

PAYROLL CERTIFICATIONS
A PROPOSED ALTERNATIVE TO EFFORT REPORTING

PREPARED BY
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JANUARY 3, 2011

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Introduction

The Federal Demonstration Partnership (FDP) proposes a Payroll certification system as an alternative to activity reporting and plan confirmations. These two confirmation systems are allowed by Office of Management and Budget's (OMB) Circular A-21, Costing Principles for Educational Institutions, and have been the main methods used by Higher Education to support salary and wage expenses charged to federally sponsored projects. The underlying concept for both systems is that an individual's "effort" is the key to determining appropriate charges to federal projects.

While the proposed alternative system is compliant with the text of OMB Circular A-21, it varies from current standard practices in two ways. First, the payroll certification system is a project (grant or contract) based methodology (versus a person based methodology), and second, it utilizes the concept that "charges are reasonable in relation to work performed" (versus "effort").

In addition to explaining the proposed payroll certification system, this document also suggests two possible evaluation and approval approaches that the government could take in reviewing the Payroll certification system. First, since the proposed new system is compliant with the text of OMB Circular A-21, the government's evaluation and approval process, as referred to in OMB Circular A-21, may be appropriate. The second possible government approach would be for the FDP to conduct a demonstration project.

Many Universities will find the Payroll certification system beneficial to their contract and grant management efforts. Both the higher education community and the federal government benefit from having formally approved salary and wages support systems.

Background: Federal Demonstration Partnership

The Federal Demonstration Partnership (FDP) began as the Florida Demonstration Partnership in 1986 as an experiment between five federal agencies (National Science Foundation, National Institutes of Health, Office of Naval Research, Department of Energy, and US Department of Agriculture), the Florida State University System and the University of Miami to test and evaluate a grant mechanism utilizing a standardized and simplified set of terms and conditions across all participating agencies. The result of the test was the establishment of "expanded authorities" throughout the nation, reducing administrative tasks for both the federal government and research institutions.

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Over the years, the FDP has evolved into an organization of 9 federal agencies (See Appendix D for list of agencies) and over 120 research institutions (see Appendix E for list of institutions) dedicated to finding efficient and effective ways to support research by maximizing resources available for research and minimizing administrative costs. The FDP believes improving the productivity of research without compromising stewardship has benefits for the entire nation.

The FDP is a program sponsored by the Government-University-Industry Research Round Table of the National Academies. The interaction between FDP's 300 or so university and federal representatives takes place 3 times a year at regularly scheduled meetings and, more extensively, in the many collaborative working groups and task forces that meet often by conference calls in order to develop specific work products.

The Effort Reporting System

Historically effort reports have been used as the main support for salary and wage charges to federal grants and contracts. Sometimes effort reports are referred to as activity reports, after-the-fact activity reports, or plan confirmation reports and are explained in OMB Circular A-21, Section J.10.c. Effort reports are prepared for a single individual and show a percentage of effort for each activity that the individual participated in during the reporting period. The effort percentages will total 100 percent, signifying that they cover all work-related effort of the individual. The individual, by signing the form, certifies the accuracy of the effort reported.

Effort reports support salary and wage charges to grants and contracts when the percentage of an individual's compensation that is charged to the sponsored project reasonably reflects the effort percentage shown for the grant or contract activity.

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Rationale for Proposing an Alternative to Effort Reporting

An alternative to effort reporting, payroll certification, is proposed because effort reporting is based on effort which is difficult to measure, provides limited internal control value, is expensive, lacks timeliness, does not focus specifically on supporting direct charges, and is confusing when all forms of remuneration are considered.

Effort is Difficult to Measure. Effort reporting is a theoretical model that is difficult to convert to a practical application. On the surface the theoretical model makes sense. Identify one's effort relating to a project and show this as a percentage of total effort. The percentage of effort should be fairly similar to the percentage of total compensation that was charged to the project.

However, how does one measure effort? Is time the measurement? If a person worked on project "A" for an hour and worked on project "B" for an hour, did both projects receive the same level of effort? People's level of focus and effort is variable. In this simple example, the actual effort ratio (if effort could be measured) may not be 50% and 50%. It could be 65% and 35%.

Some effort report signers confess that they can't quantify their total effort or quantify effort on a project. This makes it very difficult for them to see any creditability in the effort reporting system.

Effort Reports Provide Limited Internal Control Value. Effort reports provide very little internal control value. Some have argued that since original charges to projects are based on before-the-fact estimates that effort reports provide a control to ensure that charges are based on actual effort. While this logic seems sound, in many effort reporting systems, effort reports almost never change charges to sponsored projects. How can a system be an effective control if it almost never impacts outcomes? Effort reports are basically compliance documents (reports required by the federal government) instead of being effective controls.

Expensive System. Effort reporting systems are expensive to install and expensive to operate. Modern systems need to be electronic resulting in extremely expensive acquisition costs. Because effort reporting systems are based on individuals, the system, at an average sized institution, will process thousands of transaction each year. This high transactional volume equates to considerable processing time and expense.

Untimely Reporting. Federal regulations require that Financial Status Reports be completed within 90 days of the end of the performance period and sometimes within 90 days of the end of the budget year. Under certain circumstances effort reports are not distributed before the Financial Status Report is due. For quarterly systems, one to two months of salary expenses might not be certified by the effort reporting system prior to submitting the Financial Status Report. For semester systems, up to 4 months might not be processed through the effort reporting system prior to Financial Status Report submission.

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Does not Focus on Direct Charges. Effort reporting is a holdover from the 1980's and earlier when effort reports served two purposes — support for direct charges and the mechanism used to develop administrative and instructional cost pools. Since the establishment of the 3.6% administrative allowance and standard usage of direct charge equivalents, effort report information is not needed for developing administrative and instructional cost pools.

An example of a current effort report would be: Project "A" 15%, Project "B" 25%, and Other 60%. Twenty years ago, the 60% would have been broken down into activities to help establish the Instruction, Department Administration, and other cost pools. Since the 60%, on today's effort reports, is actually a filler percentage, the value of effort reports has been reduced to only supporting direct charges. An alternative system has the opportunity to focus specifically on direct charges, and thus, be a better support system for direct charges.

