

March 15, 2023

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**Subject: Marine Physical Laboratory (MPL) Indirect Cost and Recharge Rate
Report 2023-03**

The final report for Marine Physical Laboratory (MPL) Indirect Cost and Recharge Rate, Report 2023-03, is attached. We would like to thank all members of the department for their cooperation and assistance during the review.

Because we were able to reach agreement regarding management action plans in response to the audit recommendations, a formal response to the report is not requested. The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to evaluate the status of the management action plans.

UC wide policy requires that all draft reports be destroyed after the final report is issued. We also request that draft reports not be photocopied or otherwise redistributed.

Christa Perkins
Director
Audit & Management Advisory Services

Attachment

cc: Judy Bruner
Alexander Bustamante
Patrick Callaghan
Anne Footer
Pradeep Khosla
Margaret Leinen
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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Marine Physical Laboratory Indirect Cost and Recharge Rate
Report No. 2023-03
March 2023

FINAL REPORT

Performed By:

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ATTACHMENT A – 1995 Letter to Office of Naval Research (ONR)

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I. EXECUTIVE SUMMARY

Audit & Management Advisory Services (AMAS) has completed a review of the Marine Physical Laboratory (MPL) Indirect Cost (IDC) and Recharge Rate as part of the approved audit plan for Fiscal Year 2022-23. The objective of the review was to evaluate MPL Indirect Cost and Recharge Rate cost recovery model, and any proposed plans for future change, for compliance with University policy and federal regulations. The review also included evaluation of MPL recharge expenditures, the overall recharge mechanism for compliance with policy and regulations, and whether the correct IDC rate was used on MPL awards.

We concluded that MPL's current cost recovery model (direct recharge of Laboratory Support Services, and MPL IDC rate) was generally in compliance with University policy and federal regulations.

However, we noted that the recovery model has been in place since the 1990's and has not been evaluated since that time. Given the length of time (nearly 30 years) that has passed since this arrangement was established, the model should be reevaluated to inform future strategy for optimal cost recovery for the University and funding for MPL, taking into consideration several risks:

- We understand the MPL IDC rate cannot be merged into the overall campus IDC rate, since a unique MPL rate has already been established with the cognizant agency. Revising the recovery model for MPL (which has historically been segregated for IDC) and would require resubmission of a new proposal for negotiation and approval with the cognizant agency. A change in approach of a long-standing cost recovery model could delay the negotiation process for the campus as a whole, potentially resulting in lost IDC recovery for campus.
- Attempting to including MPL administrative costs could potentially lower the calculated IDC rate and, by extension, could result in a lower negotiated IDC rate for the overall campus.
- The direct recharge model allows MPL to modify the rates as needed to capture any additional costs associated with the recharge activity, whereas IDC rates increases are subject to negotiation with the cognizant agency, which sometimes takes several years and may not result in full cost recovery for all indirect costs.
- Changing the model may not be viewed favorably by DoD (MPLs largest sponsoring agency by a significant margin) given the current long-standing agreement as documented in the 1995 ONR letter.

We also noted that the MPL recharge activity had a surplus (which was attributable to MPL overestimating relocation costs in their prior recharge proposal) and was due for a recharge proposal submission to ensure the activity operates on a break-even basis, as per University and federal policies. In addition, our review of MPL recharge mechanism identified some missed assessments of the direct recharge to MPL projects, and some MPL expenditures that did not appear allocable to the recharge activity. Management Action Plans to address our findings are summarized below:

A. MPL Cost Recovery Model

1. Costing Policy and Analysis is currently in the process of developing the IDC proposal for submission and negotiation with the cognizant agency. As part of this process, Costing Policy and Analysis will reevaluate the central administration costs being captured in the Nimitz Marine Facility/MPL IDC cost group under the current model, as compared to what would be recovered utilizing the campus rate to determine the method that provides optimal cost recovery. The result of this review will be shared with the Chief Financial Officer and the Chancellor to ensure alignment with institutional priorities.

B. MPL Recharge Rate Review

1. The MPL Business Office has submitted a recharge rate proposal to Costing Policy & Analysis for the Laboratory Support Services recharge activity, taking into account any adjustment for the surplus, in accordance with UC policy.

C. MPL Recharge Assessment

1. In early FY2023, the MPL Business Office implemented a revised process to run the Distribution of Payroll Expenditures (DOPE) reports for the recharge assessment after ledger close to resolve this issue going forward.
2. The MPL Business Office has reevaluated recharge assessments processed after the implementation of UCPath but prior to when the recharge assessment process was corrected. MPL determined that correcting all assessments for the undercharge was not cost-effective or feasible given that projects may have closed (given the length of time that has passed since salary costs were charged). The net impact will be considered along with overall MPL financial status in the next rate proposal review.

