
University of Wisconsin-Madison

**Guidelines for Cost Sharing:
Proposing, Managing, and
Documenting Cost Sharing
Associated with Sponsored Projects**

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1. Introduction

1.1. Background

Cost sharing is the portion of the total costs of a sponsored project that is borne by the UW rather than the sponsor. This can take the form of salary support for project personnel or other material contributions such as funds to purchase equipment. It can also include donations from a third party in support of the sponsored project.

Historically, the concept of cost sharing originated from a simple notion: a *grant* is a form of financial assistance to support a worthy activity, and federal agencies that issue grants expected grantees to share in the costs of the programs being supported. As university research programs expanded and the demand for funding increased, sponsors came to view cost sharing as a way of leveraging their funding: if grantees participated in the costs of a program, the sponsor could award more grants and fund more projects.

Today, sponsoring agencies may seek cost sharing from grantee institutions because, for example:

- Research is considered a fundamental part of an institution's mission
- Cost sharing commitments require institutions to establish priorities
- Cost sharing can leverage or stretch an agency's funds
- Certain equipment items may be multi-purpose or multi-user, or have durations of use that extend beyond a particular project
- Certain types of projects, especially centers, are viewed as partnerships between the sponsor and the institution
- Certain types of projects build an institution's research capacity, improve its competitiveness in future funding competitions, or yield other tangible benefits such as linkages with industry partners

1.2. The relationship between effort and cost sharing

Effort is not the same thing as cost sharing, and an effort commitment is not the same thing as a cost sharing commitment. However, the two types of commitments can be intertwined in ways that sometimes are confusing.

A *cost sharing commitment* is an obligation by the university to contribute to the total costs of a sponsored project by providing goods or services at no cost to the sponsor or a cash contribution toward a project expense (such as for the purchase of equipment).

An *effort commitment* is a contractual obligation to devote labor to a sponsored project. The sponsor may bear all, some, or none of the cost of this labor. *Paid effort* is effort for which the sponsor bears the cost. *Cost shared effort* is effort for which the university, or a third party, bears the cost. An effort commitment can have both a paid component and a cost shared component. For example, if Professor Smith commits 30% effort to a sponsored project for a year and indicates, in the budget, an intent to charge 20% of her salary to the project, then 20% of her effort is paid effort and 10% is cost shared effort.

By making an effort commitment without requesting sponsor salary support, an investigator *also* establishes a cost sharing commitment. The important point is that two distinct types of commitments have been made in Professor Smith's example, above. Professor Smith has made an effort commitment of 30% and a cost sharing commitment of 10%.

Faculty and staff effort is by far the most common type of cost shared expense. However, other types of project expenses can be cost shared. For example, a sponsor may require the university to bear part of the cost of purchasing a piece of equipment that is needed for a sponsored project. If a project proposal includes an offer to bear this cost and the sponsor awards a grant for this project, the UW has established a cost sharing commitment for its portion of the purchase price.

To summarize:

- Some effort is cost shared, and some is not. An effort commitment may involve paid effort, cost shared effort, or both.
- Some cost sharing involves effort, and some does not. A cost sharing commitment may obligate the university to provide faculty or staff effort at no cost to the sponsor, or it may obligate the university to bear some other type of project expense.

The rules for effort commitments vary from those for cost sharing commitments. The UW's *Guidelines for Effort Reporting: Proposing, Managing, and Certifying Effort Associated With Sponsored Projects* details the rules that apply to effort commitments. The purpose of this document is to provide guidance about the rules that apply to cost sharing, including the offering, fulfillment, management, and documenting of cost sharing commitments.

1.3. The need to minimize cost sharing

A specific and quantifiable offer of cost sharing in a proposal becomes an obligation that the university must fulfill. Generally, the university seeks to minimize these obligations because a voluntary commitment to cost share:

- *Reduces a PI's flexibility to conduct other research*, because their effort is pledged to specific projects.
- *Increases the requirements for auditable record-keeping*. Cost sharing imposes a substantial tracking, monitoring, recording, and documenting burden on the PI and university administrators.
- *Redirects departmental, school, or central resources from other mission-critical uses to support sponsored agreements*. Every dollar of cost sharing results in the university forfeiting not only the recovery of a direct cost, but also the recovery of the associated indirect (facilities and administrative, or F&A) cost (except in the case of cost-shared capital equipment or tuition, for which there is no associated F&A).
- *Has an adverse effect on the university's F&A rate*. In the calculation of the F&A rate, the denominator is the university's *organized research base* – the direct costs associated with sponsored projects and non-sponsored research. The numerator is the UW's *research pool expenses*, or the facilities and administrative costs associated with supporting organized research. The total amount of the university's cost sharing must be included in the denominator. This increase in the denominator serves to decrease the university's overall F&A rate.
- *Increases the university's exposure to audit liability*. Cost sharing commitments are subject to audit. A failure to provide the level of cost sharing reflected in the approved award budget may result in disallowance of award costs, refund of award funds to the sponsor, and possible

termination of the award. Typical audit findings involving cost sharing have pertained to: (1) grantee accounting systems not capturing cost sharing identified with a particular project, (2) failure to keep adequate source documentation for claimed cost sharing, (3) unclear valuation of in-kind donated contributions, and (4) lack of support for cost sharing contributions by sub-recipients.

This does not mean that PIs should not spend time on research projects where they receive no salary from the sponsor, nor does it mean that the university should not contribute resources toward the performance of projects funded externally. It simply means that explicit commitments to cost share should be minimized in accord with the principles outlined in this document, and that principal investigators should give careful thought to balancing their priorities when offering cost sharing in a proposal.

1.4. Federal cost sharing regulations

The university's treatment of cost sharing is guided by three key sources of information. All three are promulgated by the federal Office of Management and Budget (OMB) and pertain to cost sharing on federal sponsored projects. Consistent with the university's policy on cost sharing, it is the practice of the university to apply the standards for federal projects to all sponsored projects, regardless of whether the sponsor is a federal agency.

OMB Circular A-21, *Cost Principles for Higher Education*, distinguishes between direct costs and F&A costs. It provides a background for identifying and documenting costs that may be charged directly or indirectly and might be provided as cost sharing. In establishing the principles of allowability, allocability, and reasonableness, A-21 also creates a context for the application of the cost principles in other OMB circulars.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, subpart C, paragraph .23, provides guidance on determining the allowability and value of specific types of cost sharing contributions. Relying on A-21 for its discussion of accounting principles, A-110 establishes seven criteria that a contribution must meet in order for it to be accepted as cost sharing by a sponsor. Specifically, to be acceptable a contribution must:

- Be verifiable from the university's records
- Be used as a contribution only once; the same contribution cannot be used to meet commitments on multiple projects
- Be necessary and reasonable for the proper and efficient accomplishment of the project or program objectives
- Not have been paid to the university under a federal award, except where authorized by federal statute to be used for cost sharing
- Be indicated in the approved budget, when required by the sponsor
- Conform to any applicable provisions of OMB Circular A-110, which describes methods for determining the value of many types of contributions
- Be an allowable cost as defined in the cost principles of OMB Circular A-21

Inherent in the last criterion are three key points:

- The cost-shared item must be allocable as a cost to the project and contributed during the performance period of the award.

- The cost-shared item must be allowable as a direct cost. Donated goods and services are the exception, as OMB Circular A-21 indicates that these are *not* allowable as direct costs but may be offered as cost sharing nonetheless.
- The cost-shared item must not duplicate the type of costs included in the university's facilities and administrative expenses; for example, administrative salaries cannot normally be used as cost sharing.