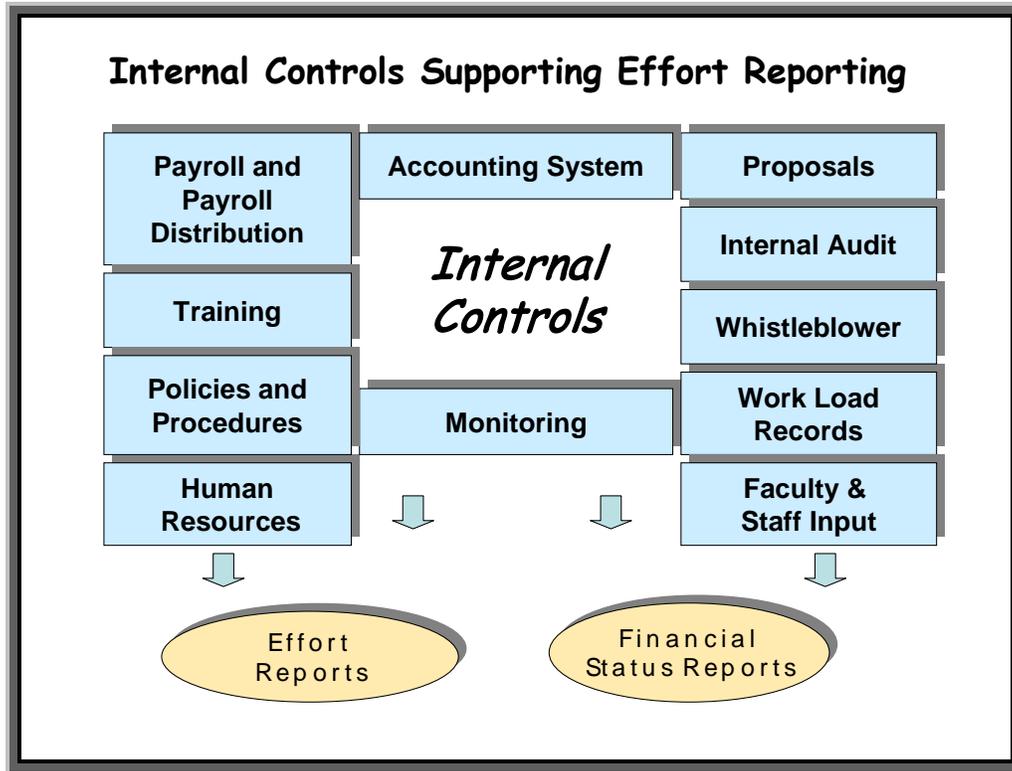
Confusing When All Forms of Remuneration are Considered. It is not unusual for individuals providing effort to federal sponsored projects to also be supported through fellowships and the like which are not compensation. The exclusion of fellowship type funding from effort reporting systems – the appropriate A-21 treatment – leads to confusion and a perceived underreporting of effort devoted to sponsored projects. This is caused by the discrepancy between effort expended and compensation paid.

Internal Controls

As mentioned earlier, effort reporting systems generally add very little value to internal control systems. This happens for two reasons. First, the actual controls are built into the broader charging system, and secondly, effort reports do not target important costing issues.

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The chart below shows elements of a typical university internal control environment that produces Effort Reports. Note that the Internal Control System provides information to Effort Reports in a manner very similar to providing information to Financial Status Reports.



A typical control system includes:

- An accounting system that separately budgets and accounts for sponsored projects' funds and expenses
- Sponsored project faculty and staff, department and dean's office staff, and contract and grant accounting staff that periodically monitor the accounting system to insure accurate recording of expenses
- Sponsored project faculty and staff that also monitor expenses against program goals as explained in the approved proposal. (As a project's research phases change, staffing changes may also occur.)
- The Payroll Distribution System that identifies 100 percent of the sources of an individual's compensation
- Training programs
- Policies and procedures

In addition, the concept of "effort" does not focus on important costing issues like, NIH salary cap, clerical and administrative restrictions, faculty summer salary limitations, and the prohibition on proposal preparation expenses.

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Payroll Certification System

Payroll certifications, the proposed alternative to effort reporting, addresses the weaknesses of effort reporting by:

- Eliminating the concept of “effort”
- Establishing a control function
- Reducing the acquisition and operating costs of salary and wage support systems
- Ensuring timely reporting, and
- Developing a system that focuses specifically on direct project charges

The basic elements of the payroll certification system include:

1. The payroll certification system requires annual project certifications signed by Principal Investigators. However, if Principal Investigators would like assistance in completing the certifications, they can have others (Co-Principal Investigators, the project’s accounting/budget analyst, laboratory supervisors, etc.) also sign the certification, but the Principal Investigators’ signatures are always required.
2. The project’s budget year establishes the payroll certification’s reporting year. Accordingly, certifications would be completed at various times during the year, versus specific times established for all projects for effort reporting.
3. Principal Investigators would not be certifying “effort” rather they would be certifying that salaries and wages “are reasonable in relation to work performed.” This concept is taken from the Plan Confirmation portion of OMB Circular A-21, the J.10.c.1.(e) section: “At least annually a statement will be signed by ... principal investigator[s] ...stating that salaries and wages charged to sponsored agreements as direct charges ... are reasonable in relation to work performed.” While this reasonable-in-relation-to-work-performed concept is not precise and judgment is involved, the concept is easier to understand and makes more sense than documenting “effort”.
4. Because payroll certifications are focused on supporting only direct compensation charges, Principal Investigators will be able to attest to the accuracy of some of OMB’s specific costing requirements like: Faculty Summer Salaries, NIH Salary cap, Clerical and Administrative salaries, and proposal preparation activities.
5. Since payroll certifications are based on project budget years, they can be completed prior to submission of Financial Status Reports; therefore, the system will always be timely.

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6. The payroll certification system is based on OMB's provisions for Multiple Confirmations Records found in Circular A-21, J.10.c.(3). Under this provision, the distribution of salaries and wages can be supported by records which "certify separately for direct and F&A cost activities." Appendix G illustrates how closely the payroll certification system meets OMB's Multiple Confirmation Records criteria.
7. Compared to Effort reporting systems, the payroll certification system is very cost effective. Implementation of either an electronic or manual system would be relatively easy because salary and wage expense information already exists within University systems. Development of the actual certification document and the instructions is quite easy. The operating costs of the system are very reasonable because the volume of transactions would be dramatically reduced (up to 90% less), and monitoring processes are already in place (end dates of budget years are widely known throughout the university).
8. The payroll certification system will enhance controls over salary and wage charges to federal sponsored projects by having a clear control focus and a system that can be monitored.

