



## GUIDELINES FOR ADMINISTERING INDIRECT COST (OVERHEAD) RATES AND CHARGES

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### Background

Indirect costs, or overhead, which are interchangeable terms, are costs incurred for common or joint objectives that cannot be identified readily and specifically with a particular program or activity (e.g., government and non-government sponsored projects). Although these costs cannot be identified directly with a particular program or activity, they are valid and must be recovered from project sponsors or absorbed by the Institution.

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### Policy

Smithsonian Institution (SI) policy requires that the trust-funded costs of central administrative and service units be recovered through a fair and consistent system of assessing the federal and nonfederal programs that its units serve. This is accomplished through 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**

**Direct costs** are costs that can be identified specifically with a particular sponsored project, program, or other activity of the Institution, and which can be assigned to those activities easily and accurately. Examples of direct costs are:

- salary of a lab technician
- travel to an archaeological site
- materials used to mount an exhibition
- equipment needed for a training program

**Indirect costs** are costs incurred for the general support of programs or activities that cannot be specifically identified with a particular program or activity. The Institution accumulates seven types of costs into expense pools and determines representative allocation bases to develop indirect cost rates.

Expense pool categories include:

- fringe benefits
- grant and contract administration
- core support
- general and administrative costs
- direct operating overhead
- material burden
- central engineering overhead

**Administrative Support and Project Oversight (AS/PO) Expenses** describe the indirect general and administrative, staff management, and central service function costs associated with performance of a non-government sponsored project.

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**Indirect Cost Rate System**

The primary function of the indirect cost rate system is to identify and to allocate Smithsonian trust-funded fiscal year joint or shared costs to the benefiting

**Indirect Cost Rate System (continued)**

sponsored projects. By using indirect cost rates, the Institution identifies and recovers each sponsored project's allocable share of indirect costs. Identifying and allocating indirect costs enables the Institution to determine and bill sponsors for the total cost of a project or activity. This information is used to make pricing and budgeting decisions, perform cost/benefit analyses, evaluate the performance of revenue-producing activities, and prepare invoices to sponsors.

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**Indirect Cost Rates**

The indirect cost rate system is made up of Smithsonian Mall rates, Smithsonian Astrophysical Observatory (SAO) rates, and Smithsonian-wide rates.

**Smithsonian Mall Rates**

The Grants and Contracts Overhead rate is the ratio of pre- and post-award central administrative costs to total sponsored project direct labor and benefits.

The SI General and Administrative rate is the ratio of the Institution's central administrative costs (less an allocation to SAO) to total non-general and administrative operating costs. The rate base excludes capital expenditures, the cost of collection items, equipment depreciation, and the expense allocation to SAO (home office allocation). These costs include such offices as the Secretary of the Smithsonian Institution (OS), Comptroller (OC), and General Counsel (OGC).

The Smithsonian Environmental Research Center (SERC) Core Support rate is the ratio of SERC administrative personnel and related support costs to total SERC-sponsored project direct costs.

The National Science Resources Center (NSRC) Core Support rate is the ratio of NSRC administrative personnel and related support costs to total NSRC-sponsored project direct costs.

**Indirect Cost Rates**  
(continued)

**Smithsonian Astrophysical Observatory Rates**

The SAO General and Administrative rate is the ratio of total central administrative, independent research and development, proposal preparation, and support activity costs to the total cost of SAO operating activities, and net of costs associated with materials, subcontracts, and equipment. In addition, the ratio base includes Central Engineering costs and the applicable share of indirect expenses.

The SAO Direct Operating Overhead rate is the ratio of allocated facilities, personnel and operation support, and data center costs to total sponsored-project and independent research and development and proposal preparation direct labor and benefit costs.

The SAO Material Burden rate is the ratio of allocated procurement services and administration, and materials handling costs to the costs of acquisition and maintenance of subcontracts, materials, supplies, and equipment.

The SAO Leave rate is the ratio of SAO annual, sick, and administrative leave costs to the costs of SAO full-time labor costs.

The SAO Central Engineering Overhead rate is the ratio of Central Engineering administrative, management, and technical support staff costs and related expenses to Central Engineering direct labor and benefits costs.

**Smithsonian-wide Rates**

The Fringe Benefits rate is the ratio of full- and part-time trust employees' social security, retirement, health and life insurance, unemployment taxes, disability compensation, and leave adjustments to total salary and wage costs, minus the labor of intermittent and less-than-90-day appointment employees (for whom a separate fringe benefit rate applies).