D. MPL Recharge Expenditures

1. The MPL Business Office has transferred the \$49,709 in payroll costs for the four employees out of the Laboratory Support Services recharge project.
2. The MPL Business Office has processed a cost transfer to transfer the Navy Fee portion (operating expense amount of (\$14,540)) of the correcting entry processed in June 2022 from the MPL recharge project to an alternative fund source.

Observations and related management action plans are described in greater detail in section V. of this report.

II. BACKGROUND

Audit & Management Advisory Services (AMAS) has completed a review of the Marine Physical Laboratory (MPL) Indirect Cost (IDC) and Recharge Rate as part of the approved audit plan for Fiscal Year 2022-23. This report summarizes the results of our review.

The MPL is an organized research unit within the Scripps Institution of Oceanography (SIO). MPL has a dual mission: to investigate and apply knowledge about the ocean, its boundaries, and the surrounding media, to develop solutions to the Navy's problems in undersea warfare and ocean technology; and to provide research training of students in areas of oceanography and ocean technology which have application to Navy requirements.

MPL was originally established as a Navy-oriented research laboratory in 1946, and has significant sponsored research funding from various agencies, including the Department of Defense (DoD) Office of Naval Research (ONR), National Science Foundation (NSF), National Oceanic and Atmospheric Administration (NOAA), National Aeronautics and Space Administration (NASA), and other federal, state, and private sponsors. MPL consists of specialized research labs headed by Principal Investigators (PIs) & structured groups with different research topics. As of November 2022, MPL's active awards totaled \$228M, of which DoD comprised \$167M (73%), followed by NSF totaling \$25M (11%). For FY 2021 and FY 2022, MPL recovered \$3.6M and \$4.5M in IDC respectively.

MPL is led by a Director and consists of administrative support staff provided through a Business Office with a Chief Administrative Officer, fiscal management and support staff (including Operations Officer, Manager, Analysts, Research Administrators), a research operations support group, purchasing and shipping staff, and faculty support staff. The Business Office is set up as a self-supporting activity, with annual expenses approximating \$2.9M for FY 2022. Prior to September 2021, the MPL Business Office was located on a secured Space and Naval Warfare Systems Center (Building 106) facility within Naval Base Point Loma, under a lease with the Navy, but have since moved into a UCSD owned facility (Building 4) in Point Loma. These facilities are adjacent to the Nimitz Marine Facility, home port to Research Platform (R/P) FLIP and the rest of the SIO oceanographic research fleet. In addition to Point Loma, MPL also has facilities and research space located on the SIO campus in La Jolla.

MPL Cost Recovery Model

The current cost recovery model for MPL administrative costs has three components:

- 1) A Laboratory Support Services recharge (22% as of the date of the report) was established to direct charge MPL administrative costs. In October 1995, an agreement to direct recharge for Laboratory Support Services was documented in a letter addressed to the Office of Naval Research (ONR), with a copy to Department of Health and Human Services (DHHS) (**Attachment A**). The letter specified that the direct recharge rate structure was reviewed by the DHHS, the University's cognizant audit agency, which concluded that the recharge rate was not subject to negotiation, but rather subject to University's established policies concerning recharge accounts.

This recharge is a combined rate which includes support for: 1) Laboratory Supplies and Expenses, and 2) Laboratory Administrative Labor. This recharge is assessed on salary and

benefit costs (excluding overtime) charged to all non-core MPL awards and projects, unless an award has a documented exception to waive the recharge. Laboratory Support Services recharges are budgeted as direct costs in MPL proposal submissions, and general language is included in proposals (consistent with the language in the 1995 ONR letter) to explain the recharge and justify the cost.

- 2) An IDC rate of 18% (on- and off-campus rate) is applied to the Modified Total Direct Costs (MTDC)¹ on research grants that fall under the MPL Financial Unit (as applicable).
- 3) A separate MPL Navy fee, which is a direct administrative charge assessed on DoD contracts at 4%, and private contracts at 5% of all project costs, less equipment where title vests in the University. The agreement is documented in **Attachment B**. The fee can be used for: a) costs of research efforts, but not specifically included in individual orders, b) costs of graduate student salaries when needed to supplement the effort requested in individual projects, c) cost of participation in advisory committees, d) research and administrative functions (not included in the MPL recharge rate, and IDC) to manage the lab, and e) funding of scholarly development costs etc.

