

Cost Sharing Considerations

UC Policy Reference: <https://www.ucop.edu/research-policy-analysis-coordination/resources-tools/contract-and-grant-manual/>

Overview

Cost Sharing is that portion of a total sponsored project's costs that are paid from sources other than the funds provided by the sponsor. Cost Sharing can either be required by a sponsor as a condition of the award (Mandatory Committed) or it can be voluntarily pledged (Voluntary Committed) if offered by the University when it is not a sponsor requirement. All of these terms refer to costs not charged to the sponsor. These terms can also refer contributions, including in-kind, from third-party sources.

All cost sharing, regardless of the initial conditions of its commitment, must be allocable to a specific project and be verifiable.

Since cost sharing has a significant financial impact on the division providing the funds and on the University as a whole, commitments should be held to a minimum. OSP policy is normally to identify cost sharing only when it is required by agency or program guidelines.

Federal Requirements for Cost Sharing

Federal regulations regarding cost sharing are found in OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations" (A-110). Subpart C, Section .23 states in part (a)

All contributions, including cash and third party in-kind, shall be accepted as part of the recipient's cost sharing or matching when such contributions meet all of the following criteria.

1. Verifiable from recipient records.
2. Not included as contribution for any other federally assisted program.
3. Necessary and reasonable for any other federally assisted program.
4. Allowable charges under applicable cost principles.
5. Not paid by another federal award (except as authorized by statute).
6. Provided for in the approved budget when required by the federal awarding agency.
7. Conform to others provisions in OMB A-110 as applicable.

(b) Unrecovered indirect costs may be included as part of cost sharing or matching only with the prior approval of the federal awarding agency.

Definitions

Mandatory Cost Sharing: That portion of the University's contribution to a sponsored project that is required by the sponsor's terms and conditions.

Voluntary Cost Sharing: That portion, quantitatively described, contributed to the sponsored project by the University at its own initiative. Generally, this form of cost share should be discouraged (NSF actually forbids it).

Committed Cost Sharing: Once cost sharing is quantified and included in the proposal and subsequent award, it should be identified as committed cost sharing regardless if it was originally

voluntary or mandatory. All expenses identified as committed cost sharing must be incurred during the proposed award period, and tracked to the same degree and standard as expenses that are directly charged to the award.

Uncommitted Cost Sharing: Contributions to a sponsored project by the University that was not described in the proposal or, if included, not quantified. These expenses do not require any identification or tracking to the sponsored project.

Contributed Effort: Time contributed by the PI to the project for which he/she is not paid. A PI may contribute up to 30% time during the academic year without prior approval. Percentages above that amount should be approved by the appropriate divisional administrator.

In-kind contributions: Non-cash contributions provided by non-Federal third parties. In-kind contributions are from third-parties, not from the campus or UC System. This is because any cost share contribution by a grantee should be traceable to an actual expenditure crossing the campus' ledger.

In-kind contributions can be very difficult to document and justify, especially if the valuation method is not accurate. Regarding voluntary services by an individual, a common type of in-kind contribution, the Code of Federal Regulations, Part 15.14.24 states:

Rates for volunteer services shall be consistent with those paid for similar work in the recipient's organization. In those instances in which the required skills are not found in the recipient organization, rates shall be consistent with those in which the recipient competes for the kind of services involved. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

All commitments and certifications, including valuation method, of cost-sharing by third parties must be signed by the individual who is making the time commitment or by the institution's chief financial officer.

Expenditures Not Allowed as Cost Sharing

The following expenses should not be offered as cost sharing commitments in sponsored project proposals:

- Unallowable costs as defined in OMB A-21, section J.
- Costs designated as unallowable for a particular sponsored project. For example, Teaching Assistant salaries would not be an allowable expense on a research award.
- University facilities such as laboratory space. Use of facilities should not be described as cost sharing; however, it is acceptable to characterize the utilization of facilities as "available for the performance of the sponsored agreement at no direct cost to the project."
- University utilities.
- Depreciation on government-funded equipment.
- Equipment purchased before the award period of the project to be cost shared.
- Descriptions of activities, such as "laboratory analysis" or "sample preparation," are not specific enough to identify what costs are actually being committed. These descriptions should always refer to activities that are to be performed during the award period of project being cost shared, and always with the associated expenses described in sufficient detail, using standard cost categories, so that they can be adequately identified and tracked in the campus' financial information system.

