

**UNIVERSITY OF CALIFORNIA, DAVIS  
AUDIT AND MANAGEMENT ADVISORY SERVICES**

**UC Davis  
Cost Sharing  
Audit & Management Advisory Services Project #23-02**

**January 2023**

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**Cost Sharing  
AMAS Project #23-02**

**MANAGEMENT SUMMARY**

**Background**

As part of the fiscal year (FY) 2023 audit plan, Audit and Management Advisory Services (AMAS) assessed processes in place to ensure compliance with cost sharing agreements.

Cost sharing or matching means that a portion of project costs is not paid by the funding agency and are instead covered by the University. It includes all contributions, including cash and in-kind, that a recipient makes to an award.

Compliance with cost sharing is a shared responsibility between Contracts & Grants Accounting (CGA), the Principal Investigator (PI), and the department administrator. CGA provides central oversight over the cost sharing commitment activity and training on the systems used to record cost sharing. The PI, in collaboration with the department administrator, is responsible for tracking and reporting total accumulated cost share contributions in support of their commitment. At UC Davis, cost share contributions are normally tracked through the Cost Share Application (CSA)<sup>1</sup>, approved by the PI, and reported to the sponsor by CGA. In addition, the CSA is used to track cost sharing commitments for Agriculture and Natural Resources (ANR) sponsored awards.

As of June 30, 2022, total active sponsored awards with cost share are shown below<sup>4</sup>:

Fund Source	Federal & Federal Flow - Thru (FFT)		Non-Federal		Total	Campus	ANR
	Mandatory <sup>2</sup>	Voluntary <sup>3</sup>	Mandatory	Voluntary			
Federal	185	43	0	0	<b>228</b>	189	39
Private	24	6	94	28	<b>152</b>	130	22
State (CA)	13	2	22	15	<b>52</b>	34	18
Local	8	3	5	1	<b>17</b>	15	2
<b>Total</b>	<b>230</b>	<b>54</b>	<b>121</b>	<b>44</b>	<b>449</b>	<b>368</b>	<b>81</b>

**Purpose and Scope**

The purpose of this audit was to review processes in place to ensure compliance with cost sharing agreements.

<sup>1</sup> It is anticipated that cost sharing will be tracked through Aggie Enterprise, which is expected to go live in January 2024.

<sup>2</sup> Mandatory cost sharing is required by the sponsor as a condition of obtaining an award.

<sup>3</sup> Voluntary Committed cost sharing occurs when resources are offered by the university (documented and quantified in the proposal) but it is not a specific sponsor requirement.

<sup>4</sup> The cost share information was obtained from the Kuali Financial System (KFS). When a sponsored award has a cost sharing commitment, the cost share type is included in KFS. This creates an award profile in CSA, where the cost share information is recorded.

To accomplish this objective the following procedures were performed:

- Review of relevant UC and University policy, and Federal Guidance<sup>5</sup>.
- Interview of Sponsored Programs, CGA, and department personnel to get an understanding on the internal controls and processes related to cost sharing.
- Review of a sample of sponsored awards with cost sharing commitment.
  - Review of cost sharing commitment letters to verify Department Chairs and/or Deans and third-party entities provided their approval for the committed cost share.
  - Review of award agreements and amendments to verify cost sharing commitments were accurately reflected in the CSA.
  - For cost sharing of labor expenses, review of effort reports to verify cost share effort was documented and certified.
  - Review of cost share contribution reports to verify the cost share reported met the cost sharing commitment.

The scope of the review covered UC Davis campus and ANR's federal sponsored awards with mandatory and voluntary cost sharing commitments active as of June 30, 2022, and those that ended in FY 2022.

### **Conclusion**

While CGA has processes in place to track and report cost share contributions, there are opportunities for improvement in the following areas:

- Recording of cost sharing commitments for tracking and reporting purposes;
- Monitoring of cost share contributions; and
- Certification of cost share effort for labor expenses.

Detailed observations, recommendations and management corrective actions are contained within the body of the report.

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<sup>5</sup> OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (a.k.a. Uniform Guidance) - Code Federal Regulation (CFR) 200.306