This recovery model has been in place since the early 1990s when UCSD faced state support budget cuts that impacted MPL's ability to provide adequate and responsive contract and grant oversight. MPL was one of the four Navy-funded university laboratories formed during World War II to assist the Navy in defense areas. MPL surveyed sister laboratories to understand how they were managed in relation to their universities and the Navy. From that study, and negotiations with SIO and the campus, the Vice Chancellor for Administration² gave approval to MPL in February 1991 to reduce their IDC rate³ and utilize the Nimitz Marine Facility IDC rate (12% at the time). Administrative costs were direct charged to awards, keeping them consistent and competitive with the sister labs, in exchange for returning most of MPL's state funds for administrative support to SIO and the main campus. Under the current model, MPL administration remains a self-supporting activity, and receives no additional funding from campus.

The Uniform Guidance (2 Code of Federal Regulations (CFR) part 200), establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities. Under Uniform Guidance, the "salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs." However, Uniform Guidance allows direct charging of these costs if all the following conditions are met: (1) Administrative or clerical services are integral to a project or activity; (2) Individuals involved can be specifically identified with the project or activity; (3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency;

¹ MTDC excludes selected expenditures from the direct costs i.e. equipment, capital expenditures, patient care charges, graduate student tuition remission, participant support costs, rental costs of off-site facilities, scholarships and fellowships, portion of outgoing sub awards exceeding \$25,000, and cloud computing costs via UCSD Contracts/Information Technology Services, or San Diego Supercomputer Center.

² The Vice Chancellor of Administration oversaw all administrative functions of UCSD campus as well as development and management of the annual operating and capital budget. This position no longer exists at UCSD.

³ Indirect costs (also referred to as Facilities and Administrative (F&A) Costs, IDC) are those costs not specifically identifiable for any one project or program, but which are real expenses of conducting research, instruction and other sponsored activities at UC San Diego.

and (4) The costs are not also recovered as indirect costs. Section 200.102, Exceptions, allows “Exceptions on a case-by-case basis for individual non-Federal entities may be authorized by the Federal awarding agency or cognizant agency for indirect costs, except where otherwise required by law or where OMB or other approval is expressly required...”

III. AUDIT OBJECTIVE, SCOPE, AND PROCEDURES

The objective of the review was to evaluate MPL Indirect Cost and Recharge Rate cost recovery model, and any proposed plans for future change, for compliance with University policy and federal regulations. The review also included evaluation of MPL recharge expenditures, the overall recharge mechanism for compliance with policy and regulations, and whether the correct IDC rate was used on MPL awards. In order to achieve our objectives, we performed the following:

- Reviewed applicable University and federal policies and guidance;
- Reviewed MPL website, and prior audits;
- Obtained and evaluated the most recent recharge proposal for the Laboratory Support Services recharge;
- Discussed MPL business processes, recharge mechanism, expenditures, cost recovery model with:
 - Chief Financial Officer;
 - Campus Controller;
 - Costing Policy and Analysis Director;
 - SIO Assistant Vice Chancellor for Finance and Operations;
 - MPL Director;
 - MPL Chief Admin Officer;
 - MPL Fiscal Operations Officer;
 - MPL Fiscal Manager
- Evaluated the Net Operating Results and Fund Balance Report for the MPL recharge project for FY2022;
- Evaluated a sample of MPL project expenses (payroll, and non-payroll costs) from the period FY2021 and FY2022 for allowability and allocability to the recharge activity;
- Evaluated MPL proposals for language used to justify the MPL direct recharge cost, and consistency with the agreement documented in the 1995 ONR letter;
- Conducted an analysis to compare the current cost recovery model to a revised model where a full on-campus IDC rate is applied to MPL awards (eliminating the direct recharge);
- Selected a sample of five awards (from a list of MPL awards as provided by Costing Policy & Analysis) and validated that the burden rates for those awards were set up in the financial system with the appropriate IDC rate; and
- Obtained the recharge assessment spreadsheet for three periods (March 2021, December 2021, and April 2022), and validated the recharge calculation, including the appropriateness of costs and funds included in the calculation, and whether the recharges were posted to the projects for a sample of recharge entries.

