

Kwame Nkrumah University of Science and Technology, Kumasi

# Indirect Cost Rate POLICY



# INDIRECT COST RATE POLICY



KWAME NKURUMAH UNIVERSITY OF SCIENCE  
AND TECHNOLOGY, KUMASI-GHANA  
**QUALITY ASSURANCE AND  
PLANNING UNIT**

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ISBN: 978-9988-2-8487-9

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# FOREWORD

The Kwame Nkrumah University of Science and Technology, Kumasi has a mission to advance knowledge in science and technology through creating an environment for undertaking relevant research, quality teaching, entrepreneurship training and community engagement to improve the quality of life. In order to achieve this mission, there is the need to have Indirect Cost Rate Policy.

The rationale of this policy is to establish guidelines covering the rationale, determination, distribution and management of indirect costs applicable to externally funded projects..

The University is grateful to all those who ensured the initiation, development and approval of this Policy.

**PROFESSOR K. OBIRI-DANSO**

VICE-CHANCELLOR



# ACKNOWLEDGEMENT

As part of the strategic planning mandate of the Quality Assurance and Planning Unit (QAPU), university policies are initiated and proposed for approval by the Academic Board. The Unit in collaboration with the Office of Grants and Research therefore initiated the preparation of the Indirect Cost Rate Policy and submitted for approval by the Academic Board.

The QAPU is grateful to Prof. R. C. Abaidoo (Director), Prof. Peter Donkor (former Director), Ms. Nadia Tagoe (Grants and Research Manager), Mr. Emmanuel Ebo Ocran (Finance Office) and the entire staff of the Office of Grants and Research for their enormous contributions to this Policy.

A special thanks goes to the Building Stronger Universities Project (BSU111) for providing financial and technical support for developing grants related policies in the University including the Indirect Cost Rate Policy.

Lastly, we wish to appreciate the work of the Review Committee and all staff of the University who contributed in several ways in developing and approving this Policy.

**PROF. CHRISTIAN AGYARE**

HEAD, QAPU

JUNE, 2019

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## 1.0 PURPOSE

The purpose of this policy is to establish guidelines covering the rationale, determination, distribution and management of indirect costs applicable to externally funded projects,

## 2.0 DEFINITION

The Indirect Costs refer to those costs that the university cannot charge to a particular grant or contract as a direct cost. These are the “facilities and administrative” or “overhead” costs incurred in the operation of the university that include, but are not limited to:

- a) Financial services
- b) Human resources services
- c) Office space, research labs, and other infrastructure
- d) Electricity, water and other utilities
- e) Equipment and general services such as copiers, phone systems, janitorial services
- f) Depreciation and use allowances
- g) Externally funded projects administration and research support services
- h) Operation and maintenance expenses;
- i) Library services
- j) Legal services
- k) Audit services
- l) Information and communication technology services
- m) General administration and support services

Indirect cost rate is a device for determining in fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost projects should bear. An indirect cost rate is the ratio between the total indirect expenses and some direct cost base.

The indirect cost allocation methods used by each organization depend on its own structure, program functions, and accounting systems.

### **3.0 RATIONALE**

The Kwame Nkrumah University of Science and Technology (KNUST) provides the necessary infrastructure and services, some of which are listed in Section 2.0, to support all operations. Externally funded projects are executed using these general facilities and services but cannot be directly charged as a result of cost apportionment challenges. It is therefore appropriate for the funding source to reimburse KNUST for the portion of those costs associated with externally funded programs so that the University is managed as a financially sustainable enterprise. This is also in line with the University's practice of recovering the full cost of funded projects to the largest extent possible. Principal Investigators (PI's), Project Directors (PDs), Heads of Departments, Deans and Provosts must make every effort to recover indirect costs for each grant and contract award.

### **4.0 POLICY STATEMENT**

All funded projects will be charged the maximum institutionally determined indirect cost rate, regardless of funding source, unless one of the exceptions below apply.

- a) A funding agency's written policy will not all KNUST will accept a lower rate so long the rate is non-negotiable and is specified by the funder's policy
- b) The funder has an established non-negotiable indirect cost rate
- c) In the case of sub-awards, KNUST will charge the indirect cost rate applicable in KNUST. If the funder has a written policy on sub-award indirect cost rates or a rate is specified for sub-awards in the funding announcement, then such a rate will be applicable.

## 5.0 OTHER EXCEPTIONS

The University expects that faculty proposals to external sponsors will include the maximum allowable indirect cost rate in proposed project budget. In peculiar circumstances where a reduction or full waiver of the allowable indirect costs is required, the PI/PD must apply for such a reduction or waiver in advance for approval by the Vice Chancellor.

## 6.0 DETERMINATION

KNUST determines its institutional indirect cost rate fairly within the boundaries of sound administrative and financial principles. The calculation of the rate is based on actual operating costs and generally determines the cost of indirect expenses as a ratio of direct costs. The necessary adjustments are made in determining the rate.

22% is determined as the initial indirect cost rate of KNUST (See appendix). However, a rate of 15% is used as the negotiated rate where the University will absorb 7% as its co-funding.

Under the direction of the Vice Chancellor, OGR and the University Finance Office will ensure that the appropriate determination and review procedures are followed. The policy will be reviewed periodically.

