

Effort Reporting: Certifying Effort on Sponsored Projects

Scope

This document sets forth the University's policy on certification of effort expended on sponsored project awards administered by Alabama Agricultural & Mechanical University ("University"). This Policy applies to all individuals who commit and devote effort to a sponsored project as well as those individuals involved in certifying the effort of individuals on a sponsored project.

Purpose of the Policy

This policy ensures that effort certifications completed in connection with University sponsored projects are accurate, reasonably reflect the actual level of effort expended on a sponsored project, and comply with sponsor requirements. As a condition of receiving sponsored awards, the University must assure sponsors that the effort expended on their sponsored projects justifies the salary charged to those projects. In addition, the University must assure sponsors that the commitment indicated (including mandatory and voluntary committed cost sharing) in the proposal and subsequent award is met in accordance with the sponsor's terms and conditions. The University provides this assurance by requiring periodic effort reports for each individual whose salary is charged to one or more sponsored projects and/or cost sharing accounts during the effort reporting. Completed effort reports indicate the percentages of the individual's total effort that are dedicated to the sponsored project(s) and other University activities, and require a certification that the reported effort percentages are reasonable and accurate.

Each faculty member must be aware of his/her level of committed effort to sponsored projects, their ability to meet those commitments in light of any other University obligations they may have and to communicate any significant changes in level of sponsored projects effort to his/her respective business office.

Financial penalties, expenditure disallowances, and harm to the University's reputation could result from failure to provide accurate effort certifications or failure to comply with the University's effort reporting requirements. All individuals involved in the effort certification process are expected to abide strictly by the provisions of this policy.

Policy Statement

- The University is committed to ensuring that effort reports completed in connection with sponsored projects are accurate.
- All faculty and staff who are involved in allocating salaries and wages to sponsored projects, managing sponsored projects, or completing effort reports are responsible for understanding the principles of accurate and timely effort reporting.

- In no case can the percentage of an individual's salary charged to a sponsored project exceed the percentage of the individual's total effort that is expended on the project during an effort reporting period.
- If the percentage of total effort expended in a given effort reporting period is less than the percentage of salary charged to the sponsored project during the period, the salary charges must be reduced to reflect actual effort.

1. What is "effort certification?"

Effort certification is a process in which the proportion of the employee's salary charged directly to a sponsored project or committed as cost-share is calculated as a percent of Institutional Base Salary (IBS). The employee is asked to certify that this percent salary distribution reasonably reflects his/her Total Institutional Effort during the reporting period.

2. To whom does the effort certification requirement apply?

Effort certification is required of all salaried (i.e., "exempt") employees (faculty, administrative/professional staff, and graduate assistants) who are compensated from, or contribute mandatory or voluntary committed time as cost share, to a sponsored project as part of their Total Institutional Effort. Employees who are paid hourly (non-exempt staff, student assistants, and casual laborers) do not participate in the effort certification program. These individuals complete a daily timecard that records hours worked on the sponsored project and, when approved by the supervisor (generally the Principal Investigator/Project Director), serves as documentation of effort.

3. Why must effort be certified?

Effort certification is required because salaried employees do not keep detailed time records to document their activity. It is an alternate method for assuring that individuals who are paid with federal funds have contributed the required effort. The requirement for effort certification is set forth in *OMB Circular A-21: Cost Principles for Higher Education Institutions*, which applies to any federally funded grant, cooperative agreement, contract, subaward, or subcontract. *OMB Circular A-21* provides the rules regarding allowability and allocability of costs on federal awards, including compensation for personnel services, as well acceptable methods of effort certification. For consistency, the University extends effort certification requirements to all non-federally funded sponsored projects.

4. What is "Institutional Base Salary (IBS)?"

An individual's Institutional Base Salary (IBS) is the annual compensation paid by the university for his/her Total Institutional Effort, whether that individual's time is spent on teaching, research, service, administration, or other regular assigned activities. IBS may include salary

supplements for assigned extra duties but excludes extra compensation for incidental work, including overload pay.

5. What is “Total Institutional Effort?”

Total Institutional Effort includes all activities that the institution expects the employee to perform (i.e., a full workload or all regularly assigned job responsibilities) in exchange for his/her Institutional Base Salary (IBS) compensation, regardless of the number of hours the employee works. Total Institutional Effort does not include incidental work (i.e., work performed for the university on an infrequent and short-term basis that is in excess of normal for the individual) for which extra compensation is received. Separately compensated external (private) consulting and other outside professional activities are not included in Total Institutional Effort.

