

Cost Sharing

Cost Sharing

I. Purpose

The purpose of this policy is to provide guidance on compliance with federal cost accounting policies to University of Kentucky departments that have grants and contracts. As a recipient of federal grants and contracts, the University must comply with the Office of Management and Budget (OMB) Circular A-21 *Cost Principles for Educational Institutions*. A-21 includes the following Cost Accounting Standards (CAS) applicable to educational institutions:

- CAS 501 – Consistency in Estimating, Accumulating and Reporting Costs
- CAS 502 – Consistency in Allocating Costs Incurred for the Same Purpose
- CAS 505 – Accounting for Unallowable Costs
- CAS 506 – Cost Accounting Period

CAS 501 requires the University to use consistent accounting practices to estimate the cost of a project in the proposal and to accumulate and report the actual costs of the project. For any significant amount of estimated costs in the proposal, accounting records must provide a meaningful comparison with actual costs. One effect of this standard is the requirement to account for all funds, including university resources, committed to and incurred for individual sponsored projects.

II. Policy

- A. The University will only provide cost sharing when required by the sponsor or in exceptional situations when the institution determines that such a contribution is necessary to ensure the success of a competitive proposal. Negative consequences of cost sharing include, but are not limited to, the following:
1. Tracking and documenting cost sharing is an administrative burden.
 2. Unfulfilled cost sharing commitments or lack of documentation may result in expenditures not being reimbursed by the sponsor.
 3. Cost sharing dollars in the aggregate have a negative impact on the University's Facilities and Administrative (F&A) cost rate: the higher the amount of cost sharing, the lower the resulting F&A rate.
- B. When cost sharing is mandated by the sponsor, it must be committed only to the extent necessary to meet the specific requirements. Principal investigators and departments may not include voluntary cost sharing commitments in a proposal without the prior approvals described in Section V.A.
- C. Criteria for cost sharing
To be acceptable as cost sharing, an expense must satisfy all of the following criteria:
1. Verifiable from the official University accounting system or third-party certifications
 2. Incurred during the effective dates of the grant or agreement
 3. Allowable under the applicable cost principles, OMB Circular A-21, if federally funded. [See II.E.](#)

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4. Necessary, reasonable and allocable for proper and efficient accomplishment of project objectives
 5. Itemized in the approved budget if this is a requirement of the sponsor
 6. Not used as cost sharing for any other sponsored project
- D. Effort commitments
1. The presumption is a principal investigator (PI) will need time and effort to complete the scope of work on a sponsored project. If the sponsored award does not include funds for PI effort, the presumption is the PI's department will cost share the effort. In rare cases, a justifiable reason may exist to over-ride this presumption if no cost sharing was committed in the proposal to the sponsor or award from the sponsor. Some examples include, but are not limited to:
 - a. Equipment only award
 - b. PI is the mentor on a dissertation award and the funds are for supplies only
 - c. PI is a mentor on an individual fellowship award
 - d. All conditions for closely related work are met (see Cost Transfer Policy Appendix 2, section 1.5: <http://www.research.uky.edu/ospa/info/docs/grantcos.pdf>) AND the PI's salary is applied to one of the closely related projects AND prior written approval is obtained from the sponsor incurring the cost
 2. For faculty with a nine (9) or ten (10) month appointment contract, the presumption is a PI will use academic year time and effort to complete the scope of work on a sponsored project. An exception would exist if the project period for the award is limited to the summer (May through August).
 3. When an individual spends more effort on a project than originally proposed or required by the sponsor, this is considered voluntary uncommitted cost sharing. This effort is not required to be tracked in the institutional accounting systems. This extra effort may be annotated in the faculty effort system or on the effort certification forms as required to correctly identify where effort was expended.
- E. Acceptable expenditures
- In general, costs normally treated as direct costs on sponsored projects may be used to meet a cost sharing commitment and costs normally treated as F&A costs on sponsored projects may not. For more information see the [Costing Guidelines for Sponsored Projects](#) Exhibit I or the listing of general ledger accounts in the [Business Procedures Manual](#) or the [IRIS Financials Reference Manual](#).
1. Examples of expenditures which may be used as cost sharing include:
 - a. Faculty, staff or student salaries and applicable fringe benefits. See [V.C.2](#) for details on sponsor salary cap cost sharing.
 - b. Laboratory supplies
 - c. Travel that benefits the project
 - d. Volunteer services (only when the cost sharing is mandatory)
 2. Examples of expenditures which may not be used as cost sharing are:
 - a. Expenditures not identified directly with the project such as administrative salaries and office supplies

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- b. Unallowable costs, such as alcoholic beverages, entertainment and memberships in community organizations. For a more complete list see the [Costing Guidelines for Sponsored Projects](#).
- c. Equipment. Proposing the purchase of equipment as University cost sharing must be carefully weighed as there are cost/benefit issues to be considered. The F&A rate includes a depreciation expense for equipment purchased with non-federal funds. When a piece of equipment is cost shared on a federally funded project, the University must document the item as cost shared equipment in the University property system and no allowance may be included in the F&A rate. If cost shared equipment is fabricated or purchased in multiple increments, a "match" account may be required.
- d. Expenses incurred and/or items acquired prior to the award start date or after the award end date
- e. Faculty effort outside his/her appointment (i.e. summer salary)

