

Prepared by the Vice President for Research
This is a new procedure.

A10.130
July 2007

A10.000 Applied Research Laboratory
Administrative Policies and Procedures

P 1 of 7

A10.130 Prorated Direct Costs

1. Purpose. To establish policies and procedures for budgeting, accounting and rate setting for Prorated Direct Costs.
2. Applicability. These policies and procedures shall apply to the Applied Research Laboratory at the University of Hawaii (ARL at UH).
3. Definitions.
 - a. "Executive Director" shall refer to the ARL at UH Executive Director.
 - b. "Business Office" shall refer to the ARL at UH Business Office.
 - c. "Department Head" shall refer to the chair of the respective functional areas: Ocean Science & Technology (OST), Astronomy (AST), Advanced Electro-Optics and Sensing (AEOS), or Sensors, Communications and Information Technology (SENCIT).
 - d. "Principal Investigator" shall refer to the ARL at UH faculty member or researcher that is primarily responsible for the task order.
 - e. "Task order" shall refer to a discrete project, either proposed by the principal investigator or requested by the sponsor, to conduct basic research to increase scientific knowledge in the functional area or to develop designs, methods, processes, devices, etc. using the information gained through basic research.
 - f. "Direct costs" shall refer to costs that are incurred to advance the work under a sponsored project (e.g., task order) and that can be specifically identified to the project or can be assigned to it using methods that can readily estimate the proportional benefit to the project.
 - g. "Prorated direct costs" shall refer to costs incurred by the ARL at UH to support its research effort such as research administrative support, fiscal support, security, motor pool, library, printing and copying services, and laboratory and

office facilities, which cannot be specifically identified or readily assigned to projects (e.g., task orders).

- h. "Institutional F&A" shall refer to costs incurred by central offices such as the President's Office, Board of Regents, General Accounting, General Counsel, Research Corporation of the University, Office of Research Services, Manoa Chancellors Office, and Manoa Vice Chancellor for Research Office and costs of certain UH Manoa facilities that support or benefit ARL at UH research, but which cannot be specifically identified or readily assigned to projects (e.g., task orders).
 - i. "Fee" shall refer to the unique assessment to task orders issued under the University Affiliated Research Center (UARC) contract. Use of fee shall be constrained by the applicable contract clause.
 - j. "Facilitating services funds" shall refer to the ARL at UH share of the recovery of institutional F&A referred to in the University as "Research and Training Revolving Funds" or RTRF.
4. Policy. Expenses that benefit the Applied Research Laboratory as a whole, but which cannot be readily and specifically identified with a particular sponsored project (e.g., task order) shall be treated as Prorated Direct Costs (PDC). To allocate PDC to sponsored projects, the ARL at UH shall establish a budget and rate calculation, which shall be reviewed and approved by the ONR Regional Office annually.
- a. Costing guidelines. Selected items of costs shall be treated as follows:
 - i. New Research Proposals. Costs of preparing bids or proposals for potential government or non-government sponsored projects; costs of time, travel and other expenses to discuss and obtain new work; and costs of marketing the capabilities of the ARL at UH shall not be charged to task orders. These costs shall be charged to ARL at UH facilitating services funds (i.e., return of research F&A cost recovery) or the ARL at UH fee budget.
 - ii. Continuation (non-competing) Proposals. Costs of preparing continuation (non-competing) proposals incurred by investigators and researchers shall be charged directly to task orders. Costs of preparing continuation proposals incurred by ARL at UH department directors, administrators and secretarial/clerical staff shall be charged to the appropriate department in PDC.

- iii. Equipment purchases. Equipment fabrication costs shall be charged to task orders involving fabrication of equipment. Special purpose equipment that will be integrated in the final deliverable or are unique and necessary to carry out the task order shall be charged to task orders. General-purpose equipment shall be charged to task orders provided there is prior sponsor approval.
- iv. Compliance. Costs (effort, travel and other expenses) of ARL at UH employees who assist investigators in complying with applicable federal and state laws and regulations and UH and RCUH policies shall not be charged to task orders. These costs shall be charged to the appropriate department in PDC.

5. Procedure.

- a. Budgeting. Annually, a PDC budget is established to meet the overall needs of the ARL at UH and with a goal to generate revenue sufficient to cover the estimated PDC.
 - i. Cost centers. The following cost centers shall be used to budget PDC costs:
 - 1. Executive Director's Office. The costs of the ARL at UH Executive Director, who is charged with the overall management of the ARL at UH. Consists of salaries & wages, fringe benefits, travel (e.g., meetings and conferences), office supplies, postage, telephone costs, Internet costs, memberships and subscriptions, and computer costs for the ARL at UH Executive Director, ARL at UH Associate Director and their secretarial/clerical staff.
 - 2. Business Office. The costs of the ARL at UH Business Office Director, who is charged with personnel and procurement processing, accounting, financial reporting, and rate setting. Consists of salaries & wages, fringe benefits, travel (e.g., meetings and conferences), office supplies, postage, telephone costs, Internet costs, memberships and subscriptions, vehicle rentals and maintenance, computer costs, and training costs for the ARL at UH Business Office Director, ARL at UH Business Associates and their secretarial/clerical staff.
 - 3. Department Administration. The costs of the ARL at UH Department Heads, who are charged with the management of their respective functional area as well as the ARL at UH Department Administrators,

who assist investigators with proposal preparation, information gathering and compliance. Consists of salaries & wages, fringe benefits, travel (e.g., meetings and conferences), office supplies, postage, telephone costs, Internet costs, memberships and subscriptions, vehicle rentals and maintenance, computer costs, and training costs for the ARL at UH Department Heads, ARL at UH Department Administrators, and their secretarial/clerical staff. Separate costs centers shall be established for: Ocean Science & Technology (OST), Astronomy (AST), Advanced Electro-Optics and Sensing (AEOS), or Sensors, Communications and Information Technology (SENCIT).