IV. CONCLUSION

Based on our review, we concluded that MPL's current cost recovery model (direct recharge of Laboratory Support Services, and MPL IDC rate) was generally in compliance with University policy and federal regulations. While Uniform Guidance requires that "costs incurred for the same purpose in like circumstances must be treated consistently as either as direct or indirect (F&A) costs," the 1995 letter with ONR serves as an exception to the costing principles under Uniform Guidance, and therefore allows UCSD to direct charge for the MPL administration costs in a way that would otherwise be considered indirect costs for campus.

However, we noted that the recovery model has been in place since the 1990's and has not been evaluated since that time. Given the length of time that has passed (nearly 30 years) since this arrangement was established, the model should be reevaluated to inform future strategy for optimal cost recovery for the University and funding for MPL, taking into consideration several risks:

- We understand the MPL IDC rate cannot be merged into the overall campus IDC rate, since a unique MPL rate has already been established with the cognizant agency. Revising the recovery model for MPL (which has historically been segregated for IDC) and would require resubmission of a new proposal for negotiation and approval with the cognizant agency. A change in approach of a long-standing cost recovery model could delay the negotiation process for the campus as a whole, potentially resulting in lost IDC recovery for campus.
- Attempting to including MPL administrative costs could potentially lower the calculated IDC rate and, by extension, could result in a lower negotiated IDC rate for the overall campus.
- The direct recharge model allows MPL to modify the rates as needed to capture any additional costs associated with the recharge activity, whereas IDC rates increases are subject to negotiation with the cognizant agency, which sometimes takes several years and may not result in full cost recovery for all indirect costs.
- Changing the model may not be viewed favorably by DoD (MPLs largest sponsoring agency by a significant margin) given the current long-standing agreement as documented in the 1995 ONR letter.

We also noted that the MPL recharge activity had a surplus (which was attributable to MPL overestimating relocation costs in their prior recharge proposal) and was due for a recharge proposal submission to ensure the activity operates on a break-even basis, as per University and federal policies. In addition, our review of MPL recharge mechanism identified some missed assessments of the direct recharge to MPL projects, and some MPL expenditures that did not appear allocable to the recharge activity. These observations are discussed further in the remainder of the report.

V. OBSERVATIONS REQUIRING MANAGEMENT ACTION

A.	MPL Cost Recovery Model
The current MPL cost recovery model has not been evaluated in several years. Given the length of time that has passed (nearly 30 years) since this arrangement was established, the model should be reevaluated to inform future strategy for optimal cost recovery for the University and funding for MPL.	
Risk Statement/Effect	
MPL current recovery model has been in place since the 1990s, which results in a lower IDC rate for MPL as compared to the rest of campus, and should be analyzed to ensure optimal cost recovery for the campus as a whole.	
Management Action Plan	
A.1	Costing Policy and Analysis is currently in the process of developing the IDC proposal for submission and negotiation with the cognizant agency. As part of this process, Costing Policy and Analysis will reevaluate the central administration costs being captured in the Nimitz Marine Facility/MPL IDC cost group under the current model, as compared to what would be recovered utilizing the campus rate to determine the method that provides optimal cost recovery. The result of this review will be shared with the Chief Financial Officer and the Chancellor to ensure alignment with institutional priorities.

A. MPL Cost Recovery Model – Detailed Discussion

Under UCSD's current IDC rate agreement dated May 2018, MPL has a special IDC rate of 18% for both on- and off-campus activities. The MPL IDC rate includes only the administrative cost categories capturing general administration (7.3%), department administration (7.1%), and sponsored project administration costs (3.7%). The rate does not include facilities related costs. The MPL recovery model has been in place since the early 1990s and results in a lower IDC rate for MPL as compared to the rest of campus (currently 58% for on-campus research and 26% for off-campus research) and has raised questions with campus leadership as to whether this model needs to be re-evaluated to determine if it is the optimal means of IDC cost recovery for the campus.

During our review, we analyzed a small sample of awards to evaluate overall cost recovery to UCSD by comparing the amount of cost recovery realized under the current funding model, to what the awards would have recovered using the normal on-campus rate of 58% and excluding the Laboratory Support Services direct recharge. Viewed narrowly, the analysis demonstrated that overall cost recovery would increase using the normal on-campus rate of 58%. However, there are other factors that need to be considered from a broader strategic perspective and could have an overall detrimental effect to MPL and UCSD as a whole, as follows:

- Based on interviews with the Costing Policy and Analysis Director, the MPL IDC rate cannot be merged into the overall campus IDC rate, since a unique MPL rate has already been established

with the cognizant agency. Revising the recovery model for MPL (which has historically been segregated for IDC) would require resubmission of a new proposal for negotiation and approval with the cognizant agency. A change in approach of a long-standing cost recovery model could delay the negotiation process for the campus as a whole, potentially resulting in lost recovery if a higher IDC rate was being negotiated for campus.