III. Responsibilities

- A. Principal investigator
 - 1. Provide timely information to the department, Office of Sponsored Projects Administration and Research Financial Services about cost sharing commitments and changes
 - 2. Ensure that department personnel are aware of the cost sharing commitment
 - 3. Allow staff to attend trainings offered to convey policies, prepare documentation and obtain financial reporting access to grant and cost sharing expenses
 - 4. Review charges posted to ledgers for reasonableness and accuracy on a monthly basis
- B. Department
 - 1. Submit an itemized, detailed cost sharing budget for the entire cost sharing commitment to the Office of Sponsored Projects Administration prior to the establishment of the cost object
 - 2. Charge allowable expenses to cost sharing fund. See [V.C.1](#) and [V.C.2](#).
 - 3. Submit a funding journal voucher (JV) quarterly. See [V.D](#).
 - 4. Verify that subrecipient cost sharing obligations are met before paying the invoice. See [V.C.3.c](#).
 - 5. Provide documentation of third-party cost sharing. See [V.C.3](#).
 - 6. Pay for any disallowed costs or penalties imposed by the sponsor due to failure to properly document committed cost sharing
- C. College
 - 1. Review and approve proposals that include cost sharing
 - 2. Ensure that funds are budgeted and allocated to meet cost sharing commitments.
- D. Office of Sponsored Projects Administration (OSPA)
 - 1. Review cost sharing commitment prior to submission of the proposal
 - 2. Review awards for cost sharing commitments
 - 3. Approve voluntary cost sharing that is 25% or more of the total proposed budget
 - 4. Determine when unfunded F&A may be used as cost sharing

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5. Code the grant/WBS element for any applicable cost sharing.
- E. Research Financial Services
1. Report expenses posted to cost sharing fund and documented third-party cost sharing
 2. Calculate F&A costs when cost shared
 3. Report to the sponsor in the frequency and format required
 4. Move direct charges from the grant/WBS element to the cost sharing fund to meet the obligation when cost sharing commitments are not met as obligated
 5. Process JV's to charge the direct overrun cost object when refunds to sponsors are required because commitments have not been met.

IV. Definitions

- **Allowable Costs:** an expense that is eligible for reimbursement by the federal government or sponsor
- **Cost Sharing:** Project costs not borne by the sponsor; also known as matching or in-kind contributions
- **Cost Sharing Fund:** Fund associated with the grant/WBS element where all cost sharing expenses are posted. This must be entered on every posting.
- **Direct Costs:** An expense charged to the sponsor fund that can be directly identified with a specific goal or achievement of the project and would not have been incurred or required for any other purpose
- **Facilities and Administrative Costs (F&A):** Cost that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. F&A costs are synonymous with "indirect costs." (examples include: expenses for building operations and maintenance, depreciation, interest, library use, general, department and sponsored projects administration)
- **Mandatory Committed Cost Sharing:** Cost sharing that is required by law, statute or regulation, written in the application guidelines for a specific program, or included in the award document. Mandatory committed cost sharing is recorded in the University's accounting system and must be reported to the sponsor.
- **Third-Party Cost Sharing:** Support from a non-University source. Refer to [V.C.3.a](#) for documenting third-party cost sharing and [V.C.3.b](#) for valuation of third-party in-kind contributions.
- **Unfunded F&A costs:** The difference between the University's full federally negotiated F&A rate for a project and the maximum F&A allowed by the sponsor.
- **Voluntary Committed Cost Sharing:** Cost sharing that is not required by law, statute or regulation, nor written in the application guidelines, but was offered by the investigator in the proposal. Voluntary committed cost sharing is recorded in the University's accounting system and must be reported internally.
- **Voluntary Uncommitted Cost Sharing:** Cost sharing that is not offered in the proposal and is not included in the award document. Voluntary Uncommitted Cost Sharing is not recorded in the University's accounting system and is not reported internally or externally. Uncommitted cost sharing most commonly

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results from an investigator's effort which is over and above that committed in a proposal or award.

V. Procedures

A. Proposal submission and cost sharing approval

1. Document all cost sharing included in a proposal on the Internal Approval Form (IAF).
2. Attach a copy of the regulations or guidelines requiring the cost sharing to the IAF if the program has mandatory cost sharing.
3. If there is third-party cost sharing, submit a written letter of commitment outlining the cost sharing from an authorized representative of the third party to OSPA along with the proposal.
4. All cost sharing must be reviewed and approved by the unit providing the resources and by the College's Associate Dean for Research. Approval is indicated by signing the Internal Approval Form (IAF). The signed form should then be forwarded to OSPA prior to proposal submission.
5. Voluntary cost sharing that is 25% or more of the total proposed budget must also be reviewed and approved by the Director of OSPA.

NOTE: resources and facilities available at the University that are listed in a resources statement in a proposal are not considered cost sharing.

