



POLICY ON DISTINGUISHING GIFTS VS. SPONSORED AWARDS IN EXTERNAL FUNDING RECEIVED BY HARVARD

REASON FOR POLICY

The University must manage all funds received in accordance with applicable federal, state, and local laws, and with the specific terms and conditions of any gift, grant or contract. The University's approval, negotiation and agreement processes and mechanisms, accounting, budget practices, oversight, and compliance practices differ depending on whether funds received are categorized as a gift or as a sponsored award. It is, therefore, essential that categorization of external funding received be undertaken with utmost care and with a sound understanding of the various considerations (outlined below) that drive the determination of funding type. This policy is intended to facilitate the appropriate classification of gifts vs. sponsored awards and to ensure that external funding directed to the University receives the proper compliance review, administrative oversight, and monitoring.¹

STATEMENT OF PRINCIPLES

Funding derived from sources outside the University is an essential component of the University's financial health and its ability to undertake and sustain vital research, scholarship and education. The classification of external funding as a gift or sponsored award² serves as an important step in ensuring that the appropriate accounting and compliance treatment is used. In many cases, the determination of whether funding received is a gift or constitutes a sponsored award is relatively straightforward, while in other cases, the determinations may be more difficult. In some cases, a bolus of external funding may have many separate components, some of which qualify as gift funds, and other components that would qualify as sponsored awards.

Gifts typically carry no reciprocal obligations between donor and recipient, and are often unrelated (or only indirectly related) to the business interests or mission of the donor. Therefore, in general, a gift may be an unrestricted donation to the University, or a donation whose uses may be restricted to an academic area or to a defined group of academic, departmental or other University activities (a "restricted gift"). Within the restrictions set by the terms of a gift agreement, the specific ways in which funds are used, and the methods of implementing the intent of the donor, are left to the discretion of the University. When restricted or unrestricted gifts are received, the University typically enjoys broad latitude in how to use the gift funds, and the University, rather than the donor, chooses what specific faculty members and students may participate in the activities supported by the gift. A gift generally has no time limit for its use and expenditure. A gift may be directed by a donor to support the work of a specific department or faculty member, but in these cases, the department or faculty member typically would have broad discretion as to the design and implementation of, and specific expenditures to support, specific academic activities for which funds received would be used. Although it is not unusual for a donor to expect a report on the general uses of funds donated (for example, a list of activities or projects that have been supported by a gift) or even a report

¹ This document is not intended to specify the allocation of accounting codes RG, NG and NE to gifts, grants and contracts, although the concepts in this policy may be useful in making such classifications. Additional University guidance, in which the concepts of this policy are used, is available to assist in these accounting classifications. See below, "Related Policies and Guidance."

² According to the definition used in this policy, as set forth under "Definitions" below, "sponsored awards" include, but are not limited to, sponsored research grants and contracts. In some cases, external funding received by Harvard may represent funding for a specific academic or scholarly program or project whose primary purpose is not research.



on line-item expenses, a donor may not recoup gift funds. If a gift made for a restricted purpose has not, however, been spent according to the donor's restrictions, a donor may have grounds to rescind and recoup the gifted funds.

In sponsored awards (which include sponsored grants and contracts), however, the business interests or mission of the source of external funds is most often related directly to the uses for which the funds are put by the recipient. Because sponsors are concerned that their funds be used to support activities that bolster the sponsor's own mission or interests, sponsors typically provide funding for sponsored awards on the basis of a specific project or research plan and budget, for a specified period of time, with funds unused at the expiration of the time period reverting to the sponsor. The plan most often involves an identified University faculty or group of faculty as the academic project leader(s), and specifies goals and objectives, as well as the methodologies and approaches to be used, and it is to pursue the program or research plan that the funds are typically awarded. Sponsors expect the University to be fully accountable for assuring that the program or research is conducted with financial, ethical and scientific integrity and in compliance with all applicable federal and state laws and regulations. Sponsored *contracts* (which typically are contracts for sponsored research), unlike grants, are awarded for the pursuit and completion of specific program or research objectives or tasks, or the delivery of specific products, within specified timelines. Sponsors of sponsored contracts hold the university accountable for successful and timely completion of the work and "hand-over" of the contracted deliverables. In a sponsored award (either grant or contract), both the University and its faculty are usually responsible for reporting on progress and results to the sponsor at intervals or milestones identified in the grant or contract. Sponsors usually stipulate as part of the terms and conditions of an award that they have discretion to examine, even on a line-item basis, the expenditures of the grant or contract funds, and to disallow and demand repayment of any funds deemed by the sponsor to have been expended for purposes other than direct support of the defined activities. If the funded program or research is not pursued, or the contracted deliverables not attained, sponsors often reserve the right to recoup all or some of the sponsored award from the recipient.