Cost Share Proposed	Risk Level	Suggested Action	Signature	Associated Issues
UCSC Faculty - academic months; below 10% per award.	Lowest Risk	Obtain, from the PI, the appropriate funding source (FOAPAL) that will be used to support this cost share (the RA will provide the FOAPAL if the PI does not know it). Include in the cost share calculation associated fringe benefits and indirect costs (use the same rate as the award's unwaived indirect cost rate).	Faculty whose effort is to be cost shared.	This is the most straightforward cost share to commit because since it can be reliably estimated, tracked, and documented. It is also the most effective since the initial salary amount is multiplied by the associated fringe benefits and campus' indirect costs. Most faculty appointments have a significant research component, usually up to 30%, that will accommodate low percentage commitments. However, if the database indicates that the PI has several awards with cost sharing commitments, the RA should be consulted for any potential conflicts regarding the PI's effort commitments during the cost share period. Since the Effort Reporting System has an accuracy of plus or minus 5%, 5% is normally the lowest amount that should be committed.
UCSC Named Employees - 12-month pay cycle	Low Risk	Obtain from the PI/Supervisor the appropriate funding source (FOAPAL) that will be used to support this cost share.	PI/Supervisor	This is the most straightforward cost share to commit because since it can be reliably estimated, tracked, and documented. However, when the commitment is above 10%, the RA should be consulted for any potential conflicts regarding effort commitments during the cost share period. Since the Effort Reporting System has an accuracy of plus or minus 5%, 5% is normally the lowest amount that should be committed. Associated fringe benefits and indirect costs should also be included.
Non-inventorial expenditures	Low Risk	Obtain from the PI/Fund Manager, which could also be the PI, the appropriate funding source (FOAPAL) that will be used to support this cost share.	PI/Supervisor	This is a straightforward cost share to commit because since it can be reliably estimated, tracked, and documented. The overall cost is what is normally committed rather than individual cost items. The main risk is to ensure that the expenses occur during the project period; that they are allowable and allocable to the award as a direct cost.
Associated UC or campus' indirect costs (the applied rate should reflect the project's rate, excluding any waivers) on University funded cost share expenses.	Low Risk	When committing University funds or reporting campus' expenditures as cost share, include Facilities & Administrative costs at the negotiated rate and MTDC base prior to any F&A waivers or reductions. The fact that a sponsor limits or prohibits F&A charges on the sponsored agreement does not mean they limit or prohibit F&A as cost share. If the sponsor does specifically limit or prohibit F&A as cost share, place a note on the cost share addendum and use the lower waived rate.	n/a	These are the indirects that are calculated on the itemized costs of the cost-share budget. As differentiated from "waived" indirects (see below).

Cost Share Proposed	Risk Level	Suggested Action	Signature	Associated Issues
UCSC Faculty - academic months above 10% per award.	Medium Risk	Obtain, from the PI, the appropriate funding source (FOAPAL) that will be used to support this cost share (the RA will provide the FOAPAL if the PI does not know it). Include in the cost share calculation associated fringe benefits and indirect costs (use the same rate as the award's unwaived indirect cost rate).	Faculty whose effort is to be cost shared. Department Chair if commitment is over 30% of appointment.	Medium risk because if the commitment is above 10%, the RA should be consulted for any potential conflicts regarding the PI's effort commitments during the cost share period. If the cost share commitment is above 30% this might require that the PI have a course release arrangement from the division. This would need to be in place at the time of proposal submission. Otherwise, this is a straightforward cost share to commit because since it can be reliably estimated, tracked, and documented. It is also the most effective since the initial salary amount is multiplied by the associated fringe benefits and campus' indirect costs. Most faculty appointments have a significant research component, usually up to 30%, that will accommodate low percentage commitments.
UCSC Unnamed Staff Employees - 12-month pay cycle	Medium Risk	Obtain from the Supervisor the appropriate funding source (FOAPAL) that will be used to support this cost share.	PI/Supervisor	The risk is higher since more follow-up will need to be done in the post-award phase to ensure that a persons' effort, still to be determined at the time of the proposal or award stage, will be identified and tracked as cost share.
Waived Indirect costs	Medium Risk	Waived indirects to be charged at the federally-negotiated rate that would have been used for the work had there not been a waiver. See RFP/guidelines.	n/a	This is not to be confused with associated indirect costs calculated based on expenses incurred directly on the award (see above).
Departments incurring expenses using UC facilities and services with established recharge rates.	Medium Risk	Obtain from the PI estimates from the recharge center the estimated charges needed to provide the services. The PI should also provide the FOAPAL that will be charged instead of the award.	Department Manager or Chair	This type of commitment is a medium level risk so long as there is an expense recorded against a departmental FOAPAL from an approved recharge center.
Third party cost sharing commitments directly supporting the project.	High Risk	The third party's Authorized Financial Officer must send letter of commitment that authorizes the cost share expenses to be committed to the project, and specify how these expenses will be tracked and reported.	Authorized Financial Officer	Risky since the valuation and tracking of the commitment is being done by a third party outside the UC system. The method should also be directly verified by the entity's financial ledger--if not verified, then it should be considered as in-kind costs share that is much riskier. The cost sharing described in the authorized letter of commitment should be incorporated in the subcontract or subaward terms and conditions, or in a separate agreement if there is no subcontract or subaward. Cost sharing reports of actually incurred expenses should be required at least annually.