OMB Memorandum M-01-06, *Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission Costs*, issued in January 2001, introduces the term *voluntary uncommitted cost sharing* and clarifies its treatment. Specifically, it indicates that an offer of cost sharing becomes a commitment only if it is specific and quantified. When a cost sharing contribution is not specific and quantified, no commitment exists, and an award recipient need not document or track the contribution. This relieves considerable pressure from potential audit situations. It also reduces the university's administrative burden by excluding uncommitted cost sharing from the F&A rate calculation.

1.5. Risks of non-compliance

Effort and cost sharing audits at other universities have resulted in multi-million dollar judgments against some institutions. A failure to comply with the terms and conditions of an award, including a failure to meet cost sharing commitments or to abide by sponsor requirements regarding allowability, allocability, reasonableness, or valuation of cost sharing contributions, is grounds for the sponsor to:

- Withhold cash payments pending correction of the situation
- Disallow all or part of the costs associated with the noncompliant activity; this means denying the use of the sponsor's funds and denying any applicable cost sharing credit
- Suspend or terminate the award
- Withhold future awards
- Pursue other legal remedies

1.6. Types of cost sharing

1.6.1. Mandatory

Mandatory cost sharing is required by the sponsor as a condition for proposal submission and award acceptance. A mandatory cost sharing requirement will be specified in the sponsor's published request for proposals. If the indicated level of cost sharing is not included in a proposal, the proposal will not receive consideration by the sponsor.

1.6.1.1. Matching

The term *matching* often is a source of confusion. The National Science Foundation and some other sponsors explicitly indicate that they view the terms *matching* and *cost sharing* to be synonymous. In addition, OMB Circular A-110 refers to "cost sharing or matching" without distinguishing between the two. For the purpose of UW policy and this guidance document, these terms are considered to mean the same thing.

In some circumstances a sponsor uses one term rather than the other. Some types of awards are referred to as *matching grants*, including the National Endowment for the Humanities Challenge Grants and the Kauffman Foundation Entrepreneurship Grants. With such awards the sponsor may require the

university to match the sponsor's support with an equal or proportionate commitment of funds. Some matching grants require that the additional funds be obtained from sources outside the university. Some are paid in installments, the payments coinciding with the attainment of pre-specified levels of funding. Matching grants are especially common in the sciences for large equipment grants, and they are standard practice in some government agencies. In the arts and humanities, matching grants may require additional layers of review, certification, and documentation in order to meet very rigid standards established by the sponsoring agencies.

When required by the sponsor as a condition for proposal submission, this kind of matching is actually mandatory cost sharing. Awards with terms and conditions for matching may introduce administrative complexity, but they do not constitute a distinct class of sponsored agreements nor do the terms constitute a distinct type of cost sharing.

When not required by the sponsor, an offer to match the sponsor's support is voluntary committed cost sharing.

1.6.2. Voluntary Committed

Voluntary committed cost sharing is cost sharing that is offered in a proposal but not required by the sponsor as a condition of proposal submission. Once offered by the institution and agreed to by the sponsor, it becomes an obligation the university must fulfill.

In addition, voluntary committed cost sharing can occur when there are changes to the sources that pay for committed effort. For example: an investigator commits 30% effort to an award and intends to charge 30% of his salary to that award. Subsequently the investigator decides to charge only 20% of his salary to the award. This can occur for a variety of reasons. The result is 10% voluntary committed cost sharing, even though neither the proposal nor the award document indicated an explicit cost sharing commitment.

1.6.3. Voluntary Uncommitted

Voluntary uncommitted cost sharing is cost sharing that is over and above an amount that was committed and budgeted for in a sponsored research agreement. It is neither pledged explicitly in the proposal nor stated in the award documents, but it occurs in the course of executing a project, often when an individual expends more effort on the project than his or her commitment requires. This type of cost sharing, or "extra effort," is above the level agreed to as part of the award and is not required to be documented, tracked, or reported. It is not included in the organized research base for computing the university's F&A rate, nor is it subject to effort reporting requirements.

1.6.4. Institutional

Institutional cost sharing is a specific type of cost sharing required by federal statute and satisfied in the aggregate across a number of awards, rather than with project-by-project commitments. In the past, awards from both NIH and NSF were subject to institutional cost sharing. Currently, only NSF research awards that resulted from unsolicited proposals and that have a start date earlier than June 1, 2007 are subject to institutional cost sharing. For these awards, cost sharing is required at the level of 1% of the total awarded amounts. The flexibility inherent in the aggregate approach allows the university to share a greater percentage on some projects and less, or not at all, on others.

1.7. Methods of cost sharing

1.7.1. Direct costs funded through institutional support

In some cases the university bears a portion of the direct costs of a sponsored project and charges the expenditures to institutional funds. This is the most common method of cost sharing.

An *In-kind* contribution is an item of cost for which institutional support is already in place, such as investigator effort; no new cash outlay is required. The most common form of in-kind contribution occurs when salary and fringe benefits paid by the university are committed to a specific sponsored project. By contrast, a *cash* contribution is a new, incremental cost such as for equipment, travel, or additional staff necessary to conduct the sponsored project, and for which a new funding source must be identified.

The distinction between in-kind and cash cost sharing can be a source of confusion, given that ultimately the two types may be indistinguishable to the sponsor when included in the proposal budget. The confusion can be exacerbated when the two terms are used interchangeably, as is the practice among some administrators. In many contexts it is not important to establish a firm distinction between the two types of contributions. The key point is that in-kind contributions of salary and fringe benefits should always be an investigator's first choice when offering cost sharing in a sponsored project proposal.

1.7.2. Direct costs funded with third party cash contributions

A second method of cost sharing is to pay a sponsored project's direct costs with funds provided to the university by an external third party. Funds from the UW Foundation, the Wisconsin Alumni Research Foundation (WARF), and other state and private organizations are treated as third party contributions and may be used to pay the direct costs for a sponsored project.

With this method of cost sharing, the external organization provides a cash contribution to the university, and the cash is deposited into a UW account. This account becomes the funding source for project expenses. All of the associated financial transactions are well represented in the university's accounting systems, making this a relatively easy method to track.

1.7.3. Third party in-kind contributions

Non-cash contributions from third parties external to the university are a third method of cost sharing. Instead of cash, the third party provides goods or services. This can include donated space, donated buildings or land, donated supplies, donated or loaned equipment, volunteer effort, or the paid effort of employees from the third party organization. The goods or services must directly benefit and be specifically identifiable to the sponsored project to which they are contributed.

Financial transactions associated with third party in-kind contributions are not represented in the university's accounting system. Consequently, it can be a challenge to determine the value of the contribution and document that the commitment has been fulfilled. With a third party in-kind contribution it is essential to document in writing the method for determining its value.

1.7.4. Indirect costs

A fourth method is to cost share a sponsored project's indirect (F&A) costs. This can occur in two types of circumstances. First, every direct cost has its associated F&A cost. When a direct cost is cost shared, the associated indirect cost can (and typically should) be considered part of the university's cost sharing commitment.

Second, some sponsored project proposals use an F&A rate that is lower than the university's federally negotiated rate. The difference between the reduced F&A recovery under the proposal's lowered rate and the recovery that *would* occur with the federally negotiated rate may be offered to meet a cost sharing requirement with the permission of the sponsor.

