

## Policy on Faculty Effort Reporting

Effective July 1, 1998

### INTRODUCTION

This policy rescinds and supersedes prior Institute policies and procedures governing faculty effort reporting and the MIT “Guidelines for Cost Sharing and Matching Funds on Sponsored Projects” dated June 25, 1997.

### PURPOSE

Effort reporting is a process mandated by the federal government to verify that direct labor charges to Federally sponsored agreements are reasonable and reflect actual work performed. Effort reporting is also required to ensure that indirect charges to federal awards are reasonable.

Office of Management and Budget (OMB) Circular A-21 includes regulatory requirements for the reporting and certification of faculty effort associated with Federal organized research projects and other activities. Effort directly related to organized research and all other activities must be identified in the Institute’s effort distribution/reporting process.

This document describes the Institute’s policy with regard to faculty effort reporting and its relationship to cost-sharing. The Institute’s policy on cost-sharing is included as an addendum to this policy along with implementation guidelines for cost-sharing.

### GUIDELINES

MIT uses a plan-confirmation system to meet the A-21 requirements for reporting faculty effort. Under the plan-confirmation method, the salaries and wages of faculty are distributed to activities based on estimates of the individual’s planned effort. The employee’s effort distribution must be adjusted for any significant changes in actual effort (at MIT, significant changes are defined as changes that are 10% or more of the individual’s total workload) and the actual effort of the employee must then be certified on an after-the-fact basis.

#### **The Circular A-21 standards for a plan-confirmation system include the following:**

- ◆ The system will reasonably reflect only the work activity *for which the employee is compensated*, including all of the work required for fulfillment of the employee’s obligations to the Institute
- ◆ The system will encompass both sponsored and all other activities
- ◆ An individual’s workload will reflect categories of activities expressed as a percentage distribution, i.e. 100% of total effort.
  - ⇒ The system will provide for modification of an individual’s salary or salary distribution, commensurate with any significant changes in the employee’s workload.

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- ◆ Periodically, a statement will be signed by the employee, principal investigator, or responsible individual, using suitable means of verification that the work was performed, stating that salaries and wages charged to organized research as direct charges, and to other categories of activities (including instruction/departmental research and administration), are reasonable in relation to the work performed.
- ◆ The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance.

### **THE MIT PLAN CONFIRMATION SYSTEM**

The MIT system uses two documents to meet the A-21 requirements of a plan-confirmation system: the SANDI and the DACCA.

The SANDI report is the plan and after-the-fact certification of an individual's total effort. The SANDI report is produced by department and includes the distribution of all employees in the department. Each month the SANDI is certified by the director, department head or executive officer attesting that the work was performed and that the distribution of salaries and wages charged to sponsored agreements and other categories is reasonable in relation to the work performed. This certification is done on an after-the-fact basis, using suitable means of verification. The SANDI may be completed in paper form or electronically using the ESANDI.

The DACCA report is the after-the-fact confirmation of actual effort on specific research projects, including effort which is reimbursed by a sponsor and effort that is cost-shared by the Institute. The DACCA requires the approval/signature of the principal investigator or account supervisor, either of whom has direct knowledge of the work performed on the research project. The DACCA report is produced each month.

For more information on the SANDI and DACCA reports please refer to the following sections in the Comptroller's Accounting Office Manual: "Understanding and Reconciling Monthly Statements and Detail Transactions Reports" and "Using ESANDI."

### **OTHER CONSIDERATIONS**

Effort reports should reflect only the activity for which the faculty member is compensated by the institution. Therefore, external consulting or other outside professional activities should not be considered when assessing the faculty member's total effort. OMB A-21 states that professional services "provided outside the institution for non-institutional compensation" is not part of total effort for the purposes of the Institute's effort reporting policy (Note: outside professional activities are covered in the MIT Policies and Procedures manual, section 4.5).

The Institute's effort reporting process should not include incidental activities for which the faculty member receives no additional compensation. For example, a faculty member who edits technical journals for no fee should not include this activity when preparing the Institute effort report.

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**OMB CIRCULAR A-21 EFFORT REPORTING CATEGORIES**

OMB Circular A-21 describes four major categories of faculty effort. At MIT, the SANDI/DACCA process identifies effort related to Organized Research projects (direct charged effort and cost-shared effort) separately from all other effort. In accordance with federal regulations, MIT's labor distribution process combines faculty effort related to Instruction and Departmental Research, Other Sponsored Activities, and Administration in the SANDI and DACCA reports under the category Instruction and Department Research.

