

**University of California White Paper
Proposed Policies Related to UC Effort Reporting**

Effort Reporting System Management Work Group
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I. Introduction

A. Overview

Regulations concerning the use of federal funds require that universities substantiate direct salary costs charged to sponsored projects and committed cost sharing effort devoted to sponsored projects. Historically, the University of California has used an “after-the-fact” process to certify effort to support salaries charged directly to sponsored projects and to meet salary-related cost sharing commitments made in project proposals. In recent years, the federal government and its auditors have become much more active in their review of compensation charges on federal research projects (and related effort reporting certifications) and there have been several whistleblower cases at major institutions that have resulted in a number of universities receiving large audit disallowances or agreeing to make significant settlements to address alleged overcharges. Current audit plans for federal auditors include effort reporting as a specific audit focus. This is an area of significance to the University of California (“the University” or “UC”) since in FY04, federal awards represented approximately 69% of the total \$3.83 billion in contract and grant award activity within the UC system and salary expense represented the largest direct cost component on these projects. Given the increased scrutiny on the adequacy of effort reporting systems and processes and the significance of these dollars, the University of California has embarked on a project to develop a state-of-the-art web-based effort reporting system, which will interface with the UC Personnel/Payroll System and campus cost sharing systems, and will replace the current paper-based Personnel Activity Report (PAR) system. It is anticipated that the new UC Effort Reporting System will be completed and implemented in early 2006.

In preparation for the implementation of a new system, an Effort Reporting System Management Work Group, whose membership is comprised of representatives from among the campus Controllers, Budget Officers, Sponsored Projects Administration, UC Audit, UC Office of the President, and campus departments has been reviewing current effort reporting policy and practices and has developed various recommendations to strengthen policy and procedure with the goal of ensuring that the University will meet its regulatory obligations and reduce risks related to non-compliance. The Effort Reporting System Management Work Group determined that the current UC policies and procedures that support effort reporting merit examination and updating. Although existing UC policies reinforce the need for adherence to the federal regulations and provide some guidance regarding appropriate documentation for direct charging of salary costs on federal contracts and grants, there is little in existing policy that addresses the specifics of the effort reporting process to provide guidance to the campuses and the guidance that does exist has not been reviewed in some time. The gaps and/or issues in current policy appear to fall into several categories: 1)

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addressing what effort is to be included in effort reports; 2) addressing who must certify effort reports; 3) addressing which fund sources are subject to effort reporting; 4) addressing the circumstances under which effort reports can be revised; 5) addressing the frequency with which effort reports should be generated and certified; 6) addressing the issue of what tolerance level for accuracy is required; 7) addressing who is the office of record and the required retention period; 8) addressing whether there should be a consistent maximum % of effort that can be charged to sponsored projects; and 9) addressing how cost sharing should be identified and how certification of cost shared effort should be reflected in an effort reporting system.

This white paper has been drafted in response to policy questions that have arisen during the development of requirements for the new effort reporting system. A discussion of each of the policy issues follows along with recommendations for closing policy gaps, promoting more consistent and compliant practices, and strengthening overall University compliance. The Effort Reporting System Management Work Group is recommending that certain policy statements be articulated at a system-wide level as articulated in Section IV, Recommended Next Steps, and that the remaining issues be left to the discretion of the campuses.

B. Regulatory Requirements Related to “Effort Reporting”

US Office of Management and Budget Circular A-21, *Cost Principles for Higher Educational Institutions*, (OMB Circular A-21) is the authoritative source regarding what costs are allowable and allocable to federal grants and other “assistance” agreements. OMB Circular A-21, Section J.10, sets forth criteria for acceptable methods of charging salaries and wages to federally sponsored projects. OMB Circular A-21 also requires that institutions develop a mechanism to determine how individuals actually expend effort and prescribes criteria for acceptable methods of documentation.

C. Definition of “Effort Reporting”

Effort is defined as the amount of time spent on a particular activity. Individual effort is expressed as a percentage of the total amount of time spent on work-related activities (instruction, research, patient care, administration, etc.) for which the University compensates the individual. Effort reporting is the method of certifying to the granting agencies that the effort required as a condition of the award has actually been completed.

Payroll distributions and effort certifications are not the same thing. Payroll distributions describe the allocation of an individual’s salary or the amount of hours worked, while effort certifications describe the allocation of an individual’s effort contributed to sponsored projects to meet effort commitments agreed to in the award, whether or not reimbursed by the sponsor. Thus, effort reporting is separate from and can be independent of salary charges.

Regulations concerning the use of federal funds require that universities substantiate direct salary costs charged to sponsored projects and committed cost sharing effort devoted to sponsored projects. Although OMB Circular A-21 does not use the term “effort reporting” or explicitly state that effort certifications are required for commitments of time funded from

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other resources that were proposed and awarded in project budgets (i.e., committed cost shared effort), other statements from OMB (e.g., OMB Memorandum M-06-01, dated January 5, 2001) imply that the Federal government expects effort to be certified when an individual is compensated from or has made a commitment to contribute time to a federally sponsored project.

