

HARVARD UNIVERSITY



Policy for the Application of Indirect Costs to Sponsored Awards

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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 expenditures through the application of indirect cost 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 - Cambridge, Allston, and the Wyss (referred to as the University Rate Area); Harvard Medical School (which includes the Harvard School of Dental Medicine); and the Harvard T.H. Chan 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 (IDC) are those facilities and administrative costs necessary to conduct sponsored activities that cannot be readily allocated to a single project. They are also called "overhead costs" or "facilities & administration costs".

Indirect costs represent an allocation of real expenses for the facilities and infrastructure that house University research and programs. The failure to attribute sponsored awards with their share of these costs diverts resources from other approved and budgeted University functions and priorities.

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, as well as offices responsible for negotiating sponsored research agreements.

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. They review any established indirect cost rates and policies of each non-federal sponsor, consult the “Recent Overhead Rates” on the sponsor’s Organization page in GMAS, adhere to any applicable school/tub policies, 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.

Submitting Offices (OSP, ORA, SPA) will review awards for compliance with sponsor guidelines and tub-specific requirements, if applicable.

Policy

It is the policy of Harvard University to apply the University's full relevant Indirect Cost (IDC) Rate to all externally sponsored projects. Exceptions to the policy are listed below. Some exceptions require approvals (sometimes referred to as waivers) that indicate school and/or university approval. Schools frequently have local policies that are addendums to this University policy; note that the local policies cannot be less restrictive than this policy. When developing a project budget, applicants must review the University’s approved [federally negotiated IDC Rate agreement](#) to determine the applicable rate for the type of research or sponsored project proposed.

- Only the submitting offices can negotiate with the sponsor and provide final approval of IDC rates.
- When an exception is required, the exception *must* be requested and obtained as soon as possible and *prior* to providing any draft budgets to the sponsor or otherwise initiating any discussions with the sponsor related to project costs.

- The Submitting Office will not process a proposal that does not budget for IDC that adheres to this policy or have documentation of an approved exception, that is in accordance with this policy and school procedures, uploaded to GMAS.

Non-Profits and Foundations

Proposals submitted to non-profit or foundation sponsors must recover the maximum amount of indirect cost based on written school level policy, a sponsor's published rate, or rates negotiated directly with the sponsor.

For non-profit sponsors that have published rates, Harvard will accept that rate without additional approvals, though alternate methods to recover indirect costs may be required as noted below. The documentation of the published rate must be uploaded to the proposal request document repository.

For non-profit sponsors without published rates, if rates have been accepted by Harvard during the past five years, the highest rate received may be accepted without additional approval, though alternate methods to seek recovery of indirect costs may be required as noted below. IDC rates accepted by Harvard for the past five years are listed in GMAS on the Organization pages.

If a non-profit sponsor does not have published rates and either is new or has been inactive for more than five years, an exception must be requested from the school/tub level official as outlined in the Policy Exceptions section, to use a rate lower than the applicable federally-negotiated IDC rate.

In the event a project recovers indirect costs at a rate lower than the applicable federally negotiated rate, the indirect cost rate should be applied to the total direct costs (TDC), rather than using the modified total direct costs (MTDC) basis used in federal awards, unless prohibited by the sponsor. Further, 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.

If where the indirect cost recovery on the award does not meet the minimum indirect cost recovery required by the School (i.e., there is a shortfall), such indirect cost recovery via inclusion of allowable direct costs into the project budget may be required per School policy.

School policy may also require that a non-sponsored source of funding be used to offset the shortfall between the school's minimum IDC recovery and that provided by the sponsor.

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) unless required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification.

When a portion of an award is under the direction of another PI, a “Part-of” account should be set up in GMAS. If the work occurs in a different rate area than the primary PI, the negotiated IDC rate for the part-of PI should be budgeted and charged.

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% (15% after 10/1/24) 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 de minimis indirect cost rate (see above) 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). Requests by subawardees for a negotiated IDC rate should be routed to the Costing Staff at the school or to OSP.