- Based on interviews with the Costing Policy & Analysis Director, we understand that MPL has a lower percentage of administrative costs relative to their total costs when compared to the larger campus. Therefore, attempting to include or otherwise compare those costs could potentially lower the calculated IDC rate and, by extension, could result in a lower negotiated IDC rate for the overall campus.
- The Laboratory Support Services direct recharge model allows MPL to modify the rates as needed to capture any additional costs associated with the recharge activity (in accordance with applicable policies), whereas IDC rates increases are subject to negotiation with the cognizant agency, which sometimes takes several years and may not result in full cost recovery for all indirect costs (which are capped at 26% for administrative costs).
- Changing the model may not be viewed favorably by DoD (MPLs largest sponsoring agency by a significant margin) given the current long-standing agreement as documented in the 1995 ONR letter. There is also a perception that having a lower IDC rate for MPL awards makes UCSD’s proposals more competitive with DoD, possibly resulting in an increased award acceptance rate for our campus.

During our review, Costing Policy & Analysis indicated that they were planning to do financial modelling of the MPL cost recovery options prior to next IDC negotiation cycle, to inform future decisions about optimal cost recovery to UCSD and MPL.

B.	MPL Recharge Rate Review
The MPL current recharge rate approval has expired, and MPL has a surplus that needs to be managed in accordance with UC policy.	
Risk Statement/Effect	
University policy states that recharge activities should operate on a no-gain/no-loss basis, and any surplus or deficit balances should be corrected by adjusting the rates to achieve break-even balance in the succeeding year. Inaccurate recharge rates risk overcharging or undercharging federal awards.	
Management Action Plan	
B.1	The MPL Business Office has submitted a recharge rate proposal to Costing Policy & Analysis for the Laboratory Support Services recharge activity, taking into account any adjustment for the surplus, in accordance with UC policy.

B. MPL Recharge Rate Review – Detailed Discussion
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The Laboratory Support Services is established as an academic support recharge activity, subject to University policy, Business & Finance Bulletin (BFB) A-56: Academic Support Unit Costing and Billing

Guidelines. This policy states: “Recharge activity shall be operated on a no-gain/no-loss basis. Any surplus or deficit occurring in any one year shall be corrected by adjustment of rates in the succeeding year to achieve a break-even balance at the succeeding year end. Every effort should be made to ensure that year-end surpluses or deficits do not exceed one month of the recharging unit's activity... The local campus recharge review committee may also approve the maintenance of surpluses in excess of one month of the recharging unit's activity when appropriate.” We were advised by Costing Policy & Analysis that this policy has not been updated since 2008, and UCSD generally follows a two-month guideline for surplus or deficits.

Policy requires that recharge rates be evaluated annually and adjusted to account for any changing costs and volume. Costing Policy & Analysis collaborates with Internal Controls and Accounting (ICA) to provide oversight, guidance and ensure that all recharge activities comply with federal and University policies, and recover costs to avoid impacts on other resources. A Recharge Rate Advisory Committee acts in an advisory capacity to the Controller for reviews and recommendations for: requests to establish new recharge activities, establishment of new recharge rates or revisions to existing recharge rates, and proposed corrective action presented by staff in response to an annual review of all existing recharge rates.

The last recharge rate proposal for Laboratory Support Services was submitted in August 2019, proposing a 22% rate through June 30, 2022, and a rate of 23.6% effective July 1, 2022. However, the proposal was only approved for the period from September 1, 2019 through August 31, 2021, and there does not appear any documented extension of that approval. We also noted that MPL continued to assess 22% for FY2022 (even though 23.6% was proposed), because it was determined by MPL that it was not necessary to increase the recharge rate for cost recovery. MPL management indicated that they planned to submit another proposal in June 2022, but campus-wide transition to the Oracle Financial Cloud (OFC) financial system in 2020 resulted in post-implementation challenges that made it difficult to submit a proposal with accurate data.

For FY2022, the MPL recharge project reported a total surplus of \$826,851, with internal revenue resources of \$2,839,941, and total expenses of \$2,932,648. The MPL Business Office indicated that this surplus is larger than normal and occurred due to uncertainties with relocating their office space from Naval Base Point Loma. At that time, the Business Office was unsure as to where they were going to relocate and believed that they may have to rent out and renovate more expensive space. Ultimately the Business Office was able to relocate to Building 4, which was a cheaper option. MPL management indicated that they have some recruitment expenses planned going forward which would reduce the surplus. As of December 2022, the surplus had reduced to \$701,070.

