



THE UNIVERSITY  
*of* NORTH CAROLINA  
*at* CHAPEL HILL

## 3<sup>rd</sup> Annual Symposium for Research Administrators

# An Exercise in Effort

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# Presentation Goals

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- What is Effort?
- Effort vs. Salary Support
- Effort's involvement from Proposal to Close-out
  - UNC's Minimum Effort policy
- Management and Tracking of Effort (Effort Commitments)
- Effort Reporting
  - Effort Reporting Policy Overview
  - Changes to Policy
  - Upcoming Effort Certification Period
  - Best Practices



# What is Effort?

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Effort is the portion of time spent on a given professional activity and expressed as a percentage of the total professional activity for which an individual is employed by the University. (Total professional activity includes research, teaching, administration or other activities.)

- Calculating Effort
  - A reasonable estimate
  - Total effort must equal 100%
  - Not based on a standard 40 hour work week (Proportion of all hours worked)
  - Does not include outside activities (e.g., external consulting)



# Effort vs. Salary/Payroll

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Effort is not just a verification of salary or payroll distribution – they are not the same thing.

- Payroll is the distribution of an individual's salary
- Effort describes the allocation of an individual's time and effort spent for specific projects, *whether or not reimbursed by the sponsor.*



# Effort Life Cycle Review

# Basics

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- In a grant proposal, we *offer* effort
- When receiving an award, we make a *commitment* of effort
- During the life of the award, we *charge salary* to the sponsor

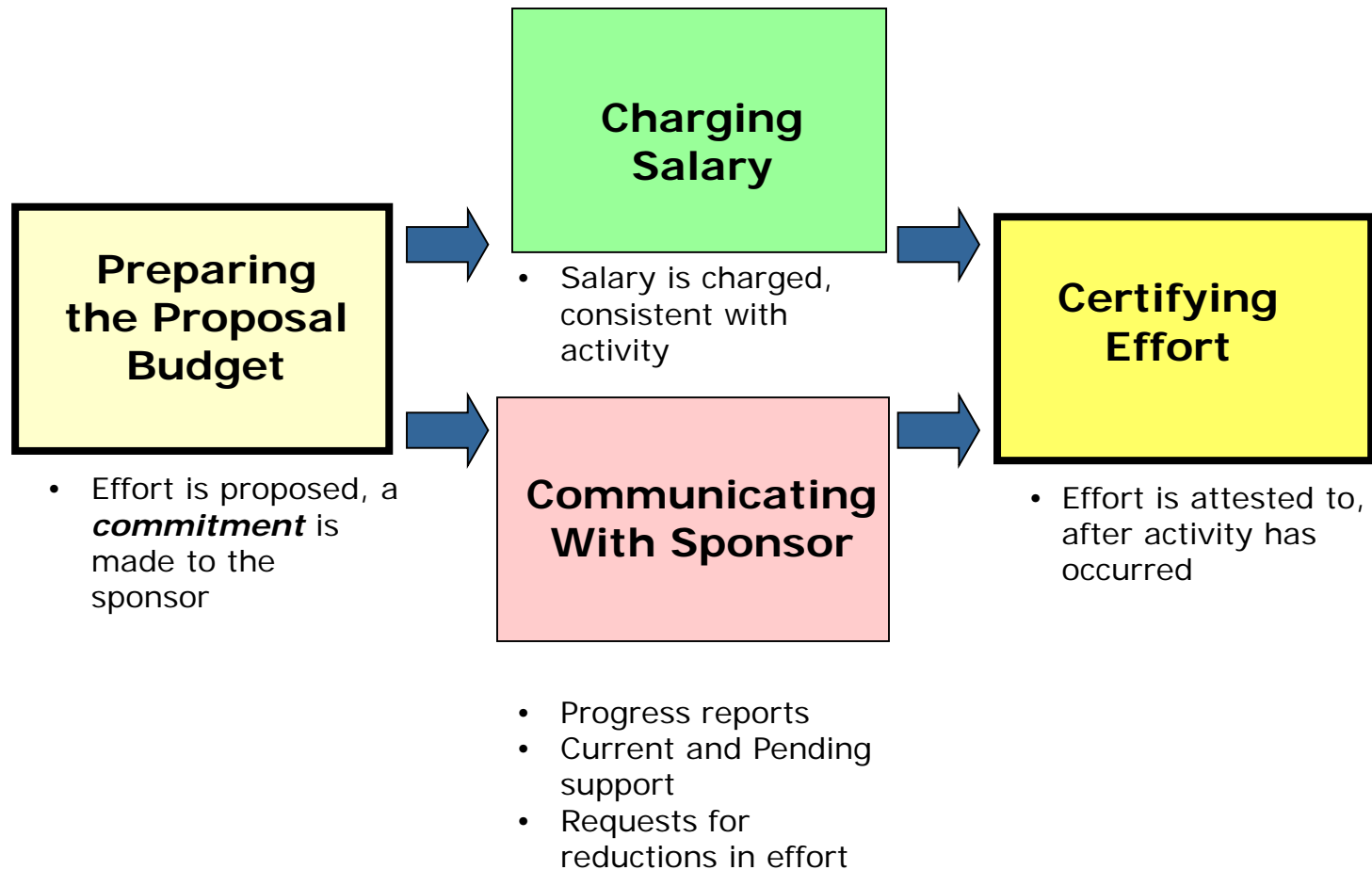
Sponsors may wish to verify:

