

Oklahoma State University Policy and Procedures

COST SHARING IN SPONSORED RESEARCH AND SERVICE PROJECTS

1-0113
GENERAL
UNIVERSITY
July 1996

POLICY

1.01 Cost sharing is the financial support contributed by universities to sponsored projects. Often, sponsored programs require that sponsored grant funds be matched proportionately with non-sponsored or other sponsored funds or that the grantee participate to some extent in the cost of the project. Cost sharing and matching represent that portion of the project or program costs not borne by the sponsoring agency.

The policy of the University is to assume a cost-sharing commitment only when required by the sponsor or by the competitive nature of the award and then to cost share only to the extent necessary to meet the specific requirements of the sponsored project. The cost-sharing commitment must be included 1) on the Routing Sheet--Part 4, and 2) in the proposal budget form. Approval of the responsible University representatives is shown on the Routing Sheet for the proposal/acceptance.

1.02 Mandatory and Voluntary Cost Share

Cost sharing will be considered a specific commitment and mandatory in terms of subsequent documentation requirements when it is a stated requirement of the sponsoring agency or considered significant to the negotiation of the award. The University will consider a commitment significant if 1) it is explicitly shown on the Routing Sheet and included in the proposal budget, or 2) it is required as a condition of the agreement. When the scope of the project does not change during negotiations, the project amount which must be accounted for and reported is the amount shown as cost share on the Routing Sheet and in the proposal budget, even if the sponsor does not fund the total request. If the amount awarded for the project is less than the proposal budget amount, and there has been a reduction in the scope of the project, this fact should be indicated in Part 5, Comments & Special Information, of the "acceptance" Routing Sheet.

Specific commitments or those required as a condition of the agreement are considered mandatory. To meet the reporting and audit requirements of the agencies,

this commitment or requirement should be charged to a separate account designated as a cost-sharing account for the specific project. (Refer to 2.02. for documentation of cost share.)

Voluntary cost sharing is not required as a condition of the award if it is not reflected in the final budget agreement between the University and the sponsor and, therefore, is not identified in the University's accounting and personnel records. Examples of voluntary cost sharing include statements in the proposal narrative that identify the available expertise of a University faculty member or the available capacity and facilities of the University to carry out the proposed sponsored agreement. If the effort of a Principal Investigator or other employee whose expertise is identified as available is less than 10% of the project time, then this effort should not be proposed as cost share and shown on the Routing Sheet or proposal budget. It should be noted in the Statement of Work that this person is "available" for the project.

1.03 Methods of Cost Share

When cost sharing is required, or allowed, it shall be accomplished through the following methods:

- a. Project costs funded from other sponsored programs (i.e., federal projects may cost share from state or private funds; state projects may cost share from federal or private funds; private projects may cost share from any source). (Refer to Exhibit B for valuation methods.)
- b. In-kind contribution (i.e., project costs represented by services, equipment, and real property, or use thereof) donated by sponsors (i.e., federal projects may cost share from state or private funds, state projects may cost share from federal or private funds, private projects may cost share from any source). (Refer to Exhibit B for valuation methods.)
- c. Project costs funded by the university for the benefit of the specific project. Types of costs that could be cost shared include: salary and fringe benefits, travel, supplies and equipment. (Refer to 2.03 for equipment used as cost share.)
- d. Waived indirect costs. Waived indirect costs (WIDC) are indirect costs that are otherwise available to be recovered by the University, but the University has agreed to accept less than the full amount. The difference between the indirect costs accepted by the University and the indirect costs that would have been provided at the full overhead rate may be used as cost sharing. In some circumstances, the sponsor does not reimburse the University at the full indirect cost rate. This might be due to the sponsor's policy regarding reimbursement of overhead or

indirect costs, government legislation, or terms of the agreement. If waived indirect costs are to be used as cost share, this use must be approved by the sponsor. In addition, when direct costs are cost shared, the University will automatically cost share the associated indirect costs.

e. Unfunded indirect costs. Waived indirect costs can also include unfunded indirect costs. Unfunded indirect costs represent the amount of indirect costs waived and not recorded on the cost shared or matching funds provided by the University.

