



Office of Sponsored Projects Policy on Cost Sharing on Sponsored Projects

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Purpose

This policy has been developed to ensure that “cost sharing” on sponsored projects is proposed, accounted for, and reported in a manner consistent with the requirements set forth in federal regulations (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Part 200, Code of Federal Regulations), requirements of sponsoring agencies, and the policies of Northern Arizona University.

Definition of Organized Research

NAU categorizes sponsored projects into three major “buckets” for NAU’s Facilities and Administrative (F&A) Cost Rate Agreement: Research, Instruction and “other sponsored activities”. NAU further defines research and development as either basic research or applied research, and development. Within these research definitions the federal government further defines Organized Research as follows:

- Sponsored Research – All research and development activities that are sponsored by Federal and non-Federal agencies and organizations.
- University Research – All research and development activities that are separately budgeted and accounted for under and internal application of NAU funds.

The Organized research base is used by NAU for development of its Facilities and Administration (F&A, also known as indirect cost) rate. The formula for development of this rate is:

$$\frac{\text{RESEARCH POOL EXPENSES}}{\text{ORGANIZED RESEARCH BASE}}$$

The research pool expenses consist of the total of expenses related to organized research and consisting of the following nine pools of expense. Each of these pools are developed through a set of complex calculations dictated by government guidance.

- Building Depreciation
- Interest Expense
- Equipment Depreciation
- Operations and Maintenance
- Library Expenses
- General Administration
- Departmental Administration
- Sponsored Projects Administration
- Student Services Administration

Definition of Cost Sharing

Cost sharing represents that portion of the total project costs (both direct and indirect) of a sponsored agreement borne by the University, rather than by the sponsor. There are three types of cost sharing that are described below.

MANDATORY COST SHARING

Mandatory cost sharing is that portion of the University contribution to a sponsored project, which is required by the terms of the project. It must be included or a proposal will receive no consideration by the sponsor.

VOLUNTARY COST SHARING

Voluntary cost sharing represents resources offered by NAU in sponsored project proposals without a specific sponsor requirement.

Voluntary committed cost sharing is defined as those resources that are committed and budgeted for in a sponsored agreement.

Voluntary uncommitted cost sharing is defined as university faculty effort that is over and above that which is committed and budgeted for but not charged to the sponsored agreement. Voluntary uncommitted cost sharing should not be recorded as organized research.

OMB, in a clarification to OMB Circular A-21, indicated that most Federally funded research programs should have some level of committed faculty (or senior researchers) effort, either in the form of a direct charge or committed cost sharing. If this effort is in the form of cost sharing it cannot be considered voluntary uncommitted cost sharing. This effort can be provided at any time within the fiscal year (summer months, academic year, or both). Some types of research programs such as programs for equipment and instrumentation, doctoral dissertations, and student augmentation do not require committed cost sharing.

In both mandatory and voluntary cost sharing when an award is received in which the cost sharing was proposed, the cost sharing becomes a binding commitment that the University must provide as part of the performance of the sponsored project.

Failure to properly record cost sharing may result in audit findings and disallowances of costs that have to be refunded to the appropriate sponsor and/or reduce NAU's indirect cost rate during future negotiations.

ALLOWABLE COSTS FOR COST SHARING

The obligation for cost sharing is predominately associated with Federal grants and cooperative agreements. In accordance the Uniform Guidance, cost-sharing costs must be reasonable, allowable, allocable and meet the consistency requirements under federal cost principles as expressed in the Uniform Guidance. In addition, the costs should be:

- Certified in the effort reporting system (for mandatory and voluntary committed costshared effort) and available from accounting records (for other cost sharing expense).
- Necessary and directly related to project objectives.

The cost must not include any of the following:

- Costs included as cost sharing for any other project.
- Costs paid from another Federal project except as authorized by the Federal agency.

What Expenditures can be Cost Shared?

Cost Sharing may consist of allowable direct or indirect cost resources, subject to approval by the providing party (Dean, Center Director, Vice President for Research, Provost)

DIRECT COSTS

- Faculty or Staff Effort – It may be appropriate to contribute faculty or staff effort to the performance of a sponsored project. The commitment to provide such support binds the University to contribute the effort and record the associated expenditures including fringe benefits in the total committed effort that may not exceed 100%. Cost sharing commitments created by replacing funded effort on sponsored projects with cost shared effort must be properly tracked and maintained with the general ledger to ensure that the individuals total effort on a project both direct and cost shared are properly reflected.
- Equipment – It may be appropriate to cost share the cost of equipment (in whole or in part) in the performance of a sponsored project; however, additional institutional approval may be required.

Care should be taken in preparing proposals for sponsored projects not to commit the use of existing NAU-owned or government owned equipment as cost sharing, but to characterize the equipment as “available for the performance of the sponsored project at no direct cost to the project”. Proposals that include the acquisition of special-purpose equipment as a direct cost may require that the University provide funds to pay for all or part of the cost of such equipment. These proposals may be for equipment or instrumentation grants, where the purpose of the grant is to buy equipment and the

University is required to share the cost with the sponsor, or research oriented grants and contracts where the purchase of equipment required for the research is an allowable expense included in the proposal and award. The portion of the purchase price paid by the University must be considered cost sharing.

