

Financial Compliance Discussion Series:  
**EFFORT REPORTING &  
 ALLOWABLE COSTS 101**

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Financial Compliance at Temple

- **What is Financial Compliance?**
  - Following established policies, procedures along with sponsor-mandated regulations while using awarded funds to carry out research;
  - Proactive measures to use care when acting as a fiduciary with external funds;
  - Simply following the correct steps with every financial transaction involving funds from any source.



Financial Compliance at Temple

**Why Compliance Matters...**

- OMB Circular A-21 Costing Standards:
  - Reasonableness, Allowability, Allocability, & Consistent Treatment
  - Effort Reporting
- OMB Circular A-110 Administrative Requirements:
  - Authorization & Internal Controls
  - Record Retention
- Sponsoring Agencies
  - Terms & Conditions of Awards
  - Agency-Specific Regulations (NIH, NSF, DOD, EPA, DOE, etc.)
  - Findings at Peer Institutions
  - Congressional Pressures
  - DHHS Office of Inspector General's Work Plan



Financial Compliance at Temple

- **Recent Settlements** (From Wall Street Journal Aug. 16, 2005):

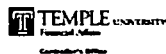
**Busy Docket**

Recent settlements between medical institutions and the U.S. Department of Justice over alleged misuse of federal grant money:

INSTITUTION	SETTLEMENT DATE	ALLEGED MISCONDUCT	SETTLEMENT AMOUNT
Mayo Clinic	May 2005	Government was charged for research unrelated to the NIH grants it received	\$6.5 million
University of Alabama at Birmingham	April 2005	Research work oversized; Medicare billed for research funded elsewhere	\$3.4 million
Harvard University	June 2004	Government was billed for salaries and expenses unrelated to federal grants	\$2.4 million
Johns Hopkins University	February 2004	Faculty time and effort devoted to NIH grants was overstated	\$2.6 million
Northwestern University	February 2003	Researchers spent less time on NIH-sponsored projects than they reported	\$5.5 million

Financial Compliance at Temple

- **Congressional Pressures** (Sept 20, 2005 letter to DHHS OIG Inspector General, Daniel Levinson):
  - US Rep. Joe Barton—"OIG may want to consider designing audit to capture... false statements, improper accounting and charges to NIH grants"
  - US Rep. Ed Whitfield—"Universities charged \$5.7 million in unreasonable compensation... raises serious concerns of public policy waste."



Financial Compliance at Temple

- **Federal Audit Work Plan Topics for FY 2007:**
  - Effort Reporting
  - Administrative & Clerical Salaries
  - Cost Transfers
  - Compensation of Graduate Students
  - Conflicts of Interest
  - Monitoring Research Grants



## Financial Compliance Discussion

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### Costing Standards Discussion



## Financial Compliance Discussion

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- **Sponsored Project Proposal**
  - Project Narrative
  - Budget to Quantify Goals of Project
  - Deliverable
- **Awarded Sponsored Project**
  - Cost Center
    - Direct Costs
    - Indirect Costs (F&A Costs)



## Financial Compliance Discussion

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- **Indirect Costs**
  - Costs Incurred for Common or Joint Objectives
  - Not Readily or Specifically Identified with a Particular Sponsored Project
  - Includes Costs for Buildings, Equipment, Interest Expense, Utilities, Operations, Maintenance, Administration, & Library



## Financial Compliance Discussion

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- **Indirect Costs**
  - **F&A Rate Calculation:**
    - F&A cost allocated to direct cost category
    - MTDC of that category
  - **MTDC = Modified Total Direct Costs**
    - Excludes capital cost, building rent, tuition, subcontracts >\$25,000 and patient care



## Financial Compliance Discussion

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- **Direct Costs**
  - Costs that can be identified specifically with a particular sponsored project with a high degree of accuracy
  - Necessary to complete the goals and aims of the project
  - **Costs Include**
    - Labor
    - Equipment
    - Supplies
    - Travel
    - Cooperating Institutions (through sub-award)
    - Consultants



## Financial Compliance Discussion

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- **Elements to Qualify as a Direct Cost:**
  - Reasonable
  - Allocable
  - Allowable
  - Consistently Treated



## Financial Compliance Discussion

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- **Elements to Qualify as a Direct Cost:**
  - **Reasonable**—when the nature of the goods or service and the amount paid reflect the action a prudent person would take under the circumstances prevailing at the time the cost was made.