1.04 Consistent Treatment of Cost

Compliance with Cost Accounting Standards (CAS) requires that cost-shared expenses be treated in a consistent and uniform manner from proposal preparation and award negotiation to the accounting for these expenses in the financial reports to sponsors. The accounting practices used in pricing a proposal and in accumulating and reporting costs on a resulting grant or contract apply to cost share and shall be consistent with respect to:

a. Classification of elements of cost as direct or indirect--Cost sharing, which is financed with cash contributed by the University or different sponsors, is by definition incurred for the same purpose as those costs incurred for the program by the sponsoring agency. Since those costs that can be identified specifically with a particular sponsored program are treated as direct costs to the sponsored program, the amount expended for cost sharing must be treated as direct costs. Thus, cost sharing cannot be expended from indirect cost accounts, such as a dean's administrative account or a working fund account. However, budget transfers may be made to an appropriate account for the purpose of expending cost share dollars.

b. Methods of allocating individual costs to the grant or contract--The same method of cost allocation must be used for grants and contracts as is used for nonsponsored program activity.

c. Consistency--Treatment of cost share dollars within the same function (i.e., instruction, research, extension) must be applied. If the sponsored program is a research project, then funds used for cost sharing/matching should be from the same functional classification. If cost sharing expenditures for research are misclassified as instruction or extension, the research distribution base in the indirect cost proposal will be understated by the error. This will result in an artificially higher research rate. The federal government considers this higher rate to cause federal research programs to subsidize other programs.

1.05 Valuation of Third-Party In-Kind Contributions

The rule of valuation of a third-party in-kind contribution is "what it would have cost if the University had paid for the item or service itself." Special valuation of third-party in-kind contributions for a) volunteer services, b) employees of other organizations, c) donated supplies and loaned equipment or space, and d) donated equipment, buildings, and land is shown on Exhibit B.

1.06 Recognition of Cost Share Requirements

Neither the University's incurred costs nor third-party contributions count toward satisfying matching or cost sharing requirements unless they meet all of the following criteria:

- a. Verifiable from the University's records (Refer to 2.02 for documentation of cost share.);
- b. Not used as matching or cost sharing for any other sponsored program;
- c. Necessary and reasonable for proper and efficient accomplishment of project objectives;
- d. Allowable under OMB Circular A-21 (Refer to 1.07 and Exhibit A for exclusions and unallowables.);
- e. Provided for in the approved budget; and
- f. Incurred during the project period of the grant or contract.

1.07 Excluded or Unallowable Items for Cost Share

Costs that are included in the University's indirect cost rate proposal *usually* cannot be used for cost share or matching. OMB Circular A-21, Section F., specifically defines the items listed in Exhibit A to this policy.

PROCEDURES

2.01 Approval to Cost Share

Any reduction of indirect costs as cost sharing must be recommended by the dean or director and approved by the Vice President for Research. Signatures on the routing sheet whereon cost sharing is fully explained, including the source of funds, will satisfy this requirement.

2.02 Documentation of Cost Share

Documentation of cost share is the responsibility of the department or unit committing

the cost share. Departments/research units will be responsible for transferring funds to be used for cost share into a separate project account that has been designated as the cost share account.

If the cost share account is another grant account (Ledger 5), GCFA will create the account based upon a request by the department. When the cost share grant account is created, it will be noted on the account the companion grant account. (NOTE: This will be shown as "Uses of Funds" (FS152/data element).)

If funds for the cost share account are classified in another ledger (i.e., 1, 2, 3, 4, 6, or 7), University Accounting should be contacted to set up an account. The University contribution to the cost share account must be made before the end of the project period. When the project period spans more than one University fiscal year, appropriate transfers should be made before the end of the fiscal year in which the cost shared expenses are incurred.