II. Background

A. References to Regulatory Requirements

As previously mentioned, OMB Circular A-21, Section J.10., requires that universities verify and substantiate that compensation charged to sponsored projects is appropriate to the activity performed. The OMB guidelines require the University to maintain records of the salary amounts charged to specific federal projects and to provide confirmation that the salary charges were appropriate in light of the employee's level of effort on the award during the covered time period. The effort reporting system used by the University is modeled on the "After-the-fact Activity Records" system described in Paragraph J.10.c (2) of OMB Circular A-21. Other relevant federal regulations are identified below:

US Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*

US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

US Office of Management and Budget Memorandum M-01-06, *Clarification of OMB A-21 Treatment of Voluntary Uncommitted Cost Sharing and Tuition Remission Costs (January 5, 2001)*

B. Existing UC Policy Statements

The University has promulgated internal policies in adherence to the federal regulations and to generally accepted accounting principles and consistent with effective internal controls and oversight related to the use of University funds. The relevant internal policies include:

UC Contract and Grant Manual, Chapter 10-248, *Time and Effort Reporting*

UC Contract and Grant Manual, Chapter 5, *Cost Sharing*

UC Contract and Grant Manual, Chapter 6, *Financial-General*

UC Contract and Grant Manual, Chapter 7-330, *Effort Confirmation System*

UC Operating Guidance Memo No. 00-09, *General Principles Governing Payroll Charges to Extramural and University Funds*

UC Business and Finance Bulletin A-47, *"University Direct Costing Procedures"*

UC Accounting Manual Chapter A-000-7, *"Official Documentation Required in Support of University Financial Transactions"*

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UC Accounting Manual Chapter P-196-13, “*Payroll: Attendance, Time Reporting, and Leave Accrual Records*”
UC Regulation Number 4, “*Special Services to Individuals and Organizations*”

Many of these policy statements have not been updated in some time, however, and the development and implementation of a new effort reporting system provides an opportunity to re-examine these policies and further strengthen them.

C. Discussion of Policy Gaps

Although existing UC policies reinforce the need for adherence to the federal regulations and provides some guidance regarding appropriate documentation for direct charging of salary costs on federal contracts and grants, there is little in existing policy that addresses the specifics of the effort reporting process to provide guidance to the campuses and the guidance that exists has not been reviewed in some time. The gaps and/or issues in current policy appear to fall into several categories: 1) addressing what effort is to be included in effort reports; 2) addressing who must certify effort reports; 3) addressing which fund sources are subject to effort reporting; 4) addressing the circumstances under which effort reports can be revised; 5) addressing the frequency with which effort reports should be generated and certified; 6) addressing the issue of what tolerance level for accuracy is required; 7) addressing who is the office of record and the required retention period; 8) addressing whether there should be a consistent maximum % of effort that can be charged to sponsored projects; and 9) addressing how cost sharing should be identified and how certification of cost shared effort should be reflected in an effort reporting system.

The purpose of this white paper is to review each of these gaps/issues in current policy and to make recommendations regarding where policy should be articulated at a system-wide level to close those gaps and promote more consistent and compliant practices and where issues should be left to the discretion of the campuses.

D. Definitions of Terms

1. *Cost Sharing*: "Cost sharing", also called “matching,” refers to the resources contributed or allocated by the University to a sponsored project over and above the support provided by the extramural sponsor of that project. The two types of cost sharing are committed cost sharing and uncommitted cost sharing. It is the responsibility of each campus to identify committed cost sharing effort and incorporate it into the effort reporting system. The distinctions between committed and uncommitted cost sharing are as follows:

a. Committed Cost Sharing: Committed cost sharing includes mandatory and voluntary cost sharing identified in the project proposal (in the proposed budget or in the project narrative). *Mandatory cost sharing/matching* refers to that portion of the University contribution to a sponsored project that is required by the terms of the project’s Request for Proposal or Application. *Voluntary cost sharing* refers to University-initiated contributions to a sponsored project that are reflected in the proposal budget or narrative at the time of proposal submission. Both of

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these types of committed cost sharing represent a specific or quantifiable commitment by the University that must be funded from another University fund source and fulfilled if the proposal is accepted as offered by the University and awarded by the sponsor. The fulfillment of the cost sharing commitment must be documented and reported.