**Indirect Cost Rates**  
(continued)

All of these rates are applied at a fixed percentage for a fiscal year. For government-sponsored projects (Fund Code 803), any difference between the fixed-rate calculated expenses (i.e., the fixed indirect cost rate times the actual allocation base) and the actual pool expenses at fiscal year-end is carried forward as an adjustment in calculating a future year's rate. The Office of Naval Research (ONR) government contracting officer determines the carry-forward allocation across future fiscal years.

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**Auxiliary Activity Rate**

The Smithsonian Institution uses an auxiliary activity rate to recover the administrative support costs of auxiliary activities, business contracts, and other trust funds.

The auxiliary activity rate is calculated and applied under procedures established by the Chief Financial Officer (CFO), which ensure that administrative costs are spread across the units that benefit from those services. It generally does not fluctuate from year to year.

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**Waiver of Indirect Cost Recovery for Government Grants**

A waiver of indirect costs on a sponsored project results in a subsidy of incurred costs by unrestricted trust funds. Consequently, waivers are rarely considered. If a waiver is granted, the cost is borne by the requesting unit from discretionary or other non-sponsored project sources.

Project subsidies are more appropriately provided at the level of the Under Secretary, museum, research center, or office, through the budget process, which allows activities to be evaluated and ranked against other priorities.

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**Waiver of AS/PO Cost Recovery for Non-government Grants**

Indirect cost recovery on non-government-sponsored projects may be waived when the Office of Development (OD) determines that the sponsor has a documented policy stating that it does not pay for or

**Waiver of AS/PO  
Cost Recovery  
for Non-government  
Grants (continued)**

that it limits certain indirect costs. For additional information on AS/PO waiver procedures, please see the AS/PO Waiver Process and Procedure on the Office of Sponsored Projects (OSP) website.

Other requests for waivers must be reviewed on a case-by-case basis to determine their financial impact. Waivers designed to improve the net income position of a business activity or to make more funding available for direct costs of sponsored projects are not approved.

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**Waiver of Indirect  
or AS/PO Cost  
Recovery**

Requests for waivers of indirect or AS/PO costs for units other than SAO are sent through the OSP Director to the CFO for a decision. SAO waiver requests are sent through the SAO Financial Manager to the CFO for a decision. Requests for waivers of indirect costs on auxiliary activities are sent through the Smithsonian Comptroller to the CFO.

Because of the budgetary impact of waiving indirect or AS/PO costs, the OSP, OC, and SAO will document each approved indirect cost waiver. In addition, the OSP, OC, and SAO will provide an annual report of approved waivers to the Smithsonian's CFO.

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**Responsibilities**

The OC and Office of the Chief Information Officer apply fixed indirect cost rates to sponsored-project direct costs (Fund Codes 802 and 803).

The OC and OSP conduct analyses and reviews of rates.

The OC also develops and applies auxiliary activity rates.

SI units, OD, OSP, OC, and SAO allocate budget rates in proposals.

The OSP develops indirect cost rates and negotiates and serves as liaison with the ONR on rate approval for government grants and sponsored-project contracts.

**Responsibilities**  
(continued)

The SAO develops indirect cost rates and presents them through OSP to ONR for approval.

The CFO is responsible for approving these rates and for signing all external rate agreements.

**Applicable Rates and Table of Rate Applicability**

Current rates for use in preparing project proposals to sponsors are provided at:

<http://prism.si.edu/oc/governmentindirectcostrates.htm>

**Table of Rate Applicability**

Is the Rate Applied to a ... (Fund Code)?	Fringe Benefits	Grants and Contracts	SI-Mail or SAO G&A	SI-Mail Core Support	SAO Direct Operating	Materials Burden	SAO Leave	Central Engineering Overhead	Auxiliary Activity Rate
Government Grants and Contracts (803)	Yes	Yes	Yes	Only SERC or NSRC	Only SAO	Only SAO	Only SAO	Only SAO	No
Non-Government Sponsored Project (802)	Yes	Yes	Yes	Only SERC or NSRC	Only SAO	Only SAO	Only SAO	Only SAO	No
Contribution (801)	Yes	No	No	No	No	No	No	No	No
All Other Trust Funds	Yes	No	No	No	No	No	No	No	No
Corporate Sponsorship	No	No	No	No	No	No	No	No	No

**CANCELLATION:**  
**INQUIRIES:**  
**RETENTION:**

SD 304, June 25, 1998  
Office of Sponsored Projects  
Indefinite. Subject to review for currency 24 months from date of issue