Cost Sharing and Effort Reporting – Where do we Start?

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 Agenda

I. Cost Sharing
   A. The Basics of Cost Sharing
   B. Common Challenges
   C. Cost Sharing Examples

II. Effort Reporting
   A. The Basics of Effort Reporting
   B. What’s So Complicated about Effort?
   C. How Can we Mitigate Effort Reporting Risk?

III. Questions and Conclusions
   A. Addendum – Vocabulary (How do I learn to speak “effort?”)
What is Cost Sharing?
The Basics of Cost Sharing

• What is cost sharing?
  – Costs of sponsored projects that are not funded by the project
    • With agency approval, can be direct or indirect
    • Must be necessary and reasonable
    • Must meet criteria for allowable project costs
  – All contributions that a recipient makes to an award
  – Departmental research is NOT considered cost sharing
Cost Sharing Terms

- Mandatory cost sharing
  - Required by sponsor
  - Quantified in proposal
  - Must be captured, documented and included in the F&A rate calculation

- Voluntary committed cost sharing
  - Quantified in proposal’s budget or award
  - Is not mandated by the sponsor
  - Must be captured, documented and included in the F&A rate calculation

- Voluntary uncommitted cost sharing
  - Not formally required by sponsor and is not quantified in the proposal
  - Does not need to be documented or counted in the F&A rate calculation
Why it’s Necessary to Track Cost Sharing

- Documentation and verification of mandatory and committed cost sharing
- Proper classification of costs in F&A rate calculation (base and pools)
- Accurate financial accounting (reporting of full research costs) provides valuable management information
Cost Sharing - Federal Requirements

• Meets A-110 cost sharing requirements if:
  – Verifiable
  – Not from other federal sources (unless authorized)
  – Necessary and reasonable
  – Allowable
  – In approved budget (when required by agency)
Common Cost Sharing Challenges

- There is a lack of clarity in policies among funding agencies
- Cost sharing “auctions” can distort the merit review process
- Cost sharing can force a shift of resources from other institutional priorities
- Whose dollars will be used to make the match (and who approves of the commitment)?
  - What happens when our research base grows by the 50% we planned, and our cost sharing commitments grow the same amount?
- Tracking can be difficult for many institutions - administrative burden. Do we really have to track “voluntary” cost sharing?
- Whose responsibility is it to track cost sharing?
  - Departments must be involved
  - Central administration must be involved
- How do we track it?
  - Separate accounts?
  - Separate object codes?
  - The infamous shadow systems such as Excel or Access?
  - Must be verifiable
Cost Sharing - Where Things Go Wrong

- There is no cost sharing policy
- Cost sharing is not recorded and included in the base
- Both mandatory and committed cost sharing are not being captured
- Proposal commitments do not match amounts recorded in financial system or effort system
- Effort system does not capture or segregate different types of cost sharing
What You Can Do

• Develop a policy
  – Mandatory, Voluntary Committed, Voluntary Uncommitted
  – What can be cost shared
  – Who approves cost sharing
• Communicate policy and implement training for key personnel
  – Research Administration personnel
  – P.I.s
  – Departmental Administrators
• Establish an accounting methodology to capture cost sharing
• Manage cost sharing
  – Budget for institutional cost sharing
  – Monitor cost sharing in relation to the research enterprise
Methods for Accumulating Cost Sharing

- Separate accounts or cost centers
  - Use of companion accounts/cost centers
  - Typically linked to the project

- Separate object codes within the project account/cost center
  - Accumulate on grant by object code
  - Use different object code to transfer costs to funding center
  - Grant nets to zero, but cost sharing is recorded
#1 - Cost Sharing in Separate Accounts

NIH Grant #1

| Salary | $10 |
| Equip. | 5   |
| Total  | $15 |

NIH Grant #1 Cost Sharing

| Salary | $5  |
| Equip. | 1   |
| Total  | $6  |

Total Project Cost = $21
#2 - Cost Sharing in Separate Object Codes

**NIH Grant #1**

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary</td>
<td>$10</td>
</tr>
<tr>
<td>Cost-Shared Salary</td>
<td>5</td>
</tr>
<tr>
<td>Equipment</td>
<td>5</td>
</tr>
<tr>
<td>Cost-Shared Equip.</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Project Cost</strong></td>
<td><strong>$21</strong></td>
</tr>
<tr>
<td>Transfer Cost Share</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Net Project Cost</strong></td>
<td><strong>$15</strong></td>
</tr>
</tbody>
</table>
What is Effort Reporting?
The Basics of Effort Reporting

