A Summary of the Principles of Cost Sharing

Once an award is made, its success is contingent not only on the ability of the principal investigator/project director to carry out the project, but also on the ability of the institution to provide proper stewardship of the funds awarded. This proper stewardship should not be viewed so much as a control function, but rather as providing support to the project to achieve the ultimate goal originally proposed.

It is critical that an institution make those who have technical responsibilities on an award aware of both the institution's and the funding agency's policies and procedures. Likewise, administrators at the department level should be able to rely on central sponsored project administrators to keep them apprised of current and changing policies. The objective should be to allow the principal investigator/project director to conduct the activity proposed and the administrative support personnel to assure that routine decisions about administrative matters are made in a manner that avoids institutional vulnerability.

While normal definitions of cost sharing and matching used by the federal government do not differentiate between the terms, matching is generally viewed as a programmatic or statutory limit on the federal government's participation in a project. On the other hand, cost sharing is frequently the term used when the degree of federal and nonfederal participation is the subject of negotiation rather than any specific statutory limit.

The most important source of detail about how nonfederal shares are to be treated comes from OMB Circular A-110 (see ¶3102. Section___23 of the circular (2 CFR §215.23). The federal government requires that all contributions, whether involving cash outlays or third-party, in-kind contributions, must be accepted as part of the recipient's cost sharing and matching when certain criteria are met.

Institutions should be prepared to rely on the specific terms used within Circular A-110. A cash contribution, for example, is a "cash outlay by an institution." On the other hand, the term "third-party, in-kind contribution" is descriptive in its own right. If an institution receives donated services, supplies, equipment, or space, that donation does not involve a cash outlay on its part. Accordingly, it is valued in a different fashion than a cash outlay made by an institution. Even if the institution has received a cash contribution from a third party, the expenditure of that cash contribution is considered to be a cash outlay for purposes of matching and cost sharing. The fact that it originated with a third party is immaterial.

1 Non-federal entities choosing to delay implementation for the procurement standards will need to specify in their documented policies and procedures that they continue to comply with OMB circular A-110 for one additional fiscal year which begins after December 26, 2014. [COGR Summary of Background and Technical Corrections to the OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards]
All matching and cost sharing resources must meet the following general criteria:

- They must be verifiable from the recipient's accounting records.
- They may not be included as contributions for any other federally assisted project or program in either the current or any prior period.
- They must be necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- They must be allowable under the applicable cost principles (OMB Uniform Guidance 2 CFR §200.403). This is true even if the asset is derived from a third-party contribution. Therefore, a matching contribution must be for something for which the organization or institution could have spent federal funds.
- They may not be paid by the federal government under another award, except when authorized by federal statutes.
- They must be provided for in the approved project budget.
- The expense must be incurred during the period of the award. Consistent with these general requirements, unrecovered indirect costs also may be included as part of cost sharing and matching. This may only be accomplished, however, with the prior approval of the federal awarding agency. Agencies recognized this form of matching in their implementations of OMB Circular A-110. The Department of Education, for example, expressly prohibits the use of unrecovered indirect costs as matching funds while other agencies have expressly allowed this form of cost sharing.

Cost sharing and matching with cash outlays is fairly straightforward. Essentially, the institution must be able to show that the outlay from nonfederal sources benefited the funded project in some fashion, and that the funds were not used in a manner that undercuts the general requirements bulleted above.

**Faculty Effort as Cost Sharing**

In recent years, faculty effort as cost sharing has been an issue for colleges and universities, particularly in the calculation of their F&A rate proposals. There is a common practice among investigators to commit more effort to a project than is recovered through salary charges to the grant. When an effort commitment is made in a funded proposal, an institution is obliged to honor that commitment regardless of the amount of salary recovered from grant funds. Through an institution's activity reporting system (i.e., effort reporting), the actual effort is verified. During both direct cost and F&A rate proposal audits, it was discovered that many institutions were not documenting or quantifying committed cost sharing in their records. For example, in some proposals commitments for faculty effort were being made without the knowledge and approval of faculty members. Institutions weren't tracking that effort, and the activity reports never indicated such effort. In other institutions, faculty effort was not being added to the research base used in calculating the F&A rate even though the effort was in support of research. Finally, at one institution, auditors questioned the absence of effort performed by the faculty member that was over and above the commitment made in the funded proposal. The rationale was that all effort should be counted and added to the research base for F&A calculation, not just the committed effort.