If a grant account (ex., 1-5-12345) requires a cost share account, the Subsidiary Ledger Account Request for the cost share account should specify in the blank "For What Will This Account Operating Funds Be Expended," "CS" plus the grant account that corresponds to the cost share account (ex., CS1512345).

2.03 Equipment Used as Cost Share

Equipment used as cost share must be identified in the moveable inventory system so the equipment can be identified for indirect cost rate proposal preparation. This is especially critical when equipment purchased on a grant other than the grant which requires cost share is used as cost share. The method is:

- a. When the grant is setup, the University Grants and Contracts department will provide the Inventory department with the proper coding of the equipment to show the equipment is used as cost share so it may be excluded from any data provided for preparation of the indirect cost rate proposal. The Moveable Equipment Inventory Change Request (MEICR) form should reflect an Owner Code of "9901" for equipment used as cost share. This attribute is recorded in the "Addition Section" of the MEICR form. If the useful life of the equipment exceeds the contract period, it would be preferable to negotiate the cost share amounts in terms of depreciation or use charge.
- b. When the grant ends, the University Grants and Contracts department will provide the Inventory department with the proper coding to show the equipment is no longer used as cost share and may be included in the

data provided for preparation of the indirect cost rate proposal. If the equipment used as cost share was a match to a sponsored agreement, the equipment cost should be removed from the indirect cost pool (equipment use charge) in perpetuity.

2.04 Building Used as Cost Share

When a building is used as cost share, only the depreciation on the building during the performance of the sponsored project may be used as cost share. The entire cost of the building may not be used as cost share for the sponsored project. For example, a new building is to be constructed for an estimated cost of \$1,000,000. Assuming a useful life of 40 years for the building and a three year sponsored project, only \$75,000 could be used as cost share for the project. The estimated building cost of \$1,000,000 divided by 40 years equals \$25,000 of depreciation per year; \$25,000 times the three years of the sponsored project equals \$75,000. When the sponsored project ends, GCFA will provide the Plant Funds section with the proper coding to show the building is no longer used to meet the cost share requirement and may be included in the university's indirect cost proposal development.

Revised: November 1978

July 1982

July 1996

EXHIBIT A UNALLOWABLE OR EXCLUDED ITEMS OF COST FROM COST SHARE EXPENDITURES

Costs that are included in the University's indirect cost rate proposal *usually* cannot be used for cost share or matching. OMB Circular A-21, Section F., specifically defines the items listed below. These items **generally** include but are not limited to the following categories of costs:

a. Operation and maintenance expenses

(1) Janitorial

(2) Utilities

(3) Routine maintenance and normal operation of building and other plant facilities excluding Physical Plant "special" work orders)

(4) Security

(5) Disaster preparedness

(6) Environmental safety--Costs incurred for a specific contract requirement, not for services routinely provided by Environmental Health Services, are allowable. Routine services provided by the Environmental Health Services department include procedures such as safety code inspections of labs, classrooms, fire extinguishers, environmental audits of labs, indoor air quality audits, drinking water quality audits, pickup and disposal of chemical wastes, and the preparation and categorization of chemical inventories.

(7) Insurance (property, liability, and all other insurance relating to property)--However, costs of insurance required or approved and maintained in order to carry out the sponsored agreement are allowable.

b. Use charges or depreciation for buildings or equipment (Refer to 2.03 for equipment used as cost share.)

c. General administration and general expenses

(1) President's office

(2) Other offices for institution-wide financial management, business services, budget and planning, personnel, risk management, legal counsel, operation of the central administrative management information systems.

d. Departmental administration--administrative and supporting services that benefit common or joint departmental activities in academic deans' offices, academic departments and units, organized research institutes, study and research centers.

e. Sponsored projects units primarily established to administer grants and contracts

f. Libraries

g. Student administration and services

(1) Admissions

(2) Registrar

(3) Counseling and placement

(4) Student advisers

(5) Student health center

(6) Catalogs

Because the costs associated with the activities listed above are recovered through the application of the University's indirect cost rate to generate recovered indirect costs, the inclusion of these items in cost share would represent double charging to the federal government.