Two months of the recharge unit activity for FY2022 (expenses) equates to \$488,774. Since the surplus exceeds two month of the recharge unit activity, there is need to reevaluate the recharge rate for MPL, including any adjustment for surplus balances, and resubmit a revised proposal in accordance with policy and UCSD guidelines.

C.	MPL Recharge Assessment
The recharge assessment process used by MPL resulted in recharges not being assessed on all relevant MPL salary and benefits costs.	
Risk Statement/Effect	
Missed payroll cycles for the monthly recharge assessment resulted in under- or over-charging to MPL grants.	
Management Action Plans	
C.1	In early FY2023, the MPL Business Office implemented a revised process to run the Distribution of Payroll Expenditures (DOPE) reports for the recharge assessment after ledger close to resolve this issue going forward.
C.2	The MPL Business Office has reevaluated recharge assessments processed after the implementation of UCPATH but prior to when the recharge assessment process was corrected. MPL determined that correcting all assessments for the undercharge was not cost-effective or feasible given that projects may have closed (given the length of time that has passed since salary costs were charged). The net impact will be considered along with overall MPL financial status in the next rate proposal review.

C. MPL Recharge Assessment – Detailed Discussion

The MPL Business Office has established a monthly recharge assessment process to identify the applicable MPL salary and benefit costs and assess the 22% recharge on each MPL project (through use of the Resource Management & Planning (RMP) Recharge application⁴). Some payroll costs are excluded from the recharge assessment (including overtime, remote allowance, evening/night differential, etc.), and core funding sources are also excluded. The Laboratory Support Services recharge is assessed in arrears by generating a DOPE report for the prior month to identify the applicable payroll costs/transactions charged to MPL projects, which are then assessed the 22% MPL administrative fee. The 22% fee is posted as a direct charge to each MPL project/award (as applicable) every month.

MPL management indicated that there was no monthly recharge assessment process for MPL to utilize when OFC was implemented in July 2020. Consequently, MPL Business Office had to manually create a process that was continually refined to accommodate Oracle and UCPATH (including DOPE report) adjustments.

Our review identified some discrepancies in the DOPE reports that were being utilized for calculating the monthly recharge assessment. Our review of April 2022 recharge assessment identified a discrepancy of \$226,827 in the DOPE report that was used to determine the recharge assessment, potentially resulting in an estimated total undercharge of \$29,478 to MPL projects. This discrepancy

⁴ The RMP Recharge App is used to process recharge transactions for recharge operations, recharge mechanisms such as Auxiliaries, and recording differential income and equipment depreciation.

was a result of MPL DOPE reports being run before the ledger was closed for the month, resulting in some payroll cycles not being captured for the recharge assessment.

MPL has advised that this issue was identified prior to our review and that they have revised their processes to run the DOPE report after ledger close, which will capture all relevant payroll costs going forward. However, MPL has not evaluated and corrected recharge assessments for periods prior to MPL revising their process. Not fully capturing payroll costs for the recharge assessment resulted in inaccuracies and inconsistencies in the recharge assessment charged to individual MPL projects, which was not in accordance with Uniform Guidance cost principles.

D.	MPL Recharge Expenditures
The MPL recharge was used for some payroll costs and operating expenses that were not allocable to the MPL recharge activity.	
Risk Statement/Effect	
Some of the MPL expenses did not meet the cost principles of allocability to the recharge activity.	
Management Action Plans	
D.1	The MPL Business Office has transferred the \$49,709 in payroll costs for the four employees out of the Laboratory Support Services recharge project.
D.2	The MPL Business Office has processed a cost transfer to transfer the Navy Fee portion (operating expense amount of (\$14,540)) of the correcting entry processed in June 2022 from the MPL recharge project to an alternative fund source.

D. MPL Recharge Expenditures – Detailed Discussion

University Policy (BFB-A-56) states that “Costs incurred and assigned to the [recharge] activity must be essential to the purpose for which the activity has been established.” The Laboratory Support Services recharge is added as a direct cost to MPL awards, which are primarily federal awards. By extension, expenses that are normally considered unallowable under Uniform Guidance would also be considered unallowable to the recharge activity. Uniform Guidance requires costs to be reasonable, allocable, consistently treated, and allowable. A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that federal award or cost objective in accordance with relative benefits received.