B. Sources of cost sharing

Cost sharing may be met from the following sources:

1. University funds provided for the benefit of the specific project. (i.e. department cost objects, dean or vice president cost objects; gift cost objects.)
2. Unfunded F&A costs. A copy of the sponsor's published policy limiting F&A must be attached to the IAF and submitted to OSPA prior to proposal submission.
3. Another sponsored project. This is rare and allowable only if approved by both sponsors. Federal funds may not be used as cost sharing for other federal funds.
4. Third party cash or in-kind contributions. Refer to [V.C.3.a](#) for documenting third-party cost sharing and [V.C.3.b](#) for valuation of third-party in-kind contributions.

C. Documenting cost sharing

Documentation is the responsibility of the department/unit designated as the responsible unit on the grant/WBS element.

1. Posting expenses
 - a. All allowable expenses to be recorded as committed cost sharing must be recorded using the grant/WBS element and the cost sharing fund. The cost sharing funds will be assigned as follows:

0011890000	Fiscal Affairs & Information Technology
0011890100	Research Cost Sharing Fund
0011890200	Medical Center Cost Sharing Fund
0011890300	Provost Cost Sharing Fund
0011890500	Administration Cost Sharing Fund

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0011890600 WUKY Cost Sharing Fund

- b. The fund must be entered manually on all cost sharing documents. If the fund is not entered, the expense will post to the sponsor fund, causing the sponsor to be billed for the expenses.
- 2. Effort commitments
 - a. Effort of full-time faculty will be documented in the Faculty Effort System and on the cost sharing fund.
 - b. Effort of staff will be documented through the payroll cost distribution info-types in IRIS HR.
 - c. Under OMB definition, Salary Cap Cost Sharing must be classified as committed cost sharing, but may not be used to meet a cost sharing obligation. (Source: *DCA Best Practices Manual* F&A frequently asked questions) Salary cap cost sharing is only applicable to federal agencies with specific restrictions.
- 3. Third party
 - a. Documentation of third-party contributions
 - 1) Third-party in-kind (non-cash) cost sharing must be certified in a letter submitted to SPA from an authorized representative of the third party on letterhead with original signature. The letter must identify and explain the method of determining the contributed amount and be quantified in dollars.
 - 2) Third-party cash cost sharing will be deposited into a grant/WBS element or gift cost object. The type of cost object will be determined by SPA and OSPA.
 - 3) Cost sharing required by agreements with subrecipients must be recorded by the subrecipients on each invoice.
 - a) The department must verify the appropriate level of cost sharing is met before paying the invoice.
 - b) A copy of the invoice must be provided to SPA.
 - b. Valuation of third-party in-kind contributions

The method of valuation of third-party in-kind contributions varies by the type of service or property.

 - a) Volunteer Services
 - 1. Services provided to the University by volunteers are valued at rates consistent with those paid by the University to its employees performing similar work.
 - 2. If the University does not have employees performing similar work, the applicable rates are those paid by other employers for similar work in the labor market in which the University competes for the same type of service.
 - 3. In either case, paid fringe benefits that are reasonable, allowable and allocable may be included in the valuation.
 - b) Employees of Other Organizations
 - 1. When an employer other than the University furnishes the services of an employee, these services are valued at the employee's regular pay (plus an amount of fringe benefits that are reasonable, allowable, and allocable, but exclusive of

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- overhead costs), provided they are in the same line of work for which the employee is normally paid.
 - 2. If these services are in a different line of work, then the rules for volunteer services apply.
 - c) Donated Supplies and Loaned Equipment or Space
 - 1. If a third party donated supplies, the contributions must not be valued in excess of the market value of the supplies at the time of the donation.
 - 2. If a third party donates the use of equipment or space in a building but retains title, the contribution is valued at the fair market rental value of the equipment or space.
 - d) Donated Equipment
 - 1. In accordance with Internal Revenue Service regulations, the Development Office must request a letter from the donor or other documentation stating a value for the contribution.
 - 2. Valuation of donated equipment must be obtained from the Development Office by the department.
- D. Funding cost sharing
- 1. Cost sharing commitments must be funded no less than quarterly.
 - 2. The principal investigator and department administering the grant/WBS element are responsible for transferring funds from departmental non-sponsored sources into the cost sharing fund through the JV transfer process.
 - a. The JV will debit the source of cost sharing and credit the grant and cost sharing fund.
 - b. JVs may be processed up to the recorded cost sharing commitment.
 - c. Actual expenditures must not exceed the funded amount at the end of a fiscal year.
 - d. Funding JV entries

Salaries	750510	DR	Cost Center
Benefits	750515	DR	Cost Center
Current Exp	750520	DR	Cost Center
Salaries	740510	CR	Grant/ WBS & Cost Sharing Fund
Benefits	740515	CR	Grant/ WBS & Cost Sharing Fund
Current Exp	740520	CR	Grant/ WBS & Cost Sharing Fund
 - 3. Cost sharing committed by a source other than the department (i.e. Vice President for Research) must be funded by that unit using the JV procedure mentioned above.
 - 4. If the grant/WBS element continues beyond the current fiscal year end, budgeted balances and any positive cash balance in the cost sharing fund will automatically be carried forward.