



**EXTERNALLY FUNDED GRANTS  
AND SPONSORED-PROJECT CONTRACTS**

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**Background**

The Smithsonian receives significant funding from external entities through agreements with them for contributions, grants, sponsored-project contracts, and business contracts.

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**Purpose**

This directive defines the types of externally funded financial agreements entered into by the Smithsonian, and provides guidance in identifying:

- the appropriate indirect cost rates to apply when budgeting for an external agreement
- the management official with authority to sign the external agreement

Please refer to SD 304, *Guidelines for Administering Indirect Cost (Overhead) Rates and Charges*, which provides detailed information about the Institution's indirect cost rate system.

**Applicability**

This directive applies to all Smithsonian units that conduct government and/or non-government sponsored projects and auxiliary activities. However, this directive does *not* apply to business contracts managed by Smithsonian Business Ventures (SBV).

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**Definitions**

Terms used by funding sources may be imprecise and conflict with definitions used by the Smithsonian. The Smithsonian's terms conform to the audit guidelines of the American Institute of Certified Public Accountants (AICPA) and guidelines issued by the National Association of College and University Business Officers (NACUBO).

**Grant**—A legally binding agreement by a corporation, foundation, or government to provide financial support for a specific program, project, or activity. A grant is awarded by an organization to further its mission and objectives. A grant requires a recipient to use its best efforts. Grants are awarded as a form of encouragement, without requiring specific results, sponsor control, or direction. Upon accepting a grant, the Smithsonian and the sponsor are legally obligated to comply with its terms. Grants are subject to one or more of the following requirements:

- The period of performance is specified by the sponsor
- Any unspent funds are to be returned to the sponsor
- Funds must be spent in accordance with an agreed-upon budget
- Additional financial terms and conditions are specified by the sponsor
- Financial reports must be provided to the sponsor
- Deviations from stated grant terms require the sponsor's approval or notification to the sponsor
- A research or performance report is required by the sponsor for evaluation purposes

**Definitions**  
(continued)

A grant is distinguished from a *sponsored-project contract* because the latter has deliverables that must be accomplished by the date the sponsor specifies.

A grant is distinguished from a *contribution* because the contributor requires no returned value, other than appropriate acknowledgement or recognition. Donations or payments from individuals in return for which no deliverables are required are usually defined as contributions.

A grant is distinguished from a *corporate sponsorship* because the latter does not require a recipient to use best efforts, spend funds in accordance with an agreed-upon budget, or provide a financial report to the sponsor.

In the case of *sponsored projects* from government entities, the type of sponsorship—whether it is a grant, contract, or cooperative agreement—is determined by the government entity.

**Contract**—A legally binding agreement between the Smithsonian and one or more other parties. The agreement consists of promises made by each party, each of whom is legally obligated to fulfill its terms. Contracts fall into one of the following two categories:

- *Sponsored-project contracts*, which consist of an agreement by a corporation, foundation, government, or other entity to provide financial support for a specific program, project, or activity, in return for which the Smithsonian agrees to provide project results to the sponsor. A sponsored-project contract is *not* donative in nature, but is a mutually beneficial arrangement by which the sponsor supports a project with the expectation of benefiting from its results. Most often, results are in the form of a research report or copies of publications. In some cases, results are tangible items produced as a consequence of research.

**Definitions**  
(continued)

- *Business contracts*, which consist of an agreement between the Smithsonian and an individual, corporation, foundation, government, or other entity to conduct an activity designed to generate income in the form of sales, royalties, fees, commissions, or other types of revenue.

Activities that require business contracts include but are not limited to: publication or distribution of journals, books, or magazines; production, distribution, and broadcast of film, video, and music; concessions; and development, licensing, and sales of products.

**Contribution or Gift**—These are interchangeable terms for the donation of materials, services, facilities, property, cash, or cash-convertible assets from individuals, corporations, foundations, and other entities. A contribution or gift is given without the expectation of any return to the donor, other than normally appropriate acknowledgment and recognition. Further information on contributions and gifts can be found in SD 809, *Private Financial Support*.

Contributions of financial support are classified as *temporarily restricted*, *permanently restricted*, or *unrestricted*, as follows:

- *Temporarily restricted* contributions are subject to donor-imposed restrictions that permit the Smithsonian to use the donated assets as specified and are satisfied either by the passage of time or by actions of the Institution.
- *Permanently restricted* contributions must be maintained in perpetuity but the Smithsonian may spend part or all of the income or other economic benefits derived from the donated assets.
- *Unrestricted* contributions may be used for any Smithsonian purpose because they are received without donor-imposed restrictions on their use.

**Definitions**  
(continued)

**Corporate Sponsorship**—An agreement between the Smithsonian and a corporation in which the corporation agrees to provide funding for the Smithsonian in general or for a specific program or activity. In return, the Smithsonian will provide acknowledgement and recognition benefits and may allow the sponsor to use the Smithsonian’s name in its advertising. More detailed information on corporate sponsorships can be found in SD 809, *Private Financial Support*.

**Indirect Costs, Overhead, and Administrative Support/Project Oversight (AS/PO)**—These are interchangeable terms to describe costs incurred for pursuing common or joint objectives which cannot be specifically identified with a particular program or activity. Although indirect or AS/PO costs cannot be linked to a specific program or activity, they are valid and must be recovered or absorbed by the Institution. It is important that the Smithsonian recover costs incurred to support trust fund activity identified in the table on page 7.