6. Why is work for extra compensation not considered part of Total Institutional Effort?

Federal regulations allow the exclusion of incidental effort (i.e., work performed for the university on an infrequent and short-term basis that is in excess of normal for the individual) for which the employee is additionally compensated above his/her Institutional Base Pay if such compensation is paid under institutional policy and is separately identified and documented in the institution’s financial management system. Since extra compensation is initiated by use of a specific document and coded separately in the accounting system, these requirements are met, allowing the university to exclude the incidental work associated with the extra compensation to be excluded from the effort certification process. Signature of the employee on the extra compensation form bearing a sponsored programs account number is the employee’s verification that the work performed for that extra compensation will be related to the sponsored project.

7. How is an individual’s distribution of effort determined?

The University employs an “after-the-fact” effort certification method, one of three methods prescribed by *OMB Circular A-21*. The portion of effort to be charged or committed to the sponsored project is initially estimated during proposal development. Upon award, the Grants & Contracts Accountant completes the paperwork necessary, with Principal Investigator/Project Director approval, to charge the proposed effort to the sponsored project account and/or its associated cost-share account.

At the close of each reporting period, salary distribution is calculated in percentages. The numerator represents compensation from the sponsored project or associated cost share account, and the denominator is the Institutional Base Salary. In most cases, the salary distribution reasonably reflects the actual distribution of effort. When it does not, the employee is asked to make corrections before certifying his/her effort.

8. How can an individual assure that the effort he/she is certifying is reasonably represented by the salary distribution percentages?

The federal government does not require faculty and other salaried personnel to keep time records indicating the number of hours or days worked on a sponsored project. Most individuals working on a single sponsored project do not have difficulty estimating the actual percentage of effort devoted to the project on a semester basis. However, individuals working on more than one sponsored project or those who work only sporadically on a single sponsored project during the semester may find it more difficult to estimate actual effort from memory. Employees are encouraged to document their time in the manner that will best assist them in comparing actual effort to the salary distribution reported on the certification form. Such documentation, although not required, could become auditable, and so a commitment to maintaining an individual tracking system should also include a commitment to apply it consistently and accurately.

9. What is the definition of “reasonable” when one compares salary distribution to actual effort?

The federal government recognizes that, “in an academic setting, teaching, research, service, and administration are often inextricably intermingled. A precise assessment of factors that contribute to costs is not always feasible, nor is it expected. Reliance, therefore, is placed on **estimates** [*emphasis added*] in which a degree of tolerance is appropriate” (*OMB Circular A-21, Section J.10*). In accordance with a 1979 interpretation by the U.S. Department of Health and Human Services, the University defines “reasonable” as no more than $\pm 5\%$ variance in effort distribution from the salary distribution percentages reported. The percent variance allowed is a percent of the Total Institutional Effort.

For example, if 50% of an individual’s salary is paid by a grant, no adjustment to the level of effort indicated on the certification form would be required if the individual’s effort could reasonably be determined to fall between 45 and 55%. However, if the individual certifies effort at, for example, only 30%, an after-the-fact salary reallocation would be required to reduce the salary charges to the sponsored project.

10. What should the employee do if the percentages are not accurate?

The employee should individually review the effort form to determine if the distribution of salary during the reporting period provides a reasonable representation of effort during that period. “Reasonable” is defined as no more than $\pm 5\%$ variance in effort distribution from the salary distribution percentages reported. If the salary distribution is not a reasonable representation of effort, the employee should make corrections on the certification form to indicate actual effort distribution, and then sign the certification statement. The employee should keep in mind that total effort must always equal 100%. If the employee changes one percentage figure to reflect a different level of effort, a corresponding change must be made in another category to keep total effort at 100%.

In all cases, if the salary distribution presented on the effort form is not a reasonable representation of the distribution of the individual's total effort performed for the University during the reporting period, the individual should make appropriate changes before certifying. In the event the proportion of the effort on the sponsored project significantly exceeds (i.e. > ±5%) the proportion of payroll charged to the sponsored project account, no change in the charges to the sponsored project are generally required. If, however, the individual's actual effort is significantly less than the proportion of his/her compensation that is charged to the sponsored project, reduction of the personnel costs charged to the sponsored project account during the reporting period will likely be necessary.

