

HARVARD UNIVERSITY



Policy for the Application of Indirect Costs to Sponsored Awards

Originally Issued: July 25, 2013

Last Revised: April 22, 2019

Responsible Office: Office for Sponsored Programs

For reasons of sound management and responsible stewardship, Harvard University endeavors to recover from every sponsored award the full cost of the facilities and administrative services which support it. The University recovers these indirect costs through the application of rates applied to each sponsored award's direct costs.

The University negotiates federal indirect cost rates with the Department of Health and Human Services/Cost Allocation Services (DHHS/CAS), documented in 3 separate rate agreements: Harvard University (referred to as the University Rate Area); Harvard Medical School; and, the Harvard School of Public Health.

For non-federal awards, it is University policy to attempt to recover the maximum possible indirect costs.

Reason for Policy

It is the responsibility of school/tub officials and department/local level managing units to exercise responsible stewardship of University resources by maximizing indirect cost recovery on sponsored awards.

Indirect costs are those operating costs necessary to conduct sponsored activities that cannot be directly allocated to a single project and ordinarily include costs of physical space, utilities, libraries, hazardous waste disposal, security, mandatory compliance functions, and administrative costs (grant management, procurement, human resources, etc.). These costs represent an allocation of the real costs of the facilities and infrastructure that house University research and programs. The failure to burden sponsored awards with their share of these costs forces the University to pay for them and diverts resources from other approved and budgeted University functions and priorities.

Many non-federal sponsors limit by policy their indirect cost reimbursement to levels well below the amount that would have been recovered through the application of the federal rate.

Who Must Comply

All Principal Investigators (PIs) and administrators at Harvard University within all schools, units, divisions, University-wide initiatives, and centers who are involved in the administration and conduct of sponsored awards must comply with this policy.

Roles and Responsibilities

Principal Investigators (PIs) take primary responsibility for ensuring sponsored proposal budgets follow the requirements outlined in this policy.

Department/Local level managing units assist PIs in preparing sponsored proposal budgets to ensure maximum indirect cost recovery, verify non-federal sponsor rates referencing to sponsor's documentation and to the [GMAS organization page](#), recent overhead rates, and coordinate any exception requests with school/tub level officials.

School/tub level officials ensure sponsored proposals follow the requirements outlined in this policy, adhere to any applicable school/tub policies, and review and approve any exception requests from PI and department/local level managing units.

Office for Sponsored Programs (OSP) will review awards for compliance with tub-specific requirements, if applicable.

Policy

The following procedures should be followed for all sponsored proposals unless the school/tub official or submitting office approves an exception.

Federal Sponsors

Federal sponsors are required by 2 CFR 200.414 (c) to provide indirect cost recovery according to the negotiated rate agreements using negotiated rates on a modified total direct cost basis (MTDC).

The Special Remarks section in each of the University's federally negotiated rate agreement letters states "Federal awards with activity at more than one of Harvard's multiple rate areas use the indirect cost rate for each rate area at which the work is performed." When work occurs at more than one Harvard location on the same award, Harvard applies the negotiated rate for each specific rate area where work is occurring. "Part of" accounts are required to be established for awards when research is conducted by multiple PIs and/or at multiple Harvard sites.

For federal subawards issued to a non-federal domestic entity that has never received a negotiated indirect cost rate, the entity may elect to charge a de minimis rate of 10% of Modified Total Direct Costs (MTDC) or request that Harvard, as the pass-through entity, negotiate an indirect rate with the subrecipient organization. Provision of the 10% de minimis indirect cost rate is conditioned on the non-federal entity meeting the requirements specified in 2 CFR 200.414(f). These include limiting availability to organizations that have never received a negotiated indirect cost rate, except for those described in Appendix VII of Part 200, paragraph (D)(1)(b).

For-Profit/Industry Sponsors

For-profit or industry sponsors are expected to provide indirect cost recovery that equals, at a minimum, the amount that would have been recovered through the application of the University's federal indirect cost rate. Indirect cost rates, either at the negotiated or uncapped (for administration) rate, should be applied to the cost basis, total direct costs (TDC) or modified total direct costs (MTDC), based on the school/tub policy or guidance.

