The Do's & Don'ts of Cost-Sharing: From the Proposal to the Close-Out

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Overview of Cost Sharing Issues in Proposals

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Objectives of this Session

Participants will:
✓ Understand the basic concepts of cost sharing (CS)
✓ Be able to identify different types of CS
✓ Learn about CS from proposal development through close-out of an award
✓ Learn how to document CS
✓ Be able to take back an example of a CS policy

What is CS? Definitions and Types

✓ The portion of project costs not supported by the sponsor
✓ ALL contributions including cash and in-kind, contributed to an award
**CS: Types**

- Mandatory
- Voluntary
- Voluntary Uncommitted (VUCS)

**CS: Types/Categories**

- **Mandatory**: required by the agency/sponsor
- **Voluntary Committed**:
  - Not required as a condition for the award
  - Committed in the proposal budget or narrative

**CS: Types/Categories (continued)**

- **Voluntary Uncommitted (VUCS)**:
  - Not required by the agency
  - Not committed by faculty (effort over and above that which is committed & budgeted on a sponsored agreement)
  - Effort may be reported – limited to faculty & senior researchers

**NOTE** – Beware of voluntary CS!
**CS: Requirements**

- Committed:
  - Whether mandatory or voluntary, commitments become a part of the award
  - Must be properly documented
  - Must be captured in the institutional financial system

**CS Requirements**

- Code of Federal Regulations (CFRs)
- Office of Management and Budget (OMB)
- Sponsor Agency Requirements
- Your Institution’s Policies

**CFRs/OMB Circulars**

- States, local governments, and Indian Tribes follow:
  - 2 CFR, Part 225
  - A-102 for administrative requirements, and
  - A-133 for audit requirements
- Educational Institutions (even if part of a State or local government) follow:
  - 2 CFR, Part 220
  - 2 CFR, Part 215 and
  - A-133 for audit requirements
- Non-Profit Organizations follow:
  - 2 CFR, Part 230
  - 2 CFR, Part 215 for administrative requirements and
  - A-133 for audit requirements
Federal Requirements

- Cost sharing must:
  - Be verifiable to institution's financial records
  - Be necessary and reasonable to accomplish the program objectives
  - Be allowable under the cost principles
  - Are documented in the budget when required by federal agency

Federal Requirements

Cost sharing:
- May be in the form of cash or in-kind
- May include paid salaries and wages, other services, donated effort, supplies, equipment, or un-recovered F&A with agency approval
- Must be fully documented and auditable

Federal Expectations

- Most federal projects should have some level of faculty committed effort, paid or unpaid
- When an institution contributes a faculty member's time to sponsored activities (grants and contracts), a cost sharing commitment has been made and must be reflected in effort reports
**NSF Policy on CS**

- Grant Policy Guide, January 2009:
  - No expectation that proposals will include a cost sharing component
  - When cost sharing is included, it is solely at the discretion of the proposing institution
  - Cost sharing will not be a factor in NSF's decision to make an award, unless mandatory
  - Once cost sharing is proposed and accepted by NSF, the commitment of funds becomes legally binding and is subject to audit

**NSF: NSB-09-21**

- NSF Policy Statement on Cost Sharing dated February 24, 2009:
  - Defines cost sharing
  - Mandatory cost sharing only included in specific programs, and clearly identified
  - Voluntary cost sharing is prohibited
  - VUCS on NSF-sponsored projects may be contributed by grantee institutions. These resources are not auditable by NSF.

**NIH Position**

- Refers organizations to appropriate CFR or OMB Circular (or corresponding regulations for your institution) regarding the application of CS
- Definition is consistent with federal regulations
- Only required when specifically called out in a Program Announcement (PA) or Request for Application (RFA)
**Documenting Requirements: Cost Accounting Standards**

- CAS 501 and 502
  - Consistency in estimating, accumulating and reporting costs (budgeted vs. actual)
  - Includes “intended” (committed) faculty cost sharing in grant proposals (narrative or budget details)
  - Funding source is not the issue

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**Federal Guidelines on CS**

- If CS is not provided at the level reflected in the approved grant award, it may result in termination of the award, disallowance of costs and/or refund of award funds to sponsor by the grantee

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**CS Impact on F&A Rate**

- F&A is a ratio or an expression of the relationship between an institution’s direct costs and F&A costs (administrative and infrastructure costs)
- Because CS is included in the organized research base calculation, this lowers the F&A rate – resulting in a decreased return to the institution and possibly the faculty member
CS: Myths vs. the Stings of Reality

✓ Myth: “It will help me get the award.”