- Did we devote enough effort to justify the salary charges?
- Have we fulfilled our commitments?



# Effort Life Cycle

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# Effort at Proposal Stage



# Proposing Effort & Requesting Salary Support

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## Effort Levels Proposed Should:

- be consistent with the actual effort each individual is expected to expend on the sponsored project during the relevant project period.
- for Principal Investigators (PI) and key personnel be sufficient to ensure oversight of financial, scientific and compliance aspects of a sponsored project.



# Proposed Effort & Requesting Salary Support

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## Institutional Base Salary (IBS)

- Amount of salary support requested for a sponsored project should be determined using the individual's IBS.
- The IBS includes all amounts paid to the individual by the University as compensation for services rendered.
- The IBS includes supplements for administrative activities (Department Chair, Institute Director) but does not include consulting and other outside compensated professional work.



# Cost Sharing

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The University discourages voluntary cost share and expects the sponsors to bear the full cost of the sponsored agreement.

- Committed Cost Share – When approved, the effort associated with committed cost share will be included in the proposal and shall be considered part of the commitment of effort on a sponsored project.
- Uncommitted Cost Share – Not considered part of the commitment of time on a sponsored project and does not have to be included in the proposal.



# Salary Cap Cost Sharing

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The effort associated with any salary above a sponsor-imposed salary cap shall be considered effort (cost share) and considered part of the individual's 100% effort.

- NIH Salary Cap – currently \$185,100 as of January 10, 2016

Project ID is added to non-sponsored chartfield to identify expenditures as salary cap cost share.



# Other Items for Consideration

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## Minimum Level of Effort

- The University requires a minimum of 1% effort either directly charged or provided as pre-approved cost share on most sponsored projects.
- PI must commit to and expend at least 1% effort during at least one effort reporting period of performance to accurately reflect their leadership of the project.



## Other Items for Consideration

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Faculty members are engaged in teaching, administrative and other duties in addition to their work on sponsored projects. Accordingly, unless circumstances warrant otherwise, **faculty generally have responsibilities that would preclude them from devoting 100% of their effort to sponsored activities.**

OSR will carefully scrutinize all instances where a faculty member is committed 100% to sponsored projects.



