

COST SHARING: AN OVERVIEW

SECOND EDITION



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COST SHARING: AN OVERVIEW

SECOND EDITION

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Introduction

The Uniform Guidance (UG) at §200.29 defines cost sharing or matching to mean the portion of project costs not paid by Federal funds (unless otherwise authorized by Federal statute).

Institutions sometimes have a complicated relationship with cost sharing because of different perspectives regarding the pros and cons of cost sharing. While the researcher submitting a proposal for sponsor funding may believe that the inclusion of a cost sharing commitment increases the likelihood that the proposal will be funded, the Controller and financial administrator may be concerned about the impact of cost sharing on overhead recovery and the opportunity cost of having to redirect funding from other institutional priorities. Meanwhile the research or departmental administrator may raise issues about the additional administrative burden to document, track and certify cost sharing contributions, not to mention the fact that there is a higher audit risk attached to an award with cost sharing.

Universities and other not for profit research organizations are not the only ones struggling with cost sharing. Several Federal agencies have given serious thought in recent years to both the strategic impact of requiring or encouraging cost sharing and as the administrative burden of tracking and reporting; not only on the part of awardees but also the impact on the Federal agencies themselves. Some sponsors have consciously moved away from encouraging cost share on most sponsored programs. One of the larger sponsoring agencies, the National Science Foundation (NSF) has even gone as far as to specifically instruct that, in most cases, cost sharing must not be provided. While not going quite that far, in December 2014, the Uniform Guidance established that cost sharing was not expected in most proposal submissions, and, if it was required, it should be clearly stated in advance in the notice of funding announcement.

Hopefully, in the coming years, such steps will result in cost sharing being less of an issue for grant recipients. However the research administrator should still be cognizant of best practices for managing cost share because many organizations continue to manage cost share commitments on older awards, certain programs will still require mandatory cost sharing in the future and some non-federal sponsors, particularly foundations, may still actively encourage cost sharing commitments on a go forward basis.

There are several questions and issues to be considered as an institution considers a cost sharing commitment including:

- Does a sponsor require, encourage or even prohibit a cost sharing commitment in a proposal?
- What constitutes a cost sharing commitment; when can an expression of support turn into a binding obligation?
- What is the real cost to an institution?
- What costs are allowable as cost share and how should they be quantified and documented (particularly if the cost share is being provided in-kind)
- Should cost share be flowed down to a subawardee?
- What is the relationship between cost sharing and effort reporting and what should institutions be tracking?
- Has cost sharing been appropriately included in the calculation of the institution's Facilities & Administrative (F&A) cost rate?

This cost sharing micrograph provides a basic overview of the regulatory requirements and guidelines on cost sharing as well as a review of the challenging practical issues that can arise when cost sharing is committed on an award. The solutions to the challenges may not always be black and white but an awareness of the potential pitfalls will help the administrator actively manage cost sharing commitments and know when to ask questions or seek assistance.

Definitions

Institutional cost sharing commitments fall into three broad categories: mandatory, voluntary committed and voluntary uncommitted cost share. It is important to understand what category of cost sharing is being provided because there are different standards and requirements in terms of tracking, reporting and treatment in the overhead rate calculation.

■ Mandatory Cost Sharing

Mandatory cost sharing is an eligibility criterion that occurs when a sponsor requires cost share to be included as a condition for proposal submission. Effective December 26, 2014, criteria for considering voluntary committed cost sharing as a factor that may be used to determine who may receive a Federal award must be explicitly described in the notice of funding opportunity.

■ Voluntary Cost Sharing

Voluntary cost sharing represents quantifiable resources offered by an institution in the proposal when the sponsor has not included cost share as an eligibility requirement. Effective January 12, 2012, inclusion of voluntary cost sharing is prohibited on NSF proposals. Effective December 26, 2014, voluntary committed cost sharing is not expected on federal research proposals and, unless it was specified in the notice of funding opportunity and is in accordance with Federal awarding agency regulations, it cannot be used as a factor during the merit review of applications or proposals. Voluntary committed cost sharing is defined at UG §200.99.

■ Committed Cost Sharing

Regardless of whether cost sharing commitments included in a proposal are mandatory or voluntary in nature, if the proposal is successful and an award made, the cost sharing becomes a binding legal commitment for the institution.