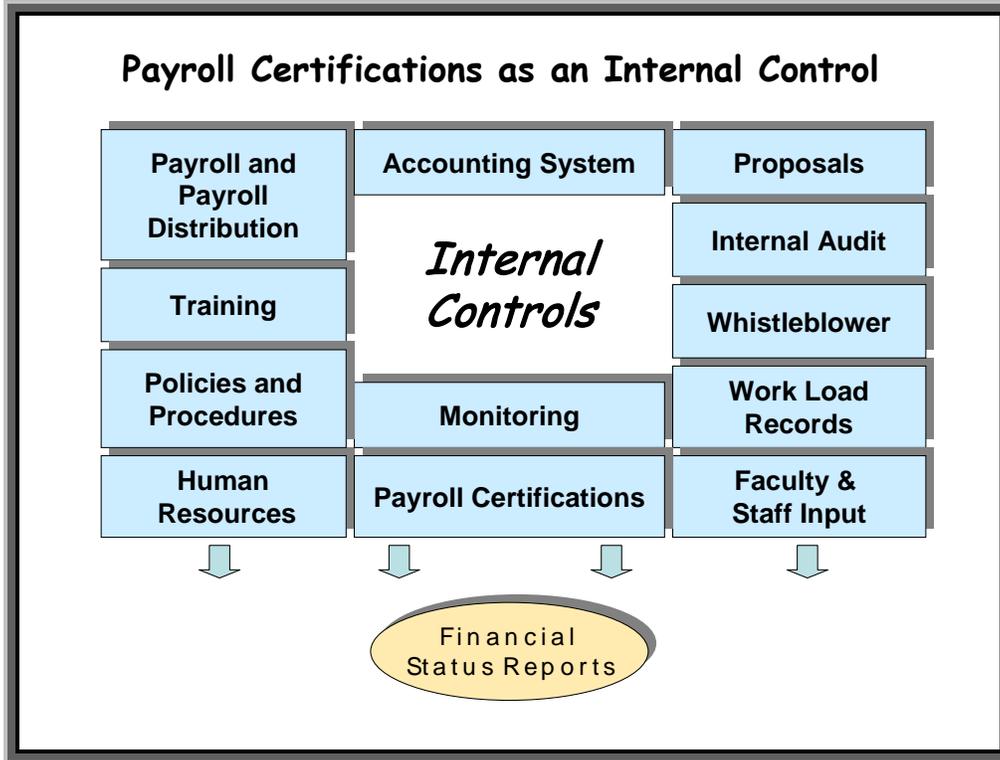
From the very start of a project, the Principal Investigator will know that salary and wage charges, to be appropriate, must meet the conditions of the payroll certifications – individuals worked on the project, charges reasonable in relation to work performed, and compliance with special federal costing regulations. This is a very consistent message throughout the period of the project. Contrast this system with the effort reporting system that 1) does not hold any one person accountable for salary and wage charges, 2) does not address federal special costing issues, and 3) values effort reports that are timely, signed by the right person and add up to 100 percent, even though signers cannot measure effort.

Effort reporting systems produce results periodically, but between cycles, effort can't be monitored. If a Principal Investigator, between reporting cycles, wanted to monitor effort to ensure proper charges, this could not be done. Also, one cannot monitor effort reports for the special federal costing requirements.

Monitoring is possible and efficient with the payroll certification system. For universities that maintain data warehouses, Principal Investigators can access the project's expenditure information on any given day. For Universities where data warehouses don't exist, periodic reports can provide Principal Investigators with useful information to monitor salaries and wages. In addition, all Universities (either with or without data warehouses) can create special reports to identify possible non-compliant conditions.

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By having a system that focuses directly on correct charging of salary and wage expenses to federal projects and that can be monitored during the budget year, this enhances internal controls and moves payroll certifications into the "Internal Controls" block as seen below:



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COMPARISON OF EFFORT REPORTS TO PAYROLL CERTIFICATIONS

Description	Effort Reporting System	Payroll Certification System
System Focus	Individuals	Project (Grant or Contract)
Certification Frequency	Quarterly	Annually (Based on project's budget year)
Time frame for distributing the form	Consistent points in time	After the end of the project's budget year
Signers	Individual employee, Principal Investigator, or person with first hand knowledge	Required: Principal Investigator Optional: Co-principal Investigator, business officer, lab supervisor, etc.
System Rationale (Theoretical foundation)	Salary and wage amounts are reasonable based on percentage of effort	Salary and wage amounts are reasonable based on their relationship to work performed
Committed Cost Sharing	Shown as a percentage of effort	Shown as an amount reasonable in relation to work performed
NIH Salary Cap	Shows total effort expended on the project, but amount reflects cap limitations	The acceptable amount is net of the cap disallowance.
Special Costing Requirements: Clerical and Administrative, Summer salaries, No proposal preparation time charged to project	Not addressed	Part of the certification

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Activity Information

Over the years, one of the guiding principles of effort reporting has been a complete reporting of all activities. Percentages of effort are reported for all activities and these percentages total 100 percent, indicating a complete accounting for all work activities. To accomplish this reporting, effort reporting systems have been based on the individual, and not on the project.

As indicated earlier, the usefulness of complete activity information has diminished. With direct charge equivalent formulas and the application of the 3.6 percent administrative allowance, activity information is not needed for F&A rate development. Accordingly, current effort reports are only being used to support direct charges and generally they show only two activity categories: direct sponsored activities (like research) and "Other" (all non-sponsored activities have been comingled into one category).

Even though the need for complete activity information has diminished and payroll certifications are based on projects (and not individuals), there still may be an occasional need for complete activity information which can be accessed through a two-step process. First, the payroll distribution system can identify all accounts used to pay an individual. And, second, one can then determine activities by understanding the nature of the accounts.

Evaluation and Demonstration Process

As presented in Appendix G, the payroll certification system comes very close to meeting the stated requirements for multiple confirmation records. Accordingly, the first step in evaluating the merits of the payroll certification system should be to use the review and approval process indicated in OMB's Circular A-21, J.10.b.(1)(d):

There is no single best method for documenting the distribution of charges for personal services. Methods for apportioning salaries and wages, however, must meet the criteria specified in subsection b.(2). Examples of acceptable methods are contained in subsection c. Other methods that meet the criteria specified in subsection b.(2) also shall be deemed acceptable, if a mutually satisfactory alternative agreement is reached.

FDP representatives want to meet with federal officials to determine if a satisfactory agreement can be reached.

However, if the OMB Circular A-21 approach fails, the FDP proposes a demonstration project containing the following elements:

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1. OMB would waive any OMB Circular A-21 requirements where the federal government determined that the payroll certification system was not in compliance with OMB Circular A-21.
2. Universities involved with the demonstration testing would implement the payroll certification system and stop using their effort reporting systems. However, a university could elect a demonstration testing plan whereby only a portion of the university used the payroll certification system while the rest of the university remained with activity reporting (effort reporting).
3. After a year and a half, individual universities and the federal government would assess the demonstration project. Prior to initiating the demonstration, Federal and FDP officials would formulate a mutually agreed upon assessment plan. (The year and a half timeframe was selected because at this point projects being certified would not have been influenced by the previous effort reporting system.)
4. Based on information learned from the assessment reviews, federal and FDP officials would decide if the payroll certification system was a viable alternative to effort reporting, and thus, could be made available to all higher education institutions.

Conclusion

Effort reporting systems have many downsides including extremely limited control value. Accordingly, the elimination of Effort Reports with no substitute or replacement system, would probably not impact direct charges. However, this is not what is being proposed, rather, a payroll certification system that clearly focuses on the goal: correct charging of salaries and wages to the project.

With payroll certifications the focus would be clear:

- Did all the people who had compensation charged to the project, actually work on the project?
- Were the charges to the project reasonable in relation to work performed?
- Did the University comply with all the special costing requirements?