# Effort Commitments: Importance

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- **Obligations to sponsors as to the level of effort to be provided by key personnel on sponsored projects**
  - Includes both direct charged and cost-shared commitments
  - Effort Commitments cannot exceed 100%. If the receipt of an award increases a PI's committed effort to greater than 100%, the PI must revise level of committed effort requested by communication with sponsor, reduce effort on other activities, or refuse the award
  - Effort commitment can be met over the budget period (not the effort reporting "cycle")



# Effort During Award



# Reduction of Effort Commitments

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During the life on a sponsored award, when required by sponsor policies, it is the PI's responsibility to obtain University and sponsor approvals for:

- Absences for a continuous period of 3 months or more
- A significant reduction (25% or more from the level of effort approved at the time of award) of the PI's and/or key personnel specifically named in the award requires the prior approval of most sponsors
- Same rules apply for No Cost Extensions – most sponsors expect that the PI and key personnel will continue to devote the same level of effort during the no cost extension period as during the original award period



# Effort Reporting

# What is Effort Reporting?

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- Effort reporting is a process to assure sponsors that:
  - Salary charges are **justified**
  - Researchers **devoted the effort that was promised** in the proposal and agreed upon at the time of the award
- This is **not “timekeeping”** or “activity tracking”



or in another way...

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Effort reporting is the process by which the **salary charged** to a sponsored project is **reviewed after-the-fact to assure** that the salary charged was **reasonable in relation to the effort expended** on that project.



# Effort Reporting at UNC – Why?

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- Labor expenses typically represent the majority of the direct costs of sponsored research
- Labor distribution is set up prospectively, based on how a certifier plans to expend his/her effort for a specified time frame
- Effort Certification is a retrospective review and attestation of how salary and cost share were expended during the Period of Performance
- Effort Reporting provides an internal control mechanism for UNC certifiers and administrative staff to review salary charges



# Regulations, Statutes, & Related UNC Policies

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## **Federal Government**

- 2 CFR Part 220 (OMB Circular A-21)
- 2 CFR Part 200 (Uniform Guidance)

## **UNC-CH**

- OSR Policy 600.5 Effort Reporting
- OSR Policy 500.7 Cost Sharing
- OSR Standard Operating Procedure: Summer Effort Guidance



## A-21: J.10 – Compensation for Personal Services

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- b(2)(a): The payroll distribution system will “reasonably reflect the activity for which an employee is compensated by the institution”
- b(2)(b): “...must recognize the principle of after the fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached.”
- **c(1)(e): “At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to work performed.**



# Uniform Guidance—What has Changed from A-21?

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1. Requirements and standards have been streamlined across most entities that receive Federal awards.
2. Specific frequency and methodology requirements have been eliminated.
3. New standards for documentation of personnel expenses have been defined.





# New Standards of Documentation

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Charges to Federal awards must be based on records that accurately reflect the work performed (2 C.F.R. §200.430(i)(1)). In addition, the records must:

- Be supported by a **system of internal control** that provides reasonable assurance about the accuracy, allowability, and proper allocation of the charges
- Be incorporated into the entity's **official records**
- Reflect the **total activity for which the employee is compensated** by the entity, not exceeding 100% of compensated activities, or **Institutional Base Salary (IBS)**
- **Encompass both federally assisted and all other activities** compensated by the institution on an integrated basis, i.e. reflect 100% of the employee's activities
- Comply with the entity's established accounting policies and practices
- Support the distribution of the employee's salary and wages among **specific activities or cost objectives** if the employee works on multiple activities



# Internal Controls

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- Internal controls are addressed in section 200.303 and specifically mentioned in 200.430 Compensation-  
Personal Services
- Internal controls should be in compliance with guidance in:
  - “Standards for Internal Control in the Federal Government” (Green Book) issued by the Comptroller General of the U.S. (Updated September 2014)
  - “Internal Control Integrated Framework” issued by COSO (2013)
  - Appendix XI, Compliance Supplement – Part 6 Internal Control (which follows COSO but will consider both the Green Book and COSO in the 2015 update)



# Internal Controls

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## COSO's Internal Control-Integrated Framework (2013 Update)

- Codification of 17 principles supporting the five components:
  - Control Environment
  - Risk Assessment
  - Control Activities
  - Information & Communication
  - Monitoring Activities



# What does it all mean???

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- The internal control framework gives institutions a clear framework to follow when designing their systems of control and provides auditors the same framework against which to evaluate those systems.
- The stated expectations for internal controls very clearly places the burden on institutions to have, implement, and follow well documented policies and procedures to ensure their effort reporting practices satisfy Federal requirements.