■ Voluntary Uncommitted Cost Sharing (VUCS)

VUCS effort is defined as institution faculty (including senior researchers) effort that is over and above that which is committed and budgeted for in a sponsored agreement. On January 5, 2001, the Office of Management and Budget (OMB) issued a *Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission Costs* and is referenced in the UG at §200.306(k). The clarification establishes that voluntary uncommitted cost sharing should be treated differently from committed effort and **should not** be included in the Organized Research base for computing the F&A rate.

■ Indirect Cost Rate (F&A rate)

Indirect Costs are those costs that are not readily identifiable with a particular cost objective but nevertheless are necessary to the general operation of an organization. They are recovered from sponsors through the application of a formally negotiated indirect cost or overhead rate, also referred to as the Facilities and Administrative (F&A) rate.

Type of Cost Sharing	Binding Obligation ¹	F&A Rate ²	Effort Certification ³
Mandatory	Yes	Yes	Yes
Voluntary Committed	Yes	Yes	Yes
Voluntary Uncommitted	No	No	No

¹ The cost sharing represents a binding obligation that is subject to audit and that generally may not be adjusted or revised without prior written approval from the sponsoring agency.

² The cost sharing must be included in the Organized Research base for calculation of the F&A rate.

³ The cost sharing must be separately identified and certified as part of the effort certification process (note that voluntary uncommitted cost share effort should also be included in effort reports but it need not be separately identified as cost share effort on a specific project).

Why Cost Share?

The Uniform Guidance requires that notices of funding opportunity issued on or after December 26, 2014 must specifically state if cost sharing is to be used as a review criteria. It also establishes that cost sharing is not generally expected in funding proposals. Prior to the Uniform Guidance, an investigator may have volunteered cost sharing in a proposal in the belief that doing so would increase the competitiveness of a proposal and that by voluntarily offering cost sharing the institution is demonstrating its commitment to the scope of the work being proposed. This may still be the case if the application is being submitted to a non-federal sponsor. As noted above, even if the cost sharing included in a proposal was included voluntarily, if the award is successful, the cost sharing committed in the proposal (unless revised during award negotiation) will become a binding condition of the award.

What are the Rules and Guidelines?

■ 2 CFR 200 (Uniform Guidance)

§200.29 defines cost sharing as the portion of project costs not paid by Federal funds (unless otherwise authorized by Federal statute).

§200.99 *Voluntary committed cost sharing* means cost sharing specifically pledged on a voluntary basis in the proposal's budget or the Federal award on the part of the non-Federal entity and that becomes a binding requirement of Federal award.

§200.306 establishes administrative standards for managing cost sharing including guidance on documentation and valuation standards as well as establishing a framework for allowability. These standards are discussed in the *Eligibility for Cost Sharing* and *Documentation of Cost Sharing* sections of this micrograph.

§200.434 *Contributions and donations* describes how the value of donated services and property may be used to meet cost sharing and matching requirements.

Appendix I to Part 200 – Full Text of Notice of Funding Opportunity, C.

Eligibility Information, 2. Cost Sharing or Matching – Required. Announcements must state whether there is required cost sharing, matching, or cost participation without which an application would be ineligible (if cost sharing is not required, the announcement must explicitly say so). Required cost sharing may be a certain percentage or amount, or may be in the form of contributions of specified items or activities (e.g., provision of equipment). It is important that the announcement be clear about any restrictions on the types of cost (e.g., in-kind contributions) that are acceptable as cost sharing. Cost sharing as an eligibility criterion includes requirements based in statute or regulation, as described in §200.306 *Cost sharing or matching* of this Part. This section should refer to the appropriate portion(s) of **Section D. Application and Submission Information** stating any pre-award requirements for submission of letters or other documentation to verify commitments to meet cost sharing requirements if a Federal award is made.

Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) A.1.a(3)

Only mandatory cost sharing or cost sharing specifically committed in the project budget must be included in the organized research base for computing the indirect (F&A) cost rate or reflected in any allocation of indirect costs. Salary costs above statutory limits are not considered cost sharing.

■ OMB Clarification

In January 2001, OMB issued a clarification memorandum that sought, amongst other things, to promote consistency in the treatment of cost sharing in the F&A rate calculation and highlighted the concept (and subsequent treatment) of voluntary uncommitted cost sharing. This memo was included in the Uniform Guidance through the Frequently Asked Questions §200.458-2 dated November 26, 2014.