Reality: Many agencies have policies prohibiting reviewers and program officers from using CS as a criteria for review (Example: NSF policy statement on cost sharing).

✓ Myth: “If it’s not required, I can show CS without documenting it.”

Reality: If CS is quantifiable, in the budget, justification, or narrative, it needs to be documented.

Myth vs. Reality (continued)

✓ Myth: “If it’s not in the budget, but in the narrative, I don’t have to document it.”

Reality: Regardless of where CS appears in the proposal, if it’s quantifiable, then it must be documented.

✓ Myth: “I have the letter from the third party participant that says they will commit resources. That’s enough documentation.”

Reality: Documentation must include payroll records, receipts, and other distinct financial records.

More Myths . . .

✓ Myth: “I’m submitting several proposals and I’m going to show the same CS on all projects. That’s okay, right?”

Reality: Once CS is committed to one project, it cannot be used on any other project, whether it’s pending or awarded.
Myths/Realities (con’t.)

✓ Myth: ‘I don’t have to provide documentation until the project is finished.’

Reality: It is difficult to obtain CS documentation after a project is completed and sometimes must be included in the final financial report submitted to the agency.

More Realities . . .

✓ Myth: ‘I’m planning on showing some of my time teaching courses as CS. That’s a great way of increasing the in-kind contributions.’

Reality: Showing coursework as in-kind contributions is unallowable – the only appropriate use is if the course taught was developed specifically for the grant.

Common Challenges with CS

✓ Over commitment of faculty time
✓ Expenses without documentation
✓ Unallowable expenses
✓ Third party contributor fails to adhere to collaboration agreement (subrecipients)
Common Challenges with CS

- Offered services/goods performed/obtained outside the awarded program timeframe
- Inappropriate use of federal funds or federal pass-through funds as CS

Common Challenges with CS

- Proposal commitment of CS was not approved by the Department Chair, Dean, VP, etc.
- Upon arrival of the award, CS requirements become problematic

Preventive Measures: CS

- Meet with Sponsored Programs staff as soon as possible to discuss any potential CS issues
- If CS is required, discuss the needs with Chair, Dean, VP
**Preventive Measures: CS**

- Avoid CS when not a requirement
- Monitor CS commitments closely
- Work with sponsored programs office throughout the life of award to obtain documentation
- Communicate problems early to the sponsor

**CS Resources**

- Obtain your institution’s CS policy
- Ask for examples of documentation
- Internal forms
- Other electronic tools provided by your institution

**Preparing for CS at the Proposal Phase**

- Check the guidelines to determine if CS is required
- Review institutional cost sharing policies and procedures
- Ensure that any proposed match is documented in accordance with the guidelines
- Ensure proposal narrative, budget and budget justification do not include voluntary CS or quantifiable amounts above the required level
Preparing for CS at the Proposal Phase

- Verify any equipment match is purchased within project dates
- Depreciation vs. Purchase Cost Contribution
- Ensure that CS from other sponsored projects are:
  - not of same source
  - not offered elsewhere
- Foregone F&A only offered if allowed by sponsor

Preparing for CS: Proposal Documentation

- Ensure that ALL CS is approved formally with signatures of PI, Chair, Dean, and other institutional officials
- If cash match from College/Department, include signed commitment documentation from Department Chair or Dean

Preparing for CS: Proposal Documentation

- Identification of sources for cost sharing
- Letter from third party contributor and signed MOU of CS Commitment
**Review of CS Items at the Post Award Phase**

- Can the expense be verified in the financial records of the institution providing the match?
- Is the expense necessary to accomplish the project’s objectives?
- Has the expense been offered as CS on another project?