- b. Voluntary Uncommitted Cost Sharing:* Voluntary uncommitted cost sharing refers to any donated costs including effort of University faculty (and possibly senior researchers) beyond that which is committed and budgeted for in a sponsored project proposal. Such voluntary uncommitted cost sharing is not included or quantified in either the proposal budget or the narrative. Unlike committed cost sharing, uncommitted cost sharing should not be documented or reported, and cannot be included in the organized research base for computing the Facilities and Administrative (F&A) rate or reflected in allocation of F&A costs.
- 2. *Effort Reporting:* Effort reporting is the method of certifying to the granting agencies that the effort committed as a condition of the award has actually been completed.
- 3. *Principal Investigator:* A Principal Investigator is the head of a research project. Generally, University policy requires that a research project proposal may be submitted only by academic appointees (singly or jointly) who will personally participate in the project in a significant manner and also serve as the Principal Investigators. By exception, Chancellors (or designees), Vice Presidents, or the Dean of University Extension may approve the submission of a contract and grant proposal by other appointees when it is in the best interests of the University to do so.
- 4. *NIH Salary Cap:* The federal Consolidated Appropriations Act limits the rate at which salaries are paid under contracts and grants funded by certain agencies of the Department of Health and Human Services (HHS). Since the inception of the cap fifteen years ago, salary limits have been imposed on awards made by the National Institutes of Health (NIH), and the Substance Abuse and Mental Health Services Administration (SAMHSA). Beginning with the FY 2002 Appropriations Act, the cap was applied to the Agency for Healthcare Research and Quality (AHRQ) awards. The cap is tied to levels of the Federal Executive Pay scale specified within the Consolidated Appropriations Act. Since FY 2001 the cap has been set at the Executive Level I. The University of California has taken the position with the Federal Government that an over-the-cap salary payment charged to non-federal funds (for a researcher whose below-the-cap salary is charged to federal funds) is not cost sharing since it is an unallowable cost.

III. Policy Issues, Discussion and Recommended Policy Statements

- A. What Effort is Included in UC Effort Reports?
 - 1. Institutional Base Salary

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The Effort Reporting System Management Work Group has reviewed OMB Circular A-21 guidelines and determined that OMB A-21 requires that Institutional Base Salary, or the annual compensation paid by the University for an employee's appointment, whether that individual's time is spent on research, teaching, patient care, or other activities, be used as the basis for the calculation of effort. Based on this determination, the Work Group has agreed that effort that will be reported in the new effort reporting system will be based on the percentage of time spent in any of the activities that are funded from institutional base salary. Income that an individual may be permitted to earn outside of his/her institutional duties is not part of institutional base salary; therefore, any effort associated with that income will not be captured by the UC Effort Reporting System. The total effort associated with Institutional Base Salary will be defined as 100% effort. Except for exclusions permitted under OMB Circular A-21, Section J.10.c(2)(f), the UC Effort Reporting System will require effort certifications for those whose salaries are funded by federal sponsored projects¹ and those who have made commitments of effort on federal sponsored projects in project proposals. The percentage of effort expended on each federal project and how the balance (up to 100%) was expended on instruction, other sponsored projects, patient care, and other institutional activities will be captured in the system.

2. Affiliated Institutions Salaried Effort (VA and Affiliated Hospital Appointments)

The Effort Reporting System Management Work Group considered whether or not the payments made by the VA and affiliated hospitals should be included in calculating the distribution of effort for faculty members who hold joint appointments. The group determined that while there is some argument for including these payments in the calculation, there are stronger arguments for excluding them. OMB Circular A-21 guidelines require that only payments made by the institution be included, and since the VA and affiliated hospital payments are made by those organizations directly to the faculty member, there is no requirement to include them in the University's calculation and certification of effort. Including outside data would also complicate system design and maintenance, and it is likely that the data would be difficult to obtain with little or no control over the quality of the data. All of these factors argue against including VA and affiliated hospital payments in the University reporting and certification process. A decision was made by the Work Group that VA and affiliated hospital payments should not be included in the effort report calculation and, consequently, there are no requirements in the design specifications for the Effort Reporting System to accept any input from sources external to the institution or include any data from external sources in its calculations.

3. Non-UC Professional Effort

Consistent with the discussion regarding institutional base salary, the Effort Reporting System Management Work Group determined that non-UC professional

¹ Including federal flow-through projects

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effort should not be included in University effort reports.

4. K Awards

There was initial discussion by the Effort Reporting System Management Work Group about whether or not the Effort Reporting System could be utilized to monitor the effort of those faculty members receiving K awards (i.e., Career Development Awards sponsored by the National Institutes of Health) to ensure that they are devoting the amount of effort required by the award. This question arose originally because K awards require that a specified percent of professional effort be devoted to project research, with different levels of effort required for different levels of K awards, and “professional effort” had been interpreted by the grantor to include professional effort outside of the University (e.g., VA or other professional endeavors). Subsequent to the initial discussions on this subject, the National Institutes of Health issued specific guidance (in a Policy Notice dated August 3, 2004 (OD-04-056)) to grantees on K awards explaining that effort on K awards should be based only on the professional effort for which the investigator is compensated by the institution. With this change, the Effort Reporting System Management Work Group determined that K awards would be treated like all other federal awards and that effort reporting on K awards could be incorporated into the new effort reporting system.