The clarification memo:

- Defines voluntary uncommitted cost sharing as faculty (including senior researchers) effort that is over and above that which is committed and budgeted for in a sponsored agreement.
- Directs that voluntary uncommitted cost sharing should not be included in the Organized Research base for computing the F&A rate. Such faculty effort is also excluded from effort reporting requirements.
- Notes that most Federally-funded research programs should have some level of committed faculty (or senior researchers) effort, paid or unpaid by the Federal Government.

- If a sponsored agreement shows no faculty (or senior researchers) effort, paid or unpaid by the Federal Government, an estimated amount must be computed by the university and included in the Organized Research base.
- Some types of research programs, such as programs for equipment and instrumentation, doctoral dissertations, and student augmentation, do not require committed faculty effort, paid or unpaid by the Federal Government, and consequently would not be subject to such an adjustment.

■ Agency Specific Guidelines

The National Science Foundation (NSF) has taken a particularly strong stance on cost sharing and has issued a revised Cost Sharing Policy Statement that establishes “Overarching Policies on Cost Sharing.”

NSF requires mandatory cost sharing on the following programs:

- a. Major Research Instrumentation Program
- b. Robert Noyces Scholarship Program
- c. Engineering Research centers
- d. Industry / University Cooperative Research centers
- e. Experimental Program to Stimulate Competitive Research

However, other than noted above, NSF’s position is that mandatory programmatic cost sharing will rarely be approved for an NSF program. Any program that would like to request consideration of mandatory programmatic cost sharing requirement in an NSF solicitation must develop a compelling justification regarding why non-Federal financial support and commitment is considered foundational to programmatic success. Such requests must be explicitly approved by the NSF Director. Furthermore, NSF program officers may not impose or encourage programmatic cost sharing requirements unless such requirements are explicitly included in the program solicitation. Unless specified in the applicable program solicitation, NSF will prohibit the inclusion of voluntary committed cost sharing in solicited and unsolicited proposals. However, awardee organizations may, at their own discretion, continue to contribute any amount of voluntary uncommitted cost sharing to NSF-sponsored projects. These resources are not auditable by NSF and are not to be included in the proposal budget or budget justification.

In order to assess the scope of the project, all organizational resources necessary for the project (both physical and personnel) must be described in the Facilities, Equipment and Other Resources section of the proposal. The description should be narrative in nature and must not include any quantifiable financial information. If an investigator includes voluntary committed cost sharing elsewhere in the proposal NSF warns that, while references to voluntary committed cost sharing may not always be identified during initial administrative screening of proposals, should violations of the policy be found during merit review or budget negotiation, the proposer does run the risk of the proposal being returned without review or declined.

■ Award Terms & Conditions

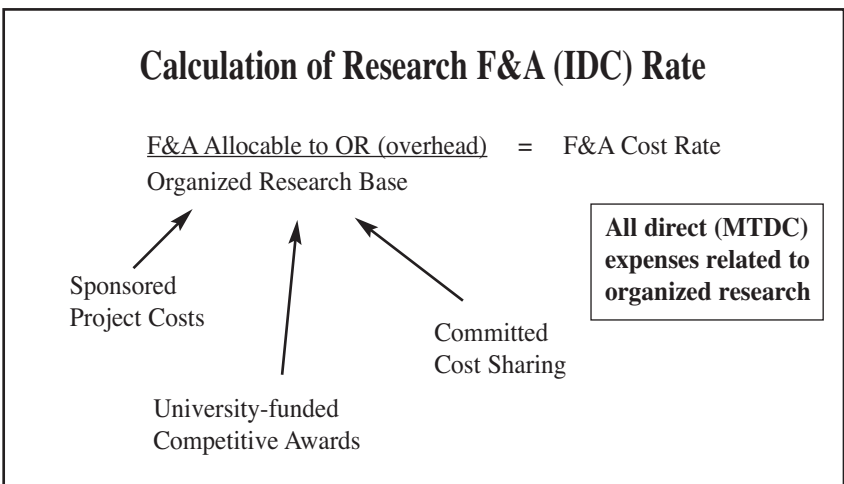
It is always important to carefully review the individual terms and conditions of the award insofar as they set out conditions for any cost sharing. Careful scrutiny of the award terms and conditions will be particularly important in cases where the sponsor is non-federal. The types of costs that may be used to meet cost sharing obligations, the method of valuation of donations, the standards for support documentation, etc. may be different than for federal sponsors. It is always better to address any ambiguity with the sponsor early on, preferably in the negotiation stages.