# Effort Reporting

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- Proper “Effort Reporting” encompasses much more than certification, and includes:
  - Definitions, policies, procedures, forms, data and systems
  
- Effort Reporting includes the management of:
  - Faculty and staff appointments
  - Pledging and tracking of institutional effort commitments (both direct charged and cost shared)
  - Payroll distribution
  - Effort certification
  - Communication and training on all aspects of system



# Effort Reporting – It's Not an Exact Science!

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- Precision is not required
- Federal guidance states, "...it is recognized that, in an academic setting, research, teaching, service and administration are often inextricably intermingled
- Reasonable estimates are expected and acceptable, but...

**There are some rules to follow!**



# Effort Reporting Process

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## Key components for effort certification:

- Determine which group will generate effort reports
- Outlining who should certify
- Determine the frequency and timing of effort reports
- Have certifiers meet deadlines (and identifying repercussions for not meeting them)
- Educating certifiers on how to complete effort reports



# Effort Reporting Process

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## Important Concepts:

- All individuals paid from or with effort committed to a sponsored project (including clinical trials) are required to complete an effort report.
- Effort to be considered for the effort report includes sponsored projects, teaching, clinical practice, administrative effort, and other activities, expressed as a **percentage of total institutional effort.**





# Effort Reporting Process

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## Important Concepts, continued:

- Total work effort expended **cannot be more or less than 100%**
- The percentage of an individual's salary charged to a sponsored project **cannot exceed the percentage of the individual's total effort** expended on the project
- If the percentage of total effort expended is less than the percentage of salary charged to the sponsored project during the period, **the salary charges must be reduced**



# Effort Reporting Process

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## Important Concepts, continued:

- Generally, once a certification of effort has been completed, future salary reallocations will not be permitted unless doing so **favors the sponsor**
- **Proposed effort should be consistent with the actual effort** that each individual is expected to expend on the project during the relevant project period(s)
- Establish a **reasonable period of time** for completion of the effort reporting process (usually 30-60 days)



# Effort Reporting Process

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## Important Concepts, continued:

- Charge a project only for time that pertains specifically to the project
- **Do not charge** a grant for time spent writing a proposal for a new project or a competing continuation
  - ✓ Time spent on these activities must be covered by institutional or gift funds



# Roles and Responsibilities

# Central Administration Responsibilities

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- Manage the effort reporting system (ecrt)
- Notify campus regarding the availability of effort reports for review and certification
- Assist with questions regarding effort reporting policies and/or process
- Monitor effort reporting process
- Review effort reports for compliance with University policy
- Provide University leadership with list of individuals with uncertified effort reports at completion of certification period



# Certifier's Responsibilities

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- Review activities listed on the effort report and the proportion of salary charged to each
- If the information is accurate, read certification and certify the form
- **If not accurate**, add any missing activities and/or correct percentages
- **Communicate** any changes to effort statement to his/her Departmental Effort Coordinator
- **Ensure all salary distribution percentages match actual effort** on each activity
- **Sum total effort to 100%**
- Read the certification at bottom of form and certify



# Effort Coordinator Responsibilities

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## Pre-Review of Effort Reports:

- Examine each effort report for accuracy and note needed modifications.
- Compare salary distributions with effort commitments for each award and discuss with PI(s), if necessary.
- Identify individuals who should have received an effort report but did not.