5. Clinical Trials

The Effort Reporting System Management Work Group determined that if the individual is involved in conducting clinical trials as part of his/her institutional base salary that effort should be included in the Effort Reporting System. Depending upon the funding source, the effort may need to be certified for the specific award (i.e., for federal or federal flow-through funding) or at a functional (e.g., “other sponsored activity”) level. During the Work Group discussion of this issue it became apparent that, in some cases, funding for clinical trials may be received in arrears and cost transfers may need to be done to correct the payroll records at the time that funding is received. In those cases, if the funding is received after the allowable window for cost transfers as defined by the Effort Reporting System, it will be necessary for the Principal Investigator to identify this effort and add it on the appropriate fund source in the Effort Reporting System. This will need to be addressed as a training issue when the system is implemented.

6. Cost Sharing

Cost sharing represents the portion of a project’s direct and indirect costs that are not borne by the sponsor as defined above. The costs must be funded either by the University or by third parties. Cost sharing contributions may take the form of institutional contributions, cash or in-kind contributions from a third party, and/or a

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non-federal sponsored project where it can be demonstrated there is project relatedness. OMB Circular A-110 (*Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations*) contains further definition and details about cost sharing.

The Effort Reporting System Management Work Group discussed the need to certify effort related to committed cost sharing. Based on conversations with the federal audit community and the outcomes of several recent federal cost sharing audits, there is general consensus that if voluntary cost sharing is outlined within the proposal budgets and/or budget justifications, it becomes a firm commitment by the institution if a resulting award is made.

The Effort Reporting System Management Work Group concluded that each campus must be able to comply with sponsor reporting requirements related to cost sharing and should provide committed effort-related cost sharing data to the UC Effort Reporting System.

7. Recommended Policy Statement

It is the Effort Reporting System Management Work Group’s recommendation that, consistent with OMB Circular A-21, UC effort reports generated by the new UC Effort Reporting System should include only the effort related to institutional base salary and committed unfunded salary (i.e., committed cost sharing quantified in the proposal). There will be no effort included for VA or affiliated hospitals, for non-UC professional effort, or uncommitted cost sharing in UC effort reports. The Work Group also concluded that, consistent with the recent guidance published by the National Institutes of Health as discussed above, effort reporting for K awards may also now be included in the UC Effort Reporting System and effort reported based on institutional base salary. These recommendations have been incorporated into the design of the Effort Reporting System.

B. Who Must Certify Effort Reports? Who Cannot Certify Their Own Effort Report?

1. Principal Investigators

OMB Circular A-21 requires that distribution of salaries and wages be supported by activity reports that are confirmed by “...a responsible person with suitable means of verification that the work was performed”. It is also inferred from other OMB guidance that any unfunded salary commitments (i.e., mandatory and voluntary committed cost sharing) should also be substantiated by effort certification with the same degree of assurance. This has been interpreted generally to mean someone who has “first hand knowledge” of how effort has been expended. Principal Investigators’ salaries typically represent one of the larger components of direct salary expense and/or unfunded salary commitments on most sponsored projects. As Principal Investigators are responsible and accountable to the sponsor for the research being

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conducted and have a fiduciary responsibility for meeting the budgetary as well as technical goals of the project, the Effort Reporting System Management Work Group felt strongly that they are in the best position to attest to how their own time has been spent and should be required to certify their own effort.

2. Other Academic and Professional Personnel

Similarly, the Effort Reporting System Management Work Group concluded that any personnel in the Professorial series, Professional Research series, Managerial series titles (e.g., Deans), or other key personnel paid from federal or federal flow-through funds or whose effort is committed in a proposal as cost sharing should be required to certify their own effort. It was felt that these professional level personnel have a clear understanding of the projects they are working on and are in the best position to attest to how they have spent their time (i.e., meeting the “first hand knowledge” requirement). The Effort Reporting System Management Work Group discussed whether effort provided to a sponsored project by other academic personnel (i.e., post graduate researchers, academic coordinators, etc.) and staff personnel should be certified by the individual or by the Principal Investigator or a knowledgeable supervisor. The Work Group concluded that decisions regarding who could certify their own effort report and whether a secondary review by a Principal Investigator or supervisor was needed should be left to the discretion of the local campus department with the understanding that the departments will need to insure that whoever certifies the effort report for one of these individuals must have “first hand knowledge” of how that individual spent his/her time.

The Effort Reporting System Management Work Group discussed the implications of tuition remission and whether or not it needed to be reflected in effort reports since fellowships are not always paid as wages. In a memorandum dated January 5, 2001, the Office of Management and Budget clarified that “Tuition remission and other student support shall be subject to the reporting requirements stipulated in Section J.10, “*Compensation for Personal Services*,” of OMB Circular A-21, or an equivalent method for documenting the individual’s effort on a research project.” However, since the University of California provides tuition and fee remission to graduate student researchers as a fringe benefit, in addition to wages, and since wages are included in the effort reporting system, the Effort Reporting Management System Work Group concluded that there is no need to include the cost of tuition and fee remission in the effort reporting system.

