the public interest. In order to do this effectively, it is necessary that the university have a patent program which will make inventions arising in the course of university research available to the public interest under conditions that will promote effective development and utilization.

The university also recognizes its need to assist faculty and staff members of the university in all matters related to patents based on discoveries and inventions developed in situations such as those in which the university has no vested interest, i.e., those which are developed by a faculty or staff member on personal time and without the use of university facilities.
Figure A

Average Project
Direct and Indirect Costs
Recovered 1987/88
$118,000

<table>
<thead>
<tr>
<th></th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>INDIRECT COSTS</td>
<td>$18,000</td>
</tr>
<tr>
<td>DIRECT COSTS</td>
<td>$100,000</td>
</tr>
</tbody>
</table>
Overhead Distribution, Average Project
1987/88
$118,000

CARE $1,000
Dept $800
P.I. $200

$2,000 Shortfall
$3,000 Grants Development
$11,000 Foundation
Sponsored Programs
Administration

Indirect Costs
$18,000

Direct Costs
$100,000
Average ARDFA Project
Proposed Distribution
(1989/90)
$122,000

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>$22,000</td>
</tr>
</tbody>
</table>

- CARE (5%)
- Grants Development (10%)
- Foundation Sponsored Programs (45%)
- ARDFA (40%)
Thank you for forwarding the Academic Senate's recommendations about indirect cost sharing for the Applied Research and Development Facility (ARDFA).

I accept the resolution as forwarded to me and by copy of this memorandum, I am asking Bob Lucas, in conjunction with Steve Hockaday, to develop procedures to implement the trial policy. In addition, I am asking Bob to work with Howard West to develop an appropriate promulgation of the policy statement. Dr. Lucas will keep the Academic Senate Research Committee informed about progress of this program and will ensure that the Senate has ample opportunity to review this important new activity area so that we can develop a universitywide policy with broader application.

I am requesting Dr. Lucas to work with the Research Committee to draft a revised statement as soon as it feels it has enough experience with the ARDFA experiment to do so. I would hope that this could occur well before the five-year experiment has concluded.

In the interim, the Research Committee might consider a suggested process whereby other entities that request special consideration prior to the development of a permanent policy could be reviewed.

Thank you for your attention to this matter.