This very direct approach to accurate charging is considerably better than the indirect and distracting effort reporting system. Many effort report signers see no value in a system that is trying to measure the immeasurable – “effort”. So, there is an opportunity cost associated with effort reporting. Time devoted to effort reporting could be better “spent” on a more productive system – payroll certifications.

The benefits of the payroll certification system should be thoroughly evaluated through the OMB Circular A-21 review and approval process, or perhaps a FDP demonstration project.

EXAMPLE: PAYROLL CERTIFICATION FORM

Federal Sponsored Project

Account Number:
 Project Title:
 Principal Investigator:
 Accounting Ledger or Report Title:
 Date of Accounting Ledger or Report:
 Reporting Period:

Cost Sharing

Account Number:
 Project Title:
 Principal Investigator:
 Accounting Ledger or Report Title:
 Date of Accounting Ledger or Report:
 Reporting Period:

I have reviewed the attached Sponsored Project Payroll Expense Report for the above cited sponsored project and, if applicable, I have also reviewed the attached cost sharing payroll expense report. My review of the payroll expenses was to ensure that 1) all individuals worked on this project, 2) salary or wage charges were reasonable in relation to work performed, and 3) the federal costing requirements as shown in the instructions were met.

To the best of my knowledge and belief these salary and wage expenses have been correctly charged.

_____	_____	_____ <u>Principal Investigator</u>	_____
Signature	Name Printed	Title	Date

OPTIONAL ADDITIONAL SIGNERS

Certification Responsibility: _____

_____	_____	_____	_____
Signature	Name Printed	Title	Date

Certification Responsibility: _____

_____	_____	_____	_____
Signature	Name Printed	Title	Date

EXAMPLE: SPONSORED PROJECT PAYROLL EXPENSE REPORT

Sponsored Project Account Number:
 Project Title:
 Principal Investigator:
 Date of Accounting Report:
 Budget Year Ended:

<u>Name</u>	<u>Job Title</u>	<u>Percentage of Salary</u>	<u>Amount</u>
Alexander, Douglas	Professor	8%	\$ 15,130.00
Clapperman, Elizabeth	Assistant Professor	5%	6,000.00
Gomez, Richard	Researcher	50%	32,500.00
Martin, William	Design Engineer	20%	15,000.00
Salino, Mary	Researcher	100%	55,000.00
Stein, Margaret	Management Assistant	40%	<u>18,000.00</u>
	Total		<u>\$145,630.00</u>

EXAMPLE: COMMITTED COST SHARING PAYROLL EXPENSE REPORT

Cost Sharing Account Number:
Sponsored Project Account Number:
Project Title:
Principal Investigator:
Date of Accounting Report:
Budget Year Ended:

<u>Name</u>	<u>Job Title</u>	<u>Percentage of Salary</u>	<u>Amount</u>
Mincey, Isabelle	Professor	5%	<u>\$ 9,000.00</u>
	Total		<u>\$ 9,000.00</u>

EXAMPLE: INSTRUCTIONS FOR COMPLETING THE PAYROLL CERTIFICATION FORM

1. Payroll certifications are for one year periods which correspond to the budget years of sponsored projects.
2. Enter the Contracts and Grants Accounting web site, go to the “Payroll Certification” page and enter the sponsored project’s account number. Print out the Payroll Certification, the Instructions for Completing the Payroll Certification, the project’s Payroll Expense Report, and, if applicable, the Committed Cost Sharing Payroll Expense Report.
3. Review the salary and wage charges for the project and for cost sharing (if applicable) to assure compliance with federal costing requirements per OMB Circular A-21 and applicable University policies. For payroll expenses to be correctly charged:
 - All individuals must have worked on the project
 - Salary and wage charges must be reasonable in relation to work performed
 - No individual performed proposal preparation activities while their salary was charged to the project
 - All faculty that received summer salaries, met summer salary restrictions (two-ninths rule)
 - All Individuals (including faculty with summer salaries) that had 90% to 100% of their salaries charged to the project were involved in only minimal non-sponsored project activities, like instruction, department committees, etc.
 - All individuals (applies only to NIH awards) paid at a rate in excess of the NIH approved rate had their salary charges adjusted to comply with NIH’s salary cap requirements
 - All individuals performing “Clerical and Administrative” activities met the federal exception criteria, and exceptions were documented
4. After completing the salary and wage reviews and determining that all charges were appropriate, the Principal Investigator should sign and date the certification form. If useful, the Principal Investigator can obtain additional signers to assist in verifying the accuracy of the charges. Additional signers might be: Co-Principal Investigators, the project’s accounting/budget analyst, laboratory supervisors, etc. However, additional signers cannot replace the Principal Investigator’s signature.
5. For your records, make a copy of the entire payroll certification packet: signed Payroll Certification, Instructions for Completing the Payroll Certification, the project’s Payroll Expense Report, and, if applicable, the Committed Cost Sharing Payroll Expense Report.
6. Submit the original payroll certification packet to Contract and Grant Accounting within 70 days of the end of the budget year. This provides Contract and Grant Accounting adequate time to complete Financial Status Reports which are due 90 days after the end of the final budget year on all projects and are required on some projects for every budget year.
7. If you have questions, contact Contracts and Grants Accounting.

**FEDERAL DEMONSTRATION PARTNERSHIP
FEDERAL AGENCY MEMBERSHIP**

National Science Foundation (NSF)
National Institutes of Health (NIH)
Office of Naval Research (ONR)
Department of Agriculture (USDA)
Air Force Office of Scientific Research (AFOSR)
Army Research Office (ARO)
Army Medical Research and Materiel Command (AMRMC)
National Aeronautics & Space Administration (NASA)
Environmental Protection Agency (EPA)
Department of Homeland Security

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HIGHER EDUCATION MEMBERSHIP**

Research Institutions

Arizona State University
Boston University
Brown University
California Institute of Technology
Case Western Reserve University
Children's Hospital of Philadelphia
Colorado State University
Columbia University
Cornell University
Dana-Farber Cancer Institute
Dartmouth College
Duke University
Emory University
Feinstein Institute for Medical Research
Florida Atlantic University
Florida International University
Florida State University
George Mason University
Georgetown University
Georgia Institute of Technology
Harvard University
Indiana University
Iowa State University
Jackson Laboratory
Johns Hopkins University
Kent State University
Massachusetts Institute of Technology
Medical University of South Carolina
Michigan State University
Michigan Technological University
Mississippi State University
Nevada System of Higher Education
New Mexico State University
New York University, Washington Square
North Carolina State University
Northeastern University
Northwestern University
Ohio State University
Oregon Health & Science University
Partners Healthcare Systems
Pennsylvania State University

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HIGHER EDUCATION MEMBERSHIP**

Research Institutions (Continued)