Financial and Administrative Impact

■ Implications of the Cost Sharing Commitment

The bottom line financial impact to an organization to meet a cost share obligation will be greater than the amount committed. In addition to the opportunity cost of other initiatives that could have been supported by the committed cost share dollars, the organization also has to cover the related facilities and administrative costs associated with supporting the cost share portion of a project. Deciding who should bear the F&A costs on committed cost sharing is an internal policy decision. Should it be the investigator, the department or school, or central administration? See *Institutional Policy Decisions* for additional discussions.

- Cost sharing also has an impact on the overhead rate calculation because committed cost share dollars must be included in the research modified total direct cost base (MTDC) which is the denominator of the F&A rate calculation. The larger base produces a lower F&A rate. See illustration below.



In addition to the financial implications, there are also administrative requirements and standards, including:

- Identifying a funding source for the cost shared direct costs.
- Including a requirement to identify cost share commitments on the proposal routing form.
- Tracking the cost share amounts, either by setting up a child or subsidiary account within the financial system (preferable) or creating a shadow system to track the costs manually.
- Reviewing cost share expenditures for allowability.
- Timely review and certification of cost share expenditures.
- Verification that cost shared dollars have only been used once (i.e., cost share expenses on one project cannot be used to meet a cost share commitment on another project).
- Ensuring records for cost sharing accounts are retained for the same period as the records for related sponsored agreements.
- Procedures are developed and followed that provide information to sponsoring agencies that demonstrate that the institution has fulfilled any cost sharing commitment it has made as a condition of obtaining external sponsorship.
- Awareness that cost share expenses are subject to internal and external audit review to the same degree as other direct sponsor funded expenses.

Institutional Policy Decisions

Considering the financial implications, administrative requirements and responsibilities inherent in the cost sharing commitment, the Principal Investigator, and departmental and school administrators should weigh the cost effectiveness and the expected benefits of each cost sharing commitment, prior to making such commitments.

Institutions must decide whether to allow, discourage, or not allow investigators, departments, or units to cost share institutional resources. This range of options is found among institutions across the nation. Some institutions' policies allow and do not discourage cost sharing of institutional resources, presumably to expand the opportunities for externally-funded research sponsorship. Other institutions discourage or disallow cost sharing of institutional resources. A number of institutions in this latter group require investigators or their department, school or college to not only fund the cost shared direct costs, but also the fringe benefit and F&A costs associated with the cost shared direct costs with non-sponsored funds in their department, school or college. Institutions may also have more restrictive policies within individual schools or colleges, especially when they are funded through the reimbursement of tuition and F&A costs generated by their specific school or college. Private institutions' policies may span these options, while some public institutions may be obligated by state regulations to not allow cost sharing beyond that which is required to obtain external funding (mandatory cost sharing).

What Constitutes A Cost Sharing Commitment?

Mandatory cost sharing commitments are generally reasonably well defined in the sponsor solicitation and clearly identified in the proposal submission. Everyone involved in the process knows what's expected and what to look for. Unfortunately, the process is not so clear when voluntary committed cost sharing is involved.

Many institutions utilize some type of proposal checklist or routing form that must be signed off by various individuals or groups prior to proposal submission. Cost sharing should be identified on that form. This gives the appropriate offices an opportunity to review the proposed commitment to make sure the funding will be forthcoming (e.g. a written commitment from the individual or office supporting a commitment of cost sharing funds should the award be successful, and/or identification of a guarantee account) and that it has been appropriately described and costed in the proposal. However, while checklists and sign offs are useful they do assume that the investigator is aware that s/he is making a formal cost sharing commitment as opposed to a general statement of institutional support.

Education and training, combined with a clearly defined institutional policy on cost sharing, are the best tools for raising awareness of what constitutes a cost sharing commitment. Some institutions go so far as to provide guidelines on what type of statements would constitute a cost sharing commitment and suggest alternative wording that indicates that the institution is willing to contribute resources to the project without going as far as making a binding commitment. For example, rather than stating that equipment will be offered as cost sharing, the following wording could be used in the proposal's budget section or "resources and environment" section: "The equipment is available for the performance of the sponsored agreement at no direct cost to the sponsor." Likewise instead of characterizing the use of university facilities such as lab space as cost sharing the proposal justification may state that the facilities are "available for the performance of the sponsored agreement at no direct cost to the project." Cost sharing that has been clearly identified in a proposal will be easier to manage if an award is made.