Non-Federal/Foundation Sponsors

Proposals submitted to non-federal or foundation sponsors must recover the maximum amount of indirect cost based on written school level policy, a sponsor's published rate, or negotiated directly with the sponsor. PIs, departmental/local level managing units, and school/tub level officials will seek to

determine whether such an indirect cost recovery policy from the sponsor is publicly available (see GMAS, non-federal organization pages, recent overhead rates). If the sponsor's maximum indirect cost rate as published or allowed by the sponsor's policy is lower than the Federal Rate, funds should be budgeted in accordance with the following criteria:

- Applicable project costs normally funded as indirect costs (e.g., rent and utilities, project-related administrative support, office supplies, etc.) should be included as direct costs wherever possible.
- Indirect cost rate should be applied to the total direct costs (TDC) of such a project, rather than the modified total direct costs (MTDC) basis used in federal awards, unless prohibited by the sponsor.

Foreign Government Sponsors

Foreign government sponsors are expected to provide indirect cost recovery that equals, at a minimum, the amount that would have been recovered through the application of the federal rate. If the sponsor's maximum indirect cost rate as published or allowed by the sponsor's policy is lower than the federal rate, indirect cost rate should be applied to the total direct costs (TDC) of such a project, rather than the modified total direct costs (MTDC) basis used in federal awards, unless prohibited by the sponsor.

Policy Exceptions

In rare cases, there may be compelling circumstances where exceptions to this policy may be warranted. All requests for an exception should be made according to the applicable school/tub policy. For those schools/tubs without a written policy, requests for an exception must be in writing and approved by the school/tub's Director of Research Administration, Financial Dean, or equivalent position and a copy provided to the applicable submitting office to be maintained as part of the award documentation.

Definitions

Federal Rate

The University negotiates indirect cost rate agreements with the Department of Health and Human Services for the following three (3) areas: Harvard University Area, Harvard Medical School, and the Harvard School of Public Health.

Modified Total Direct Cost (MTDC)

Includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes capital expenditures (buildings, individual items of equipment; alterations and renovations); that portion of each subaward in excess of \$25,000; hospitalization and other fees associated with patient care whether the services are obtained from an owned, related or third party hospital or other medical facility; rental/maintenance of off-site activities; student tuition remission and student support costs (e.g. student aid, stipends, dependency allowances, scholarships, fellowships.)

Subaward

Subaward means an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a sponsored award received by the pass-through entity. It does not include payments to a contractor or payments to an individual. A subaward may be provided through any form of legal agreement, including an agreement that the pass-through entity considers a contract.

Total Direct Cost (TDC)

The sum of all charges that are clearly associated with a sponsored project including the salaries of people working on it, the cost of necessary supplies and equipment, etc. TDC is often used to identify the costs on which overhead will be charged (e.g., an overhead rate of 20% TDC on an account means that all direct charges will be assessed 20% overhead).

Related Policies and Guidance

- [On-Campus and Off-Campus Indirect Cost Rates Policy on Federal Sponsored Awards](#)
- [FAS and SEAS Policy on Assessments on Current Use Gifts and Sponsored Awards](#)
- [FAS/SEAS FY19 Budget Template - less than 15 percent](#) (HarvardKey Login Required)
- [FAS/SEAS Standalone IDC Shortfall Calculator](#) (HarvardKey Login Required)
- [HKS IDC policy](#) (HarvardKey Login Required)
- [HMS Guidelines for Budgeting Costs on Sponsored Awards](#)
- [Subrecipient Monitoring Policy](#)

Resources

- [F&A Rates - Federal Sponsors](#)
- [GMAS, Organization Pages for Non-Federal Awards, Recent Overhead Rates](#)

Revision History

- July 25, 2013
 - New; added to OSP website in PDF format
- December 8, 2014
 - Added 10% de minimus rate, reference to non-fed IDC database and contact information
- April 22, 2019
 - Changed policy title to reflect inclusion of federal, industry/for-profit, and foreign government sponsored awards
 - Added new sections: policy statement, reason for policy, who must comply, policy exceptions, definitions, related policies/guidance