2. Offering cost sharing in sponsored project proposals

2.1. When is it appropriate to offer voluntary committed cost sharing?

Voluntary committed cost sharing is discouraged. However, the university recognizes that voluntary committed cost sharing is appropriate in certain circumstances. Approval rests with the dean's or director's office. Examples of instances in which voluntary committed cost sharing could be appropriate include:

- To meet the Office of Management and Budget requirements for a minimum commitment of PI effort on sponsored projects (the 1% minimum at UW)
- To support investigator effort on an award for which the total direct costs are a small dollar amount
- To indicate a level of effort for principal investigators or limited principal investigators who have zero-dollar appointments at UW
- To respond to a clear indication from the sponsor that cost sharing will increase the competitiveness of a specific proposal
- To establish an institutional commitment for certain federal agencies, e.g., National Endowment for the Humanities and National Endowment for the Arts, that use cost sharing to demonstrate the leveraging effect of federal funding
- To provide institutional support for a project that is significant in scope and vital to the campus mission
- To support an institutional investment in a pioneering project with potential for significant future sponsored funding
- To secure sponsored funding for an individual or department in a research discipline in which access to extramural funding is inherently limited

2.2. Alternatives to voluntary committed cost sharing

As an alternative to voluntary committed cost sharing, in some circumstances it may be appropriate to offer university resources without making a specific and quantifiable commitment. Whenever possible, investigators are encouraged to take this approach. General statements in the research plan, project description, or budget justification of the proposal can indicate an investigator's intention to participate significantly in the research without creating a contractual and auditable quantified commitment of effort. For example:

- Professor X will direct all research activities associated with the project [specify...]
- Professor X will oversee all aspects of the project.
- Professor X will participate in the project at every stage [specify...]
- Professor X will provide scientific direction and supervision for the project [including...]

In no way should this be construed as encouraging investigators to devote less effort to their research or to report incompletely or inaccurately on their explicit commitments. The intention simply is to minimize the number of explicit cost sharing commitments so as to reduce the negative consequences of these commitments. By minimizing the number of explicit cost sharing commitments, the university strives to maintain a PI's flexibility to conduct their research agenda in a manner that best suits their intellectual interests and pursuits.

Similarly, care should be taken in preparing proposals for sponsored projects not to commit the use of university resources as cost sharing, but to characterize the resources as "available as needed for the performance of the sponsored project at no direct cost to the project."

2.3. Approvals of voluntary committed cost sharing

Cost sharing should be reviewed at the time of proposal submission or at the point a change is made in the level of cost sharing commitment. The review occurs through normal proposal channels, with final approval of cost sharing provided at the level of the dean or director, in keeping with the following standards:

- **Mandatory cost sharing:** With a proposal that offers cost sharing to meet a sponsor requirement, the dean or director has the authority to approve cost sharing from funding sources that originate in the corresponding college or school.
- **Voluntary commitments:** The fundamental principle is to minimize all voluntary cost sharing commitments in keeping with the concepts established in section 1.2.1, above.
- **Institutional agreements:** Some obligations are not unique to a single project, but are incurred because of federal regulations that pertain to a small number of circumstances. These include NSF institutional cost sharing obligations and the required minimum commitments of effort by principal investigators. These obligations will be monitored by RSP, with the assistance of departmental and college/school staff.
- **Central university funds:** In the case of a commitment of funds from central university sources, the dean or vice chancellor who oversees the funding source has the authority for approval.
- **Third-party cost sharing:** In situations where a cost sharing commitment will be met with funds or resources from a source outside UW-Madison, the third party will work with the PI, the UW dean's office, and RSP to confirm the commitment, estimate a value, and track and document the commitment.

2.4. What should be offered to meet a cost sharing requirement?

Once an investigator, with the dean's or director's approval, determines that it is appropriate to offer cost sharing in a proposal, care must be taken in choosing the specific cost items to offer. Some cost items are preferred, while others are acceptable but not preferred. The distinction is based on two criteria:

- Is there a new cost to the university?
- Is there a significant burden for documentation or audit?

Some cost items are unacceptable or not recommended. In addition, there are two instances in which the only option is to include cost sharing in the proposal, so there is no question of preference or acceptability. The tables below list the items that fall into each category.

Table One: Preferred mechanisms for cost sharing

Mechanism	Comment
UW salaries and fringe benefits	Should be an investigator's first choice because: <ul style="list-style-type: none"> ▪ These items are already captured in the university's financial system ▪ They're easy to document ▪ Their value is straightforward to determine ▪ Typically they require no new outlay of cash
F&A costs associated with any cost shared direct expense	Should be included in the cost sharing commitment whenever any UW direct expense is offered as cost sharing. The exception is any direct expense for which F&A costs are not allowed, such as capital equipment acquisition expenditures and tuition remission. These costs are already established in the university's financial systems and require no new outlay of cash.
Unrecovered F&A costs due to a lowered or waived F&A rate	Although prior approval from the sponsor is required, these costs are readily identifiable in the university's financial system.
Third party cash contributions	These can support any expense item. They eliminate the need for an allocation of institutional funds, and are easily tracked in the university's financial systems.

Table Two: Acceptable but not preferred items for cost sharing

Item	Comment
Purchase price of equipment being acquired by the UW	Requires a commitment of UW cash. When cost shared, this is somewhat more difficult to document than the items in Table One.
Travel expenses	There can be an audit question as to the relationship of the travel to the project. When cost shared, this is somewhat more difficult to document than the items in Table One.
Tuition or tuition remission	The question of allowability can be an issue. When cost shared, this is more difficult to document than the items in Table One.
Supplies	The appropriateness of supplies can be questioned under A-21. Supplies are often classified as an administrative expense because they can be used for all department activities, not just a specific sponsored project. Use of supplies as a direct cost or cost sharing item requires clear justification. These costs are somewhat more difficult to document when cost shared than the items in Table One.
Volunteer effort, whether coordinated by the university or a third party	There are challenges in determining value. Auditors will question whether the services have been valued properly. There is additional administrative effort to document the fulfillment of the commitment.
In-kind contributions from non-UW third parties	As with volunteer effort, challenges exist with respect to determining the value of the contribution and documenting the fulfillment of the commitment.

Table Three: Items not recommended or unacceptable for cost sharing

Item	Comment
University-furnished space	Generally does not qualify as cost sharing, as this is included in the determination of the F&A rate and not charged as a direct expense.
University-furnished equipment	Generally does not qualify as cost sharing, as this is included in the determination of the F&A rate and not charged as a direct expense.
Departmental administrative expenses	Includes supplies and salaries used for general or administrative purposes. Generally do not qualify as cost sharing, as these expenses normally benefit and are distributed across all activities and objectives of a department and are, therefore, included in the determination of the F&A rate.
Excess salary over the NIH salary cap	Federal legislation prohibits charging salary in excess of the NIH cap to a sponsored project as a direct expense. Therefore, it cannot be used to meet a cost sharing requirement, and it should not be offered as either mandatory or voluntary committed cost sharing.
Unpaid summer months for faculty and staff with nine-month appointments	Federal regulations prohibit this as a cost sharing item. An individual's 100% UW effort consists of the activities for which the individual is compensated by the university. Unpaid summer months are outside of an individual's 100% UW effort, and therefore cannot be allocated or committed to a sponsored project as cost-shared effort.

Table Four: Special instances in cost sharing

Instance	Comment
Subawardee cost sharing	This is a fairly common occurrence, may be required by the sponsor, and it is not discouraged. Subawardee cost sharing is desirable in that a third party provides the contribution, and therefore no UW support is required. However, the university's financial systems do not contain evidence of the financial transactions and yet the UW is required to confirm the fulfillment of the commitment. This creates an administrative burden for the university. In addition, if the subrecipient fails to meet the cost sharing commitment, the university, as the prime recipient, would have to meet the commitment on behalf of the subrecipient.
UW zero-dollar appointee effort	If they are principal investigators, zero-dollar appointees must devote committed effort to their sponsored projects. However, the UW's financial systems do not contain salary transactions for zero-dollar appointees. Therefore, effort for a zero-dollar appointee is treated as volunteer service. As such, additional administrative effort is required to document the fulfillment of the commitment.