Our review of MPL recharge expenditures identified the two costs below that did not appear to be allocable to the recharge activity. Both costs were attributed by the Business Office to the campus-wide transition to the Oracle Financial Cloud (OFC) financial system in 2020, which resulted in post-implementation challenges for the campus as a whole.

- Salary/benefit costs for four employees: We noted that that MPL recharge project supported \$49,709 (in FY2022) in payroll costs for four employees who were not part of the MPL Business Office. Per MPL, these recharges were to support two MPL awards that were in deficit as a result of OFC post implementation issues. One award had erroneous program income transactions totally approximating \$1M, which resulted in overspending to the project because the PI believed that the project was in surplus. The other MPL award went into deficit due to the lack of financial reports to effectively monitor the fund balance post go-live, which resulted in overspending on the award. MPL made efforts to utilize PI discretionary funding to the extent possible to cover the deficit, and used MPL recharge project to support salaries of individuals working on the project to cover any remaining deficit.
- MPL cost adjustment entry: In June 2022, (\$21,113) in operating expenses were posted to the MPL recharge project to correct errors created from use of the former recharge application (MCI file⁵). The adjustment was a result of OFC post-implementation issue with the use of MCI files that impacted multiple campus units, and was processed centrally after consultation with ICA and Sponsored Project Finance (SPF). The former recharge application allowed debits and credits entries to be posted to the ledger even if they did not balance. This resulted in erroneous entries to the MPL recharge project and/or MPL awards.

The entry corrected recharge transactions from July 2020 through February 2021 for Laboratory Support Services recharge, but also included correction for the MPL Navy Fee⁶ (which also utilized the MCI application). We noted that of the \$21,113, only \$6,573 related to the Laboratory Support Services recharge, and the remaining \$14,540 related to MPL Navy Fee, which is a separate recharge. Consequently, the \$14,540 does not appear allocable to the Laboratory Support Services recharge, and should be transferred to the Navy Fee project or appropriate fund source.

⁵ MCI file was the former tool used to process recharge transactions for recharge operations. This has been replaced by the RMP Recharge App.

⁶ The MPL Navy Fee is charged at 4% to MPL contracts, and is separate from the MPL recharge assessment.

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Pat Jordan
 Management Services Officer

October 2, 1995

Mr. Robert Bachman
 Ms. Karen Seward
 Office of Naval Research
 San Diego Regional Office
 4520 Executive Drive, Suite 300
 San Diego, CA 92121-3019

Dear Mr. Bachman/Ms. Seward:

Subj: MPL Laboratory Support Services

A meeting held on 28 August 1995 by the Office of Naval Research, San Diego Regional Office representatives, and the University of California, San Diego campus representatives, resulted in an understanding and agreement for the recharging of the MPL Laboratory Support Services. The parties in attendance at this meeting were:

Robert Bachman, ONR Regional Office
 Karen Seward, ONR Regional Office
 Bill Brophy, Director of Financial Services, UCSD
 Paul Phillips, Campus Audit Manager, UCSD
 Nancy Wilson, Manager Contracts & Grants, SIO/UCSD
 Pat Jordan, Management Services Officer, MPL/SIO/UCSD
 Paula Hodgkiss, Financial Analyst, MPL/SIO/UCSD

This "laboratory support services" charge to contracts and grants was reviewed by DHHS in 1992. It was concluded that it is a "recharge rate" and not subject to negotiation by the University's cognizant audit agency, the Department of Health and Human Services (DHHS). This recharge activity is subject to the University's established policies concerning recharge accounts, and reviewed annually. The rate is currently 27% of Salaries and Benefits (excluding overtime), but is subject to change, if needed, to cover costs of operating the Marine Physical Laboratory.

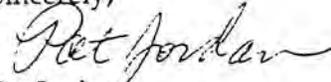
The Laboratory Support Services is a combined rate which includes support for (1) Laboratory Supplies and Expenses and (2) Laboratory Administrative Labor. These costs are detailed below.

(1) Laboratory Supplies and Expense provides for the equitable assignment of those costs which, although allowable as direct charges to a contract or grant, are difficult or impractical to apportion by other means. Examples include charges for janitorial services, facility repairs and maintenance, communications, postage, alarm monitoring, training, transportation, administrative travel, Xeroxing, administrative supplies, and payments in accordance with the terms of the tenancy agreement with the Naval Command, Control and Ocean Surveillance Center for guard and fire protection services, buildings and ground maintenance, and fees for utility usage.