3. Hourly Staff

The Effort Reporting System Management Work Group discussed whether or not hourly-paid employees need to be included in the effort reporting process. At the heart of the discussion were the issues of whether or not an alternative mechanism for certifying effort already exists in the form of signed employee timesheets; and whether or not campuses are willing to be responsible for monitoring compliance for some segment of the population (hourly-paid employees) through a manual process.

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While it appears that most hourly-paid employees complete timesheets, it is clear that there is no consistent format for those timesheets and it is not known if all timesheets contain the fund source information in sufficient detail to meet OMB Circular A-21 reporting requirements. It is also not clear that the office of record could easily be determined or held accountable for issues which arise in cases of multiple departments. There was general agreement that in order to take full advantage of the UC Effort Reporting System features, all employees paid from designated funds should be included in the effort reporting process. Excluding hourly-paid employees from the effort reporting system would complicate system design, require that alternative compliance monitoring mechanisms be developed, cause confusion among Principal Investigators and those certifying effort reports, and would send mixed messages about the importance of effort report certification. For those reasons, the Effort Reporting System Management Work Group determined that hourly-paid employees will be included in the UC Effort Reporting System.

4. Those Who Must Never Certify Their Own Effort

The question arose regarding whether there were any groups of employees who may never certify their own effort. The Effort Reporting System Management Work Group agreed that conceptually any individuals designated by their departments as not having first hand knowledge regarding which sponsored projects they are working on should not be asked to certify their own effort. It was determined that this could be the case when an employee is assigned to work in a lab in which multiple projects are conducted or in multiple laboratories that conduct multiple projects. In cases such as these it was felt that it would be more appropriate for the employee's supervisor who is assigning the work to certify his/her effort.

5. Recommended Policy Statement

The Effort Reporting System Management Work Group discussed whether there are certain groups that must certify their own effort and, conversely, whether there are certain groups who must never certify their own effort because of their lack of knowledge regarding the particular sponsored projects on which they might be contributing effort. With regard to those who must certify their own effort, the Work Group felt strongly that Principal Investigators and others in Professorial, Professional Research, and Management titles who are paid on federal or federal flow-through funds should be required to certify their own effort reports given their direct involvement with sponsored projects and their accountability for deliverables. **The Work Group recommends that a UC policy statement be adopted that indicates that Principal Investigators and other faculty in Professorial or Research titles will be required to certify their own effort reports.** With regard to other academic or staff personnel, the Work Group felt that the decision whether to have them certify their own effort or have a supervisor do so is a function of their direct knowledge of what they are working on. There may be personnel who are not sufficiently clear on which projects they are supporting and the Work Group felt that the determination of whether those individuals should be allowed to certify their own

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effort should be a decision that is made at the local departmental level. The Work Group agreed that it would be difficult from a system design perspective to identify the criteria that would exclude someone from certifying his/her own effort and that this designation would need to be managed at the department level by the department administrator.

C. Which Fund Sources Should Be Subject to Effort Reporting?

1. Federal and Federal Flow-Through

As has been previously mentioned, OMB Circular A-21 requires substantiation of compensation for those personnel paid directly from federally sponsored contracts and grants, including federal flow-through funds. Other federal guidance, by inference, indicates a similar requirement for those individuals who have contributed committed effort to federally sponsored projects, including federal flow-through funds.

2. Non-Federal

Although effort reporting is done for employees paid from federal funds to satisfy requirements of OMB Circular A-21, the Effort Reporting System Management Work Group noted there are other non-federal agencies whose terms refer to OMB Circular A-21. The Work Group considered the following questions: 1) Does the University have a responsibility or requirement to do effort reporting for non-federal funds if those funds cite OMB Circular A-21 in their terms? 2) Should effort reporting be done for funds for which there is no requirement for effort reporting? The majority view of the Effort Reporting System Management Work Group is that effort reporting should not be done unless a requirement exists. It is not clear at this time that a requirement exists for non-federal funds citing OMB Circular A-21. There was agreement that, if it is determined that there is a requirement, a system-wide list of non-federal funds to be included in the effort certification process should be developed by the UC Office of Research Administration similar to the Facilities & Administrative Rate waiver process. It was agreed that consistency among campuses is crucial and campuses will include only those funds designated by the system-wide Office of Research Administration in effort reporting. Further discussion suggests that there may be a need for multiple designation codes so that within the system various types of funds such as federal, federal flow-through, non-federal, etc., can be identified.

3. Recommended Policy Statement

The Effort Reporting System Management Work Group recommends that UC policy reflect that only funds requiring certification would be certified at the project (award) level in the new UC Effort Reporting System. The Work Group strongly felt that this should be limited to federal and federal flow-through funds, however, **the Work Group further recommends that if a requirement were**

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identified for any non-federal funds (that are not federal flow-through funds) that the determination regarding inclusion of those funds in the UC Effort Reporting System should be made at a system-wide level in the UC Office of Research Administration to ensure consistency among the campuses.