At award set up it is good practice to:

- Establish the child or subsidiary account at the same time that the main sponsored account is created.
- Discuss, or highlight in the award summary, the roles, responsibilities, deadlines, documentation standards and certification and reporting requirements (including who will be responsible for reporting to the sponsor) for cost share requirements with the PI and grants administrator.

After-the-Fact Cost Sharing

Perhaps the most challenging type of committed cost sharing to identify and track is that which occurs unintentionally, after-the-fact. Consider the following example:

A Principal Investigator submits a proposal in which s/he commits 10% of his/her effort and requests funding to cover 10% of his/her salary. The proposal is successful and the award is made. As far as the agency and institution are concerned there is no voluntary committed cost share. Consequently, the research institution does not establish a cost sharing account (or shadow system) to track cost sharing. Work commences on the project and the Principal Investigator devotes 10% effort to the project and charges 10% salary. However, nine months into the project the award is on track to overspend and cut backs have to be made. The Principal Investigator decides that for the remainder of the project s/he will reduce their salary charged to the project from 10% to 2% but continue to devote 10% effort to the project. The remaining salary charge is transferred to a non-sponsored source. A cost sharing commitment, equal to 8% of the investigator's salary, has now arisen.

Ideally a cost sharing account should be established at the point in time that the salary charged to the award was reduced and the cost sharing commitment should also be incorporated into the institution's effort reporting system. Roles and responsibilities for managing cost sharing obligations between central and departmental personnel, deadlines, etc. should be discussed and agreed to. The cost sharing expenditures must be included in the Organized Research base for calculation of the F&A rate. The sponsor may have to be made aware of the changes (for example if the cost sharing could potentially change the scope of work of the award). If some, or all, of these actions do not occur at the time the change is made it can make for a difficult award close out!

From a practical perspective, it can be very challenging to identify such changes as cost sharing. Traditionally many institutions have not had a mechanism in place to formally track effort commitments made in proposals and then measure those commitments against charges made to the award. However, such information must be readily available if "unforeseen" cost sharing commitments are to be properly tracked and recorded. Recent NSF Office of the Inspector General (OIG) audit reports have highlighted the importance of a life cycle approach to ensuring that commitments made in proposals are actually carried out during the award, even if the scope of work is satisfactorily performed without every commitment being documented and certified.

This has resulted in the need for a renewed emphasis at some institutions to capture and track the commitments made in the proposal and the charges made to the award; it is no longer sufficient to ensure that costs charged to an award are allowable, reasonable, necessary and allocable. There also has to be a tie to specific commitments of resources included in the proposal that resulted in the award.

In the example above, if the investigator had also reduced his/her effort commitment on the project to 2%, a voluntary cost sharing commitment would not have arisen. However, because this would represent a greater than 25% reduction in the effort originally proposed, prior written approval from the sponsoring agency would be required (see Uniform Guidance §200.308). If such a reduction could significantly impact the scope of the proposal this approval may not be rubber-stamped.

Failure To Meet Cost Sharing Commitments

If it becomes apparent that cost sharing commitments may not be met in whole or in part, the institution should:

- (1) Immediately provide written notification to the Grants Officer of the situation;
- (2) Indicate steps it plans to take to secure replacement cost sharing; and
- (3) Indicate the plans it has to either continue or phase out the project in the absence of cost sharing.

Audit Implications

Historically awards with cost sharing commitments have been subject to more frequent audits than other awards. Extensive documentation/reporting and accounting requirements in this area make it more susceptible to audit finding. 2011 NSF OIG audits of several universities found major internal control deficiencies in cost share commitment monitoring.

NSF Award and Administration Guide states: “Grantees should be aware that cost sharing commitments are subject to audit. Audit findings involving cost sharing have pertained to: a) grantee accounting systems not capturing cost sharing identified with a particular project; b) failure to keep adequate source documentation for claimed cost sharing; c) unclear valuation of in-kind donated contributions; d) lack of support for cost sharing contributions by sub-recipients; and e) failure to complete annual certifications for awards with cost sharing requirements of \$500,000 or more.”

