



# University of Pittsburgh

## FINANCIAL GUIDELINE

Subject: Effort Reporting

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### I. Scope

Effort reporting is the disclosure, accounting and reporting of an individual's proportional time spent on University activities expressed as a percentage of total time. Effort reporting is essential for the proper accounting of salary and wage expenses, representing the largest component of University expenses, comprising almost 50% of the total annual expenses. Therefore, the financial integrity of the University's effort reporting system is of paramount importance.

This guideline establishes the requirements for effort reporting for direct and indirect salary and wage expenses on the financial accounting records of the University in accordance with federal regulations. This policy also establishes the following responsibilities for effort reporting:

#### Department Chair

- oversee the effort planning and confirmation process
- ensure accurate planning and confirmation of effort
- ensure overall compliance with this guideline

#### Principal Investigator (PI), Employee and Departmental/Research Administrator

- plan, assign, budget and distribute various work activities based upon an individual's expected effort at the beginning of each academic period
- monitor the accuracy and appropriateness of all effort expended on University activities
- update effort reporting as significant changes become known to ensure the proper accounting for direct and indirect effort recorded on their sponsored projects and departmental accounts
- certify effort reporting based on direct, first-hand knowledge of actual activities performed

#### Payroll Department

- maintain an adequate system of accounting and internal control for effort reporting within the framework of the University payroll system
- process University effort reporting (Salaried Personnel Activity Report or SPAR) forms



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### I. Scope (con't)

#### Payroll Department (con't)

- monitor the certification of and retention of records related to effort reporting

#### Research/Cost Accounting

- provide departmental support on policy issues related to effort reporting in accordance with OMB Circular A-21

The University's guideline on effort reporting applies to all employees who record salary and wage costs on the accounting records of the University. It also applies to all sources of University funding including unrestricted, restricted and plant funds.

### II. Guideline

#### Compensation

Compensation for personal services covers all amounts paid currently or accrued by the University for employee services provided in conjunction with the University activities or functions of instruction, research, and public service, administration, etc. Activities external to the University such as consulting, external appointments, medical center or practice plan affiliations, or other activities that benefit a separate legal entity and do not benefit the University are excluded. Total compensation to individuals must be reasonable and conform to University policies and applicable laws and regulations.

#### Effort Reporting and Related Payroll Distribution

Effort reporting and the related payroll distribution must be allowable, allocable and reasonable; produce an equitable distribution of charges for employee's activities; and distinguish employee's direct and indirect activities based upon actual work performed.



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### II. Guideline (con't)

Direct activities are those activities that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

Indirect activities are those activities that relate to common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity or any other institutional activity.

**Effort reporting and the related payroll distribution cannot be based on budgets or availability of funding, without regard to the actual levels of effort being expended.**

The payroll distribution is normally set at the beginning of a fiscal year for existing employees based on a plan of how the employee's effort is going to be incurred and allocated. Significant, long-term changes in actual effort must be reflected in the payroll distribution by adjusting the percentage effort assigned to that activity or project.

The payroll distribution will:

- be incorporated into the official records of the institution
- reasonably reflect the activity for which the employee is compensated
- encompass sponsored and all other activities on an integrated basis

Specific charges to sponsored agreements must represent reasonable amounts for activities contributing and intimately related to work under the sponsored agreement. In other words, direct charges for effort cannot be made to specific sponsored projects unless the effort meets the definition of a direct cost in accordance with OMB Circular A-21 D.

The method of payroll distribution must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. However, since a precise measurement is not always



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### II. Guideline (con't)

feasible, the payroll distribution can include estimates with a degree of tolerance.

Exempt employees should understand how their salary charges are being distributed, and should verify for themselves that there is a reasonably close relationship between actual effort devoted to the functions and projects being worked on versus the functions and projects being charged. For research and related support staff, payroll distribution decisions are often made by the Principal Investigator who may possess the greatest knowledge about the relationship between effort devoted and related benefit received.