# Effort Coordinator Responsibilities

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## Post-Review Activities:

- **Review the certified effort report.** If the certifier has made any changes to the effort report, cost transfers may be needed to bring payroll records into line with certified effort.
- Execute cost transfers in accordance with University policies. Retain supporting documentation.
- **Follow-up to make sure all assigned effort reports have been certified by appropriate individual.**





# It's Important to Get This Right!

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- Consequences of not getting right can be dire for the University
- Effort Reporting is the #1 target area for Federal auditors
- Many universities have paid millions in fines



# Red Flag Issues

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- Late/delinquent effort reports
- Re-Certifications
- Many post certification revisions
- Cost transfers
- Not resolving effort/payroll differences
- Inappropriate charges
- Internal control weaknesses
- Effort certified by someone not having suitable means of verification



# Recent Effort Reporting Audits

# Recent Effort Reporting Audits and Settlements

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## **Yale University**

Effort Reporting and Cost Transfers  
\$7.6 million

## **Weill Cornell Medical College**

Committed Effort  
\$2.6 million

## **St. Louis University**

Overstatement of Effort  
\$1.0 million

## **Florida State University**

Salary/Non-Salary Disallowances  
\$3.0 million in requested refund

## **Louisiana Board of Regents**

Effort Reporting, Cost Sharing  
\$1.9 million questioned costs

## **Ohio State University**

Commitments and Cost Sharing  
\$1.7 million in questioned costs

## **Columbia University**

Suitable Means of Verification  
Mischarging Grants

## **University of Delaware**

Effort Reporting

## **University of Alaska-Anchorage**

Effort Reporting and Grants Management

## **University of Michigan**

Effort Certification

## **University of Wisconsin-Madison**

Effort Reporting System



# Audit Summaries

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## **Yale University**

- \$7.6 Million Settlement – December 2008
- Broad, multi-year investigation of federal research grant accounting going back to 1999. Settlement partially covers effort reporting errors that include:
  - PI failed to provide the 25% level of effort proposed in sub-award application, PI did not submit effort reports for lab technician, two effort reports not confirmed.
  - University did not have procedures for monitoring the budgeted or minimum level of effort for key personnel.

## **Weill Medical College of Cornell University**

- \$2.6 million for False Claims Act Violation – March 2009
- \$4.4 million DOJ Settlement for Effort
- An investigator allegedly failed to disclose the full extent of her various active research projects in the grant application; the totality of her research commitments exceeded 100 percent of her available time.



# Audit Summaries

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## **University of Delaware – March 2010**

NSF's review identified weaknesses in Delaware's automated effort system.

- System did not capture transactions which impacted effort reports, resulting incorrect and negative effort.
- Approximately 28% of effort reports were certified after the institution's defined deadline of 60 days.
- There was a lack of understanding of effort reporting by employees, resulting in incorrect certifications
- Identified the need for improved effort reporting policies, monitoring and training

## **University of Alaska-Anchorage - August 2011**

NSF identified areas for improvement in its effort reporting system.

- Effort certifications were not always signed by individuals with suitable means of verification.
- Identified the need for improved effort reporting policies, monitoring and training



# UNC-Chapel Hill

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## **FY2014 A-133 Audit (State of NC Auditors)**

### **Lack of Salary and Wage Certifications Increases Risk of Inappropriate Charges to Federal Grants**

The University did not timely approve all of the required Effort Certifications necessary to ensure that all salaries and wages charged to federal grants were for services rendered under those grants. The University had 300,396 transactions for salaries and wages totaling \$195,841,274 that were paid from federal funds in fiscal year 2014.

Out of a sample of 60 randomly selected salary and wage transactions billed to federal grants, 11 transactions (18%) did not meet federal requirements:

- In 6 out of 60 (10%) transactions tested, the payee completed their Effort Certification but it was not certified (approved) by appropriate personnel within the appropriate time frame established by the University.
- In 5 out of 60 (8%) transactions tested, the payee did not complete the Effort Certification at all.

Because the University did not timely approve and obtain all of the required certifications, there was an increased risk salary and wage charges could be inappropriately billed to federal grants.