Policies and Procedures

To effectively manage cost sharing obligations and help mitigate audit risk, institutions should have written cost sharing policies and procedures in place. Such policies and procedures should address the following areas:

- Cost allowability
- Accounting for project specific cost sharing in the accounting system
- Documentation standards
- Monitoring, certification and verification of the cost shared expenditures
- Steps to be taken if budgeted cost sharing is not, or will not be, met
- An approval process for making changes in the types of cost sharing costs budgeted compared to actual cost shared costs contributed
- A statement that cost sharing is subject to audit and that the sponsoring agency will require repayment of a portion of grant funds if the proposed cost sharing is not obtained and appropriately documented. Additionally, if the award is active it could be terminated
- Establishment of the cost sharing account indicating the source of cost sharing funds or a guarantee account upon receipt and acceptance of the award
- Processes for ensuring expenditures on cost sharing accounts are reviewed and certified
- Records for cost sharing accounts are retained for the same period as the records for related sponsored agreements

If there is uncertainty on what supporting documentation will be adequate for unique types of cost sharing (i.e., one of a kind equipment for which there is no fair market value) the institution should involve the sponsoring agency in discussions, and information on the proposed documentation should be included in the proposal.

Roles and Responsibilities

Processes and systems have to be in place to ensure that cost sharing commitments are met on individual awards and also to ensure that cost sharing is appropriately captured in the Organized Research base for calculation of the F&A rate. Consequently, several individuals and administrative offices will need to be involved in managing cost sharing. The table below sets out suggested roles and responsibilities:

Role	Responsibility
Principal Investigator	The PI is responsible for clearly identifying cost sharing commitments in proposals and, when the award is made, for ensuring the commitments are met. The PI must also advise of cost sharing created after-the-fact by shifting the funding source of committed effort from the grant to non-grant sources.
Pre-award Office	The pre-award office should ensure that cost sharing commitments are appropriately included (or not included) in proposals in accordance with established institutional policy and that promises of funding are 'guaranteed' by written commitments and/or guarantee accounts. The pre-award office should also identify situations where the award is significantly less than proposed, and work with the PI and sponsor to determine if any related cost share commitments should be appropriately reduced.
Business Manager	The business manager or administrator supporting the PI is responsible for the day-to-day management of cost sharing including establishing a cost sharing account (or other tracking shadow system) if necessary, keeping the PI informed of whether s/he is on target to meet cost sharing commitments, and reviewing the allowability of costs used to meet cost sharing requirements.
Post-award Office	The post-award office has the responsibility for overall monitoring to ensure that commitments have been met and the necessary reports have been submitted to the sponsor at award close out.
School/Department	The school, department or division supporting the cost sharing is responsible for providing an appropriate source to fund committed cost sharing.
Cost Analysis Unit	The cost analysis group is responsible for ensuring cost sharing is appropriately reflected in the F&A proposal.

Eligibility for Cost Sharing

This section discusses the type of costs that may be offered and used to satisfy cost sharing requirements.

■ General Costing Concepts Apply

The guiding principles set forth in Subpart E of the Uniform Guidance also apply to contributions used to meet cost sharing commitments. Costs must be allowable, necessary, reasonable and allocable to be eligible as cost sharing contributions.

In assessing whether a cost may be used to meet a cost sharing obligation it is useful to consider whether the cost could have been directly charged to the award itself had it not been used to meet a cost share obligation. For example indirect costs such as administrative salaries that would not generally be allowable as a direct cost to be reimbursed by the sponsor may not be used to meet cost share commitments on that award. Likewise entertainment or other unallowable costs may not be used to meet a cost share obligation. Costs must also meet any sponsor specific requirements regarding allowability. Care should be taken to ensure that cost share contributions fall within the award period of performance. For example, an item of equipment purchased before the period of performance may not generally be used to meet cost share requirements.

Administrators should also be aware that a cost share commitment is only met when expenditures are incurred (not when funding is made available) and the project has benefit from the expenses.

Example: In one case an investigator was successful in negotiating with the Dean of his school to make \$30,000 available to meet voluntary cost sharing commitments included in a proposal. The award was made and a budget of \$30,000 was allocated to the investigator. However, rather than spending against that funding to support project objectives, the investigator decided to keep the funding as a 'rainy day' balance. Cost sharing obligations were not met. It was not enough that the school set aside \$30,000 in funding; that funding must actually have been used (expended) towards costs that directly advance the scope of the project.