**Observations, Recommendations, and Management Corrective Actions**

**I. Recording of cost sharing commitments**

Ref.	Observations	Risks/ Effects	Recommendations	Management Corrective Actions
<p><b>A</b></p>	<p><b><i>Discrepancies were identified in the Cost Share Application (CSA).</i></b></p> <p>The cost sharing commitment for a sponsored award is entered in the CSA by the fund manager based on the award agreement information. This information is used to track and report cost share contributions by the PI and department administrator. The following discrepancies were noted:</p> <p><b>(1) Cost sharing commitment was not included in the CSA.</b></p> <ul style="list-style-type: none"> <li>• 1 active award with a mandatory cost sharing commitment of \$2,501,419 was not included in CSA.</li> </ul> <p><b>(2) Cost sharing commitments were not accurately recorded in the CSA.</b></p> <p>Out of our sample of 15 active and 15 closed<sup>6</sup> awards:</p> <ul style="list-style-type: none"> <li>• 1 active award (\$207,651) and 1 closed award (\$63,089<sup>7</sup>) with mandatory cost sharing commitments did not accurately reflect the cost sharing commitment in the CSA.</li> </ul> <p>As a result of (1) and (2), total cost sharing commitments of \$2,772,159 were not tracked, and \$63,089 was not reported in the CSA.</p>	<p>Failure to record and/or accurately and completely record cost sharing commitments limits the ability to monitor and ensure the cost sharing commitment is satisfied.</p>	<p>For the cases identified, we recommend CGA correct the cost sharing commitments in the CSA, and work with the department to ensure the outstanding cost share contributions are tracked and reported.</p> <p>In addition, we recommend CGA develop and implement a process to verify the cost sharing commitment is accurately reflected in the cost share tracking system.</p>	<p>As of November 2022, CGA has corrected the cost sharing commitment for 2 out of 3 cases identified in the CSA by our review.</p> <ol style="list-style-type: none"> <li>1) By March 15, 2023, CGA will correct the cost sharing commitment for the remaining case identified in the CSA.</li> <li>2) By March 15, 2023, CGA will notify the responsible departments of the discrepancies identified to ensure cost share contributions are properly documented.</li> <li>3) By April 15, 2023, CGA will establish a threshold for a secondary review to verify cost sharing commitments are accurately reflected in the system.</li> <li>4) By June 15, 2023, CGA will perform a secondary review on applicable awards to ensure the cost sharing commitments are accurately reflected in the system. If exceptions are noted, CGA will correct the cost sharing commitment as needed.</li> </ol>

<sup>6</sup> Federal sponsored awards that ended in FY 2022.

<sup>7</sup> This award displayed a cost sharing commitment of \$76,711 in the CSA. Total cost sharing commitment for the award was \$153,937; however, \$90,848 of cost share contributions were reported. Therefore, approximately \$63,089 was not tracked and reported in the CSA.

<p><b>(3) The award was incorrectly included in the CSA.</b></p> <ul style="list-style-type: none"><li>• 2 closed awards, without cost sharing commitments, were incorrectly included in the CSA. The award profile displayed the cost sharing commitment as "Not Yet Entered" or "\$1."</li></ul> <p>Upon further review, out of 179 closed awards, there were approximately 30 awards that displayed the cost sharing commitment as "Not Yet Entered" or "\$1" in the CSA. 4 out of 30 awards included finalized and approved cost share contribution reports. These results suggest these awards were improperly included in CSA, or the cost sharing commitment was not properly monitored.</p>	<p>Furthermore, we recommend CGA review the CSA to determine if award profiles without cost sharing commitment should be closed, or subjected to tracking and reporting procedures.</p>	<p>5) By March 15, 2023, CGA will review the CSA for closed awards that do not display a cost sharing commitment and determine if the award profile should be closed or subjected to tracking and reporting procedures.</p> <p>6) By July 15, 2023, CGA will review the CSA for active awards that do not display a cost sharing commitment and determine if the award profile should be closed or subjected to monitoring procedures.</p>
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II. Monitoring of cost share contributions

Ref.	Observations	Risks/ Effects	Recommendations	Management Corrective Actions
B	<p><b><i>Effective monitoring procedures are not in place to ensure cost sharing commitments are met by the award period end date.</i></b></p> <p>Existing monitoring procedures require the fund manager to follow-up with the PI and Department Administrator when the cost share contribution report is due and verify the cost sharing commitment is met by the award period end date.</p> <p>For 8 out of 15 closed awards, the cost share contribution reported in the CSA did not agree to the cost sharing commitment. As a result, total cost sharing commitments of \$184,070 on these awards were not tracked or reported in the CSA. In addition:</p> <ul style="list-style-type: none"> <li>• 3 out of 8 awards did not have cost share contributions reports in the CSA.</li> <li>• 6 out of 8 awards profiles in the CSA were not closed timely by the fund manager (all had remained open for over 200 days after the award period end date).</li> </ul> <p>Upon further review, of 179 closed awards, there were approximately 97<sup>8</sup> award profiles that were not closed timely in the CSA. In addition, 78<sup>9</sup> out of 97 award profiles did not have cost share contribution reports. These results further suggest that the awards were not monitored effectively and timely to ensure the cost sharing commitment was satisfied.</p>	<p>Failure to fulfill cost sharing commitments may lead to a reduction in the total awarded amount, or the sponsor may require the University to return funding.</p> <p>In addition, failure to substantiate the required cost sharing commitment results in non-compliance with Federal regulations.</p>	<p>For the cases identified, we recommend CGA work with the department to ensure the outstanding cost sharing commitment is tracked and reported.</p> <p>In addition, we recommend CGA develop and implement a process to ensure cost sharing commitment is met by the award period end date.</p>	<ol style="list-style-type: none"> <li>1) By March 15, 2023, CGA will notify the responsible departments of the discrepancies identified to ensure cost share contributions are properly documented.</li> <li>2) By March 15, 2023, CGA will issue a communication to fund managers, PIs, and department administrators to address the importance of tracking and reporting cost share contributions timely.</li> <li>3) By April 15, 2023, CGA will establish a threshold for a secondary review of closed awards to verify the cost sharing commitment was met by the award period end date.</li> <li>4) By June 15, 2023, CGA will perform a secondary review on applicable closed awards to ensure the cost share contribution reported met the cost sharing commitment. If exceptions are noted, CGA will perform follow-up procedures to ensure cost share contributions are documented.</li> </ol>