2.5. General guidelines for including cost sharing in a proposal

Each proposal should be clear with respect to the specific items or resources being offered as cost sharing contributions and the basis of valuation for those items or resources. To facilitate the review by department and division administrators, all cost sharing contributions should be explicitly identified in the proposal budget.

The audit community has taken the position that a *specific and quantifiable* statement about faculty or staff effort in the project description or research plan can become a cost sharing commitment. For example, if Professor Jones is charging no salary to the project, the following sentence contains a cost sharing commitment that will be subject to audit:

Professor Jones will devote 30% of her effort during the academic year to this project.

When such a statement appears in the project description or research plan, the investigator should include in the budget or budget justification an indication that exactly matches the statement. Investigators should take special care to avoid making specific and quantifiable statements in the project description or research plan *without* including a corresponding statement in the budget or budget justification.

Identifying resources to meet cost sharing obligations is the responsibility of the principal investigator. Investigators who want to include cost sharing in a proposal should take into account other commitments of time and effort, and the availability of resources to meet these obligations. They are also encouraged to discuss contemplated cost sharing with their respective director's or dean's office before making any commitments, as responsibility for approving any proposed cost sharing lies with the dean or director.

The principal investigator should identify the funding source for each cost sharing contribution at the time of the proposal. This is a necessary precondition for the review and approval process, given that deans and directors are authorized to approve cost sharing from funding sources that originate in their college or school.

All proposals for supported research projects should be responsive to the applicable guidelines. However, any attempt by sponsoring agencies to impose arbitrary or unreasonably high cost contributions should be resisted.

Before preparing a proposal that includes contributions to meet a mandatory sponsor requirement, investigators should check with their department chairs and deans or directors to determine whether the benefits of receiving the award outweigh the costs associated with fulfilling and tracking the cost sharing commitment. Some awards, such as those requiring a five-to-one match of university dollars, may create a greater burden than the university can reasonably bear.

2.6. Guidelines for specific types of cost shared expenses

2.6.1. UW payroll costs

The university-funded salaries of faculty and other employees directly engaged in the project, together with the related employee fringe benefits, constitute the most appropriate cost sharing contribution to sponsored projects.

Sabbatical leave pay may be claimed if it is directly identifiable with the project.

Salaries for administrative staff whose effort does not directly benefit the project and is included in the university's research pool expenses – the numerator in the calculation of the F&A rate – cannot be offered.

Unpaid summer months for faculty and staff with nine-month appointments cannot be offered.

The cost of faculty, student, or staff effort above any sponsor-imposed salary cap (such as the NIH salary cap) may not be proposed, recorded, or reported as committed cost sharing, as it is not allowable as a direct charge to the grant and therefore it is not allowable as a cost sharing contribution. However, it must be identified for purposes of calculating the university's indirect cost rate, as it must be included in the organized research base – the denominator – during the calculation. See the *Examples* for further information.

Salary in excess of the limitation for an NIH Career Award (K award) must be treated as voluntary committed cost sharing. This treatment is different from that for excess salary over the NIH salary cap; the NIH salary cap is a stipulation of the Congressional appropriations bill for the NIH each year, whereas the ceiling on K awards is a program limitation. See the *Examples* for further information.

2.6.1.1. *Minimum committed PI effort*

The January 5, 2001 OMB clarification to OMB Circular A-21 indicates that most federally-funded awards should have some level of committed principal investigator effort, either directly charged to the project or contributed as cost sharing. If the effort is not directly charged to the grant, it is considered voluntary committed cost sharing. This effort – one percent of the investigator's total UW effort – can be provided at any time during the budget period. Programs for equipment and instrumentation, doctoral dissertations, and student augmentation do not require committed principal investigator effort.

2.6.2. UW non-payroll costs

2.6.2.1. *Equipment*

Cost sharing with a federal agency for the purchasing of equipment is a fairly common situation. In such circumstances, the investigator may use the portion of the purchase price provided by the university to meet a cost sharing commitment.

The use of equipment that is already owned by the university should not be offered to meet a cost sharing commitment on a sponsored project. Instead, when writing a proposal an investigator should characterize

the equipment as "available as needed for the performance of the sponsored project at no direct cost to the sponsor."

2.6.2.2. *Supplies*

Supplies typically include such items as expendable equipment, office supplies, laboratory supplies, or workshop and classroom supplies. In most cases, supplies are treated as an F&A expense and therefore should not be offered to meet a cost sharing commitment. An unusual circumstance may arise in which an expense for supplies is directly associated with a sponsored project, and cost sharing the supplies may be justifiable. When a supply expense is used to meet a cost sharing commitment, the value assigned to the supplies must be reasonable and must not exceed the fair market value of the supplies at the time of their use.

2.6.2.3. *Travel expenses*

Travel expenses may be offered as a cost sharing contribution. However, there must be a direct benefit to the project from the travel that was taken. The value of all cost-shared travel expenses must be consistent with the university's travel reimbursement rates and limitations.

2.6.2.4. *Space*

Generally, space in university buildings cannot be offered as a cost sharing contribution because the associated cost is reimbursed by application of the indirect cost rates. Similarly, the costs of constructing or renovating university buildings cannot be offered except as match for construction or renovation grants. Exceptions will be rare and will require express approval from the sponsor and the university. Investigators should not commit the use of facilities as cost sharing, but should instead characterize the facilities as "available as needed for the performance of the sponsored project at no direct cost to the sponsor."

Occasionally, the university may contribute funds to a facility construction project that is also supported by an external sponsor. This should not be misconstrued as cost sharing the use of the space. Instead, this is a way for the university to leverage its own scarce resources by capitalizing on the availability of funds from an outside source.

2.6.2.5. *Tuition and tuition remission*

Tuition is the fee charged by the university for instruction and training. For the purpose of cost sharing, *tuition remission* is defined as a component of the compensation package for graduate students who hold at least a 33.33% appointment as a research assistant, project assistant, or teaching assistant at the UW. The university releases these graduate students from the obligation to pay tuition during the period of their assistantship. If the graduate student's assistantship is funded by a sponsored project, the university typically charges the sponsored project for the cost of this component of the student's compensation package.

Tuition is not allowable as a direct charge on a federal research award, and therefore tuition may not be offered to meet a cost sharing requirement on a research award. Tuition may be an allowable charge on an instructional award (such as a training grant), and may therefore be offered as cost sharing on such an award.

As part of a graduate student's compensation package, tuition remission generally is an allowable charge on a research award and is routinely charged to sponsored projects. When allowed by the sponsor as a direct charge, it may be offered to meet a cost sharing commitment.

When tuition or tuition remission is cost shared, a funding source must be identified to pay for the expense. However, neither tuition nor tuition remission should be among the investigator's first thoughts when attempting to identify project costs that might be offered to meet a cost sharing requirement.

2.6.2.6. *F&A on cost shared direct expenses*

Indirect costs are real costs of conducting instruction, research and public service. Indirect costs do not disappear because a sponsor refuses to pay them. The university must pay these costs when they are not reimbursed. When direct costs are cost shared, the indirect costs associated with the direct costs are automatically cost shared. Principal investigators should take advantage of the automatic cost sharing of indirect costs on cost shared direct expenses and include them on the proposal budget.