Direct and indirect cost activities must be confirmed by responsible persons having direct or first-hand knowledge and means of verification that the work was performed. This person is not necessarily the employee. The payroll distribution system will allow for confirmation of activity allocable to each sponsored agreement and each allocable indirect activity.

Activities chargeable to indirect activities may be specifically identified or proportionally distributed.

The payroll distribution must reflect categories of activities expressed as a percentage of total activity. The percentage of effort must always total 100%, and include all effort and related remuneration that benefits the University. Total effort does not equate to any set number of hours such as 40 hours per week.

Direct and indirect effort and related charges may be initially recorded on the basis of estimates. However, significant changes in actual activity must be identified and entered into the payroll distribution system. Short-term workload fluctuations can be ignored as long as the percentage distribution is reasonable over an extended period such as the appropriate accounting period.



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### II. Guideline (con't)

#### Method of Payroll Distribution

The University utilizes a “plan confirmation” system for distributing payroll to final cost objectives of instruction, research, other sponsored projects and other institutional activities, in accordance with OMB Circular A-21. Under a plan confirmation system, payroll distributions are based on budgeted, assigned or planned work activity (estimates) updated to reflect any significant changes in actual work distribution. The system will:

- be incorporated into the official records of the institution
- encompass sponsored and all other internal University related activities
- reflect categories of internal University related activities expressed as a percentage of total activities
- reflect effort applicable to each category of direct and indirect activity, and each sponsored agreement individually
- provide for modification of salary distribution commensurate with significant changes in work activity. Short-term fluctuations need not be considered as long as the distribution is reasonable over the long-term
- reflect such significant changes that are to be documented and signed by a responsible institution official having direct, first-hand knowledge of the actual activities performed
- include an annual statement or certification, signed by the employee, Principal Investigator or responsible institutional official having direct, first-hand knowledge of the work performed, certifying that the work was performed and the charges are reasonable
- include internal evaluations or audits of the payroll distribution system

The University’s plan confirmation system is the Salaried Personnel Activity Reporting (SPAR) system maintained by the Payroll Department. The SPAR system serves the following purposes:

- identification of direct and indirect activities
- effort reporting and payroll distribution
- effort certification



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### II. Guideline (con't)

- identification of salary related cost sharing
- compliance with requirements of OMB Circular A-21 J. 8.

At the beginning of each fiscal year, salaries and wages are planned and distributed to various activities based upon the individual's expected effort on the SPAR document.

#### Adjustments to Effort Reporting and Related Payroll Distribution

Adjustments to planned effort reporting are integral to reflect any significant changes in actual work activity. Therefore, adjustments to effort reporting and related modification of salary distribution commensurate with significant changes in work activity are the norm. A significant change is defined by the University as a change of effort of 5% or more. An excessive number or an excessive dollar amount of adjustments to planned effort, whether recorded through salary cost transfers or SPAR changes may be indicative of a significant weakness in the internal accounting control over the departmental effort reporting and payroll distribution controls. Excessive departmental budget or sponsored project underruns or overruns may also be indicative of weaknesses in departmental effort reporting.

In the unusual and limited circumstances where they are appropriate, special consideration must be given to supplemental payments. As a result of a federal audit finding dating back to 1996, the University is held to a higher standard than that dictated by A-21 when it comes to supplemental payments. When employees receive supplemental payments funded by federal awards of \$1,000 or more per effort reporting period, the payroll system will notify responsible individuals that a revised effort report is to be prepared, certified and submitted.

#### Timeliness of Effort Reporting Adjustments

Adjustments to effort reporting and related payroll distribution must be made timely when significant changes in actual work activity are known. In addition, the NIH Grants Policy Statement requires the correction of clerical or bookkeeping errors be accomplished within 90 days of when the



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### II. Guideline (con't)

error was discovered. The related salary cost transfers must be supported by documentation that fully explains how the error occurred and a certification of the correctness of the new change.