<sup>8</sup> Out of the 97 closed awards, 67 (69%) ended on 6/30/22. It is worth noting that these awards may have received an extended reporting due date (general reporting due date are 90 to 120 days after the award end date) or received an extension for the award period.

<sup>9</sup> Out of the 78 closed awards, 57 (63%) ended on 6/30/22.

	<p>Under Code of Federal Regulations 200.306 (b) “shared costs or matching funds and all contributions, including cash and third-party in-kind contributions for all federal awards, must be verifiable from the non-Federal entity’s records.”</p>			
<p><b>C</b></p>	<p><b><i>Effective monitoring procedures are not in place to ensure third party cost share contributions reported are verifiable.</i></b></p> <p>CGA’s Third Party Documentation Requirements, require third party cost share to be supported by an after-the-fact third party contribution letter. This documentation must be submitted to the fund manager when the contribution report is finalized and approved.</p> <p>For 2 awards reviewed<sup>10</sup>, the required third party contribution documentation was not collected and retained within CGA’s award file. Furthermore, for 1 out of 2 awards reviewed, the department was not able to locate the documentation due to personnel turnover.</p>	<p>Failure to obtain third party cost share contribution documentation limits the ability to meet criteria required by Federal regulations.</p>	<p>For the cases identified, we recommend CGA work with the department to obtain the third party cost share contribution letters.</p> <p>In addition, we recommend CGA develop and implement a process to ensure third party cost share documentation is obtained as required by CGA’s Third Party Documentation Requirements.</p>	<ol style="list-style-type: none"> <li>1) By March 15, 2023, CGA will issue a communication to fund managers, Pls, and department administrators to address the importance of obtaining and retaining after-the-fact third party cost share contribution letter.</li> <li>2) By April 15, 2023, as part of the secondary review process established in MCA B.4 above, for applicable closed awards, the reviewer will verify third party cost share contribution letters were obtained and retained within CGA’s award file.</li> <li>3) By June 15, 2023, CGA will perform a secondary review on applicable closed awards to ensure the third party cost share contribution letter was obtained and retained. If exceptions are noted, CGA will work with the department to obtain the third party contribution letters.</li> </ol> <p>If the established threshold applies to the cases identified, CGA will work with the department to obtain the third party contribution letter.</p>

<sup>10</sup> The awards had a cost sharing commitment of \$58,254 and \$153,937. The third party cost share contributions reported were \$2,600 and \$31,624, respectively.

III. Certification of cost share effort

Ref.	Observations	Risk/ Effect	Recommendation	Management Corrective Actions
D	<p><b>Effort reports do not reflect cost share effort reported.</b></p> <p>Effort reporting is the method for certifying to the federal granting agencies that the cost share effort required as a condition of the award has been completed. If the cost share effort recorded does not fairly represent the percentage of time spent working on the project during this period, the PI is instructed to adjust the effort to the percentage that should be cost shared before certifying the report.</p> <p>5 out of 7 selected effort reports for individuals whose labor expenses were reported as cost share contributions in the CSA did not reflect the cost share effort.</p> <p>Under Code of Federal Regulations 200.430 (i) (4) “Salaries and wages of employees used in meeting cost sharing or matching requirements on Federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from Federal awards.”</p>	<p>Failure to certify cost share effort results in non-compliance with Federal regulations.</p>	<p>For the cases identified, we recommend CGA work with the department to correct the effort reports.</p> <p>In addition, we recommend CGA develop and implement a process to ensure cost share effort is properly captured in the annual effort certification.</p>	<ol style="list-style-type: none"> <li>1) By March 15, 2023, CGA will work with the responsible departments to ensure cost share effort is properly reflected in the certified effort report for the cases identified.</li> <li>2) By March 15, 2023, CGA will issue a communication to fund managers, PIs, and department administrators to address the importance of certifying cost share effort.</li> <li>3) By April 15, 2023, as part of the secondary review process established in MCA B.4 above, for applicable closed awards, the reviewer will verify cost share effort reported was properly captured and certified in the effort report system.</li> <li>4) By June 15, 2023, CGA will perform a secondary review on closed applicable awards to ensure cost share effort was properly captured and certified in the effort report system. If corrections are needed, CGA will work with the responsible department to correct the effort reports.</li> </ol>