## 7.0 DISTRIBUTION OF INDIRECT REVENUE

### Principles for Distribution

- **The University needs to recover cost as stated above**
- **The colleges/faculties and departments where these projects are executed also incur costs**
- **The research team led by the PI needs to be retooled and motivated to initiate new projects**

Indirect costs that have been recovered from fund research efforts. This revenue will therefore be distributed to facilitate the growth and development of research at all levels. The units that will be allocated

this revenue are the central University administration, the College, Faculty/ School and Department where the funded project<sup>6</sup> is hosted and the Principal Investigator. This allocation is expected to retool the various units and the Principal Investigator to expand research activities, enhance grant writing endeavours and increase

The allocation of the total indirect revenue as applicable to 3-tier colleges shall be as follows:

- 1) 20% will be retained by the central university administration;
- 2) 20% to the College where project is hosted;
- 3) 10% to the Faculty/School where project is hosted;
- 4) 25% to the Department where project is hosted;
- 5) 25% to the Principal Investigator;

The following will apply in the relevant circumstance;

- a) For 2-tier Colleges, the department will receive a total of 40%
- b) When multiple Colleges, Faculties, Schools, Departments or Principal Investigators are involved, the same principles will apply. However, the allocated revenue will be further distributed to the units or investigators involved on a pro-rata basis determined at the time of proposal submission.
- c) When a University unit with semi-autonomous status generates revenue, the unit shall be allocated a total of 60%.

## **8.0 OFF CAMPUS FACILITIES**

- d) When the research is taking place in an off-campus or external facility which has not received a sub-award, the allocation will be done as follows:
  - I. 15% will be retained by the central University administration
  - II. 30% to the Facility
  - III. 10% each to the College, Faculty/School and Department respectively
  - IV. 25% to the Principal Investigator

The allocated indirect revenue is expected to be part of the budgetary and financial reporting processes at all levels. The acceptable purposes for which this revenue may be used include the following:

- a. Providing internal funding for research
- b. Providing research administrative and support services
- c. Conducting pre-proposal and pre-grant feasibility studies
- d. Financing the preparation of competitive proposals for grants
- e. Providing funds for cost sharing
- f. Providing research-related expenses allowable by the institution but not allowable per the terms and conditions of specific funded projects
- g. Purchasing capital equipment directly related to expanding the research capability of the institution
- h. Providing funding for research efforts which happen in gaps between externally-funded projects to ensure continuity
- i. Commercialization activities as a follow up to research outputs
- j. Facilitating research dissemination and uptake

## **9.0 RESPONSIBILITIES**

Specific responsibilities associated with indirect costs and revenue are as follows:

### **1) Principal Investigators**

- a) Develop proposals which include budgets for the recovery of indirect costs at the institutionally approved rate
- b) Obtain prior written approval for indirect cost reductions or waivers that fall outside the circumstances stated in the policy statement
- c) Ensure that indirect revenue allocated to them are expended in accordance with this policy and university regulations

## **2) Provosts, Deans, Directors and Heads**

- a) Provide oversight to ensure that all externally funded projects include the maximum allowable amount of indirect costs
- b) Ensure that all indirect costs in their units are recovered
- c) Ensure that indirect revenue allocated to them are expended in accordance with this policy and university regulations

## **3) Office of Grants and Research (OGR)**

- a) Ensure that maximum indirect revenue is generated by ensuring that indirect costs are accurately budgeted for and billed to all grants
- b) Process applications for indirect reductions and waivers
- c) Coordinate with the Finance Office to ensure policy is reviewed periodically

## **4) Finance Office/ Internal Audit**

- a) Coordinate with OGR and Colleges to ensure all indirect costs are recovered
- b) Ensure that expenditures on funded projects are recorded correctly, so as to achieve full and accurate recovery of indirect costs.
- c) Facilitate distribution of indirect revenue
- d) Ensure appropriate and timely records on indirect revenue are kept at all levels
- e) Ensures that the financial procedures are strictly adhered to.

## **5) Vice Chancellor**

- a) Oversees the implementation and periodic review of the policy
- b) Makes final decisions on indirect rates and waiver applications and/ or delegates this to an appropriate officer of the university.

## APPENDIX

In determining the indirect cost, KNUST firstly classifies its activities into seven (7) cost centres as shown in table 1.

**Table 1 (Cost Centres of KNUST)**

COST CENTRE	DIRECT/INDIRECT
1. Direct Academic Expenses	
a) Colleges	direct
b) Research & Outreach Units	Direct
2. General Education Expenses	Direct
3. Library	Indirect
4. Central Administration	Indirect
5. Staff/Student Facilities and Amenities	Indirect
6. Municipal Services	Indirect
7. Miscellaneous Expenses	Indirect

**Source: KNUST Budget 2014**

Secondly, the ratios of the indirect costs over the direct costs and indirect costs over the total costs for three years (2010,2011 and 2012) are calculated (scenarios A and B) as a basis for determining the indirect cost rate, as indicated in table 2.

**Table 2 (Cost Scenarios)**

<b>Director/Indirect</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Direct	43,448,391	61,870,889	97,093,799
Indirect	11,651,406	23,656,399	23,852,591
Total	55,101,806.50	85,529,299.12	137,950,225.24
Indirect as a percentage of Direct (Scenario A)	27%	38%	25%
Indirect as a percentage of Total (Scenario B)	21%	28%	17%

Source: KNUST Budget

Thirdly, the lower of the average of the two scenarios is determined. From table two (2), the three year averages of scenarios A and B gives approximately 33% and 22% respectively.

22% being the lower of the two averages is determined as the indirect cost rate of KNUST.

## References

OMB Circular A-122 (2 CFR Part 230) for Non-profit Organization and by the Federal Acquisition Regulation KNUST Budget

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