- D. When May Effort Reports Be Revised and Recertified?
1. Impact of Cost Transfers

The Effort Reporting System Management Work Group discussed the circumstances under which an effort report could be revised and recertified. The Effort Reporting System Requirements document specifies that in the case where certified effort does not match salary expenditures against a sponsored project (exclusive of cost sharing and within agreed upon tolerance levels) that it would be important for the Effort Reporting System to indicate the need for a payroll cost transfer. Conversely, payroll cost transfers on federal or federal flow-through funds would trigger the issuance of a new effort report for re-certification. The Work Group agreed that if the adjustment is the result of a payroll cost transfer that the revision to the effort report should occur within the same 120 day window required for allowable cost transfers and that cost transfers and resultant effort report adjustments that go beyond 120 days should be subject to additional scrutiny and “facts and circumstances” review.

2. Correction of Other Errors

If the effort report adjustment is not the result of a cost transfer, the Work Group felt that requests for effort report revisions should be subject to additional review and approval based on documented business justification. Adequate justification might include verifiable administrative or clerical error, NIH salary cap adjustment, failure to include cost sharing activities, etc.

3. Timing Issues

The Effort Reporting System Management Work Group felt strongly that to meet the timeliness standards espoused in federal regulation and University policy, any revisions should generally be done within the same timeframe as required cost transfer adjustments (i.e. 120 days). However, the Work Group acknowledged in their discussion that based on the nature of the adjustment it may be necessary to allow a late adjustment to move unallowable charges off the project and that this could trigger a late effort report revision. The Work Group also discussed whether there should be any limitations on the number of times a revision can be made on an individual project. They concluded that individual circumstances should be subject to the "facts and circumstances" review but that data should be collected on the number of revisions by PI and department to determine if there is a pattern of abuse or carelessness requiring other corrective action.

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4. Recommended Policy Statement

The Effort Reporting System Management Work Group recommends that the University formally adopt a policy that effort report revisions may be done coincident with payroll cost transfers and other extenuating circumstances based on a “facts and circumstances” review and an expectation that, to the extent possible, those revisions should be done consistent with federal regulations on timeliness (i.e., within 120 days of incurring the costs) to ensure their allowability under audit.

E. How Frequently Should Effort Reports Be Generated and Certified?

1. Frequency of Report Generation

The Effort Reporting System Management Work Group discussed current practice with regard to the frequency of report generation and learned that while most of the campuses issue Personnel Activity Reports (PARs) on an academic period or calendar quarter basis (i.e., either at the end of a quarter or semester) that there is some variation among the campuses with regard to different employee populations. While most campuses appear inclined to continue to use the academic period for production of effort reports, the Work Group agreed that the system should be developed to allow for variation among the campuses and that the decision regarding how often to run effort reports for different categories of employees would be left to the discretion of the campuses. It was noted that if a campus chooses to change their reporting period that the campus would need to clear the changes with the University’s cognizant agency, the Division of Cost Allocation, Department of Health and Human Services.

2. Timeliness of Certification

It was agreed by the Work Group that, no matter what reporting period the campuses choose, that reports should be run and “issued” no later than 45 days after the close of the certification reporting period and that reports should be certified within 30 days of their issuance. The intent in running the reports 45 days after the close of the period was to allow time for one pay compute after the close so that any needed adjustments could be processed.

3. Recommended Policy Statement

The Effort Reporting System Management Work Group recommends that the frequency with which effort reports are generated be left to the discretion of the campuses provided that each campus that elects to change the frequency clears those changes with the University’s cognizant agency, the Division of Cost Allocation, Department of Health and Human Services. The Work Group believes that timeliness of certification is an essential element in compliance and that effort reports should be issued on a timely basis and that reports should be certified

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shortly thereafter to assure the quality of the information and to insure that any needed payroll corrections are identified timely. **The Effort Reporting System Management Work Group recommends that the University adopt a policy that effort reports be issued no more than 45 days after the close of the certification reporting period and that effort reports be certified within 30 days of their issuance.**

F. What Tolerance Level (i.e., +/-5%) for Accuracy Should We Use?

1. Current Tolerance Threshold

OMB Circular A-21 acknowledges that the process of allocation (of costs and effort) cannot always be exact. Section J.10.b (1) (c) provides the following acknowledgement: "In the use of any methods for apportioning salaries, it is recognized 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 in which a degree of tolerance is appropriate." The Effort Reporting System Management Work Group discussed the appropriate tolerance level for accuracy that should be adopted. The current practice in the University of California is to certify effort within +/- 5% accuracy. This practice was previously reviewed and has gone unchallenged by the Division of Cost Allocation, Department of Health and Human Services, the University's cognizant agency.