Generally, Harvard accepts the published rates when a Federal agency or program uses a rate different from the University’s negotiated rates.

Federal awards that are transferred to Harvard use either the rate in the original budget OR, if that rate is above the applicable Harvard rate, the Harvard rate.

For-Profit/Industry Sponsors

As a matter of policy, 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 use of the University’s federal indirect cost rate applied to modified total direct costs. Indirect cost rates, either at the negotiated or uncapped (for administration) rate, must be applied, on a total direct costs (TDC) or modified total direct costs (MTDC) basis as determined by school/tub policy or guidance. If the for-profit/ industry sponsor will not agree to provide the full IDC rate, no negotiations for a lower rate can be initiated *without obtaining prior approval* from the relevant Dean or Institute Director or their designee. If there is any concern that accepting a reduced rate will impact other schools, refer the exception request to the OVPR.

Indirect cost exceptions with for-profit organizations (e.g., corporations, industry sponsors, etc.) are RARELY approved, particularly if the sponsor provided the full IDC rate previously.

Schools can determine if an exception is required for specific categories of for-profit awards, e.g. conference, license, royalty or other awards that are categorized as OSA (Other Sponsored Activities).

Note: *To request an exemption; a) the request must include a justification as to why this request is*

justified; b) if the exception is approved, it must be clearly indicated in the agreement that this waiver is an exception for the specific award and does not imply approval of any future exceptions. Additional justification or documentation may be required by local School/Tub policies.

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 use of the federal rate applied to modified total direct costs. If the sponsor's maximum indirect cost rate as published, or allowed by the sponsor's policy, is lower than the federal rate, and it has been approved by the Dean, Institute Director, or their designee, the 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 or approved by the Dean, Institute Director, or their designee.

State and Local Government, and Other Sponsors

Similar to non-profit sponsors, the requirement is to obtain the maximum amount of indirect cost based on written school level policy, the sponsor's published rate, or rates negotiated directly with the sponsor.

Policy Exceptions

In rare cases, there may be compelling circumstances where exceptions to this policy may be warranted. These exceptions will be reviewed based on the merits of each case and the justification provided; while it is not possible to list such circumstances the following may be considered as an example of a potential exceptional circumstance for illustrative purposes: the benefit of the proposed project to the University, in terms of institutional capacity building, may be deemed to outweigh the loss of indirect cost revenue.

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 Dean, Institute Director, or their designee, and a signed copy must be provided to the applicable submitting office to be maintained as part of the award documentation.

All requests for exceptions should consider the broader impact that an exception granted may have on the overall University funding from the same sponsor. If there is any concern about how accepting a low rate will impact other schools, refer the exception request to the OVP.

Prior to setup in GMAS, retroactive awards must be reviewed for compliance with this policy and must also adhere to any applicable school/tub policy and/or requirements.

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 - Cambridge, Allston, and the Wyss (referred to as the University Rate Area); Harvard Medical School; and the Harvard T.H. Chan 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 (\$50,000 for award start dates after 7/1/25) 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 (\$50,000 for award start dates after 7/1/25); 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; and 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/vendor 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 expenses charged that are allocable and allowable on a sponsored project, including salaries and benefits, necessary supplies and equipment, subaward expenses, and services from external vendors or internal service providers. TDC defines the costs to which indirect costs will be applied (e.g., an overhead rate of 20% TDC 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 Standalone IDC Shortfall Calculator](#) (HarvardKey Login Required)
- [HKS IDC policy](#) (HarvardKey Login Required)
- [HMS Guidelines for Budgeting Costs on Sponsored Awards](#)
- [HMS Low IDC Policy](#)
- [Subrecipient Monitoring Policy](#)

Resources

- [F&A Rates - Federal Sponsors](#)
- [GMAS, Organization Pages for Non-Federal Awards, Recent Overhead Rates](#)
- [Object Codes and IDC basis \(August 2023\)](#)

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
- July 29, 2024
 - Significant updates in format and details regarding different sponsor types
 - Clarification of the Exception Process
 - Undated the changes to MTDC relating to the Oct 2024 revisions of the Uniform Guidance