4. Facilities Support. The costs of the ARL at UH Facility Manager, who is charged with maintaining the ARL at UH facilities and managing ARL at UH properties and leases. Consists of salaries & wages, fringe benefits, contracted maintenance services, travel (e.g., meetings and conferences), maintenance supplies, postage, telephone costs, Internet costs, lease costs, vehicle rentals, and computer costs for the ARL at UH Facility Manager, ARL at UH Facility Support Staff, and their secretarial/clerical staff.
 5. Security Office. The costs the ARL at UH Facility Security Officer (FSO), who is charged with maintaining security at ARL at UH facilities, including but not limited to processing security clearances, conducting security training, coordinating security improvements, conducting investigations/security checks, maintaining classified mail facilities, etc. Consists of salaries & wages, fringe benefits, travel (e.g., meetings and conferences), office supplies, postage, telephone costs, Internet costs, lease costs, vehicle rentals, computer costs, and training costs for the ARL at UH Facility Security Officer, ARL at UH FSO Backup, and their secretarial/clerical staff.
- ii. Budgetary controls. At the beginning of the fiscal year, the PDC program manager or department director shall propose a PDC budget for review and approval by the Executive Director. Once the PDC budget is approved by the Executive Director and established, the PDC program manager or department director is responsible for keeping costs within budget and avoiding cost overruns.

1. Redirection of funds. Managers have some flexibility in managing multiple PDC accounts (e.g., spending more one account and less on another). However, managers may not redirect funds to new budget activities without first informing the Business Office Director, who will convey the request for Executive Director approval. Managers and employees may not incur costs on another manager's accounts without that manager's knowledge or prior approval.
 2. Unanticipated situations. If an unexpected expense arises or if estimates were too low and it is clear that expenses cannot be met with an approved PDC budget, a supplemental budget request must be submitted at least 45 days prior to the date of the anticipated need for additional funding to the Business Office Director, who will forward it to the Executive Director for approval.
- b. Accounting and reporting. All PDC expenditures must comply with applicable federal and state laws and regulations, OMB Circular A-21 and the Cost Accounting Standards applicable to educational institutions. Allowable PDC incurred under like circumstances must be treated consistently by the ARL at UH.
- i. Responsibilities.
 1. PDC program managers or department directors shall review PDC projects monthly to determine whether spending rates are appropriate to meet project objectives. If spending is significantly higher or lower than is fiscally prudent, a review will be conducted by the Business Office Director to determine whether the established budget is appropriate.
 2. The Business Office Director shall prepare and submit quarterly reports of PDC revenues, expenditures and encumbrances to the ONR Regional Office within 30 days of the quarterly reporting period. Quarterly reporting periods are: July 1st to September 30th, October 1st to December 31st, January 1st to March 31st, and April 1st to June 30th.
 - ii. Surpluses/Deficits.
 1. Surpluses. If a PDC budget surplus is expected, the department director must immediately bring this information to the attention of the Business Office Director so that the surplus can be used to reduce

a deficit or meet other ARL at UH needs and/or to reduce the PDC rate.

2. Deficits. If a deficit is anticipated, the manager or department director must immediately notify the Business Office Director at least 45 days prior to the date projected spending will exceed budgeted funds. The Business Office Director will notify the Executive Director and work with the manager or department director to ensure prudent fiscal management.

c. Rate setting. Annually, a PDC rate calculation and PDC budget shall be prepared by the Business Office Director and submitted to the ONR Regional Office for review and approval. To simplify administration of sponsored projects, the ARL at UH will strive to maintain only one PDC rate per fiscal year.

- i. Forward pricing/billing proposal. A PDC forward pricing/billing rate proposal with adequate cost & pricing data should be submitted to ONR (copy to NAVSEA) at least 60 days before the start of the fiscal year. If facilities or facilities improvement costs are included, justification required by FAR 45.302 and OMB Circular A-21, Section J18b should be included.
- ii. Final PDC rate proposal. A final PDC rate proposal based on actual year-to-date expenditures and with adequate supporting data should be submitted to ONR within 90 days of the end of each fiscal year.
- iii. Billing rates. The approved rates shall be used in billing task orders, grants and contracts. The calculation base shall be Modified Total Direct Costs (MTDC) of the particular task order, grant or contract. MTDC consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). MTDC excludes equipment, capital expenditures, charges for patient care, tuition remission, rental costs of off-site facilities, charges for service centers, scholarships and fellowships, and the portion of each subgrant or subcontract in excess of \$25,000. Charges and billing adjustments for PDC shall be recorded under object code 7251 - Prorated Direct Costs.
 1. Monitoring. The Business Office should periodically compare actual costs to billing rates. If the projected year-end rate is expected to be significantly different than the billing rate, a

PDC rate adjustment should be made and shown on the SF-1034 to minimize the impact on task orders at fiscal year-end. This rate adjustment should be proposed to and agreed upon by ONR prior to the adjustment of billings. This will take the form of a revised ACO billing rate approval letter.