2. Implications

The Work Group discussed the implications of establishing a threshold for effort certification and determined that while it is valid for an employee to certify his/her effort within +/-5% tolerance since it is not always possible to determine time spent on any project with absolute certainty that there are implications for revisions that are made to effort reports that need to be well understood. For example, if an employee receives an effort report indicating that 25% of his/her effort has been charged to a sponsored project, he/she can certify that percentage if between 20% and 30% of his/her time was spent on that project. However, if the employee changes the percentage of effort from the 25% reported by the effort reporting system to 22% and certifies the report, this indicates a level of precision that would require a transfer of payroll expense for 3% to remove the excess charges against that project. Since the employee corrected the effort report, the 5% level of tolerance would no longer be applicable. The Work Group felt that this was an important point of clarification that would need to be addressed in training when the system is implemented.

3. Recommended Policy Statement

The Effort Reporting System Management Work Group reaffirmed that the +/- 5% threshold is reasonable in light of the difficulties involved in estimating

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effort and concluded that a formal policy should be issued to formalize the existing practice.

- G. Where is the Office of Record and What is the Required Retention Period?
 - 1. Differences between Paper and Automated Processes

The Effort Reporting System Management Work Group discussed the implications of an automated versus a paper process for office of record determination. Historically, the UC effort reporting process has been a paper-based process that involved distribution and collection of hard copy Personnel Activity Reports (PARs) by a central administrative office. Campus departments received the PARs and were instructed to have the individuals for whom PARs were generated complete the forms certifying their effort and return the completed forms to the distributing central office. The central office became the de facto “Office of Record” for the certified PARs. At some campuses, as the volume of research increased the number of PARs that were generated and as budget cuts reduced the resources available to deal with the process centrally, the process was decentralized and campus departments became the “Office of Record”. The Office of Record (whether centralized or decentralized) is responsible for maintaining the records for the duration of their retention period (as defined in the UC Record Retention Schedule) and producing the records in the event of an audit or inquiry.

The Work Group determined that with an automated process, the concept of an “Office of Record” is slightly different in that the system and its related archive maintains the records and the audit trail and record retention and disposal can be scheduled to occur on a predetermined basis. The Work Group felt that the larger issue in an automated environment is the issue of functional system ownership and/or custodianship (i.e., who is responsible to ensure the adequate functioning of the system, the availability, integrity, and security of the data and that it remains compliant with federal requirements) and ownership of the process (i.e., to maintain the integrity of the process, provide training to campus users, and interface with auditors on requests to review individual records or reports, etc.).

- 2. Retention Requirements

The Effort Reporting System Management Group discussed whether there would be any implications for retention requirements given the development of an automated system and process for effort reporting. The Work Group concluded that there would be no changes in retention requirements and that the system would need to be able to archive and store historical records and that those would need to be retrievable in the event of an audit.

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3. Recommended Policy Statement

The Effort Reporting System Management Work Group concluded that the assignment of responsibility for the “Office of Record” function, which would include ownership of the system and process, is a local campus decision and one that should not be dictated by policy.

H. Should There Be a Consistent Maximum % of Effort That Can Be Charged to a Sponsored Project?

1. Current Practices

The operative guidance on this issue is the Operating Guidance Memo No. 00-09 issued on October 31, 2000 by the UC Research Administration Office. That memorandum indicates that “Each campus shall develop local policies governing the maximum amount of effort that can be charged to extramural sponsored projects, consistent with a reasonable level of effort for instructional and departmental duties.” This Operating Guidance Memo goes on to say that for campuses with Health Sciences Compensation Plans that “Each campus...should develop local policies and procedures to ensure that the total amount of salary charged to extramural sponsored projects is reasonable in light of an individual’s effort on patient care, in addition to teaching and other departmental duties...”

2. Campus Differences

The Effort Reporting System Management Work Group discussed current practices with regard to this issue and determined that campuses appear to have differing practices. It appears that most campuses attempt to monitor Principal Investigator commitments to projects to ensure some measure of reasonableness and that they do not exceed 100%; however, no campuses appear to be mandating a maximum percentage of effort that can be charged to sponsored projects.

3. Recommended Policy Statement

The Effort Reporting System Management Work Group recommends that decisions regarding how much effort a faculty member should devote to sponsored projects versus teaching, patient care, or public service responsibilities continue to be made at the local level in order to take into account local circumstances. Each campus should be responsible for determining the maximum percent of effort which can be charged or contributed to sponsored projects by their Principal Investigators and whether or not to enforce that maximum. The Work Group recommends that the effort reporting system provide an exception report to identify employees whose percent of effort devoted to sponsored projects exceeds the percent of effort maximum established by the campus. The Work Group also felt that the system should also allow for the maximum to be specified not only at

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the campus level but at a lower level defined within the campus organizational hierarchy. For example, a school of medicine department responsible for teaching and patient care might have a different maximum than a department with teaching but no patient care responsibilities. It is the recommendation of the Effort Reporting System Management Work Group that the decision regarding a threshold for maximum % of effort that may be charged by a Principal Investigator to one or more sponsored projects should be left to the discretion of each campus. This recommendation recognizes that there may be differing circumstances among the campuses and within each campus that may need to be addressed and that a common policy for the University is not desirable or practical.