(2) Laboratory Administrative Salaries and Benefits provide for equitable assignment of laboratory administrative personnel working in support of contracts and grants. Although allowable as a direct charge, it is difficult or impractical to apportion by other means. These costs may include costs associated with managerial changes as deemed necessary by the Director and/or MSO to meet Navy and/or MPL needs.

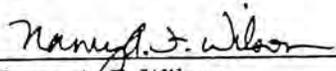
These costs are prorated to individual projects in accordance with the salary expense incurred by the project, and the rate is subject to change to reflect the actual costs incurred. The University indirect cost rate has been reduced in order to allow MPL's direct charging of their contract and grant administration. Currently, UCSD's on-campus IDC rate is 51% and MPL's IDC rate is 13%. We certify that there is no duplication of costs between the 13% IDC and the 27% MPL Lab Support in that no MPL costs are included in the University DA indirect cost pool.

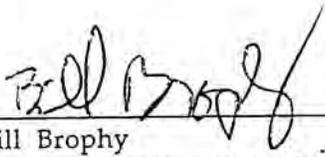
Sincerely,



Pat Jordan
Management Services Officer

Endorsed by:


Nancy A. F. Wilson
Manager, Contract & Grant Admin.
Scripps Institution of Oceanography


Bill Brophy
Director of Financial Analysis
University of California, San Diego

cc: T. Collins, Assoc Vice Chancellor/SIO
P. Phillips, UCSD Internal Audit
E. Reyes, Extramural Funds Accounting
B. Urabe, DHHS

To: NORM SATTLORE
From: JOHN STARBUCK

MAY- 1-90 TUE 8:52 ONRRR SEATTLE

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101. ms. assume for RTR
hands in Code 15.

DEPARTMENT OF THE NAVY
OFFICE OF THE CHIEF OF NAVAL RESEARCH
ARLINGTON, VIRGINIA 22217-8000

IN REPLY REFER TO
Ser 10/9191
4 Oct 89
RTA
10/12/89



MEMORANDUM

From: Code 10
To: Codes 11, 12, 14 and 15
Subj: FEE POLICY FOR ARL/APL/MPL

1. For some time now we've been discussing the issue of granting fixed fees to university APL's/ARL's and MPL. Fees are necessary to capitalize purchase of general purpose equipment and facility improvements, provide for conduct of advance financing for certain efforts, provide support for attendance at general purpose symposia and for discretionary research. Previously NAVSEA and now SPAWARS have given fees of 3 to 5% and ONR was requested to provide similar fees. Expenditure of this fee is covered by a fee use agreement. We've decided on the following policy which is to be implemented immediately.

2. When the instrument being used is a grant, we will not give fee, regardless of the recipient. Fee conflicts with the precepts of "assistance" upon which our research grants are made. However, we have determined that discretionary funds will be allowed for grants with APL's/ARL's and MPL in an amount not to exceed 1% of the value of the grant. Uses of these funds would be at the discretion of the APL/ARL Technical Director. They could be used in the same manner as fee.

3. When the instrument being used is a contract, we will give fees similar to those given by SPAWARS. When sending funds to SPAWARS for their contracts to ARL's/APL's we will continue to support SPAWARS' fees.

4. The fee dollars and the 1% grant amounts will be used to cover the following types of expenses:

- a. Costs of basic research efforts not otherwise included in ONR grants and contracts, which may include salaries of graduate research students.
- b. Acquisition of new general purpose equipment or facilities.
- c. Replacement or repair of existing equipment or facilities.
- d. Miscellaneous expenses (incurred under ONR contracts or grants) to the extent approved by the Contracting Officer.
- e. Scholarly development costs, including the costs of fellowships for APL/APL/MPL professional staff members.

Attendance at conferences and meetings not otherwise chargeable to a recipient, support for preparation of papers for publication, and

MAY- 1-90 TUE 8:03 ONRRR SEATTLE

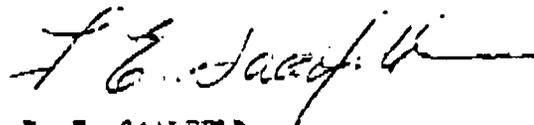
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Subj: FEE POLICY FOR ARL/APL/MPL

5. For OMNI institutions that are receiving individual grants for each research project, the 1% administrative expense currently provided will continue. We have been grouping the 1% amount and placing it under a separate grant. OMNI efforts that are not currently receiving 1% should be given that amount immediately.

6. Grantees should be asked to identify the 1% amount in their grant proposals as "R&D Related Expenses".



F. E. SAALFELD
Director, Office of Naval Research

Copy to:
ONR Code 10D
OCNR Codes 01, 011, 012