

Valdosta State University
Effort Reporting FAQs

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1. What is “effort reporting?”

Effort reports describe the allocation of time expended by university employees on various employment activities. They provide a method for the institution to certify to agencies providing grant or contract funding that direct labor charges allocated to sponsored projects are reasonable and reflect the actual work performed.

Circular A-21: Cost Principles for Educational Institutions issued by the Office of Management and Budgets (OMB) requires that an individual’s effort on a particular sponsored project, whether compensated by grant/contract funds or committed as cost-share, be reported as a percentage of the individual’s total effort for the institution (“total institutional effort”) during a discreet reporting period. This percentage, which must “reasonably reflect the activity for which the employee is compensated by the institution,” is derived from a fraction in which the numerator represents the employee’s time on the sponsored project and the denominator encompasses time spent on both sponsored and all other activities, including teaching, non-externally funded research, scholarly activities, mentoring undergraduate and graduate students, service on departmental, college, or university committees or panels; etc. These activities included in the denominator constitute the employee’s “total institutional effort.” Separately compensated external (private) consulting and other outside professional activities are not included in “total institutional effort.”

2. How does VSU do effort reporting?

VSU employs an “after-the-fact” effort certification method, one of three methods approved by the federal government. The portion of effort to be charged or committed to the grant or contract is initially estimated in the project proposal. Upon award, the Grants & Contracts Accountant completes the paperwork necessary to charge the proposed effort to either the grant/contract account or its associated cost-share account for Fall and Spring semesters for regular faculty and all semesters for twelve-month employees. Summer grant compensation for faculty is accomplished by including the faculty member on the summer roster. As the project progresses, proposed effort is double-checked at

the beginning of each semester. Adjustments are also made as necessary during the semester, including when a project ends mid-semester.

At the end of each semester, a payroll distribution report is prepared and the distribution of compensation paid to the employee is calculated in percentages for grant/contracted funded time, cost-shared time, and all other institutional activities. An effort report form is populated with this percentage distribution. For full-time employees, forms are emailed directly for certification and return. The employee is asked to certify that the percent salary distribution is a reasonable representation of his/her the distribution of his/her total compensated effort performed for VSU during the reporting period. Forms for part-time and student workers are emailed to the Principal Investigator who is responsible for either securing the certification from these employees or ensuring that someone who has firsthand knowledge of each employee's effort provides the certification. Most commonly, it is the Principal Investigator who has this first-hand knowledge, although in some cases it may be another staff member who supervised the part-time or student employee who as the firsthand knowledge.

3. What is considered "compensated effort?"

Compensated effort is defined differently depending on the job status of the employee. During the academic year, compensated effort of regular faculty includes all "total institutional effort" as defined in Question 1 above and is not limited to the traditional 40-hour work week. Compensated effort of faculty during the summer includes only teaching, sponsored project, and other activities for which the faculty member is paid by the institution. Time spent during the summer on field or lab work or non-sponsored research for which the faculty member is not compensated by VSU is not part of "total institutional effort." This uncompensated summer work is considered volunteer work and is not included in reportable effort.

Compensated effort of twelve-month exempt (salaried) employees (i.e., those classifications of administrative employees who are exempt from overtime pay provisions of the Fair Labor Standards Act) includes all activities performed for the institution as a part of job responsibilities during the reporting period, regardless of the number of hours worked. For instance, an administrator may be required to provide certain university services during an evening function as part of his/her job responsibilities; this time is part of "total institutional effort." On the other hand, an exempt employee in a science department may volunteer to usher at musical performance on campus. Since ushering is not a part of this individual's paid position, the volunteer time is not included in "total institutional effort."

"Total institutional effort" for hourly staff and student employees includes all activities conducted during the hours for which the individual has been compensated by the university.

4. How is extra compensation handled in the effort reporting system?

Federal regulations allow the exclusion of "incidental" effort compensated in addition to the individual's regular base pay (i.e., extra compensation during the academic year for faculty or at any time for administrative [non-exempt] employees). VSU defines "incidental" extra compensation as less than 5% of total compensation paid during the reporting period. Therefore, if an individual's only paid effort on a grant/contract during the reporting period is extra compensation that constitutes less than 5% of total

compensation, no effort report is generated for that individual. However, if an individual has other regular effort on a grant/contract in addition to the extra compensation that causes generation of an effort report, the extra compensation is included.

5. How are effort reports distributed?

VSU distributes and collects effort reports on a semester basis. Each full-time employee who has been paid from or contributed cost share to a sponsored project during the reporting period will receive his/her own effort report form via email. Effort reports for part-time and student employees will be sent to the Principal Investigator via email. It is the PI's responsibility to secure the certification from these individuals and then return signed reports to the Office of Grants & Contracts. If an individual is no longer employed or enrolled at VSU, which is often the case with part-time and student employees, someone else with firsthand knowledge of the effort paid by the grant/contract or committed as cost-share may certify the effort. Generally, this alternate certification is made by the Principal Investigator or the Project Director. However, in some cases it may be another staff member who supervised the part-time or student employee who has the firsthand knowledge.