In some cases, the distinction between a gift and a sponsored award (grant or contract) is ambiguous and requires consideration of many factors, including but not limited to the mission of and potential benefit received by the funder, the value exchanged; the scope of work; whether there are any defined activities and, and if so, their nature and the specificity with which they are defined; the terms of accountability for use of funds and deliverables; and – in case of failure to complete the defined activities – the ability of the funder to recoup the funds provided or to obtain a refund (or receive a reversion) of unused funds. Alternately, some external funding can initially resemble a gift because its terms may lack detail about activities to be funded but may require a mechanism by which a funder would be asked periodically to approve specific program or research activities and/or specific uses of portions of funds; such funding would therefore likely be considered as a sponsored award, because of the lingering control of the funder over specific activities for which the funds would be used and/or the budgets for those activities.³

In some cases, external funds received may be, by the terms on which they are provided, in part a gift and in part a sponsored award. In that event, funds received may be allocated between gift and sponsored award,

³ Gifts and sponsored awards can differ significantly in the ways in which they are treated for recovery of indirect costs, with gifts typically (but not always) having a significantly lower indirect cost recovery. This difference in treatment for the recovery of indirect costs, although it may provide an incentive for funders, faculty, staff or schools to prefer one categorization over another, must not be considered as a criterion in determining whether external funds received constitute a gift or a sponsored award. Application of appropriate indirect cost recovery rates should – according to established University policy [LINK] – follow upon appropriate categorization of external funds as a gift or sponsored award, rather than influencing that categorization.



and the corpus of each portion treated differently and appropriately for management, accounting, compliance and oversight purposes.

When the appropriate categorization of external funds received is uncertain, OSP, HMS SPA, HSPH SPA, the Office for Technology Development (OTD), and/or school officials should consult with the Office of the Provost and the Recording Secretary's Office (RSO) before making a determination. These offices, in turn, may consult with the University Development Office (UDO), and the Office of General Counsel (OGC). Similarly, when UDO, RSO and other responsible offices within the University encounter external funds received whose appropriate categorization is uncertain, they should consult with the Office of the Provost, OSP, and OGC. In cases of lingering uncertainty or dispute about the appropriate categorization of external funds received, the Provost and the University Chief Financial Officer will consult and reach a final determination.

WHO MUST COMPLY

Persons who must comply with this policy include all submitting offices (OSP, HMS SPA and HSPH SPA) for sponsored program awards; school-level officials who administer or negotiate gifts or sponsored program awards at their schools; OTD; UDO; RSO; and all schools and units, University-wide initiatives, and centers, and all Harvard University faculty, other academic appointees, staff, students and any other individuals who apply for, seek, or receive external funding at Harvard University.

Only RSO and/or OSP may formally accept gift or sponsored program funding on behalf of the University, and RSO and OSP therefore must respect this policy in determining whether to accept a gift or sponsored program award.

RESPONSIBILITIES

In situations in which the determination of gift vs. sponsored program award is not obvious, the offices identified below are expected to coordinate as follows:

The sponsored programs submitting offices (OSP, HMS SPA and HSPH SPA) OTD, UDO, RSO, and the Office of the Provost are responsible, under the procedures and considering the factors specified above, for working in conjunction with one another to reach a determination as to whether the external funding is a gift or a sponsored award. The submitting offices and OTD are also responsible for following the normal procedures required to accept and set up a sponsored award.

School-level officials who are involved in discussions relating to prospective gifts or who administer gift funds, and school-level officials who assist faculty with applications for and discussions relating to sponsored program awards, are responsible for applying this policy, using factors and procedures outlined above.

The Office of the Provost, UDO, RSO and OGC are responsible for providing input to the submitting offices and OTD in determining whether funding is a gift or a sponsored award. The RSO is also responsible for establishing gift accounts.

DEFINITIONS

Sponsored Awards. This category includes all funding arrangements in which the University is providing a return benefit to, or agrees to provide a defined deliverable or complete a set of activities for, the sponsor in exchange for the funds, regardless of whether the funding instrument is designated a contract, cooperative agreement, grant, consortium agreement, or otherwise. This category includes all contract or sponsored



“grant” funding by foreign entities or international organizations,⁴ whether pursuant to a contract or sponsored “grant.” This category also includes all subcontracts and subgrants, whether from federal or non-federal sources. Non-federal Awards are processed only by the submitting office(s). Sponsored program awards most often support research activities, but in some cases, may be provided for non-research, demonstration or service projects.

Restricted Gift. This category includes gifts made by a donor who instructs the University as to the use of the funds in a specific academic area or for specific academic purposes. Gift terms for restricted gifts may specify particular activities and budgets for those activities; but usually do not specify how the funding must be spent or administered, and allow funding to be utilized at the full discretion of the recipient, although respecting the overall gift purposes. Financial reporting requested by donors of restricted gifts is normally in the aggregate, although detailed reports are sometimes requested; in both cases this reporting is solely intended to assure proper gift stewardship. Unexpended funds are not returned to the donor at the expiration of the restricted gift period. All restricted Gifts are processed by RSO, but they may also be recorded by OSP if there is a need for detailed financial reporting.

RELATED POLICIES AND GUIDANCE

[RESERVED for forthcoming guidance on allocation of RG, NG and NE codes]

[CONTACTS AND SUBJECT MATTERS EXPERTS

[OSP](#)
[HMS SPA](#)
[HSPH SPA](#)
[OTD](#)
[UDO](#)
[RSO](#)
[School-level sponsored program officials](#)

Key subject matter experts who provided input in the development of this policy were the University's three submitting offices, the RSO, OTD, the Vice Provost for Research, the University Director of Sponsored Research, and the Sponsored Administration Leadership Committee, which includes School-level officials responsible for sponsored program administration within their schools.

⁴ Foreign entities or governments also may provide gifts to the University for endowment, financial aid or other non-project specific academic activity; these are accepted and processed by the RSO.



Policy Title: Gift vs. Sponsored
Awards
Responsible Office: OSP
Effective Date: *July 1, 2011*
Revision Date: 6.18.11