The exception occurs with direct costs for which indirect costs are not allowed. For example, the purchase price of a piece of equipment is not subject to F&A under the university's modified total direct cost (MTDC) base. Consequently, when the purchase price of a piece of equipment is cost shared, indirect costs are not allowed for this expenditure and therefore none can be offered to meet a cost sharing commitment.

2.6.2.7. *Unrecovered indirect costs due to waived or lowered F&A rate*

Investigators should not voluntarily offer to waive F&A costs or lower the F&A rate to satisfy a cost sharing requirement. However, some sponsors' agreements with the university use a lowered or zero F&A rate as the result of a negotiation between the university and the sponsor or because of an agency imposed restriction that applies to all applicants. In such circumstances, an investigator may use unrecovered F&A costs to meet a sponsor's cost sharing requirement with the permission of the sponsor.

2.6.3. Third-party costs

2.6.3.1. *Subawardee cost sharing*

The most common type of third party cost sharing occurs when a potential subawardee makes a cost sharing commitment, which appears in the proposal's subaward budget. When a sponsor requires mandatory cost sharing, subawardees typically are expected to provide cost sharing contributions at a level commensurate with that of the UW-Madison. For example, if the sponsor requires cost sharing of 1% of all project expenses, the UW-Madison will cost share 1% of its direct costs and each subawardee is expected to do the same.

Each subawardee institution must track, fulfill, and document its cost sharing contributions in accord with its institutional policies and procedures, pursuant to the terms and conditions of the sponsor's award to the UW and those of the subaward agreement.

The UW ultimately is responsible for the fulfillment of all commitments on every award for which it is the prime recipient. If a subawardee fails to fulfill a cost sharing obligation, the UW must meet the cost sharing commitment using its own resources.

2.6.3.2. *UW zero-dollar appointee effort*

Some individuals with UW faculty and staff appointments devote effort to sponsored projects but earn no UW compensation. These include:

- Howard Hughes Medical Institute (HHMI) investigators
- UW faculty members whose salary is paid by the U.S. Department of Agriculture (USDA)
- Emeritus professors who receive no UW salary but choose to work on sponsored projects

When these individuals devote effort to sponsored projects, their effort is a third-party in-kind contribution. It is not a UW expense because the university incurs no costs for the salaries or fringe benefits for these individuals.

For HHMI investigators and USDA professors, the value of the cost sharing contribution is a function of the individual's HHMI or USDA base salary. For unpaid emeritus professors, the value of the contribution is a function of the individual's salary at the time of their retirement from the university.

2.6.3.3. *Contributions from other third parties*

Third parties who are not subawardees or UW zero-dollar appointees may make cost sharing contributions. For example, an individual or group may contribute volunteer effort to a project, or an organization may donate the use of space and facilities for a community outreach program.

The seven categories of contributions from other third parties are as follows:

- Volunteer services
- Effort from employees of other organizations
- Donated space
- Donated land and buildings
- Donated equipment
- Loaned equipment
- Donated supplies

For each contribution, the university must determine the value in accord with the principles of OMB Circular A-110. Investigators should contact their dean's or director's office, which will then work with the Associate Director of Research and Sponsored Programs to determine the value of cost sharing contributions from other third parties.

Whenever possible, investigators should avoid using donated space, land, buildings, and equipment as cost sharing contributions because of the challenges associated with confirming the valuation and the potential for investigation during audit.

2.6.3.3.1. **Volunteer services**

Volunteer services furnished by professional and technical personnel, consultants, and other skilled and unskilled labor may be counted as cost sharing if the service is an integral and necessary part of an approved project or program.

Rates for volunteer services shall be consistent with those paid for similar work at the university. In those instances in which the required skills are not found in the university community, rates shall be consistent with those paid for similar work in the labor market in which the university competes for the kind of

services involved. If there is any question about the rate of pay, the valuation should be set at a very conservative rate. Paid fringe benefits that are reasonable, allowable, and allocable may be included in the valuation.

2.6.3.3.2. Employees of other organizations

When an employer other than the university furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (plus an amount of fringe benefits that is reasonable, allowable, and allocable, but exclusive of overhead costs), provided these services are in the same skill set for which the employee is normally paid.

2.6.3.3.3. Donated space

Space that is donated by a third party may be offered to meet a cost sharing commitment. The value of the donated space shall not exceed the fair rental value of comparable space and facilities in a privately-owned building in the same locality.

2.6.3.3.4. Donated land and buildings

Buildings and land that are *donated* to the university by a third party may be offered to meet a cost sharing requirement. In such circumstances:

- The value is the lesser of (a) the certified value of the remaining life of the property recorded in the university's accounting records at the time of donation or (b) the current fair market value – although the sponsor may, at its discretion, accept the full market value regardless of the certified value of the property's remaining life.
- Fair market value must be determined by a qualified independent appraiser and certified by a responsible university official.
- If title passes to the university and the purpose of the award is to assist the university in acquiring the buildings or land, the total value of the buildings and land may be claimed as cost sharing.
- If title passes to the university and the purpose of the award is to support activities that require the use of the buildings or land, normally only depreciation or use charges for the space may be claimed as cost sharing. However, the full value may be claimed with permission of the sponsor. If depreciation is claimed, the depreciation expense must be excluded from the research pool expenses – the numerator – in the calculation of the F&A rate.

2.6.3.3.5. Donated equipment

Equipment that is donated by a third party may be offered to meet a cost sharing commitment. If the purpose of the award is to support activities that require the use of the equipment, normally only depreciation or use charges for the equipment may be claimed as cost sharing. However, the full value of the equipment may be claimed with permission of the sponsor. The full value is defined as the fair market value of equipment of the same age and condition at the time of its use.

Depreciation is calculated on the basis of the useful life of the equipment. For example, if the fair market value of a piece of equipment is \$80,000 and the equipment has a useful life of ten years, the university may claim \$8000/year as cost sharing. When this happens, depreciation on the equipment must be excluded from the calculation of the F&A rate.

2.6.3.3.6. Loaned equipment

Equipment that is loaned to the university by a third party may be offered to meet a cost sharing commitment. If the purpose of the award is to support activities that use the equipment, normally only the

use charges for the equipment may be claimed as cost sharing. However, the full value may be claimed with permission of the sponsor. The full value of loaned equipment is defined as its fair rental value.

2.6.3.3.7. Donated supplies

Supplies donated by a third party may be offered to meet a cost sharing commitment. Supplies may include such items as expendable equipment, office supplies, laboratory supplies, or workshop and classroom supplies. Because of the \$5000 threshold for classifying a cost item as equipment, donated supplies are not an uncommon occurrence. The value assigned to the supplies must be reasonable and must not exceed the fair market value of the supplies at the time of their use.

2.7. Sources of funding for cost shared expenses

For each cost shared project expense (such as a portion of an individual's salary), the investigator must identify a funding source that covers the cost of the expense. Generally, funding sources can include institutional support or third party cash contributions, with the caveat that approval is required from the dean or director in the college or school that owns the funding source. Institutional support includes state GPR dollars (funds 101 and 104, among others) and F&A return (fund 150, plus fund 133 overhead allocation accounts).

Third party cash support includes gifts from the UW Foundation or other organizations or individuals (fund 233), WARF funds (fund 135), trust funds (fund 161), and other sources.

In some circumstances, funds from a nonfederal sponsored project (fund 133) may be used to cover a cost shared expense on another sponsored project, depending on the terms and conditions of the nonfederal project.

Only in very rare circumstances, where authorized by statute, can funds from a federal sponsored project (fund 144) be used to cover a cost shared expense on another federally sponsored project.