11. Can someone else sign the effort certification form for an employee?

Employees should certify their own effort when possible. If someone else signs for the employee, he/she must have firsthand knowledge of the employee's work on the project. Although the federal government does not define "firsthand knowledge," an auditor may closely question the signer about the exact nature of his/her firsthand knowledge. Graduate assistants, departmental clerical staff, and even department heads/unit directors rarely have the kind of firsthand knowledge necessary to certify effort for another individual. Thus, a PI/PD signing for an employee who is no longer at the institution is the most usual case of an alternate certification signature. Alternate certification in other cases should be rare and will likely involve a special circumstance.

12. Should the Principal Investigator/Project Director approve other employees' certification forms?

An approval signature in addition to the employee's signature is neither required nor desired. An approver can be questioned about the nature of firsthand knowledge of the employee's work during audit. Thus, since there is no federal requirement for an approval signature, this practice is discouraged.

13. What are the "trouble spots" in effort certification?

There are a number of specific practices or possible deficiencies in an institution's effort certification system that auditors and inspectors generally examine. Any effort certification that totals to something other than 100% automatically invites detailed scrutiny. Thinking that a standard "40 hour work week" has application to effort reporting can lead to this kind of miscalculation of total effort. An employee is improperly reporting effort if, proceeding on this assumption, he/she reports an allocation of 50% of his/her total effort to a sponsored project based on having devoted 20 hours per week to the project, when the 20 hours actually reflects a smaller proportion of his/her overall work. Likewise, a researcher who has spent many hours mentoring a promising graduate student erroneously thinks, "I do that on my own time." These well-intentioned beliefs can result in costly mistakes because they fail to recognize that effort on a sponsored project must be measured against "Total Institutional Effort" as described earlier.

Other “red flag” areas for auditors are completeness and timeliness of certification. Late, unsigned, or missing effort reports will likely raise questions. Effort reports that appear to have been signed in batches can be problematic. “Corrected” effort reports may draw an auditor’s attention; this is especially true when the “corrected” effort certifications lead to an unusually large number of payroll cost transfers. Employees who need to correct effort certifications should keep meticulous documentation in order to be able to explain why the correction was necessary. This explanation may be required in an audit conducted years later when memories have faded, and it may have to be delivered to potentially skeptical federal auditors and officials. Finally, simply “correcting” effort certifications near the end of the term of a sponsored project in order to “spend out” unused funds presents such egregious non-compliance that criminal charges may be made under the False Claims Act.

14. What are the potential consequences of inaccurate or non-timely effort certification?

Effort certifications provide the basis for institutional claims for reimbursement of direct and indirect charges under a federal grant or contract. Inaccurate or fraudulent reports may give rise to a False Claims Act (31 U.S.C. § 3729 *et seq.*) lawsuit. An individual who is found to have violated this Act can be subjected to civil penalties of not less than \$5,000 nor more than \$10,000 for each violation; to criminal sanctions, if the violation was willful, of imprisonment for up to five years and fines of up to \$25,000; and to an order to reimburse the government for treble the damages sustained by the government because of the individual’s act. There have been instances in which individual researchers have been required to make substantial civil monetary reimbursements to the federal government because of their involvement in improper effort certifications. Of course, the institution can suffer as well from False Claims Act violations by its employees. Institutional sanctions may include the payment of costly settlements or even debarment from participating in federally funded research. The issue of compliance with effort certification requirements should always be approached with these potentially heavy sanctions for violations in mind.

Every institution that receives federal grant or contract funds must abide by the same rules, including implementing an accurate effort certification system and ensuring that the federal government is not overbilled for effort that did not occur. Auditors may elect to review the effort certification system of any institution at any time, regardless of the type of institution or the size of its sponsored programs portfolio. Although the small size of an institution or a relatively modest volume of federally funded research may lower the probability of an effort certification audit, if it should occur, the magnitude of the impact of audit disallowances or a False Claims Act suit would be substantially greater, as small institutions generally do not have large monetary reserves from which to pay for disallowances, fines, settlements, and attorneys’ fees. Thus, any institution, regardless of size, is remiss if effort certification is not taken seriously and is not done in a way that satisfies federal regulations and ensures that the federal government is not overcharged for personnel time on sponsored projects.