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**Government  
Indirect Cost Rate  
Characteristics**

The government indirect cost rates have the following characteristics. They are:

- calculated and applied as mandated by the Office of Management and Budget (OMB) Circular A-122, *Cost Principles for Non-Profit Organizations*. These principles enable non-profit organizations to be reimbursed equitably for direct and indirect costs associated with federally funded grants and contracts.
- approved by the Office of Naval Research (ONR)
- issued through SD 304, *Guidelines for Administering Indirect Cost (Overhead) Rates and Charges*, in the section on “Indirect Cost Rates”
- applied to grants received from non-government sponsors whenever possible

**Government  
Indirect Cost Rate  
Characteristics**  
(continued)

The government indirect cost rates are negotiated every other year, with the exception of the Smithsonian Astrophysical Observatory (SAO) rates which are negotiated every year.

The Smithsonian fixes the indirect cost rates charged to non-government and government grants and sponsored-project contracts (except for those of SAO) for the life of the award at the rates that were in effect when the award was received. If, in subsequent years, the government-approved rates are lower than the rate in effect when the award was received, the lower rates are charged on government awards.

For competing continuation awards, the government indirect cost rates in place at the time the award is renewed are charged.

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**Administrative  
Support/Project  
Oversight (AS/PO)  
Characteristics**

The AS/PO charge:

- is the same rate as the government indirect cost rate
  - fluctuates upward or downward with the government rate
  - is fixed for the life of the award at the rate in effect when the award was received
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**Table of External  
Agreements**

The table that follows reflects:

- different types of external agreements
- funding sources
- source code series in the Smithsonian's Enterprise Resource Planning (ERP) system
- indirect cost rates for each type of agreement

**Table of External Agreements**  
(continued)

Type	Source of Funds	SI ERP* Fund Codes	Rate
Grant	Corporation or other for-profit entity	802	AS/PO**
	Foundation or other not-for-profit entity	802	AS/PO
	Federal, state, local, or other government	803	Government Indirect Cost Rate
Sponsored-Project Contract	Corporation or other for-profit entity	802	AS/PO
	Foundation or other not-for-profit entity	802	AS/PO
	Federal, state, local, or other government	803	Government Indirect Cost Rate
Contribution or Gift***	Individual, corporation, foundation, or other entity, whether for-profit or not	801	None
Corporate Sponsorship	Corporation or other for-profit entity	Various	Not Applicable

\* Enterprise Resource Planning

\*\* Administrative Support/Project Oversight

\*\*\* Occasionally, Smithsonian staff contact organizations for a contribution to the Institution, which an organization subsequently decides to provide as a grant or contract. If a contribution is made in the form of a contract, please be certain to add the appropriate rate to the contract budget.

**Authority to Enter  
External Agreements**

The contracting party in external agreements is the Smithsonian Institution, not individuals, museums, research centers, or offices. All grants, sponsored-project contracts, and business contracts are signed in the name of the Institution.

The Secretary of the Smithsonian Institution has delegated contracting authority, in writing, to the following individuals:

- Director, Office of Sponsored Projects (OSP), to sign for and accept, on behalf of the Smithsonian, all incoming agreements and awards related to externally funded, government and non-government, grants and sponsored-project contracts
- Manager, Contracts, Grants and Property Management, SAO, to receive and execute incoming agreements and awards related to externally funded grants and sponsored-project contracts at SAO

The table that follows displays these delegations of authority to sign external agreements. For assistance with any of them, please contact the appropriate office.

**Authority to Enter  
External Agreements**  
(continued)

<b>Type of Agreement</b>	<b>Authorized Official/Office Contact</b>
Grant (other than SAO)	Director, OSP
Sponsored-Project Contract (other than SAO)	Director, OSP
SAO Grant, Sponsored-Project Contract	Manager, Contracts, Grants and Property Management, SAO
Contribution or Gift	Director, Office of Development; museum, research center, and office heads or their development officers who accept and acknowledge contributions that usually do not require bilateral agreements in the name of the Smithsonian
Corporate Sponsorship	Museum or research center director, or the OCon Director (determined by nature of corporate sponsorship)

**Hybrid Agreements**

Occasionally, an external agreement will not fall into any of these categories, or its complexity will place it in more than one type of category. To determine how to categorize such an agreement, OSP and OCon staff will consult with the Office of the Chief Financial Officer, if necessary.

**References**

Please refer to the following directives for additional information:

- SD 301, *Financial Management Accounting Policies and Procedures* (available on PRISM)
- SD 304, *Guidelines for Administering Indirect Cost (Overhead) Rates and Charges* (available on PRISM)
- SD 313, *Financial Management—Auxiliary Activities Handbook*
- SD 314, *Requisitioning—Purchase of Supplies, Equipment and Services Handbook*
- SD 321, *Review and Submission of Proposals for Sponsored Projects* (available on PRISM)
- SD 809, *Private Financial Support* (available on PRISM)

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**CANCELLATION:**

SD 318, June 20, 1998

**INQUIRIES:**

Office of Sponsored Projects

**RETENTION:**

Indefinite. Subject to review for currency 24 months from date of issue