# UNC-Chapel Hill

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## **FY2015 A-133 Audit (State of NC Auditors)**

### Lack of Salary and Wage Certifications Increases Risk of Inappropriate Charges to Federal Grants

The University did not complete the effort certifications necessary to ensure that all salaries and wages charged to federal grants were for services rendered under those grants. The University paid \$189,402,452 in salaries and wages from federal funds in fiscal year 2015.

Because the University did not complete any of the required certifications, there was an increased risk salary and wage charges were inappropriately billed to federal grants.





# Effort Reporting at UNC-CH

# Update: Effort Reporting at UNC

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- In response to the FY2014 and FY2015 A-133 audit findings and the implementation of the Uniform Guidance we have **updated our Effort Reporting Policy and Procedures (OSR Policy 600.5)**
- **Upgraded our effort reporting system (ecrt) to current version 5.1**
- **FY2015 and first half of FY2016 effort statements certified during Spring 2016 – now current!**
- **Next Effort Certification Period of Performance (1/1/2016 – 6/30/2016)**
  - Pre-review Period begins August 15, 2016
  - Certification Period begins September 1, 2016



# Effort Reporting Policy Revision - Highlights

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- Effort statements are generated and confirmed in 6-month cycles (January-June and July-December)
- Each 6-month cycle is referred to as the **effort reporting period of performance**
- The **pre-review period** (effort coordinators only) begins approximately 45 calendar days from the end of the effort reporting period of performance
- The **University certification period will last 60 calendar days** and commences immediately after the pre-review period ends
- **Certifiers have 30 calendar days to confirm their effort** after the pre-review period ends and before the escalation period begins



# Effort Reporting Policy Revision - Highlights

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## Effort reports not certified in a timely manner:

- Provides guidance on a reminder and escalation procedure that will be initiated following the certification due dates for those reports not certified
- Escalation notices will be sent to Department Chair and Research Dean from Executive Director of OSR and VC for Research
- If the effort report has not been completed by a defined date the related salary and fringe benefit charges will be removed from all sponsored projects and moved to departmental non-sponsored funds.
- The charges may not be transferred back to the sponsored project(s)



# Effort Reporting Policy Revision - Highlights

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- Minimum effort requirement: PIs must certify at least 1% effort (direct charged or pre-approved cost share) during at least one effort cycle per year to accurately reflect their leadership of a project
- Updated Definitions and Roles and Responsibilities
- The University considers the effort report to be certified once *ecrt* routes the report to the Primary Effort Coordinator after certification by PI/employee



# Policy Changes Effective July 1, 2016

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- **No escalation period for reopened cards:** 21 days to recertify after effort cards are reopened or sponsored award charges will be moved to non-sponsored chartfield
- **Complete PAAT transactions within 30 days after the end of certification period to true up effort statements awaiting cost transfers due to variance between certified and calculated effort percentages**
- Once the effort certification period is closed an effort card may not be created, where one did not previously exist, due to a PAAT transaction moving charges to a sponsored project



# Policy Changes Effective July 1, 2016

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- **PAAT transactions created during certification period must be in OSR's approval queue four business days prior to the end of the certification period** or PAATs processed after this date will fall under the four circumstances allowable to post PAATs into closed, certified pay periods



# Allowable Circumstances to Post PAAT into Closed, Certified Pay Period

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- To “true up” a certified effort statement where the certified effort percentages are different from the computed effort percentages
- The movement of payroll transactions off of a sponsored award to a non-sponsored chartfield
- Movement of payroll transactions from one Project ID to another Project ID that belong to the same award - Transactions would usually be to move salary from one funding period to the next
- Delay in establishing a new Project ID due to the slow response of sponsor or delay caused by OSR (Project ID must not have been available at time of effort certification)





# Best Practices

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- Effort coordinators work with certifiers during certification period to ensure effort percentages are correct
- Train certifiers to carefully review effort card- they have an important role in the certification process
- Update percentages on effort card during pre-review
- Terminated employees can certify effort before they leave the University- email ecrt helpdesk



# OSR-Effort Reporting Contacts

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