Costs used to meet cost sharing obligations may only be used once.

In addition §200.306 establishes that, for all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must meet the following criteria:

- (1) Are verifiable from the non-Federal entity's records;
- (2) Are not included as contributions for any other Federal award;
- (3) Are necessary and reasonable for accomplishment of project or program objectives;

- (4) Are allowable under Subpart E—Cost Principles of this part;
- (5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;
- (6) Are provided for in the approved budget when required by the Federal awarding agency; and
- (7) Conform to other provisions of this part, as applicable.

Note that though cost sharing obligations on Federal awards may not be funded by other Federal sources (unless expressly authorized) this restriction does not necessarily apply to cost share commitments on non-Federal awards (e.g. it may be possible to use expenses charged to an NSF award to meet a cost share commitment in a private foundation award).

If cost sharing is not obtained or adequately documented, the sponsoring agency could request repayment of Federal funding on the award.

■ Valuation

In many instances confirming the valuation of cost sharing contributions will be as straightforward as reviewing an invoice for materials or supplies used in the project or reviewing payroll records (and associated benefits) for an employee whose labor directly benefits the project.

However, determining the value of a cost sharing contribution isn't always so straightforward.

- What about cases where some or all of the cost sharing is met by a third party, either by way of donated goods or the donation of services from volunteers?
- What about cost sharing contributed by subcontractors or the donation of land or equipment that is already on an institution's books?

Luckily the Uniform Guidance at §200.306 anticipates these situations. Not only may such contributions be used to meet cost sharing requirements, but there are also guidelines for determining the value of such contributions. Below are the guidelines on valuation of cost sharing contributions.

Equipment, Land and Buildings: Capital Cost or Depreciation?

What value should be attributed to an item of equipment or land used to meet cost sharing obligations: acquisition cost (full cost) or depreciation for the related period of performance? The answer generally depends on the purpose of the award itself.

If a Federal awarding agency authorizes the non-Federal entity to donate buildings or land for construction/facilities acquisition projects or long-term use, the value of the donated property for cost sharing or matching must be the lesser of:

- (1) The value of the remaining life of the property recorded in the non-Federal entity's accounting records at the time of donation.
- (2) The current fair market value.

However, when there is sufficient justification, the Federal awarding agency may approve the use of the current fair market value of the donated property, even if it exceeds the remaining accounting value.

If equipment depreciation is used to meet cost sharing obligations, care should be taken to flag the equipment in the financial system so that the depreciation is not included in the equipment depreciation cost pool when calculating the F&A rate.

Unrecovered Indirect Costs

Unrecovered indirect costs, including indirect costs on cost sharing or matching may be included as part of cost sharing or matching only with the prior approval of the Federal awarding agency. Unrecovered indirect cost means the difference between the amount charged to the Federal award and the amount which could have been charged to the Federal award under the non-Federal entity's approved negotiated indirect cost rate.

For example, an institution's approved F&A rate is 50%. The PI offered voluntary committed cost sharing of \$15,000 and obtained sponsor approval that this obligation could be met, in part, by charging a reduced F&A rate, say 40%, to the award. If the modified total direct cost (MTDC) base for that award was \$100,000 then unrecovered indirect costs of \$10,000 could be used to meet the cost share obligations $((50\% - 40\%) \times \$100,000)$.

Construction/Acquisition of Facilities

The value attributed to sponsor approved donations for construction or facilities acquisition projects or long-term use is calculated as the lesser of:

- The net book value of the property recorded in the institution's books at the time of donation, or
- The current fair market value. The Federal agency may approve the use of current market value of the donated property, even if it exceeds the book value of the property at the time of donation.
- The depreciation related to facilities used to meet cost share obligations should be excluded from the calculation of the F&A rate.

Volunteer Services

Volunteer services furnished by third-party professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as cost sharing or matching if the service is an integral and necessary part of an approved project or program. Rates for third-party volunteer services must be consistent with those paid for similar work by the non-Federal entity. In those instances in which the required skills are not found in the non-Federal entity, rates must be consistent with those paid for similar work in the labor market in which the non-Federal entity competes for the kind of services involved. In either case, paid fringe benefits that are reasonable, necessary, allocable, and otherwise allowable may be included in the valuation.