## Financial Compliance Discussion

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- **Elements to Qualify as a Direct Cost:**
  - **Allocable**—when the goods or service involved are chargeable or assignable based on benefits received by the sponsored project
    - To advance the work of the project,
    - Benefits the work of the project and institution, or
    - Necessary for completion of the project



## Financial Compliance Discussion

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- **Elements to Qualify as a Direct Cost:**
  - **Allowable**—must conform to the agency's standards for allowability and not be considered unallowable (i.e. entertainment, alcohol, fines, late charges, etc.)
  - **Consistent Treatment**—costs must be consistently treated in like circumstances as either direct or indirect costs



## Financial Compliance Discussion

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- Exhibit C (Examples of "major project" where direct charging of administrative or clerical staff salaries may be appropriate)
  - Large Complex Programs
  - Projects w/Extensive Data Accumulation
  - Project that require travel & meeting arrangements for large number of participants
  - Project focus is large reports, manuals or books
  - Geographically inaccessible
  - Project-specific data management



## Financial Compliance Discussion

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### Effort Reporting Discussion



## Effort Reporting

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- **What is Effort Reporting?**
  - The process to plan, distribute, and then certify that payroll costs charged to sponsored projects reasonably represent actual proportions of total effort devoted to those projects;
- **How is Effort Certification Accomplished?**
  - By certifying 100% of all University activities that comprise an individual's institutional base salary from Temple.



## Effort Reporting

- **Why do we have effort certification?**
  - 1) Required by OMB Circular A-21: *Cost Principles for Educational Institutions*
    - Section J) *General Provisions for Selected Items of Cost*
    - Sub-Section 10) *Compensation for Personal Services*

[http://www.whitehouse.gov/omb/circulars/a021/a21\\_2004.html](http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html)

- 2) Temple University Grant & Contract Accounting Policy/Procedure *GRPL05, Effort Reporting Policy*

[http://www.temple.edu/controller/grant\\_accounting/pol\\_proc/pdf/grpl05.pdf](http://www.temple.edu/controller/grant_accounting/pol_proc/pdf/grpl05.pdf)



## Effort Reporting

- **After-the-fact Effort Certification**
  - Charge Salary and Wages Based on Reasonable Estimates of Anticipated Effort
  - Certify Effort After-the-fact for all Activities Compensated by the University



## Effort Reporting

- **How the process works...**
  1. Committed Effort on Various Projects
  2. Payroll Distribution
    - *Position Requisition Form* (New Hires) or
    - *Expense Distribution Change Form* (Existing Employees)
  3. Certify Actual Effort After-the-Fact
  4. Reallocate Costs Based on Certification
  5. Change Payroll Expense Distributions



## Effort Reporting

- **Committed Effort**
  - Where do the numbers come from?
    - Budget and/or Budget Justification
  - How do you quantify effort?
    - Consider All Temple Activities
    - Determine Proportions of Anticipated Effort
    - Not Based on a *Standard* 35 or 40-hour Workweek
    - Everyone has a Different Effort Denominator



## Effort Reporting

- **Total Effort Comprised of University Activities**
  - Research
  - Teaching & Service
  - Administration



## Effort Reporting

- **What is an Allowable Direct Labor Charge on a Sponsored Project?**
  - Must directly contribute to the goals and aims of the project by being intimately related to specific aspects of the research activity;
    - Performing Project-Specific Functions
    - Delivering Special Lectures
    - Writing Reports and Articles
    - Participating in Appropriate Seminars
    - Collaborating with Colleagues and Graduate Students
    - Attending Meetings and Conferences



## Effort Reporting

- **Unallowable Labor Charges to a Sponsored Project:**
  - Any activity that does **NOT** directly contribute to the goals and aims of the sponsored project, including but not limited to:
    - Teaching & Service
      - Didactic Teaching, Course Preparation, Department Meetings, Committee Participation, Journal Clubs, and so on
    - Administration
      - Reviewing Sponsored Project Financial Reports, Searching for Funding Opportunities, Proposal Preparation, Continuation Applications, and so on



## Effort Reporting

- **Who needs their effort certified?**
  - All Temple faculty, staff, and graduate students with any portion of their total professional effort devoted to sponsored project activities at Temple
- **Who is an appropriate certifier?**
  - The Employee,
  - Principal Investigator, or
  - Responsible Official using suitable means to verify the work was performed



## Effort Reporting

- **Who are Appropriate Certifiers?**
  - **Professorial & Professional Staff**
    - Named Employee
    - Principal Investigator or Supervisor
  - **Technical & Administrative Staff**
    - Principal Investigator or Supervisor
    - Responsible Organizational Official with Suitable Means to Verify the Work was Performed as Certified



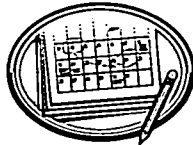
## Effort Reporting

- **Certify 100% of All University Activities**
  - Reasonable Percentages
  - Acceptable Variances
  - **Not** a Standard 35-hour or 40-hour Workweek



## Effort Reporting

- **Certification Timeliness**
  - Required for Integrity of Certification
  - Late or Uncertified Effort Could Lead to Disallowed Costs



## Effort Reporting

- **Summary:**
  - Payroll Distribution  $\neq$  Effort Certification
  - 100% of All Activities  $\neq$  Standard Workweek (40Hrs)
  - Appropriate Certifier has Direct Knowledge of Effort or Suitable Means to Verify Work was Performed
  - Timely Effort Certification is Required
  - Reasonable Estimates **not** Detailed Analysis
  - Many Activities Intermingled and Proportionally Benefit Multiple Activities