Cost Share Proposed	Risk Level	Suggested Action	Signature	Associated Issues
Third party in-kind costs sharing commitments directly supporting the project (e.g. boat time, personnel costs).	High Risk	The third party's Authorized Financial Officer must send letter of commitment that authorizes the cost share to be committed to the project. It must also specify the valuation methodology and how these services will be recorded and tracked.	Authorized Financial Officer	In-kind cost sharing is riskier since the valuation and tracking method is not directly verified on the third party's financial ledger. Also, it is especially risky since the valuation, commitment and tracking of the in-kind cost sharing is a being done by a third party outside the UC system. The cost sharing described in the authorized letter of commitment (emails are acceptable) should be incorporated in the subcontract or subaward terms and conditions, or in a separate agreement if there is no subcontract or subaward. Cost sharing reports of how the in-kind cost share was actually executed should be required at least annually.
Named GSR or Undergrad Volunteer Hours	High Risk	Normally, discourage this type of commitment. The student must provide a letter of commitment to the PI that quantifies the hours, performance period, and the method of tracking this time.	PI/Supervisor	Very risky, since the campus has no practical recourse to ensure that this commitment is fulfilled.
Non- UCSC Named Volunteer hours	Extremely High Risk	Strongly discourage this type of commitment, especially if the commitment is from unaffiliated individuals. If the volunteer time is from an organization or company, the Authorized Financial Officer must send letter/email that quantifies and costs the effort but the actual effort commitment and tracking documentation must still be certified by the volunteer.	Authorized Financial Officer	Extremely risky, since the campus has no practical recourse to ensure that this commitment is fulfilled.
Cost share funded from other non-federally funded extramural awards.	Extremely High Risk	Fully disclose the nature of the cost share to the respective sponsors and obtain prior approvals from each of them of the arrangement.	Principal Investigator(s) of the respective awards	Extremely risky because certain conditions should be met: the scope of work and performance period of the award funding the cost share should be the same or a subset of the award to be cost shared; the expenses on the award providing the cost sharing should also be directly allowable on the award that is being cost shared.

Cost Share Proposed	Risk Level	Suggested Action	Signature	Associated Issues
Federal award funds (e.g. PI salary supported by federally funded award) as proposed cost share.	Extremely High Risk	Normally prohibit (always prohibit if the award that is to cost shared is federally funded). There may be exceptions when the award to be cost shared is from a private entity that allows federally funded cost share. In those rare instances, fully disclose the nature of the cost share to the respective sponsors and obtain prior approvals from each of them of the arrangement.	Principal Investigator(s) of the respective awards	First confirm with the sponsor of the award to be cost shared that this is an allowable source of funding for the cost share. Extremely risky because certain conditions should be met: the scope of work and performance period of the award funding the cost share should be the same, or a subset of the award to be cost shared; the expenses on the award providing the cost sharing should also be directly allowable on the award that is being cost shared.
Previously purchased equipment already in use on campus.	Unacceptable	Prohibit this type of cost share.	PI/Supervisor	This type of cost share is exceedingly difficult to evaluate and verify: First, Accounting must determine its depreciated value during the performance period of the project. Then the PI and the divisional accountants must determine the correct proportion of this value from the total percent of use by the project. This percent of use must be adequately tracked by a log showing the total use of the equipment during the project period. This log must be included in the back-up documentation justifying the cost share.
Pre-existing UCSC In-Kind (e.g. samples provided from lab with accepted recharge rate)	Unacceptable	Unacceptable since it is exceedingly difficult for departments to adequately quantify and justify this type of commitment.	PI/Supervisor	The term "In-kind" refers to the fact that even though the samples were prepared before the award period, they are still needed to forward the project's scope of work. In such cases, the samples' quantified value should be based on actual financial ledger reports documenting the associated expenses and funding sources. This type of documentation is more likely to be obtained for charges from units with established recharge rates. The PI will need to explicitly describe how and when the samples are to be used and how the project's scope of work requires their use.
Inventorial expenditures	Unacceptable	Unacceptable since it is exceedingly difficult for departments to adequately quantify, document and justify this type of commitment.	PI/Supervisor	The portion of the equipment's cost allocated as cost share must be consistent with its use for the project.. The same method to quantify the cost and track its actual use must be the same as if the equipment was directly charged to the award. Discouraged due to the accuracy of determining correct value
BYA appointments.	Unacceptable	Prohibit this type of cost share.	n/a	BYA appointments are not captured by the campus' Effort Reporting System and therefore cannot be adequately certified to verify the cost share.

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UCSC In-Kind not based on an established recharge rate.	Unacceptable	Prohibit this type of cost share.	n/a	This type of cost share cannot be reliably valued and tracked since due to the lack of an associated expense recorded in the campus' financial system.
Volunteer time from "to be named" individuals.	Unacceptable	Prohibit this type of cost share.	n/a	This type of cost share cannot be reliably estimated or committed.
Any costs costs defined as unallowable under federal and University guidelines.	Unacceptable	Prohibit this type of cost share.	n/a	n/a
Costs that cannot be directly allocable to a project (e.g. TA-ships, campus facilities, lecturer appointments).	Unacceptable	Prohibit this type of cost share.	n/a	n/a
Any costs that are unallowable under federal guidelines and regulations (OMB Circulars and FAR Clauses)	Unacceptable	Prohibit this type of cost share.	n/a	n/a
Any costs that are unallowable under the project's proposal guidelines and award terms and conditions.	Unacceptable	Prohibit this type of cost share.	n/a	n/a