- Other Direct Costs – Allowable direct costs other than salaries, fringe benefits or equipment may, on occasion, be committed as cost sharing on the proposal budget. The following are examples of other direct costs that may be cost shared:
 - Travel expenses
 - Laboratory supplies
- Indirect Costs (Facilities and Administrative Costs) – Indirect costs are real costs of conducting instruction, research, and public service projects. 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 may take advantage of the automatic cost sharing of indirect costs on cost shared direct costs and include them on the proposal budget.

Expenditures Not Eligible For Cost Sharing

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

- Administrative salaries, services and supplies that is not appropriate as direct costs, as stated in the Uniform Guidance.
- Unallowable costs as defined in the Uniform Guidance.
- University facilities such as laboratory space. PIs should take care in preparing proposals for sponsored projects not to commit use of facilities as cost sharing, but rather to characterize facilities as “available for performance of the sponsored agreement at no direct cost to the project”.
- Depreciation on equipment.

Cost Overruns

After the end of the project performance period, when unanticipated project expenses result in more allowable charges to a sponsored project than were funded, the amount of the overrun is cost sharing and should be accounted for appropriately.

Salary Amounts In Excess Of The NIH Salary Cap For Faculty Charged To National Institutes Of Health (NIH), Agency For Healthcare Research And Quality (AHRQ), And the Substance Abuse And Mental Health Services Administration (SAMSA) Grants

Salary amounts in excess of the NIH salary cap (contact OSP for the current amount) are considered voluntary committed cost sharing. The associated fringe benefits and indirect costs are also considered cost sharing.

Consequences of Cost Sharing

Mandatory and voluntary committed cost sharing on sponsored research projects is included in the Organized Research direct cost base that is included in the calculation of the Facilities and Administration (F&A, also known as indirect costs) rate. An increase in the Organized Research direct cost base results in a decrease in NAU's F&A rate and consequently a reduction of indirect cost revenue from sponsored projects that are credited to the various schools and centers of the University.

Cost Sharing on Research Projects

SPACE CODING

University space used for mandatory and voluntary committed cost sharing for research projects is coded to Sponsored Research in the University's indirect cost proposal and must be consistent with the coding of expenditures in the accounting system.

Roles and Responsibilities

DEAN'S OFFICE, ACADEMIC DEPARTMENT AND RESEARCH UNIT

- Determine the cost sharing requirements of the project.
- Evaluate the workload implications of proposed cost sharing.
- Ensure the total effort for an individual does not exceed 100%.
- Identify, quantify and record mandatory and voluntary committed cost sharing.
- Identify the cost sharing source for mandatory and voluntary committed cost sharing.
- Notify OSP of the cost sharing account for mandatory and voluntary committed cost sharing.
- Ensure that mandatory and cost sharing commitments are reflected in effort certifications for cost shared effort.
- Work with OSP to submit cost sharing reports (if required) that comply with sponsor's reporting requirements.
- Ensure that mandatory and voluntary committed cost sharing commitments are met and properly budgeted and recorded.

OFFICE OF SPONSORED PROJECTS (OSP)

- Review cost sharing requirements and commitments in the proposal and verifies these commitments are properly budgeted when awarded.
- Incorporate appropriate cost sharing conditions in subcontract agreement.
- Upon award, review cost sharing requirements and commitments for proper accounting treatment.
- Work with departmental/center administrators to determine appropriate reporting requirements.
- Verify that cost sharing requirements have been met at close out.

Contact

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Commonly Asked Questions

Question: What is the relationship between the space coding in NAU's indirect cost proposal and cost sharing?

Answer: The coding of space in the University's indirect cost proposal must be consistent with the coding of expenditures in the accounting system. Auditors confirm consistent treatment during the review of the University's indirect cost proposal.

Question: If a proposal voluntarily offers cost sharing does that represent a binding commitment if the proposal is awarded?

Answer: Yes, cost sharing that is identified in the proposal represents a binding commitment if awarded, regardless of whether it is mandatory or voluntary.

Question: Can cost sharing expenses consist of expenses that are unallowable on a Federal grant/contract?

Answer: No, one of the criteria to determine if a cost sharing expenditure is appropriate is that it meets all of the allowability criteria in the Uniform Guidance. See Allowable Cost for Cost Sharing section in this policy.

Question: Should cost overruns be treated as cost sharing?

Answer: If the cost overrun consists of allowable costs and occurred because there were not sufficient funds awarded then the overrun should be treated as cost sharing.

Question: Do amounts in excess of the NIH salary cap represent cost sharing?

Answer: Yes, the NIH salary cap is a legislated cap on salary reimbursement rates and amounts in excess of the cap represent cost sharing.

Question: If a faculty member cost shares effort that occurs after working 40 hours does this need to be recorded as cost sharing?

Answer: Yes, this would be considered cost sharing; however, full time equivalent (FTE) for faculty effort is not defined in terms of a 40 – hour workweek. A faculty FTE is defined as 100% effort that is defined as the total of all effort performed during a defined work period regardless of the number of hours worked.