

PPM 292: Appendix I – An Introduction To Effort Reporting For UC ANR Staff

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I. SUMMARY

The federal government requires an effort report when an individual is compensated by or has agreed to contribute time to a federally sponsored project. All academics who serve as investigators on sponsored agreements are personally responsible to certify the amount of effort that they and their employees spent on sponsored activities.

This guide provides an overview of effort reporting, including an explanation of why such a process is necessary and the minimum requirements for the process.

Currently, the University fulfills the effort reporting requirement through the use of the Personnel Activity Reports (PAR) system. The University is in the process of developing a web-based effort reporting system to be used by all individuals who work on research grants and contracts to streamline the process and to promote increased accuracy, accountability, and compliance with federal regulations.

II. WHAT IS EFFORT AND EFFORT REPORTING?

Effort is defined as the amount of time spent on a particular activity. It includes the time spent working on a sponsored project in which salary is directly charged or contributed (cost-shared effort).

Individual effort is expressed as a percentage of the total amount of time spent on work-related activities (instruction, research, outreach, patient care, administration, etc.) for which the University compensates an individual.

Effort reporting is the mandated method of certifying to the granting agencies that the effort charged or cost shared to each award has actually been completed.

III. WHAT IS CONTRIBUTED OR COST-SHARED EFFORT?

Cost sharing represents that portion of the total project costs of a sponsored agreement that are not borne by the sponsor or sponsors of the project. These costs are borne by the University or other non-federal third parties, rather than by the sponsor. Since academic salaries at the University of California are, in most part, paid for by the an individual's academic department, cost sharing of effort represents a redirection of departmental resources from teaching or other departmental activities to support sponsored agreements.

Certain federal agencies require that institutions cost share salaries that are above a "salary cap." A salary cap is defined as the amount of salary paid to an individual above which an agency will not reimburse an institution. The National Institutes of Health, the Agency for Healthcare Research and Quality, and the Substance Abuse and Mental Health Services Administration impose a salary cap on awards to the University.

Cost sharing can be required by the sponsor or volunteered by a principal investigator; regardless, any commitment of effort referenced in the project proposal or the award document must be honored, reported, and captured in an effort reporting system.

IV. THE DIFFERENCE BETWEEN EFFORT REPORTING AND PAYROLL DISTRIBUTION

Payroll distributions and effort reports are not the same thing. Payroll distributions are the distribution of an individual's salary, while effort reports describe the allocation of an individual's actual time and effort spent for specific projects, whether or not reimbursed by the sponsor. Thus effort reporting is separate from and can be independent of salary charges.

Effort is not just a verification of the salary or payroll distribution. Cost- shared or contributed effort must be included in effort reports.

Federal requirements regarding effort reporting

The Office of Management and Budget's (OMB) Circular A-21 "Cost Principles for Educational Institutions" is the federal government's cost principles for colleges and universities. It defines what costs are allowable and allocable to federal grants and other "assistance" agreements.

OMB Circular A-21 (Section J.8) sets forth criteria for acceptable methods of charging salaries and wages to federally sponsored projects. A-21 requires a payroll distribution system that directly charges salaries to appropriate projects.

In addition, Circular A-21 requires that institutions develop a mechanism to determine or confirm how individuals actually expend effort during a specified time period. These effort reports must be performed on a regular schedule and must be certified by individuals who have first-hand knowledge of 100 percent of the employee's compensated activities. In most cases, that would be the employee or the employee's direct supervisor.

V. RISKS OF NOT COMPLYING WITH CIRCULAR A-21'S EFFORT REPORTING REQUIREMENT

In fiscal year 2003, federal awards represented approximately 67 percent of the total \$3.53 billion in contract and grant award activity within the UC system. Salary expense represents the largest direct cost component on these projects.

In recent years, the federal government and its auditors have become much more active in their review of effort reporting requirements, and a number of universities have received large audit disallowances as a result. Recent cases of audit disallowances are:

1. Northwestern University paid \$5.5 million to settle issues related to problems with effort reporting, on a contracts and grants base of \$325 million;
2. South Florida returned \$4.1 million to the federal government to settle a number of charging issues, including effort reporting;
3. University of California paid a total of \$2.1 million to settle an NIH salary cap limitation disallowance for the period July 1, 1995 through June 30, 2002.

An effort reporting system must provide records on how individuals participating in federally funded sponsored agreements actually spend their time. Because the federal government mandates effort reporting, it is incumbent upon institutions that

receive federal funding to maintain accurate and auditable systems and records.

Documentation on how individuals spend time on federally sponsored projects is subject to federal audit and can be cause for institutional or individual disallowances.

Institutional disallowances can result if:

1. The effort report was certified by an individual other than the employee or someone who has "first-hand" knowledge of 100 percent of the employee's time;
2. The effort report does not encompass all of the activities performed by the employee under the terms of their employment;
3. The levels of effort reported do not appear reasonable, given the responsibilities of the individual.

Individual disallowances can result if:

1. The effort report certified by the individual is found to be falsified;
2. The levels of effort reported do not appear reasonable.

As evidenced above, federal audit disallowances can result in serious financial penalties for institutions. In addition, criminal charges may be brought against an individual certifying to falsified effort.

Current audit plans for federal auditors include effort reporting as a specific audit focus.

Adapted from UC Berkeley