6. What happens if the effort report is inaccurate?

The employee should individually review the report to determine if the distribution of salary during the reporting period provides a reasonable representation of compensated effort during that period. "Reasonable" is defined as no more than $\pm 5\%$ variance in effort from the salary distribution percentages reported. If the salary distribution is not a reasonable representation of effort, the employee should make corrections below the printed percentages to indicate actual effort distribution, and then sign the certification statement. The employee should keep in mind that total effort must always equal 100%. If the employee changes one percentage figure to reflect a different level of effort, a corresponding change must be made in another category to keep total effort at 100%.

In all cases, if the salary distribution presented on the effort report form is not a reasonable representation of the individual's total compensated effort performed for VSU during the reporting period (within $\pm 5\%$ in any category), the individual should make appropriate changes before certifying. In the event the proportion of the effort on the sponsored project significantly exceeds the proportion of compensated time charged to the sponsored project account, no change in the charges to the sponsored project are generally required. If, however, the individual's actual effort is significantly less than the proportion of his/her compensation that is charged to the sponsored project, reduction of the personnel costs charged to the sponsored project account during the reporting period will likely be necessary.

7. What are the "trouble spots" in effort reporting?

There are a number of specific practices or deficiencies in an institution's effort reporting system that auditors and inspectors generally look for. Any effort report that totals to something other than 100% automatically invites detailed scrutiny. Thinking that a standard "40 hour work week" has application to effort reporting can lead to this kind of miscalculation of total effort. An employee is improperly reporting effort if, proceeding on this assumption, he/she reports an allocation of 50% of his/her total

effort to a sponsored research project based on having devoted 20 hours per week to the project, when the 20 hours actually reflects a smaller proportion of his/her overall work. Likewise, a researcher who has spent many hours mentoring a promising graduate student erroneously thinks, "I do that on my own time." These well-intentioned beliefs can result in costly mistakes because they fail to recognize that effort on a sponsored project must be measured against "total institutional effort" as described earlier.

Other "red flag" areas for auditors are completeness and timeliness of reporting. Late, unsigned, or missing effort reports will likely raise questions. Effort reports that appear to have been signed in batches can be problematic. "Corrected" effort reports may draw an auditor's attention; this is especially true when the "corrected" effort reports lead to an unusually large number of payroll cost transfers. Employees who need to correct effort reports should keep meticulous documentation in order to be able to explain why the correction was necessary. This explanation may be required in an audit conducted years later when memories have faded, and it may have to be delivered to potentially skeptical federal auditors and officials. Finally, simply "correcting" effort reports near the end of the term of a grant or contract in order to "spend out" unused funds presents such an egregious compliance that criminal charges may be made under the False Claims Act.

8. What are the potential consequences of inaccurate or non-timely effort reporting?

Certified effort reports provide the basis for institutional claims for reimbursement of direct and indirect charges under a federal grant or contract. Inaccurate or fraudulent reports may give rise to a False Claims Act (31 U.S.C. § 3729 *et seq.*) lawsuit. An individual who is found to have violated this Act can be subjected to civil penalties of not less than \$5,000 nor more than \$10,000 for each violation; to criminal sanctions, if the violation was willful, of imprisonment for up to five years and fines of up to \$25,000; and to an order to reimburse the government for treble the damages sustained by the government because of the individual's act. There have been instances in which individual researchers have been required to make substantial civil monetary reimbursements to the federal government because of their involvement in improper effort reports. Of course, the institution can suffer as well from False Claims Act violations by its employees. Institutional sanctions may include the payment of costly settlements or even debarment from participating in federally funded research. The issue of compliance with effort reporting requirements should always be approached with these potentially heavy sanctions for violations in mind.

Failure to properly carry out effort reporting obligations can also bring unwanted public attention to the university. A number of universities have paid multimillion dollar settlements within the past few years as a result of improper or inaccurate effort reporting. Northwestern University very publicly settled a False Claims Act suit for \$5.5 million plus attorneys' fees, Johns Hopkins University similarly settled for \$2.6 million, and Harvard University returned \$3.3 million to the National Institutes of Health to settle claims of overbilling the federal government for work on grants and contracts). Other smaller institutions, such as Florida International University, have also been required to negotiate substantial settlements with the federal government. The Inspectors General Offices of the National Science Foundation and the U.S. Department of Health and Human Services have stepped up auditing of effort reporting at other universities.

A common misconception is that federal auditors and inspectors general do not and would not "bother" with a small institution, but this is not necessarily the case. Every institution that receives federal grant or contract funds must abide by the same rules, including implementing an accurate effort reporting

system and ensuring that the federal government is not overbilled for effort that did not occur. Auditors may elect to review the effort reporting system of any institution at any time, regardless of the type of institution or the size of its sponsored programs portfolio. Although the small size of an institution or a relatively modest volume of federally funded research may lower the probability of an effort reporting audit, if it should occur, the magnitude of the impact of audit disallowances or a False Claims Act suit would be substantially greater, as small institutions generally do not have large monetary reserves from which to pay for disallowances, fines, settlements, and attorneys' fees. Thus, every institution, regardless of size, is remiss if effort reporting is not taken seriously and is not done in a way that satisfies federal regulations and ensures that the federal government is not overcharged for personnel time on grants and contracts.