Finally, OMB Circular A-110 requires that the University liquidate all obligations incurred under an award no later than 90 calendar days after the date of completion of the award. Therefore, effort reporting adjustments must be timely identified for inclusion in grant closing packages that facilitate the closing of sponsored awards. Accordingly, the time required to adjust effort cannot be unlimited. Corrections made after the 90 day period required by the NIH or after a reasonable period of time raise serious questions about the validity of the effort adjustment.

#### Certification

The certification of effort reporting and related payroll distribution is the process by which the federal government and other sponsoring agencies hold employees and the University accountable for the effort and related costs that are recovered both direct to sponsored projects and indirect through application of the University's indirect cost rate. Periodically, a statement or "certification" will be signed by the employee, Principal Investigator or other responsible person having direct, first-hand knowledge of the work performed by the individual or individuals being certified. The employee's or other signature certifies that, to the best of one's knowledge and belief, reported effort and related payroll distributions represent reasonable charges in accordance with the provisions of the grant or contract award and OMB Circular A-21. Certifications will be signed at least annually by all employees whose salary is charged to a federally sponsored project.

Questionable practices and recurring problems are to be reported to Deans, Directors and Department Chairs.

#### Compliance

Internal evaluations or audits of the effort reporting and payroll distribution system will be performed. On a test basis, Central Administration will



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### II. Guideline (con't)

perform periodic reviews of effort reporting and payroll distribution and the related recording of salary and wage transactions to ensure consistency and compliance with this guideline.

Sponsors expect to pay only for those portions of employee's effort that are actually devoted to their projects on a cost reimbursable grant or contract. Periodically, government sponsors or the University Internal Audit Department reviews our effort reporting and related payroll distribution to verify this fact. These reviews or "floor checks" assess whether the salary charged to functions and projects is for effort that appropriately benefited those activities over a period of time such as an academic period.

Consequences of noncompliance with the proper determination of effort reporting can result in the assessment of fines and penalties to the University, and ultimately the loss of external funding. Proper effort reporting, payroll distribution and recording of salary and wage expense in the University's accounting records facilitates the preparation of the University's financial statements, the accounting for sponsored projects and the preparation of the University's indirect cost rates.

### III. Definitions

Cost Objective – a function, organizational subdivision, sponsored agreement or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost.

Departmental/Research Administrator – the individual designated by the department or Principal Investigator who is responsible for the financial accounting, budgeting and administration of the department's sponsored awards.

Direct Cost (or activities) – those costs (or activities) that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity or that can be directly assigned to such activities relatively easily with a high degree of accuracy.



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### III. Definitions (con't)

Directly Associated Cost – any cost that is generated solely as a result of the incurrence of another cost, and which would not have been incurred had the other cost not been incurred.

Effort Reporting – the disclosure and reporting of an individual's time spent on work activities expressed as a percentage of their total time.

Function – an activity of the University typically classified under the broad categories of instruction, research, other sponsored projects or other institutional activities.

Indirect or Facilities and Administrative (F&A) Costs (or activities) – those costs (or activities) that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity or any other institutional activity.

Payroll Distribution – the assignment of an item, items or group of cost to one or more cost objectives based on a recorded level of effort.

Plan – a projection of future activities or effort.

Plan Confirmation – a method of distributing salaries and wages of faculty, professional and other exempt staff to University activities or functions based on budgeted, assigned or planned work activity (estimates) updated to reflect any significant changes in after-the-fact actual work distribution.

Principal Investigator – the individual designated by the sponsoring agency who is responsible and accountable for the proper conduct and direction of the project or activity. At the discretion of the Dean, a principal investigator for sponsored programs is typically a tenured or tenured stream faculty but can also include other members of the academic community such as research associates or non-tenure stream research/clinical faculty.



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### III. Definitions (con't)

Sponsored Project – a project funded by a grant, contract or cooperative agreement under which the University agrees to perform a certain scope of work, according to specified terms and conditions, for specific, budgeted, monetary compensation.

### IV. References

OMB Circular A-21 C.  
OMB Circular A-21 D.  
OMB Circular A-21 J. 8.  
PHS Grants Policy Statement  
NIH Grants Policy Statement  
NSF Grants Policy Statement