Definition -

• *Effort* is the proportion of time spent on any activity and expressed as a **percentage of the total professional activity** for which an individual is employed by the institution.
The Basics of Effort Reporting

Common Process –

1. Salary costs charged based on award budget
2. End of specified time period reached
3. Reports generated, sent out to units
4. Effort reports completed, approved, returned to central administration
5. Effort reports filed
6. Adjustments made, if necessary
# Effort Reporting: A Typical Effort Report

<table>
<thead>
<tr>
<th>Organized Research</th>
<th>Charged %</th>
<th>Cost Sharing %</th>
<th>Actual Effort %</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIH Grant A</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NIH Grant B</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other Sponsored Activity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clinical Trial</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Instruction</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patient Care</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance Committee</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Administration</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Effort</strong></td>
<td>100%</td>
<td>0%</td>
<td>100%</td>
</tr>
</tbody>
</table>

By signing this statement, I certify that the effort distribution reflected above is reasonable relative to the work performed …

Signature  
Date
Certifying Effort or Payroll?

- Effort reports often present total percentages of payroll distributions to be used as a **starting point**, since it is often assumed that payroll distribution is monitored and revised based on effort expended.
- However, these percentages may need to be revised during certification based on actual expended effort. This after the fact confirmation is necessary for compliant effort reporting.
Some Perspective on Effort Reporting

- Primary driver – personnel costs are the majority of research costs
- The defense industry does it differently:
  - Regular floor checks
  - Hourly reporting
- There is a generally understood lack of precision
- The DHHS is beginning to pay more attention to effort reporting
  - Evaluation of adequacy of A-133 reports with respect to effort reporting systems
- If regulations are not well understood by the institution, it can cost an institution a great deal of money:
  - Northwestern University settlement
- The FDP has been working to find other ways to assure federal sponsors that resources are being well-used
Federal Requirements

- OMB Circular A-21, Section J.8 (Compensation for Personal Services)
  - **Audience**: Educational Institutions
  - **Effort reporting requirements**:
    - After-the-fact confirmation of personnel costs charged to sponsored agreements
    - The system must be incorporated into the official records of the institution
    - Certification which encompasses all employee activities on an integrated basis (i.e. 100% effort)
    - Certification to be performed by an individual with knowledge of all the employee’s activities
  - **Time requirements**:
    - Annually (plan-confirmation system)
    - Each academic term (after-the-fact activity records - PIs and professional staff), or
    - Monthly (after-the-fact activity records - all other employees)
Risks of Non-compliance with Effort Reporting are Significant.

- Impact to the **institution**:
  - Susceptible to False Claims Act allegations
  - The University may owe direct cost refunds
  - Sponsor may reduce future funding
  - Adverse publicity

- Impact on the **individual**:
  - Possible criminal charges
So What’s So Complicated about Effort?
Who Certifies Effort and Do they Understand?

- Effort reports should be signed by employee, principal investigator, or other responsible official with first-hand knowledge of all of employee’s effort, or by individual who used suitable means of verifying that the work was performed.
- The safest way to meet this requirement is to have each employee or faculty member sign his or her own report.
- Individuals completing effort reports don’t understand requirements
  - Differences in activities are not clearly defined
  - Individual certifying doesn’t have “first hand” knowledge
  - Difference between time (hours) and percent of effort
  - The 40-hour work week
  - Certify budget or payroll rather than effort
  - Confusion surrounding dates of effort reports
  - Committed cost sharing vs. paid salary

Regulations
- *OMB Circular A-21 Section J.8.c(3)(e) – Compensation for Personal Services*: [http://www.whitehouse.gov/omb/circulars/a021/a021.html](http://www.whitehouse.gov/omb/circulars/a021/a021.html)
Institutional Base Salary (IBS)

- Per NIH Grants Policy Statement, IBS should include the base salary for the grantee organization only, unless the organization has received permission to include practice plan salary in addition to university salary.
- IBS should not change as the number of grants a PI has increases or decreases. Institutions are not permitted to make salary adjustments solely based on the number of grants an individual has.
- Investigators with salaries that exceed the NIH salary limitation (cap) should not list the cap as their IBS.
- When an investigator has a dual appointment – how does the university calculate IBS?
Committed Cost Sharing

Effort Committed with no Salary Support

• If an investigator contributes effort but does not request a salary from the sponsor, this committed cost sharing must be certified on the effort report.
  – Investigators sometimes “donate” their time and do not consider the effort they are committing
• Universities often set up a cost sharing account to track this salary as committed cost sharing.

