



Contracts - 9 - Cal Univ of

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UNITED STATES
ATOMIC ENERGY COMMISSION
WASHINGTON, D.C. 20545

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MEMORANDUM FOR CHAIRMAN SEABORG
COMMISSIONER RAMEY
COMMISSIONER PALFREY
COMMISSIONER TAPE
COMMISSIONER HUNTING

For

~~THROUGH THE GENERAL MANAGER~~ Signed:
John V. Vinciguerra

SUBJECT: PROPOSED CONTRACT AT(04-3)-472

The University of California under its contract AT(11-1)-GEN-10 with the AEC has been conducting two projects for the Division of Biology and Medicine. The one project dealing with the effect of radiation (x-irradiated) on the aging phenomena in the dog has been in effect since July 1, 1951. The other project having to do with the relative toxicity of strontium-90 and RA 226 during the growth period of the dog has been in effect since July 1, 1956.

Over the years activities under the two projects have changed significantly, both in the increase of operating expenditures which currently approximate \$850,000 annually, and the fact that the work is now all conducted in a government-owned segregated facility, valued at about \$1,250,000, located on the Davis Campus of the University adjacent to the University facilities. Because of the current level of operations and the fact that the work is conducted in government-owned segregated facilities it has been decided to remove these two projects from the project-type GEN-10 contract and make them the subject of a new contract AT(04-3)-472 with the University of California, Davis Campus.

Negotiations on the new contract began sometime ago and all issues have been resolved except for a problem concerning the allocation of University of California overhead to the contract.

It is the policy of the University of California to apply a uniform university-wide overhead rate to all government contracts. However, under three AEC contracts (Eng. 88, Eng. 36 and Gen. 12) lower overhead rates

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have been negotiated in recognition of the fact that the work is conducted in government-owned facilities. The University contends that the government-wide overhead rate should continue to be applied to these projects under the new contract irrespective of the fact that in this instance the work is being conducted in a segregated and largely self-contained government-owned facility.

The method of overhead allocation proposed by the University for contract AT(04-3)-472 is not in accordance with the uniform government-wide cost principles applicable to research and development contracts with educational institutions as prescribed in BOZ Circular No. A-21. The uniform cost principles provide that in certain cases, due to the nature of the work, the facilities or personnel involved or other considerations, the application of a single indirect expense rate to research agreements may produce inequitable results to the institution or the government, and that such circumstances may justify the development of two or more pools of indirect expenses. An example cited is where a research agreement or group of agreements, or the facility in which such agreement(s) is performed, provides its own services to a significant degree, as may be in the case of a hospital or a segregated or off-campus facility.

In keeping with this principle, SAN has proposed that for this contract the university-wide overhead rate be adjusted downward to reflect an adjustment of the use charge included in the overhead rate because the government is furnishing its own facilities. Such an adjustment would have the effect of reducing the current 39% overhead rate to about 31% and would amount to about \$30,000 annually. While the amount involved may not be particularly significant to either party, there is an important principle involved. If AEC were to accede to the University's request, it would establish an undesirable precedent, not only with the University of California, but with other educational institutions.

The University has informed SAN that they cannot agree to an adjustment of the overhead rate (see attached memorandum re University's position) and has asked for an opportunity to discuss this matter with staff during their visit to Headquarters on February 24 and 25.

The Divisions of Contracts and Biology and Medicine and the Office of the Controller believe that the overhead rate should be adjusted in this case and that the position taken by SAN is correct. The matter is being brought to your attention since the University representatives may discuss this matter with you during their visit to Headquarters.

Original signed

Robert J. Hart

R. J. Hart, Acting Director
Division of Contracts

Attachment:
University's memo
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