3. Cost sharing and award acceptance

3.1. When does a project cost become a cost sharing commitment?

A cost sharing contribution that is offered in a proposal becomes a commitment when the university and the sponsor execute the award agreement. Subsequently, the university must:

- Monitor and track the commitment
- Fulfill the commitment
- Document the fulfillment of the commitment
- Report the fulfillment to the sponsor, if required
- Maintain documentation of changes to the commitment
- Provide all documentation to auditors if requested

In addition, a commitment can be created during the execution of the project when there are changes to the sources that pay for committed effort. These new or altered commitments are also approved by the dean or director as part of the cost sharing update process. For example: an investigator commits 30% effort to an award and intends to charge 30% of his salary to that award. Subsequently, the investigator

decides to charge only 20% of his salary to the award. This can occur for a variety of reasons. The result is 10% voluntary committed cost sharing, even though neither the proposal nor the award document indicated an explicit cost sharing commitment. Such commitments are subject to all of the monitoring, management, fulfillment, and reporting requirements listed immediately above.

3.2. Sponsored project budget reductions

Cost sharing contributions offered in a proposal assume full funding by the sponsor. If the awarded amount is less than the proposed amount, the investigator should not assume that cost sharing commitments are automatically reduced in proportion to the budget reduction. It might seem intuitive that such an automatic reduction would occur, but sponsors generally do not view it this way.

An investigator should either assume the cost sharing commitments are not changed or contact the sponsor, through RSP, to establish new, reduced cost sharing commitment levels. This is particularly important if the budget reduction requires a change in the scope of work. Any reduced cost sharing should be correctly stated in the award documentation or in a written notification from the sponsor.

Care must be taken to distinguish between effort commitments and cost sharing commitments and to deal with the impacts on each. For example, assume a proposal budget where some of the salary and fringe costs are offered as cost sharing, as are some non-payroll costs, and the sponsor awards only 85% of the proposed budget. In this situation:

1. All commitments of *effort* remain unchanged, and must be met, unless the sponsor agrees to reduce the effort commitments.
2. If the effort commitments are reduced, the investigator should consider seeking a reduction of the payroll cost sharing commitments as well.
3. Even if the effort commitments are *not* reduced, the investigator may still wish to consider seeking a reduction of the payroll cost sharing commitments.
4. In addition, the investigator might consider seeking a reduction of the non-payroll cost sharing commitments. Otherwise the original commitment levels remain in effect.

During negotiations with the sponsor, all correspondence about commitment levels should be routed through RSP.

If a decreased award results in a need to shift project costs to the university to accomplish the project objectives, any shifted costs that were not stated as commitments in the proposal are considered voluntary *uncommitted* cost sharing.

3.3. Guidelines for establishing and communicating cost sharing commitments

As the author of a sponsored project proposal, the principal investigator is expected to identify explicitly cost sharing items in the proposal budget. The investigator must seek approval for the proposed cost sharing through the normal channels, via the department administrator and the dean's or director's office.

When the sponsor issues the award, RSP and the dean's or director's office (or its designee) communicate with each other to finalize cost sharing commitments. RSP completes the setup of cost

sharing commitments in the university's grants management system. The dean's or director's office is responsible for ensuring the consistent understanding of cost sharing commitments among the PI, the department personnel, and the division-level administrators.

If there are any changes to cost sharing commitments, or to the plans for fulfilling those commitments, the principal investigator must communicate the changes to the department administrator. These changes must be communicated through the normal channels to the dean's or director's office and RSP, where they will be entered into the grants management system's cost sharing module.

4. Cost sharing and the project period

In accord with the cost principles of OMB Circular A-21, a cost-shared item must be allocable to the project as a direct cost and contributed during the performance period of the award. If pre-award spending is authorized, a contribution during the pre-award spending period may be used to meet a cost sharing commitment.

4.1. Charging salary to the project instead of cost sharing effort

Sometimes during the course of a project, an investigator wishes to charge salary to a sponsored project instead of cost-sharing effort. This may occur because the project's other expenses are less than expected. Generally, this should be permissible. However, the university must meet the project's overall cost sharing commitment. To make up for the reduction in payroll cost sharing, the investigator must identify an equal amount or proportion of other project expenses that can be cost shared to meet the overall commitment.

To determine whether this is permissible, the investigator should check the sponsor's policies regarding prior approval – and obtain prior approval if necessary. When prior sponsor approval is not required, the change must adhere to any rebudgeting restrictions and the investigator or department administrator must document the reason for the change and the fact that prior sponsor approval was not required. The department administrator must maintain this documentation with the project files.

4.2. Cost sharing effort instead of charging salary to the project

Sometimes during the course of a project, an investigator decides to charge *less* salary to a sponsored project than planned. The commitment of effort still stands, but must now be met partially through cost sharing. For example: an investigator commits 30% effort to an award and intends to charge 30% of his salary to that award. Subsequently the investigator decides to charge only 20% of his salary to the award. This can occur for a variety of reasons. The result is 10% voluntary committed cost sharing, even though neither the proposal nor the award document indicated an explicit cost sharing commitment.

When this occurs, the investigator must document the cost sharing commitment, communicate it to RSP with the approval of the department and college or school, and indicate the funding source from which the cost sharing commitment will be paid.

4.3. Changing a cost sharing commitment

A cost sharing commitment cannot be changed without prior approval from the sponsor. This is one significant difference between cost sharing commitments and effort commitments, which in some

circumstances can be changed without prior sponsor approval. To request approval, the investigator should route all communication with the sponsor through RSP via the normal channels. Once the change is approved by the sponsor, RSP is responsible for entering it in the grants management system's cost sharing module.

The university's *Guidelines for Effort Reporting* describe the rules for changing an effort commitment. If an investigator reduces an effort commitment in accord with these rules, and cost shared effort is involved, the investigator must separately address the issue of the cost sharing commitment. Investigators must ensure that cost sharing commitments are met, even when effort commitments are reduced. If the cost sharing commitment is *not* reduced, the investigator must identify another project expense that can be borne by the university to meet the project's overall cost sharing commitment.

Reducing a cost sharing commitment is different than changing the source of funds for a cost shared expense. If the commitment level stays the same, the source of funds can change without approval from either the university or the sponsor.

4.4. No-cost extensions

Sponsors expect that the original award terms and conditions apply throughout the project period, including a no-cost extension period. This includes both effort commitments and cost sharing commitments.

Investigators may choose to reduce their effort during a no-cost extension period, in accord with the university's *Guidelines for Effort Reporting*. If the investigator is providing cost shared effort to the project, this may result in a shortfall with respect to the project's cost sharing commitment. Investigators must ensure that cost sharing commitments are met, even when effort commitments are reduced. If cost-shared effort is reduced, the investigator must identify another project expense that can be borne by the university to meet the project's overall cost sharing commitment.

5. Documentation

It is imperative that all documentation of cost sharing clearly describes how those items and resources pledged are both necessary and reasonable for the proper and efficient accomplishment of the project. All cost sharing commitments, and plans for meeting those commitments, should be captured at the beginning of the project. Campus should engage in regular, periodic reviews of cost sharing expenditures in relation to cost sharing commitments.

All cost sharing must be verifiable and thoroughly documented. Like all project-related documentation, it must be retained for seven years (or per award terms) following the submission of the final financial report or completion of audit, whichever is first. Although documentation requirements for non-federal agreements are often the same as for federal agreements, please check the specific terms for each non-federal award to determine the required retention periods.