Unallowable costs may not be used as cost share. These items include but are not limited to:

- a. Overexpenditures or cost overruns. (This does not apply to overexpenditures on the sponsored project account itself and its related cost share/matching account. This means using overexpenditures on other grant/contract accounts.)
- b. Advertising costs incurred to further or maintain the image of the institution or favorable relations with the public at large.
- c. Costs of convocations and commencements.
- d. Costs of promotional items--Promotional costs are allowable when they are 1) costs specifically required by the sponsored agreement, 2) costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the sponsored agreement, or 3) costs of conducting general liaison with the news media and governmental public relations officers to the extent such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern such as notices of grant/contract awards, financial matters, etc.
- e. Alcoholic beverages.
- f. Alumni activities--Costs incurred for, or in support of, alumni activities.
- g. Bad debts--Losses arising from uncollectible accounts.
- h. Civil defense.
- i. Contingency provisions--Contributions to a contingency reserve or any

similar provisions made for events, the occurrence of which cannot be foretold with certainty.

j. Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements.

k. Gifts and contributions made by the University to another party--This is referring to gifts and contributions made by OSU to some recipient. The value of donated services and property *made to the University* may be used to meet cost share or matching requirements.

l. Entertainment costs--Costs of entertainment, amusement, diversion and social activities and any costs directly associated with such costs, such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities. **EXCEPTION:** Certain sponsored agreements' budgets include items mentioned in this category, such as meals, lodging, or transportation. Expenses of this nature that are directly related to the purpose of the sponsored agreement are allowable.

m. Executive lobbying costs.

n. Fines and penalties. **EXCEPTION:** Fines and penalties incurred as a result of compliance with specific provisions of the sponsored agreement or authorized in advance in writing by an authorized official of the sponsoring agency are allowable.

o. Goods or services for personal use--Costs of goods or services for personal use by the institution's employees even if the cost is reported as taxable income to the employee.

p. Interest, fund raising and investment management costs.

q. Costs of memberships in any civic or community organization, country club, social or dining club.

r. Costs of selling and marketing any products or services of the institution.

s. Student activity costs--Costs incurred for intramural activities, student publications, student clubs, and other student activities, unless specifically provided for in the sponsored agreements.

EXHIBIT B
Valuation of Third-Party In-Kind Contributions

The valuation of third-party in-kind contributions is "what it would have cost if the University had paid for the item or service itself." Special valuations of third-party in-kind contributions are:

a. Volunteer Services

Services provided to the University by volunteers are valued at rates consistent with those paid by the University to its employees performing similar work. 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 services. In either case, paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

b. Employees of Other Organizations

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 overhead costs), provided they are in the same line of work for which the employee is normally paid. 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

If a third party donated supplies, the contribution should not be valued in excess of the market value of the supplies at the time of the donation. 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, Buildings and Land

If a third party donates equipment, buildings or land, and the title passes to the University, the amount allowed as cost share or matching depends on whether the grant is for capital or operating expenditures. Any donations of equipment, buildings, or land should be coordinated with the OSU Foundation. Valuation of the property should be secured from the OSU Foundation through the donor. Since the donor will usually take a tax deduction for the contribution, he or she must substantiate to the Internal Revenue Service the value used for the contribution. The OSU Foundation asks the donor for a letter or other documentation which states a value for the contribution.

Documentation for the value of equipment, buildings or land used as cost share must be attached to the routing of the award.

Individual colleges/research units may have internal requirements that require documentation attached to the proposal routing as well as the award routing.

(1) Grants for Capital Expenditures

If the purpose of the grant or contract is to assist the University in the acquisition of equipment, buildings, or land, the value of the asset is the lesser of the total value of the donated property at the time of the donation or the book value.

(2) Grants for Current Operations

If the purpose of the grant or contract is to support activities that require the use of equipment, buildings, or land, depreciation and/or use charges based on the market value of the donation are allowed. If the federal agency approves, the fair rental value of the donated land and the full market value of the equipment or buildings at the time of the donation may be considered as cost share or matching.