I. How is Cost Sharing Identified?

1. Current Practices

The Effort Reporting System Management Work Group discussed how cost sharing is currently identified and monitored at each campus in an effort to understand how that data could be collected and used in an effort reporting system.

2. Campus Differences

The campuses are at differing stages of readiness with regards to electronically capturing cost sharing commitments, however, all of the campuses participating in the development of the new effort reporting system report that they intend to have cost sharing systems (or contract and grant systems that would capture cost sharing) in place by the time the new effort reporting system is available.

3. Recommended Policy Statement

The Work Group felt strongly that only committed cost sharing should be reflected in an effort reporting system and that there was no compliance need to capture uncommitted cost sharing. The Work Group recommends that all of the campuses should be encouraged to pursue development of cost sharing systems that would support collection of that data and interface with the new effort reporting system.

The Work Group also recognizes that University Regulation No. 4 requires full cost recovery by the University for tests and investigations made for agencies outside the University. The UC Contract and Grant Manual, Chapter 6, indicates that this policy objective should be applied by the campuses in implementing procedures that "...provide appropriate controls such that voluntary commitments of cost sharing on sponsored projects are made in accordance with the provisions of University Regulation No. 4." This would indicate that appropriate reviews and approvals of any contributions of effort and/or other forms of cost sharing must be undertaken by the campuses.

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J. Other Issues

1. Acceptance of Electronic Signatures

The Effort Reporting System Management Work Group considered whether there were any issues regarding acceptance of an electronic signature for effort reporting as a substitute for a live signature on the current paper Personnel Activity Report. There was agreement among the Work Group members that an electronic signature supported by individual logon IDs and passwords should provide sufficient documentation and audit trail for certification of effort.

2. Security of Data

While the data that will reside in the Effort Reporting System does not rise to the level of protected data (i.e., “confidential” or “personal” data) under the California Information Practices Act of 1977, the Effort Reporting System Management Work Group felt strongly that it was important to ensure appropriate levels of data integrity and security given the importance of the Effort Reporting System in meeting the overall compliance obligations for federal funds.

3. Recommended Policy Statement

The Work Group recommends that the Effort Reporting System apply the same levels of data security that are applied to data maintained within the UC Personnel/Payroll System (e.g., encrypted terminal sessions and data transmissions).

IV. Recommended Next Steps

This policy white paper has been circulated for discussion among the members of the Effort Reporting System Requirements Work Group, various campus work groups that have been convened to provide input to the development of the new UC Effort Reporting System and various campus standing committees, the campus Controllers, campus Budget and Planning Officers, campus Research Administrators, and campus Internal Auditors. **The Effort Reporting System Management Work Group recommends that the following policy statements be incorporated into the UC Contract and Grant Manual and the UC Accounting Manual as system-wide policy in conjunction with the implementation of the UC Effort Reporting system:**

1. **Certification of Effort by Principal Investigators and other Faculty in Professorial, Professional Research, and Management Titles.** The Work Group feels that Principal Investigators and other faculty in Professorial, Professional Research, and Management titles who are paid on federal or federal flow-through funds are in the best position to understand how they are spending their time in support of the various activities in which they are engaged and should be required to certify their own effort. This is consistent with the OMB Circular A-21 requirement

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that the distribution of salaries and wages be supported by activity reports that are confirmed by "...a responsible person with suitable means of verification that the work was performed" and is currently already the practice at a number of the campuses.

2. **Treatment of Effort Reporting Revisions.** The Work Group recognized that effort reporting revisions may be done coincident with payroll cost transfers and other extenuating circumstances and is recommending that revisions be subject to a "facts and circumstances" review and, to the extent possible, be processed on a timely basis consistent with federal regulations (i.e., within 120 days of incurring the costs) to ensure their allowability under audit.
3. **Timeliness of Certifications.** The Work Group is recommending that effort reports be issued for certification by the campus no more than 45 days after the close of the certification reporting period and that effort reports should be certified within 30 days of their issuance to ensure that federal expectations of timeliness are met.
4. **Accuracy of Certifications.** The Work Group is recommending that the current practice within UC of certifying effort within +/-5% accuracy, which has been reviewed and gone unchallenged by the Division of Cost Allocation, Department of Health and Human Services, be formally adopted as UC policy.

These recommendations will be forwarded to the UC Vice Provost for Research, Lawrence B. Coleman, and the UC Vice President of Financial Management, Anne Broome, for consideration and action.

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Appendix A

Membership of the Effort Reporting System Management Work Group

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