Salary Limitation – NIH Salary Cap

• Proportion of IBS greater than the NIH salary cap is committed cost sharing
Working Less than Budgeted

• Certified Effort less than Committed Effort:
  – When an investigator works less than was committed, any excess payroll from the sponsored activity should be transferred to a non-sponsored account.
  – When an investigator certifies a lower percentage of effort than was committed, the faculty member and the Fiscal Administrator need to determine whether the effort for the total funding period is likely to be 25% or more below the level of committed effort. (i.e., a 25% reduction from the 50% committed effort would reduce his effort to 37.5%.)
• Sponsor should be contacted if effort is 25% more or less than committed.
Working More than Budgeted

• Certified Effort greater than Committed Effort:
  – Effort certified that is greater than what was committed to the award is *voluntary uncommitted cost sharing*.
  – Universities differ in their treatment of voluntary uncommitted cost sharing.
    • Does not need to be included in the research base
    • May or may not be included on the effort report
    • Important to remember that relative percentages may change
Over-Committed Effort

• The total distribution of effort dedicated to all activities for an individual must equal 100%, regardless of the number of hours worked or the length of appointment. Total distribution **CANNOT** be greater than 100%.
  – If a new award increases an investigator’s committed effort to greater than 100%, the investigator must revise the level of effort requested by communication with the sponsor, reduction of effort on other activities, or refusal of the award.

• 100% or nearly 100% research effort is not realistically possible for individuals with significant non-research obligations to the institution (administrative, clinical, or teaching).

Regulations

• **OMB Circular A-21 Section J.8.b(2)(d) – Criteria for Acceptable Methods**
  • (d) Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.
The buzz - Dual Appointments

- NIH Grants Policy Statement issued 12/03 Clarifies:
  - Total Institutional Base Salary (IBS) may include compensation from both the university and practice plan if:
    - Clinical practice compensation is guaranteed by the university
    - Clinical practice effort is shown on the appointment form and paid through the university
    - Clinical practice effort is included in the university’s effort reporting system
- VA salaries are often excluded from the university IBS. In these instances, VA activities should not be considered when certifying university effort.
- Watch for consistency in IBS on proposal vs. total effort certification
  - Northwestern – separate practice plan, yet allegedly included IBS income from clinical activity and excluded pieces of the clinical activity on effort reports
Challenges in a Clinical Environment (cont’d)

- Physician Time Study required by Medicare (HCFA Publication 15.1 Section 2312.2(e))
  - Time study must encompass at least one full week per month of the cost reporting period
  - Time reported for time study should be consistent with effort
- Multiple sources of pay
  - What is considered “total base compensation”?
- NIH salary cap
  - Must prorate salary to account for NIH salary limitation – committed cost sharing
- Clinical bonus payments
- Supplemental payments and consultant payments
- Salary increases based solely on research activity
- VA appointments and other affiliations
9-Month Salary Paid Over 12 Months

- Salary for investigators with nine-month appointments is sometimes paid over twelve months so that the investigator receives a constant stream of income through the year.
- The investigator may receive an additional contract to perform research during the summer session.
- Payment must not be confused with effort; payment from the original nine-month contract deferred to the summer months is not considered part of the 100% effort for the summer certification.

Regulations:
- OMB Circular A-21 Section J.8.d.2.(a) – Periods outside the academic year
NIH Career Awards (K Awards)

- Deserve special attention
- K awards may require investigator to devote 75% of total professional effort
  - *Total professional effort* may encompass clinical effort
  - Northwestern case - allegedly spent significantly less time than was required on awarded K awards
How Can We Mitigate Effort Reporting Risk?
Ways to Mitigate Compliance Risk

• Identify and communicate roles and responsibilities
• Create/Review/Update user-friendly policies and procedures
• Communicate roles and responsibilities and policies and procedures
• Update processes and systems to improve internal controls
  – Encourage timely payroll adjustments to depict accurate salary distribution
  – Track total committed effort
  – Use cost sharing accounts
• Conduct periodic training sessions
• Selectively monitor reports for compliance
• Provide incentives for compliance!
Ways to Reduce the Burden

- Consider a paperless system
  - Ability to route to the appropriate personnel faster
  - Ability to monitor status
  - System controls to reduce post-submission review
  - Links to other on-line tools (i.e. cost transfers)
- Certify less frequently
- Identify “effort champions” in the academic departments
- Educate and train the research community
Valuable Web Sites

