

CONTRACTS AND GRANTS: FEDERAL CONTRACT AND  
GRANT ADMINISTRATION FUNDS--ALLOCATIONS FOR  
ADMINISTRATIVE COSTS

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I. INTRODUCTION

The allocation and use of indirect cost reimbursements from the Federal government are governed by a Memorandum of Understanding (see Appendix) between the University and the California State Department of Finance. This agreement encompasses indirect cost reimbursements from all Federal contracts and grants. The agreement provides for the application of certain "off-the-top" allocations for administrative and disallowed costs prior to the actual disposition of receipts. These allocations are estimated in advance annually in the budget negotiations between the University and the State. "Off-the-top" allocations pertaining to Federal contract and grant indirect cost reimbursements are identified as Fund 69750.

II. ALLOCATIONS AND USE OF FEDERAL CONTRACT AND GRANT INDIRECT COST REIMBURSEMENTS-FUND 69750

The amounts allocated to fund 69750 are estimated yearly as part of the Governor's budget process. The costs for which these allocations may be used, which are specified by the agreement between the University and the State Department of Finance, are as follows:

- 1) The University's Washington, D.C. office.
- 2) The Costing Policy and Analysis section of the Office of the Vice President-Financial Management.
- 3) Campus and Systemwide contract and grant offices.
- 4) Federal contract and grant costs disallowed by the government. Disallowed costs will be considered to include (a) expenditures that would normally be proper charges against contract and grant funds but for the fact that the contract or grant has terminated and funds are no longer available, and (b) expenditures that the government has disallowed as proper charges.  
Note: In the normal funding of these disallowed claims (cost disallowances):

- a) An appropriate fund source is selected by the campus depending on the nature and circumstances of the audit and disallowance.
  - b) In section 100.4(x) of their Standing Orders, The Regents have delegated to the President the authority to write off routine disallowed claims under grants and contracts against indirect cost reimbursement funds. The President has redelegated this authority to the Chancellors.
- 5) Any additional costs directly related to Federal contract and grant activity as mutually agreed to by the University and the State. This can include salaries of faculty and staff who are involved in the administration of Federal contracts and grants and other related expenses.

Allocations for disallowed claims, under item 4), above, may be made to any function according to where the disallowed costs were incurred.

### III. REFERENCES

Standing Orders of The Regents, section 100.4(x), as amended.

The University and State Department of Finance, "Memorandum of Understanding for Disposition of Receipts from Overhead (Indirect Cost Recovery) on Federal Government Contracts and Grants," July 1970 (see Appendix I).

The Regents, Minutes of April 20, 1967, and September 18, 1970.

President Dynes, Memorandum to Chancellors and Provost and Executive Vice President-Academic and Health Affairs on the subject of "Delegation of Authority To Write Off Disallowed Sponsored Project Charges," January 7, 2008.

UC Contract and Grant Manual, Chapter 8--Indirect Cost, Section 8-800, Use of Indirect Cost Recovery.

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Historical note: Original Accounting Manual chapter first issued 6/1/70. Revised: 1/1/75, 3/1/75, 1/1/76, 12/1/76, 9/1/78, 9/1/83, 5/1/84, and 3/31/08; analyst--Jorge Ohy.

\* APPENDIX I

Memorandum of Understanding for  
Disposition of Receipts from Overhead (Indirect Cost Recovery)  
on Federal Government Contracts and Grants

General

This memorandum of understanding between the University of California and the State Department of Finance pertaining to disposition of Federal Government overhead funds received by the University shall become effective with overhead received in 1979-80.

Overhead receipts subject to this understanding shall include overhead from all Federal contracts and grants. Overhead receipts for the purpose of this memorandum include the fees received by the University for the management of the three major research laboratories supported by the United States Department of Energy.

Formula for Disposition

Overhead received by the University in 1979-80 and in succeeding years, together with interest earned on such overhead, shall be subject to disposition on the following basis:

Overhead receipts from the Federal Government covered by this understanding shall be applied first to continue the annual workload and price increase related support currently provided from this source for the University's Washington, D.C. office, Cost and Financial Analysis, Campus and Systemwide Contract and Grant offices, and Federal contract and grant costs disallowed by the Government, and to support any additional costs directly related to Federal contract and grant activity as mutually agreed to by the University and the State. The balance shall be divided 45 percent to the University and 55 percent to the State.

Estimates of Overhead Receipts

That portion of overhead receipts to be divided between the State and the University in any one fiscal year shall be estimated in advance. The difference between actual net receipts and estimates for any particular year will be assigned in the next proposed budget year. The disposition of such difference shall be allocated in accordance with the formula specified above. The State will augment the operating budget to the extent required in the event overhead receipts are less than amounts estimated. Any adjustments of overhead receipts related to prior fiscal years shall be applied to current receipts before division between the University and the State.

APPENDIX I (Cont.)

Allocation and Reporting

The University's share of Federal overhead receipts is available to fund high priority programs established by The Regents such as Extension of Research Opportunities, Instructional Innovation and Improvement, Administrative Planning, Mandated and Other Recognized University Responsibilities, and Capital Outlay Projects. These programs shall be outside the University's budget request to the State, but shall be reported annually to the Department of Finance.

The State's share of overhead shall be applied to the University's operating budget as a source of income.

Exclusion

Overhead on private contracts and grants is to remain with the University, and is not within the scope of this memorandum.

\$377,000 of Federal overhead funds received by the Neuropsychiatric Institutes shall be excluded from this sharing agreement.

Re-negotiation

This memorandum of understanding shall be subject to re-negotiation if the relative amounts of overhead assigned under the formula to the University or the State should change significantly.

Margherita Graves  
Director, Department of Finance  
State of California

9/19/79  
Date

David S. Pat-  
President, University of California

10/24/79  
Date