Purdue University
Rensselaer Polytechnic Institute
Research Foundation for the State University of New York
Rockefeller University
Schepens Eye Research Institute
St. Jude Children's Research Hospital
Stanford University
Syracuse University
Temple University
Texas A&M Research Foundation
Texas A&M University
Texas Engineering Experiment Station
Texas State University - San Marcos
Texas Tech University
University of Alabama
University of Alabama, Birmingham
University of Alaska, Fairbanks
University of Arizona
University of Arkansas for Medical Sciences
University of California
University of Central Florida
University of Chicago
University of Cincinnati
University of Delaware
University of Florida
University of Georgia
University of Hawaii
University of Houston
University of Illinois, Chicago
University of Illinois, Urbana-Champaign
University of Iowa
University of Kansas
University of Kentucky
University of Maryland, College Park
University of Massachusetts, Dartmouth
University of Massachusetts, Lowell
University of Massachusetts, Medical School
University of Miami
University of Michigan
University of Minnesota
University of Missouri, Columbia

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Research Institutions (Continued)

University of Nebraska
University of New Mexico
University of North Carolina, Chapel Hill
University of North Carolina, Wilmington
University of North Dakota
University of Notre Dame
University of Oklahoma
University of Pennsylvania
University of Rochester
University of South Florida
University of Southern California
University of Tennessee Health Science Center
University of Texas Health Science Center, Houston
University of Texas Health Science Center, San Antonio
University of Texas, Arlington
University of Texas, Austin
University of Virginia
University of Washington
University of Wisconsin, Madison
Vanderbilt University
Washington University
Wayne State University
Yale University

Emerging Research Institutions

Bradley University
California State University, Sacramento
Charles Drew University of Medicine and Science
College of Charleston
Florida A&M University
Geisinger Health System
Institute for Systems Biology
Lincoln University
Morgan State University
Southern Illinois University Edwardsville
University of Maryland Center for Environmental Science
University of North Texas
University of South Alabama
University of Texas – San Antonio

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Affiliate Members

National Council of University Research Administrators (NCURA)
Council on Governmental Relations (COGR)
Society of Research Administrators International (SRA)
Association of Independent Research Institutes (AIRI)
American Association of State Colleges and Universities (AASCU)

**Payroll Certification System Compared to
Criteria in OMB Circular A-21, Section J.10**

A-21, Section J.10 Text	Comments	Is Payroll Certification Compliant with A-21?
b.(2) Criteria for Acceptable Methods.		N/A
<p>b.(2)(a) The payroll distribution system will</p> <p>(i) be incorporated into the official records of the institution;</p> <p>(ii) reasonably reflect the activity for which the employee is compensated by the institution; and</p> <p>(iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)</p>	<p>The only activity that will be charged to the federal government will be direct charges on federal sponsored projects. The reasonableness of the compensation will be certified by the project's Principal Investigator.</p> <p>Even though the payroll certification system separates sponsored activities and all other activities, the payroll distribution system integrates both sponsored and other activities. Paragraph J.10.b(3) (Multiple Plan Confirmations) allows this approach.</p>	<p>Yes</p> <p>Yes</p> <p>Yes</p>

**Payroll Certification System Compared to
Criteria in OMB Circular A-21, Section J.10**

A-21, Section J.10 Text	Comments	Is Payroll Certification Compliant with A-21?
<p>b.(2)(b) The method must recognize the principle of after the fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.</p>	<p>The payroll certification system provides for an after-the-fact confirmation for direct cost activities.</p>	<p align="center">Yes</p>
<p>b.(2)(c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement</p> <p>and</p> <p>each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (see subsection b(1)b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.</p>	<p>Under the payroll certification system, Principal Investigators will confirm the appropriateness of the charges to their project (activity).</p> <p>The payroll certification system relies on direct charge equivalents and the 3.6% administrative allowance for F&A cost categories not identified in the accounting system.</p>	<p align="center">Yes</p> <p align="center">Yes</p>

**Payroll Certification System Compared to
Criteria in OMB Circular A-21, Section J.10**

A-21, Section J.10 Text	Comments	Is Payroll Certification Compliant with A-21?
b.(2)(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.		Yes
b.(2)(e) Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.	The payroll certification system can correctly manage workload fluctuations.	Yes
b.(2)(f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.		Yes
b.(2)(g) For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.		N/A

**Payroll Certification System Compared to
Criteria in OMB Circular A-21, Section J.10**

A-21, Section J.10 Text	Comments	Is Payroll Certification Compliant with A-21?
<p>c.(3) Multiple Confirmation Records: Under this system, the distribution of salaries and wages of professorial and professional staff will be supported by records which certify separately for direct and F&A cost activities as prescribed below.</p>		N/A
<p>c.(3)(a) For employees covered by the system, there will be direct cost records to reflect the distribution of that activity expended which is to be allocable as direct cost to each sponsored agreement.</p> <p>There will also be F&A cost records to reflect the distribution of that activity to F&A costs. These records may be kept jointly or separately (but are to be certified separately, see below).</p>	<p>Payroll distribution records will document direct cost charges to each sponsored agreement.</p> <p>F&A cost records will be the results of the application of direct charge equivalents and the 3.6% administrative allowance</p>	<p>Yes</p> <p>Yes</p>
<p>c.(3)(b) Salary and wage charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences occur.</p>	<p>The Principal Investigator and the project accountant make periodic review of project expenses to insure accuracy.</p>	Yes
<p>c.(3)(c) Institutional records will reasonably reflect only the activity for which employees are compensated by the institution (compensation for incidental work as described in subsection a need not be included).</p>		Yes

**Payroll Certification System Compared to
Criteria in OMB Circular A-21, Section J.10**

A-21, Section J.10 Text	Comments	Is Payroll Certification Compliant with A-21?
<p>c.(3)(d) The system will reflect activity applicable to each sponsored agreement and</p> <p>to each category needed to identify F&A costs and the functions to which they are allocable.</p>	<p>The Accounting System will provide this information.</p> <p>This information is provided by the Accounting System, direct charge equivalents and allowance factors.</p>	<p>Yes</p> <p>Yes</p>
<p>c.(3)(e) To confirm that distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the record for each employee will include:</p> <p>(1) the signature of the employee or of a person having direct knowledge of the work, confirming that the record of activities allocable as direct costs of each sponsored agreement is appropriate; and,</p> <p>(2) the record of F&A costs will include the signature of responsible person(s) who use suitable means of verification that the work was performed and is consistent with the overall distribution of the employee's compensated activities. These signatures may all be on the same document.</p>	<p>The payroll certification requires the signature of the Principal Investigator.</p> <p>The payroll certification system does not collect signatures to support F&A costs, rather these costs are supported by direct charge equivalents and the 3.6% Administrative Allowance. This methodology is supported by A-21. Also, current effort reporting systems do not collect signatures for support of F&A costs.</p>	<p>Yes</p> <p>Yes</p>

**Payroll Certification System Compared to
Criteria in OMB Circular A-21, Section J.10**

A-21, Section J.10 Text	Comments	Is Payroll Certification Compliant with A-21?
c.(3)(f) The reports will be prepared each academic term, but no less frequently than every six months.	Payroll certifications are prepared annually and corresponding to a project's budget year. Even though this is less frequent than the requirement in J.10.b(3)(f), it is the same frequency as allowed under Plan Confirmation J.10.c.(1)(e). ONR and HHS have approved extended reporting periods; accordingly, this frequency requirement could be approved by the cognizant agencies.	Yes Per approval by cognizant agencies.
c.(3)(g) Where the institution uses time cards or other forms of after the fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purposes, provided they meet the requirements in subsections (a) through (f).	Payroll documents are the same regardless of the certification system: Effort or Payroll.	Yes

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(Appendix H provides the actual OMB Circular A-21 text for sections relating to compensation and distribution systems. Sections A.2 and C cite requirements for cost categories that are broader than compensation, but were included because they are referenced in Section J.10, Compensation for personal services.)

