Cost Sharing: Why all the Fuss?

There was a time when cost sharing was viewed as simple and considered very de rigueur. Anyone who proposed to conduct a project and wanted a sponsor to pay for it routinely asked their institutions to throw something into the pot—both to sweeten it and to reduce out-of-pocket costs for the sponsor. Some investigators became convinced that cost sharing was an acceptable way to pay their way into the research game, especially if they viewed their institutions as less competitive than other schools. Investigators generously contributed their time on the project and the time of other staff members, offered up use of expensive equipment, and paid facilities rental expenses, materials, and supplies as cost share. Everybody did it. Nobody thought too much about it. After all, except for some occasional real dollars coughed up by the dean or the provost, most cost sharing wasn't real. It was just funny money, and it didn't cost anybody anything, right?

Well, cost share is real, and it always has been—even if it did look funny to investigators and some administrators alike. And yes, it once was no big deal. But in the last several years, cost sharing practices have been changing dramatically at first one U.S. research university after another. This sea change in how cost sharing is being viewed was brought about initially because cost sharing practices hit the Federal government's radar screen in the 90s, and the Feds didn't particularly like what they saw. They responded by incorporating selected Cost Accounting Standards into the Office of Management and Budget's (OMB's) Circular A-21, "Cost Principles for Educational Institutions". One of these standards addressed the consistency with which costs are estimated in proposals, and accounted for and reported in awards. This standard required that proposed cost sharing, once an award results, be recorded in the institution's accounting system, reflected in financial reports submitted to the sponsor, and taken into account in the calculation of the institution's Facilities and Administrative (F&A, or indirect) cost rate. The Feds began to hold institutions' feet to the fire and they, in turn, became more concerned about the effect of cost sharing on their overall budgets.

The Cost Accounting Standards packed a one-two punch for institutions. First, it's oftentimes a pain (if not a nuisance) to have to account for those so-called "funny money" expenses. To do it right, an institution has to treat them seriously and as the real expenses they are. An institution has to create "companion" or "child" accounts pegged to a grant account so that every dollar, whether cavalierly or solemnly offered up as cost share, can be accounted for and verified. For expenses not easily captured in an institution's financial reporting system, there are other ways to document cost share. For example, subcontractees not operating under Circular A-21 may submit letters or statements attesting to contributed time of employees or other cost shared expenditures. On university campuses, accounting for cost-shared faculty time triggers activity within the Effort Reporting System. This, in turn impacts directly the institution's Facilities and Administrative (F&A) rate by shifting expenses from one cost category to another, and drives down the rate. Thus, a seemingly simple issue suddenly can take on enormous reporting and financial implications and seemingly innocuous cost sharing practices we all had grown to love in the past have suddenly been thrust center stage and are being viewed by colleges and
universities as a practice to avoid whenever possible (i.e., whenever not explicitly required by a potential funder).

The Universities of Minnesota, Florida, and Washington and MIT are among a group of large research universities to develop cost sharing policies. All four policies expressly state that cost sharing decreases their institution's F&A rate, thus requiring that state general revenue funds (or other funds in the case of MIT) be diverted to cover the added expenses or the F&A shortfall. UGA has no formal cost sharing policy to offer guidance on what should or shouldn't be done and why. UGA needs such a policy, however. A significant amount of voluntary cost sharing is done annually at UGA. This cost sharing may mean that general revenue funds that were to go to a department for a computer programmer or an administrative assistant have to be diverted to meet a cost sharing commitment on a grant. It also puts downward pressure on our F&A rate, causing us to use more general revenue funds to cover the costs of sponsored research. At UGA, it is not uncommon for proposals to voluntarily commit $1.50 for every dollar they request from an agency. These practices occur, even though the agency in question may only have a 50% cost share requirement—-or none at all!

Thus, UGA administrators and faculty will be called upon this year to work together to explore the issue thoroughly, with an eye toward setting policy or guidelines that will give the institution a firmer handle on the practice-not to stop it, but simply to manage it more astutely.