5.1. At the time of proposal submission

The authority to approve cost sharing resides with the deans and directors of the colleges, schools, and non-academic divisions. Approval can be secured by submitting a request to the dean or director prior to

proposal review. The new cost-sharing toolkit, an electronic tool for requesting approval from deans and directors, will be available for use in the summer of 2010. An investigator should check with the college or school office to see which method of seeking approval is preferred and what time line has been established for reviewing cost sharing requests. Investigators should allow ample time for their deans and directors to review all requests.

Colleges and schools may wish to create forms and formal processes for submitting and reviewing requests to cost share. Information that might be useful during the review process could include:

- The rationale or justification for offering cost sharing
- The project budget
- Details about each contribution being offered: the type of contribution, the amount, and – in the case of faculty and staff effort – the name of each individual, the time frame, and the effort level
- Information about the funding source from which each contribution will be paid

5.2. Documenting the fulfillment of cost sharing commitments

5.2.1. UW contributions – general requirements

When cost sharing contributions must be documented on a project-by-project basis, the principal investigator's department is responsible for maintaining documentation to substantiate these costs. Federal auditors may require principal investigators to provide supplementary information and records to substantiate the cost sharing contributions certified with the award close-out.

5.2.2. UW payroll cost sharing

The cost sharing module of the university's grants management system is the system of record for documenting the fulfillment of UW payroll cost sharing commitments. In this system, each sponsored project commitment is recorded – and with each commitment is the funding source from which the cost shared effort will be paid. As payroll is posted to the various funding sources, the cost sharing module calculates and posts expenditures for cost shared effort. These flow to the Effort Certification and Reporting Technology (ECRT) system, where investigators indicate percentages of activity on sponsored projects. This includes effort that was expended on the projects but not charged to the projects.

In expending and reporting effort, it is acceptable for percentages of effort to fluctuate between effort periods, so long as the aggregate effort at least equals the commitment to the sponsor for the project's budget period.

5.2.3. UW non-payroll cost sharing

To demonstrate the fulfillment of a UW non-payroll cost sharing commitment, the university must be able to document that:

- a. an expenditure occurred during the budget period of the project, and
- b. the expenditure was charged to a source other than the sponsored project.

Once the expenditure is posted to the university's financial system, the transaction should be evident in WISDM. Documentation is complete when the evidence of the financial transaction has been definitively associated with the sponsored project. To accomplish this, the department should send evidence of the transaction to RSP along with the *Cost Sharing and Commitment Updates* form. RSP then completes the

documentation process by entering evidence of the transaction into the university's grants management information system.

5.2.4. Subawardee contributions

All institutions receiving subawards from the university must provide information to the university about their fulfillment of cost sharing commitments. As a prime award institution, the university may not be required to obtain detailed documentation to substantiate all of the subawardee's cost sharing, but it must receive a signed document from the subawardee stating the amount of the cost sharing provided. The subawardee is responsible for maintaining the documentation of such costs for audit.

5.2.5. Contributions from other third parties

The provider of the third party's cost sharing contribution must send a letter or report to the PI, unit administrator, or RSP's post-award accountant that contains detailed information including:

- the name; number of hours worked, rate of pay, and dates for each individual who contributes effort;
- the tasks and deliverables completed;
- non-personnel expenses;
- unrecovered F&A costs, if appropriate, and if the third party has a negotiated F&A rate.

This letter or report must be on the organization's letterhead and, if documenting an effort contribution, written after the individual has contributed the effort. Estimates cannot be accepted. The letter or report must be signed by an authorized representative of the organization and his/her title must be included.

6. Reporting cost sharing to sponsors

If required by the sponsor, RSP Post-Award, with the assistance of the department, reports the fulfillment of committed cost sharing to the sponsor. Either the terms and conditions of the particular award or the sponsor's policies will indicate whether the cost sharing is reportable. If the sponsor is silent on the issue, RSP will not report the fulfillment of the cost sharing contribution to the sponsor. However departments must maintain supporting documentation for all transactions.

7. Definitions

Cost sharing The portion of the total costs of a sponsored project that is borne by the UW rather than the sponsor.

Cost sharing commitment An obligation by the university to contribute to the total costs of a sponsored project by providing goods or services at no cost to the sponsor or a cash contribution toward a project expense (such as for the purchase of equipment).

Types of Cost Sharing

Mandatory cost sharing Cost sharing that is required by the sponsor as a condition for proposal submission and award acceptance.

Matching For the purpose of this guidance document, this term is synonymous with *cost sharing*.

Voluntary committed cost sharing Cost sharing that is offered in a proposal but not required by the sponsor as a condition of proposal submission. Once offered by the institution and agreed to by the sponsor, it becomes an obligation the university must fulfill.

Voluntary committed cost sharing also can occur when there are changes to the sources that pay for committed effort. For example: an investigator commits 30% effort to an award and intends to charge 30% of his salary to that award. Subsequently, the investigator decides to charge only 20% of his salary to the award. This can occur for a variety of reasons. The result is 10% voluntary committed cost sharing, even though neither the proposal nor the award document indicated an explicit cost sharing commitment

Committed cost sharing Committed cost sharing includes mandatory cost sharing and voluntary committed cost sharing, as established on a project-by-project basis for sponsored awards.

Voluntary uncommitted cost sharing Cost sharing that is over and above that which is committed and budgeted for in a sponsored research agreement. It is neither pledged explicitly in the proposal nor stated in the award documents, but it occurs in the course of executing a project, primarily when an individual expends more effort on the project than his or her commitment requires. This type of cost sharing, or "extra effort," is above the level agreed to as part of the award and is not required to be documented, tracked, or reported. It is not included in the organized research base for the university's F&A rate, nor is it subject to effort reporting requirements.

Institutional cost sharing Cost sharing that is required by federal statute and satisfied in the aggregate across a number of awards, rather than with project-by-project commitments. In the past, awards from both NIH and NSF were subject to institutional cost sharing. Currently, only NSF research awards that resulted from unsolicited

proposals and that have a start date earlier than June 1, 2007 are subject to institutional cost sharing. For these awards, cost sharing is required at the level of 1% of the total awarded amounts. The flexibility inherent in the aggregate approach allows the university to share a greater percentage on some projects and less, or not at all, on others.

Types of Expenses that Can Be Cost Shared

UW payroll costs	Salaries paid by the university, and the associated fringe benefits, for UW faculty and staff who devote effort to sponsored projects.
UW non-payroll costs	Allowable sponsored project expenses as defined by OMB Circular A-21 and paid by the university, other than salaries and the associated fringe benefits. These can include: <ul style="list-style-type: none">▪ The purchase price of equipment acquired by the UW▪ Supplies▪ Travel▪ Tuition or tuition remission▪ F&A not earned on cost-shared direct expenses▪ Unrecovered F&A expenses due to a waived or lowered F&A rate for the sponsored agreement
Third party costs	Expenses borne by a party external to the university, usually to meet a mandatory sponsor requirement. The third party may be a subawardee. The expenses can include: <ul style="list-style-type: none">▪ Volunteer services▪ Employee salaries and fringe benefits for non-UW personnel▪ Donated supplies▪ Donated space, buildings, or land▪ Donated or loaned equipment
UW zero-dollar appointee effort	Effort expended on a sponsored project by an individual who has a UW appointment but receives no compensation from the university. In the absence of a mandatory sponsor requirement, this is voluntary committed cost sharing. From a UW accounting standpoint, this is a third party cost. Types of personnel for whom this can occur include: <ul style="list-style-type: none">▪ Emeritus professors who receive no UW compensation▪ Howard Hughes Medical Institute investigators▪ UW faculty members whose compensation is paid directly by the US Department of Agriculture

Methods of Cost Sharing

Direct costs funded through institutional support

In-kind or cash contributions toward a sponsored project's direct costs, supported by University of Wisconsin-Madison funds.