When a third-party organization furnishes the services of an employee, these services must be valued at the employee's regular rate of pay plus an amount of fringe benefits that is reasonable, necessary, allocable, and otherwise allowable, and indirect costs the third-party organization's approved federally negotiated indirect cost provided these services employ the same skills for which the employee is normally paid.

■ Subawards

It is possible to require a subawardee to participate in a cost sharing commitment. Such requirements should be clearly delineated in the subaward document (e.g. the dollar value, type of costs to be used to meet commitments and the documentation standards required). In addition, the subawardee should include a line item indicating current and cumulative cost sharing on any invoice for payment. The detail provided on the invoice helps ensure that the subawardee is aware of their cost sharing obligations and is tracking costs throughout the life of the subaward. This is especially important because the prime awardee will ultimately be held responsible for cost sharing; if the subawardee does not make good on cost sharing commitments the prime awardee will be held responsible to provide the cost sharing.

Subawards incorporating cost sharing obligations that are made to international organizations may require additional oversight. Due diligence should be performed to ensure that there is a clear understanding on the part of the subawardee as to the types of costs that may be used to meet cost sharing obligations and that documentation and valuation standards are understood.

Faculty Effort

Perhaps the most commonly recurring type of voluntary committed cost sharing comes in the form of faculty effort. For example, the investigator commits 20% of his/her effort to a proposed project but only requested 15% salary, with the institution covering the remaining 5% from non-sponsored funds. This 5% represents cost sharing that must be tracked, certified and included in the institution's Organized Research base for calculation of the F&A rate.

If the award is only partially funded, the pre-award office should work with the investigator to determine whether to go back to the sponsor to agree on a corresponding reduction in level of effort. In the above example, if there was no negotiation to reduce effort yet the reduced funding means that the investigator can now only charge 10% of his salary, the cost sharing commitment could be deemed to increase from 5% to 10% because the original commitment of effort was 20%.

Documentation of Cost Sharing

As noted above, the Uniform Guidance requires that cost sharing contributions are verifiable from the recipient's records. However, the Guidance does not prescribe that cost sharing accounts must be established and that cost sharing must be integrated into the financial system. It is feasible that cost sharing information could be collected and tracked outside of the financial system, perhaps utilizing spreadsheets or some other shadow system. However, the data collected in these off-line systems should be reconcilable to the institution's financial system.

Institutions that require the establishment of cost sharing accounts (i.e. utilizing an integrated approach) will likely find it easier to demonstrate compliance with the Guidance. Benefits of an integrated system include:

- Ability to demonstrate that cost sharing contributions have only been used once
- Easier to incorporate in the effort reporting system
- Allows for oversight and monitoring which can help prevent problems at award close out
- Clearer audit trail
- Easier to treat the cost appropriately in the calculation of the F&A rate

However, depending on the nature of the cost sharing contributions, there may be some circumstances where the costs cannot be included in the institution's own financial system and they have to be tracked off-line. This typically occurs when the institution does not itself incur the cost (e.g. donated effort, subawardee contributions, etc.). In those situations documentation should be available in the award file supporting the method for establishing valuation of the contributions. A memo or email to the Post-award administrator and award file can constitute such documentation.

Conclusion

Considering the regulations, administrative requirements and burdens, and financial implications of cost sharing, investigators and their institutions should carefully weigh the cost and benefits of providing cost sharing before committing institutional resources.

There are multiple benefits to engaging upper management in discussions on the implications of cost sharing so that an informed, institution specific, cost sharing policy may be developed. Targeted cost sharing is a powerful tool that can help an institution promote and achieve specific institutional research goals. It can also serve as a public relations tool, demonstrating to the public, sponsoring agencies and donors that an institution strongly supports specific research objectives. However, to maximize effectiveness and allow for the development of informed strategic policy decisions involving cost sharing, a complete understanding of all the financial implications is required. The research administrator should strive to keep upper management informed of the impact on F&A recovery, the administrative cost involved in managing cost sharing awards and the increased audit risk associated with cost share awards. This will facilitate the development of a comprehensive cost benefit analysis, which in turn will support effective targeting of cost sharing dollars.

The institution's administration can also add value by periodically reviewing and updating its cost sharing policy and procedures in line with current regulations and guidance as well as emerging audit issues. Additionally, concise and engaging training opportunities specifically targeted for a variety of audiences (faculty, central administrators, division administrators, etc.) will help promote the improved management of cost sharing awards allowing for a proactive approach to managing institutional resources.

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