A. Purpose and scope.

A.2. Policy guides. The successful application of these cost accounting principles requires development of mutual understanding between representatives of universities and of the Federal Government as to their scope, implementation, and interpretation. It is recognized that

- a. The arrangements for Federal agency and institutional participation in the financing of a research, training, or other project are properly subject to negotiation between the agency and the institution concerned, in accordance with such governmentwide criteria or legal requirements as may be applicable.
- b. Each institution, possessing its own unique combination of staff, facilities, and experience, should be encouraged to conduct research and educational activities in a manner consonant with its own academic philosophies and institutional objectives.
- c. The dual role of students engaged in research and the resulting benefits to sponsored agreements are fundamental to the research effort and shall be recognized in the application of these principles.
- d. Each institution, in the fulfillment of its obligations, should employ sound management practices.
- e. The application of these cost accounting principles should require no significant changes in the generally accepted accounting practices of colleges and universities. However, the accounting practices of individual colleges and universities must support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to sponsored agreements.
- f. Cognizant Federal agencies involved in negotiating facilities and administrative (F&A) cost rates and auditing should assure that institutions are generally applying these cost accounting principles on a consistent basis. Where wide variations exist in the treatment of a given cost item among institutions, the reasonableness and equitableness of such treatments should be fully considered during the rate negotiations and audit.

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C. Basic considerations.

C.1. Composition of total costs. The cost of a sponsored agreement is comprised of the allowable direct costs incident to its performance, plus the allocable portion of the allowable F&A costs of the institution, less applicable credits as described in subsection 5.

C.2. Factors affecting allowability of costs. The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

C.3. Reasonable costs. A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are: (a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement; (b) the restraints or requirements imposed by such factors as arm's length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions; (c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and, (d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

C.4. Allocable costs.

- a. A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods, or (3) it is necessary to the overall operation of the institution and, in light of the principles provided in this Circular, is deemed to be assignable in part to sponsored projects. Where the

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purchase of equipment or other capital items is specifically authorized under a sponsored agreement, the amounts thus authorized for such purchases are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

- b. Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.
- c. Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally sponsored agreements.
- d. Allocation and documentation standard

(1) Cost principles. The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under these cost principles.

(2) Internal controls. The institution's financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.

(3) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding subsection b, the costs may be allocated or transferred to benefited projects on any reasonable basis, consistent with subsections d. (1) and (2).

(4) Documentation. Federal requirements for documentation are specified in this Circular, Circular A 110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non Profit Organizations," and specific agency policies on cost transfers. If the institution authorizes the principal investigator or other individual to have primary responsibility, given the requirements of subsection d. (2), for the management of sponsored agreement funds, then the institution's documentation requirements for the actions of those individuals (e.g., signature or initials of the principal investigator or designee or use of a password) will normally be considered sufficient.

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C.5. Applicable credits.

- a. The term "applicable credits" refers to those receipts or negative expenditures that operate to offset or reduce direct or F&A cost items. Typical examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. This term also includes "educational discounts" on products or services provided specifically to educational institutions, such as discounts on computer equipment, except where the arrangement is clearly and explicitly identified as a gift by the vendor.
- b. In some instances, the amounts received from the Federal Government to finance institutional activities or service operations should be treated as applicable credits. Specifically, the concept of netting such credit items against related expenditures should be applied by the institution in determining the rates or amounts to be charged to sponsored agreements for services rendered whenever the facilities or other resources used in providing such services have been financed directly, in whole or in part, by Federal funds. (See Sections F.10, J.14, and J.47 for areas of potential application in the matter of direct Federal financing.)

C.6. Costs incurred by State and local governments. Costs incurred or paid by State or local governments on behalf of their colleges and universities for fringe benefit programs, such as pension costs and FICA and any other costs specifically incurred on behalf of, and in direct benefit to, the institutions, are allowable costs of such institutions whether or not these costs are recorded in the accounting records of the institutions, subject to the following:

- a. The costs meet the requirements of subsections 1 through 5.
- b. The costs are properly supported by cost allocation plans in accordance with applicable Federal cost accounting principles.
- c. The costs are not otherwise borne directly or indirectly by the Federal Government.

C.7. Limitations on allowance of costs. Sponsored agreements may be subject to statutory requirements that limit the allowance of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this Circular, the amount not recoverable under a sponsored agreement may not be charged to other sponsored agreements.

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C.8. Collection of unallowable costs, excess costs due to noncompliance with cost policies, increased costs due to failure to follow a disclosed accounting practice and increased costs resulting from a change in cost accounting practice. The following costs shall be refunded (including interest) in accordance with applicable Federal agency regulations:

- a. Costs specifically identified as unallowable in Section J, either directly or indirectly, and charged to the Federal Government.
- b. Excess costs due to failure by the educational institution to comply with the cost policies in this Circular.
- c. Increased costs due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs.
- d. Increased costs resulting from a change in accounting practice.

C.9. Adjustment of previously negotiated F&A cost rates containing unallowable costs. Negotiated F&A cost rates based on a proposal later found to have included costs that (a) are unallowable as specified by (i) law or regulation, (ii) Section J of this Circular, (iii) terms and conditions of sponsored agreements, or (b) are unallowable because they are clearly not allocable to sponsored agreements, shall be adjusted, or a refund shall be made, in accordance with the requirements of this section. These adjustments or refunds are designed to correct the proposals used to establish the rates and do not constitute a reopening of the rate negotiation. The adjustments or refunds will be made regardless of the type of rate negotiated (predetermined, final, fixed, or provisional).

- a. For rates covering a future fiscal year of the institution, the unallowable costs will be removed from the F&A cost pools and the rates appropriately adjusted.
- b. For rates covering a past period, the Federal share of the unallowable costs will be computed for each year involved and a cash refund (including interest chargeable in accordance with applicable regulations) will be made to the Federal Government. If cash refunds are made for past periods covered by provisional or fixed rates, appropriate adjustments will be made when the rates are finalized to avoid duplicate recovery of the unallowable costs by the Federal Government.
- c. For rates covering the current period, either a rate adjustment or a refund, as described in subsections a and b, shall be required by the cognizant agency. The choice of method shall be at the discretion of the cognizant agency, based on its judgment as to which method would be most practical.