An *In-kind* contribution is an item of cost for which institutional support is already in place, such as investigator effort; no new cash outlay is required. The most common form of in-kind contribution occurs when salary and fringe benefits paid by the university are committed to a specific sponsored project. By contrast, a *cash* contribution is a new, incremental cost such as for equipment, travel, or additional staff necessary to conduct the sponsored project, and for which a new funding source must be identified.

Direct costs funded with third party cash contributions

Cash contributions from third parties external to the university. Funds from the UW Foundation, the Wisconsin Alumni Research Foundation (WARF), and other state and private organizations may be used to pay the direct costs for a sponsored project.

With this method of cost sharing, the external organization provides a cash contribution to the university, and the cash is deposited into a UW account. This account becomes the funding source for project expenses. All of the associated financial transactions are well represented in the university's accounting systems, making this a relatively easy method to track.

Third party in-kind contributions

Non-cash contributions from third parties external to the university. Instead of cash, the third party provides goods or services. This can include donated space, donated buildings or land, donated supplies, donated or loaned equipment, volunteer effort, or the paid effort of employees from an outside organization. The goods or services must directly benefit and be specifically identifiable to the project or program to which they are contributed.

Indirect costs

Facilities and administrative costs that are offered to meet a cost sharing requirement. This can occur in two types of circumstances. First, every direct cost has its associated F&A cost. When a direct cost is cost shared, the associated indirect cost can (and typically should) be considered part of the university's cost sharing commitment.

Second, some sponsored project proposals use an F&A rate that is lower than the university's standard rate. The difference between the diminished F&A recovery under the proposal's lowered rate and the recovery that *would* occur with the standard rate may be offered to meet a cost sharing requirement with the permission of the sponsor.

8. Roles and Responsibilities

8.1. Principal investigator/designee

- Comply with the university's cost sharing policy
- Identify mandatory cost sharing requirements in the program announcement or RFP/RFA
- Understand the types of situations in which voluntary committed cost sharing might be appropriate
- Consider all the resources required to complete the project's objectives, including their own effort, and budget accordingly
- Clearly identify all cost sharing contributions in the proposal budget, with dollar amounts
- Obtain the Dean or Director's approval for cost sharing contributions in proposals
- Identify the sources from which cost sharing contributions will be funded
- Obtain correspondence from third parties that documents their intent to provide cost sharing
- Assure that committed cost sharing is provided and documented in accord with university guidelines and sponsor policies
- Obtain documentation from third parties of their fulfillment of cost sharing commitments
- Obtain the Dean or Director's approval for changes to committed cost sharing
- Obtain prior approval from the sponsor for changes to cost sharing commitments, when required by the sponsor
- Work with RSP to submit cost sharing reports (if required) that comply with the sponsor's reporting requirements

8.2. Department

- Enter payroll cost sharing commitments into WISPER
- Ensure that the grant administrator in RSP is notified when committed cost sharing is listed incorrectly, or is not listed at all, on the NOGA
- Use WISDM and financial reports to ensure that cost sharing commitments are being met
- Ensure that documentation for committed cost sharing complies with university guidelines and sponsor policies
- Complete the *Cost Sharing and Commitment Updates* form with information about non-payroll cost sharing expenses, as those expenses are incurred, and submit to RSP

8.3. College, school, or division

- Review and approve requests to include cost sharing in project proposals (some colleges and schools may wish to delegate this authority to another organizational level)
- Verify that funding sources are adequate to support proposed cost sharing contributions
- Review potential changes to committed cost sharing requested by investigators (some colleges and schools may wish to delegate this authority to another organizational level)
- Monitor the capturing of cost sharing expenditures in WISDM to ensure that the dollar amounts are commensurate with project commitments
- Work with RSP as needed to reconcile any cost sharing issues at the end of a sponsored project
- Provide cost sharing expertise and guidance to principal investigators and departments
- Coordinate with RSP on unusual issues, such as the valuation of unusual types of contributions
- Work with vice chancellors and the deans of other colleges and schools to identify potential cross-college or institutional (centralized) sources of support for cost sharing

8.4. Research and Sponsored Programs

- At award setup time:
 - Review award terms and conditions, and compare them with commitment information in the proposal to ensure that information about committed cost sharing is consistent
 - Verify the accuracy of payroll cost sharing commitment information in WISPER, and resolve discrepancies as necessary
 - Propagate payroll cost sharing commitment information from WISPER to the grants system and adjust it as necessary
 - Enter terms into the grants system for projects that have non-payroll cost sharing or third party in-kind contributions
 - Incorporate appropriate cost sharing conditions in subaward agreements
- Throughout the project period:
 - Track and update all UW payroll cost sharing commitments in the university's grants management system
 - Enter information about non-payroll cost sharing expenditures into the grants system when submitted by departments with the *Cost Sharing and Commitment Updates* form
- Maintain the cost sharing system
- Generate effort statements to facilitate the certification of cost shared effort
- Report the fulfillment of cost sharing commitments to the sponsor, as needed
- On an ongoing basis and at project termination, coordinate with the department and principal investigator regarding the fulfillment of cost sharing commitments
- Follow up with the college, school, and division dean's and director's offices on situations where cost sharing requirements are not being met
- Ensure proper treatment of mandatory and voluntary committed cost sharing in the preparation of the F&A Rate proposal

9. Examples

9.1. Salary above a sponsor-imposed cap: no committed cost sharing

- PI annual salary is \$300,000
- NIH salary cap is \$199,700 as of January 2010; the difference is \$100,300
- PI commits **15% effort** to the project
- Budget shows PI annual salary to be charged to the grant as $15\% \times 199,700 = \$29,955$
- The PI certifies 15% effort on the project
- PI salary that *cannot* be charged to the grant is $15\% \times \$100,300 = \$15,045$; this is not an allowable cost, and therefore it is not treated as cost sharing. No cost sharing commitment exists.

9.2. Salary above a sponsor-imposed cap PLUS voluntary committed cost sharing

- PI annual salary is \$300,000
- NIH salary cap is \$199,700 as of January 2010; the difference is \$100,300
- PI commits **15% effort** to the project
- Budget shows PI annual salary to be charged to the grant as $10\% \times 199,700 = \$19,970$
- Voluntary committed cost sharing is $5\% \times 199,700 = \$9,985$
- The PI certifies 15% effort on the project
- The unallowable cost is still $15\% \times \$100,300 = \$15,045$

9.3. Salary in excess of the sponsor-imposed limitation for some NIH career awards (K awards)

- K award establishes a 75% effort requirement and limits salary recovery to \$90,000/year
- Investigator's annual salary is \$150,000/year
- Salary corresponding to 75% effort is $75\% \times 150,000 = \$112,500$
- \$90,000 may be charged to the K award
- Salary for K award effort, not charged to the award, is $\$112,500 - \$90,000 = \$22,500$; this is voluntary committed cost sharing

10. Related Information

This section will contain a list of document titles and the web addresses for the documents. The HTML version of this guidance document will include links to the documents.

10.1. OMB Circular A-21

10.2. OMB Circular A-110

10.3. OMB Memorandum M-01-06

10.4. National Science Board Report

Investing in the Future: NSF Cost Sharing Policies for a Robust Federal Research Enterprise, National Science Board; August 3, 2009

<http://www.nsf.gov/pubs/2009/nsb0920/nsb0920.pdf>

10.5. UW Effort Policy

10.6. UW Guidelines for Effort Reporting