**Review of CS Items at the Post Award Phase**

- Is the expense allowable under the award’s guidelines? (Could it be budgeted as a direct cost?)
- Is the expense from a non-federal source?
- If required by the sponsor, is the expense shown in detail on the approved budget?

**Example: SDSU Research Foundation Policy**

- CS policies are written in accordance with federal and sponsor requirements
- Both mandatory and voluntary CS must be documented
- PI is responsible for assisting with documentation during the post award phase
Example: SDSU Research Foundation Policy (continued)

✓ Sponsored Programs Office administrator assists with calculation of in-kind, maintaining source documents, filing reports

Example: SDSU Research Foundation At the Post-Award Phase

SPO Administrator:

✓ Reviews award and proposal
✓ Reviews agency-specific requirements
✓ Validates obligation
  • Creates documentation file
  • Notifies PI, chair and dean

SDSU Research Foundation: CS at the Post Award Phase

The PI:

✓ Receives notification of CS obligation from SPO administrator
✓ Receives overview of CS and documentation process
✓ Certifies commitment to document CS
**SDSU Research Foundation: CS at the Post Award Phase**

**SPO Administrator:**

- Documents expenditure when incurred
- Obtains source documents from PI and financial system
- Verifies cost is allowable under applicable policies
- Verifies dollar value is calculated accurately

**SDSU Research Foundation: CS at the Post Award Phase**

**SPO administrator:**

- Requests modification or reduction in CS commitment with agency sponsors when needed
- Reports monthly on amount and % of CS documented to date in comparison to burn rate of sponsored funds
- Submits reports to agency sponsors as required

**Unallowable Sources of CS**

- Volunteer/uncompensated faculty time
- Costs that are included in the F&A Base
- Same source of funds
**Unallowable Sources of CS**

- Expenses incurred outside project dates
- Expenses that are unallowable per the Federal cost principles

**Closeout Processes related to CS**

- Re-check of source documents
- Compilation of summary document
- Review by management
- Report to sponsor agency

**Closeout Processes related to CS**

- Send to Storage
- Retain for 3 years*
- Shred
- Celebrate!
Voluntary Committed CS
PI annual salary = $120,000
PI proposes (commits) 50% effort
Budget shows PI salary to grant at $30,000
PI certifies 50% to the project

$120,000 \times 50% = 60,000$
Less paid from grant = ($30,000) or 25%
CS = 30,000
CS must be documented

Salary over NIH Cap
- Is salary over the NIH cap considered CS?
- Is salary over the NIH cap an unallowable cost?

PI annual salary = $300,000
NIH salary cap = $196,700 (difference is $103,300)
PI budgets 15% effort to the project
Budget shows salary to grant at $29,000 for PI salary (15%)
PI certifies 15% effort to the project

Over the NIH Cap amount is $15,495 ($103,300 \times 15%)
and should be assigned to the F&A base
**CS Examples**

**Equipment as CS**
Institution receives donated equipment as CS on a federal project.
Fair Market Value of the equipment at time of donation is $80,000.
Equipment has a useful life of 10 years.
Institution may claim $8,000/yr. as CS.
Depreciation on this piece of equipment should not be claimed as part of normal equipment depreciation.
Equipment should not be shown the F&A base.

**Space Costs as CS**
Institution has space to assign as CS on a federal project.
The project and the space are off-site.
Space costs are not charged as a direct cost, nor are they included in the F&A base.
Space has a market value of $20,000/yr.
Institution may claim $20,000/yr as CS.
Space that is not charged directly to the project or included in the F&A base is an allowable CS expense.
Space cannot be shown in the F&A base and claimed as CS.

**F&A Rate as CS**
A federal agency mandates $25,000 CS as an eligibility criteria with a $100,000 direct cost cap.
The institution wants to match using unrecovered F&A.
The federal agency approves the use of unrecovered F&A to meet the CS requirement.
In order to meet the CS requirement, the institution (current F&A rate of 50%) proposes an F&A recovery rate of 25% on the project.
Unrecovered F&A results in $25,000 CS.
Unrecovered F&A cannot be shown in the F&A base.
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