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- d. The amount or proportion of unallowable costs included in each year's rate will be assumed to be the same as the amount or proportion of unallowable costs included in the base year proposal used to establish the rate.

C.10. Consistency in estimating, accumulating and reporting costs.

- a. An educational institution's practices used in estimating costs in pricing a proposal shall be consistent with the educational institution's cost accounting practices used in accumulating and reporting costs.
- b. An educational institution's cost accounting practices used in accumulating and reporting actual costs for a sponsored agreement shall be consistent with the educational institution's practices used in estimating costs in pricing the related proposal or application.
- c. The grouping of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices under subsection a when such costs are accumulated and reported in greater detail on an actual cost basis during performance of the sponsored agreement.
- d. Appendix A also reflects this requirement, along with the purpose, definitions, and techniques for application, all of which are authoritative.

C.11. Consistency in allocating costs incurred for the same purpose.

- a. All costs incurred for the same purpose, in like circumstances, are either direct costs only or F&A costs only with respect to final cost objectives. No final cost objective shall have allocated to it as a cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any F&A cost pool to be allocated to that or any other final cost objective.
- b. Appendix A reflects this requirement along with its purpose, definitions, and techniques for application, illustrations and interpretations, all of which are authoritative.

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C.12. Accounting for unallowable costs.

- a. Costs expressly unallowable or mutually agreed to be unallowable, including costs mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement.
- b. Costs which specifically become designated as unallowable as a result of a written decision furnished by a Federal official pursuant to sponsored agreement disputes procedures shall be identified if included in or used in the computation of any billing, claim, or proposal applicable to a sponsored agreement. This identification requirement applies also to any costs incurred for the same purpose under like circumstances as the costs specifically identified as unallowable under either this subsection or subsection a.
- c. Costs which, in a Federal official's written decision furnished pursuant to sponsored agreement disputes procedures, are designated as unallowable directly associated costs of unallowable costs covered by either subsection a or b shall be accorded the identification required by subsection b.
- d. The costs of any work project not contractually authorized by a sponsored agreement, whether or not related to performance of a proposed or existing sponsored agreement, shall be accounted for, to the extent appropriate, in a manner which permits ready separation from the costs of authorized work projects.
- e. All unallowable costs covered by subsections a through d shall be subject to the same cost accounting principles governing cost allocability as allowable costs. In circumstances where these unallowable costs normally would be part of a regular F&A cost allocation base or bases, they shall remain in such base or bases. Where a directly associated cost is part of a category of costs normally included in a F&A cost pool that shall be allocated over a base containing the unallowable cost with which it is associated, such a directly associated cost shall be retained in the F&A cost pool and be allocated through the regular allocation process.
- f. Where the total of the allocable and otherwise allowable costs exceeds a limitation of cost or ceiling price provision in a sponsored agreement, full direct and F&A cost allocation shall be made to the sponsored agreement cost objective, in accordance with established cost accounting practices and standards which regularly govern a given entity's allocations to sponsored agreement cost objectives. In any determination of a cost overrun, the amount thereof shall be identified in terms of the excess of allowable costs over the

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ceiling amount, rather than through specific identification of particular cost items or cost elements.

- g. Appendix A reflects this requirement, along with its purpose, definitions, techniques for application, and illustrations of this standard, all of which are authoritative.

C.13. Cost accounting period.

- a. Educational institutions shall use their fiscal year as their cost accounting period, except that:
- b. (1) Costs of a F&A function which exists for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period on the basis of data for that part of the cost accounting period if the cost is: (i) material in amount, (ii) accumulated in a separate F&A cost pool or expense pool, and (iii) allocated on the basis of an appropriate direct measure of the activity or output of the function during that part of the period
- c. (2) An annual period other than the fiscal year may, upon mutual agreement with the Federal Government, be used as the cost accounting period if the use of such period is an established practice of the educational institution and is consistently used for managing and controlling revenues and disbursements, and appropriate accruals, deferrals or other adjustments are made with respect to such annual periods.
- d. (3) A transitional cost accounting period other than a year shall be used whenever a change of fiscal year occurs.
- e. An educational institution shall follow consistent practices in the selection of the cost accounting period or periods in which any types of expense and any types of adjustment to expense (including prior period adjustments) are accumulated and allocated.
- f. The same cost accounting period shall be used for accumulating costs in a F&A cost pool as for establishing its allocation base, except that the Federal Government and educational institution may agree to use a different period for establishing an allocation base, provided:
 - (1) The practice is necessary to obtain significant administrative convenience,
 - (2) The practice is consistently followed by the educational institution,

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(3) The annual period used is representative of the activity of the cost accounting period for which the F&A costs to be allocated are accumulated, and

(4) The practice can reasonably be estimated to provide a distribution to cost objectives of the cost accounting period not materially different from that which otherwise would be obtained.

- g. Appendix A reflects this requirement, along with its purpose, definitions, techniques for application and illustrations, all of which are authoritative.

C.14. Disclosure Statement.

- a. Educational institutions that received aggregate sponsored agreements totaling \$25 million or more subject to this Circular during their most recently completed fiscal year shall disclose their cost accounting practices by filing a Disclosure Statement (DS 2), which is reproduced in Appendix B. With the approval of the cognizant agency, an educational institution may meet the DS 2 submission by submitting the DS 2 for each business unit that received \$25 million or more in sponsored agreements.
- b. The DS 2 shall be submitted to the cognizant agency with a copy to the educational institution's audit cognizant office.
- c. Educational institutions receiving \$25 million or more in sponsored agreements that are not required to file a DS 2 pursuant to 48 CFR 9903.202 1 shall file a DS 2 covering the first fiscal year beginning after the publication date of this revision, within six months after the end of that fiscal year. Extensions beyond the above due date may be granted by the cognizant agency on a case by case basis.
- d. Educational institutions are responsible for maintaining an accurate DS 2 and complying with disclosed cost accounting practices. Educational institutions must file amendments to the DS 2 when disclosed practices are changed to comply with a new or modified standard, or when practices are changed for other reasons. Amendments of a DS 2 may be submitted at any time. If the change is expected to have a material impact on the educational institution's negotiated F&A cost rates, the revision shall be approved by the cognizant agency before it is implemented. Resubmission of a complete, updated DS 2 is discouraged except when there are extensive changes to disclosed practices.
- e. Cost and funding adjustments. Cost adjustments shall be made by the cognizant agency if an educational institution fails to comply with the cost policies in this Circular or fails to consistently follow its established or disclosed cost accounting practices when estimating, accumulating or reporting the costs of sponsored

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agreements, if aggregate cost impact on sponsored agreements is material. The cost adjustment shall normally be made on an aggregate basis for all affected sponsored agreements through an adjustment of the educational institution's future F&A costs rates or other means considered appropriate by the cognizant agency. Under the terms of CAS covered contracts, adjustments in the amount of funding provided may also be required when the estimated proposal costs were not determined in accordance with established cost accounting practices.