• OMB Circulars
  – http://www.whitehouse.gov/omb/circulars/a021/a021.html
  – http://www.whitehouse.gov/omb/circulars/a110/a110.html

• NIH Grants Policy Statement

• NSF Proposal Guide

• Federal Demonstration Partnership
  – http://thefdp.org/

• DHHS Grants Administration Manual

• DHHS Grants Policy Directives

• Other Research Links
  – http://tram.east.asu.edu/

• COGR Web Site
  – http://www.cogr.edu/
Questions?
Contact Information

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Addendum - Vocabulary

How Do I Learn to Speak “Effort”?
Key terms - Effort Report

• Sponsored Program Activities:
  – Effort for work conducted on all federal or non-federal research and training activities that are separately budgeted for and accounted for by Project

• Non-sponsored (Departmental) Activities:
  – Effort for work conducted that is not separately budgeted for as part of Sponsored Program Activities. These activities are supported by departmental funds, and include activities such as departmental administration, instruction, and clinical activities.
Proposed Effort

- The amount of effort (in %) that is proposed in any sponsored project application, regardless of whether salary support is requested.
  - Example: Dr. Smith submitted a proposal to NIH. In this proposal, he told NIH he would give 40% of his effort to the award. Dr. Smith’s **proposed effort** is 40%.
Proposed Payroll

• This is the amount in salary (in $) that is proposed in any sponsored project application.
  – Example: Dr. Smith receives a total salary for all of his university activities of $100,000. His 40% proposed effort translates into $40,000 proposed payroll.
Institutional Base Salary

• The annual compensation that the applicant organization pays for the individual's appointment, whether that individual's time is spent on research, teaching, patient care, or other activities.

• Used in the proposal to calculate proposed payroll.
  – Example: Dr. Smith’s annual salary of $100,000 is his institutional base salary.
Committed Effort

- The amount of effort (in %) promised by the institution in the proposal or the amended effort (in %) included in the award documentation.
  - Example: Dr. Smith receives his NIH award which reduced his proposed 40% effort to 30%. Dr. Smith’s **committed effort** is 30%.
  - Note – a reduction from requested budget does not automatically imply a reduction in committed effort.
Overcommitted Effort

• If a new award increases an investigator’s committed effort to greater than 100%, the investigator must revise the level of effort requested by communication with the sponsor, reduction of effort on other activities, or refusal of the award.
• Institutions should track total effort commitments.
Awarded Payroll

• The amount of salary (in $) that is agreed to by the sponsoring agency in the Notice of Award.
  – Example: Dr. Smith receives an annual institutional base salary of $100,000. His 30% committed effort translates into $30,000 awarded payroll.
  – Note – Although payroll may sometimes be rebudgeted according to sponsor guidelines, the committed effort % remains unchanged.
Actual Effort

- This is the amount of effort (in %) actually dedicated to the sponsored project by the faculty member.
- This is what is certified.
  - Example: At the end of the six month certification period, Dr. Smith estimated that he contributed 20% of his effort to the NIH award. This 20% represents his actual effort.
Actual Payroll

- This is the amount of salary (in $) that is set up in the payroll system to be charged to the account.
  - Example: Dr. Smith’s committed effort was 30% and his awarded payroll was $30,000. Since his actual effort was 20%, the Fiscal Administrator will ensure that payroll is in line with the committed effort by completing a cost transfer.
  - After the cost transfer, **actual payroll** will be $20,000.
Cost Sharing

- A commitment of University resources or funding that supplements externally sponsored projects.
- Cost sharing occurs when effort exceeds the payroll charged to a particular project.
  - Example is NIH Salary Cap
- These costs are not reimbursed by the sponsor (will not be charged to the sponsored project) and therefore must be supported by University funds.
- There are three types of cost sharing: committed cost sharing, cost sharing related to salary over the cap, and uncommitted cost sharing.
Committed Cost Sharing

- Any cost sharing that is documented in the proposal and agreed to in the Notice of Grant Award is classified as committed cost sharing.
  - Voluntary committed cost sharing
  - Mandatory committed cost sharing
Cost Sharing related to Salary Limitation

• The portion of an employee’s salary that is greater than the salary limitation or “salary cap” established by the granting agency.
  – A form of committed cost sharing and should be charged to the appropriate non-sponsored account.
• NIH and DOD awards have salary limitations.
Uncommitted Cost Sharing

• Represents faculty effort over and above that which is committed and budgeted for in a sponsored agreement.
  – Donated additional effort above the effort agreed to as part of the award.
  – Not required to be included on effort report.