- f. Overpayments. Excess amounts paid in the aggregate by the Federal Government under sponsored agreements due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs shall be credited or refunded, as deemed appropriate by the cognizant agency. Interest applicable to the excess amounts paid in the aggregate during the period of noncompliance shall also be determined and collected in accordance with applicable Federal agency regulations.
- g. Compliant cost accounting practice changes. Changes from one compliant cost accounting practice to another compliant practice that are approved by the cognizant agency may require cost adjustments if the change has a material effect on sponsored agreements and the changes are deemed appropriate by the cognizant agency.
- h. Responsibilities. The cognizant agency shall:
 - (1) Determine cost adjustments for all sponsored agreements in the aggregate on behalf of the Federal Government. Actions of the cognizant agency official in making cost adjustment determinations shall be coordinated with all affected Federal agencies to the extent necessary.
 - (2) Prescribe guidelines and establish internal procedures to promptly determine on behalf of the Federal Government that a DS 2 adequately discloses the educational institution's cost accounting practices and that the disclosed practices are compliant with applicable CAS and the requirements of this Circular.
 - (3) Distribute to all affected agencies any DS 2 determination of adequacy and/or noncompliance.

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J. General provisions for selected items of cost.

10. *Compensation for personal services.*

a. General. Compensation for personal services covers all amounts paid currently or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements. Such amounts include salaries, wages, and fringe benefits (see subsection f). These costs are allowable to the extent that the total compensation to individual employees conforms to the established policies of the institution, consistently applied, and provided that the charges for work performed directly on sponsored agreements and for other work allocable as F&A costs are determined and supported as provided below. Charges to sponsored agreements may include reasonable amounts for activities contributing and intimately related to work under the agreements, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences. Incidental work (that in excess of normal for the individual), for which supplemental compensation is paid by an institution under institutional policy, need not be included in the payroll distribution systems described below, provided such work and compensation are separately identified and documented in the financial management system of the institution.

b. Payroll distribution.

(1) General Principles.

(a) The distribution of salaries and wages, whether treated as direct or F&A costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. Institutions may include in a residual category all activities that are not directly charged to sponsored agreements, and that need not be distributed to more than one activity for purposes of identifying F&A costs and the functions to which they are allocable. The components of the residual category are not required to be separately documented.

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(b) The apportionment of employees' salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will-

(1) be in accordance with Sections A.2 and C;

(2) produce an equitable distribution of charges for employee's activities;
and

(3) distinguish the employees' direct activities from their F&A activities.

(c) 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.

(d) There is no single best method for documenting the distribution of charges for personal services. Methods for apportioning salaries and wages, however, must meet the criteria specified in subsection b.(2). Examples of acceptable methods are contained in subsection c. Other methods that meet the criteria specified in subsection b.(2) also shall be deemed acceptable, if a mutually satisfactory alternative agreement is reached.

(2) Criteria for Acceptable Methods.

(a) The payroll distribution system will

(i) be incorporated into the official records of the institution;

(ii) reasonably reflect the activity for which the employee is compensated by the institution; and

(iii) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.)

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(b) The method must recognize the principle of after the fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.

(c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned (see subsection b.(1)b)), if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.

(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.

(e) Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.

(f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.

(g) For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.

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J.10.c. Examples of Acceptable Methods for Payroll Distribution:

J.10.c.(1) **Plan Confirmation:** Under this method, the distribution of salaries and wages of professorial and professional staff applicable to sponsored agreements is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes in work distribution. A plan confirmation system used for salaries and wages charged directly or indirectly to sponsored agreements will meet the following standards:

(a) A system of budgeted, planned, or assigned work activity will be incorporated into the official records of the institution and encompass both sponsored and all other activities on an integrated basis. The system may include the use of subsidiary records.

(b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation for incidental work described in subsection a need not be included). Practices vary among institutions and within institutions as to the activity constituting a full workload. Hence, the system will reflect categories of activities expressed as a percentage distribution of total activities. (See Section H for treatment of F&A costs under the simplified method for small institutions.)

(c) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection b.(2)(c).

(d) The system will provide for modification of an individual's salary or salary distribution commensurate with a significant change in the employee's work activity. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period. Whenever it is apparent that a significant change in work activity that is directly or indirectly charged to sponsored agreements will occur or has occurred, the change will be documented over the signature of a responsible official and entered into the system.

(e) At least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to work performed.

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(f) The system will provide for independent internal evaluation to ensure the system's integrity and compliance with the above standards.

(g) In the use of this method, an institution shall not be required to provide additional support or documentation for the effort actually performed.

J.10.c.(2) After the fact Activity Records: Under this system the distribution of salaries and wages by the institution will be supported by activity reports as prescribed below.

(a) Activity reports will reflect the distribution of activity expended by employees covered by the system (compensation for incidental work as described in subsection a need not be included).

(b) These reports will reflect an after the fact reporting of the percentage distribution of activity of employees. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are indicated by activity records.

(c) Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

(d) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection b.(2)(c).

(e) For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

(f) Where the institution uses time cards or other forms of after the fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for this purpose, provided that they meet the requirements in subsections (a) through (e).

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J.10.c.(3) **Multiple Confirmation Records:** Under this system, the distribution of salaries and wages of professorial and professional staff will be supported by records which certify separately for direct and F&A cost activities as prescribed below.

(a) For employees covered by the system, there will be direct cost records to reflect the distribution of that activity expended which is to be allocable as direct cost to each sponsored agreement. There will also be F&A cost records to reflect the distribution of that activity to F&A costs. These records may be kept jointly or separately (but are to be certified separately, see below).

(b) Salary and wage charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences occur.

(c) Institutional records will reasonably reflect only the activity for which employees are compensated by the institution (compensation for incidental work as described in subsection a need not be included).

(d) The system will reflect activity applicable to each sponsored agreement and to each category needed to identify F&A costs and the functions to which they are allocable.

(e) To confirm that distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the record for each employee will include:

(1) the signature of the employee or of a person having direct knowledge of the work, confirming that the record of activities allocable as direct costs of each sponsored agreement is appropriate; and,

(2) the record of F&A costs will include the signature of responsible person(s) who use suitable means of verification that the work was performed and is consistent with the overall distribution of the employee's compensated activities. These signatures may all be on the same document.

(f) The reports will be prepared each academic term, but no less frequently than every six months.

(g) Where the institution uses time cards or other forms of after the fact payroll documents as original documentation for payroll and payroll charges,

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such documents shall qualify as records for this purposes, provided they meet the requirements in subsections (a) through (f).

(The remaining J.10 subsections –

- d. Salary rates for faculty members*
- e. Noninstitutional professional activities*
- f. Fringe benefits*
- g. Institution furnished automobiles*
- h. Severance pay –*

do not relate to payroll distribution systems; and therefore have been omitted.)