1. *Instruction and Departmental Research* (I&DR) including the teaching and training activities of the institution. I&DR is comprised of the following:

- ⇒ **Instruction**: Teaching and training (except for research training) activities whether they are offered for credits toward a degree or a non-credit basis.
- ⇒ **Sponsored Instruction and Training**: Specific instructional or training activity established by grant, contract, or cooperative agreement.
- ⇒ **Departmental Research**: Research, development and scholarly activities that are not organized research and, consequently, are *not separately budgeted and accounted for*. Examples of departmental research expenditures are:
  - Faculty discretionary funds
  - Faculty start-up funds <sup>1</sup>
  - Department/School royalty income funds

2. *Organized Research* including all research and development activities that *are separately budgeted and accounted for*. It includes:

- ⇒ **Sponsored research**: all research and development activities that are sponsored by Federal and non-Federal agencies and organizations. Includes **research training** (i.e. activities involving the training of individuals in research techniques) and **cost sharing commitments** which the Institute has made under organized research agreements (see section on cost sharing).

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<sup>1</sup> Funds which are used to equip a laboratory or to commence basic research but are not awarded for a specific project and are not, therefore, separately budgeted and accounted for.

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⇒ **University research:** all research and development activities that are separately budgeted and accounted for by the institution under an internal application of institutional funds. University research at MIT includes internal competitions for research funds (except start-up funds), and seed money<sup>2</sup>.

3. **Other Sponsored Activities** including programs and projects financed by Federal and non-Federal agencies and organizations which involve the performance of work other than Instruction and Organized Research. Examples include community service programs, conferences and symposia, travel, public demonstrations, etc.

4. **Administrative activities**, including administrative and supporting services that benefit common or joint departmental activities but cannot be directly attributable to instruction or organized research. Administrative and support activities benefit instruction and research on an indirect basis in proportions that are difficult to determine. Examples of faculty administrative activities include:

- Proposal preparation
- Committee work
- Hiring and advising of personnel, including graduate students and other researchers
- Administrative appointment (i.e. Associate Dean, Laboratory Director, Department Head)

Differentiating between departmental research (research and development that is *not separately budgeted and accounted for*) and organized research (research and development that *is separately budgeted and accounted for*) is often difficult. To help distinguish departmental research from organized research one should first consider the characteristics of organized research activities. For example, there is a defined scope of work for the project. There is a proposal and award process which normally includes identified criteria, a technical review, funding and notification. There is typically a requirement for a line item budget which details project expenditures by cost category. The agreement frequently requires a project deliverable (for example periodic progress reports and a final technical report which summarizes the project results and draws conclusions). None of these events or requirements take place for departmental research activities; there is no defined scope of work, no award, budget, deliverables or separate accounting.

**PREPARATION AND SUBMISSION OF PROPOSAL BUDGETS**

<sup>2</sup> Funds which the Institute gives to support specific research projects, the costs of which are separately budgeted and separately accounted for.

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The proposal budget should include the entire cost of the project: the amount being requested from the sponsor as well as the portion of the project cost that will be provided from other sources, including MIT. A commitment to use Institute resources to pay any portion of the project cost must be identified and tracked as cost sharing (see attached MIT Cost-Sharing Policy).

When no mandatory cost sharing is specified in a program announcement or application package and the agency does not insist on a specific contribution to the project during the negotiation of an award, MIT faculty should not offer cost-sharing unless the anticipated level of effort is **10% or more of an individual's total planned effort**.

When contributed effort is expected to be less than 10%, the proposal should include the statement that *"MIT fully supports the academic year salary of Professors, Associate Professors and Assistant Professors, but makes no specific commitment of time or salary to this particular research project."* This statement assures the funding agency that the faculty member will make a contribution to the project but that the expected level of effort is not a significant portion of the individual's overall effort. Under these circumstances, faculty should report their time spent on the project as Instruction and Departmental Research. In accordance with the Institute's Cost Accounting Standards Board disclosure statement, there will be a year-end accounting transfer of such charges from Instruction and Departmental Research to Organized Research.

When contributed effort is expected to be 10% or greater, or the funding agency insists on a specified level of cost-sharing, this effort must be explicitly stated in the proposal and after the award, actual effort on the project must be identified on the SANDI/DACCA reports and certified.

Proposals should accurately represent the amount of direct research effort that key personnel are committing to the project, *whether that effort is paid for by the sponsor or by MIT*. The estimate of effort should be reasonable and should encompass only the direct effort to be expended on the project. Administrative management of the project and administrative activities such as bid and proposal preparation should not be considered as direct project research. Direct instructional activities, such as student academic advising, tutoring or mentoring, should also not be considered as direct project research. However, time spent supervising that portion of an individual's work that is being direct-charged to an organized research project, as well as reviewing materials related to organized research projects (i.e. lab notebooks) or editing a technical report, shall be considered as direct project research effort.

Since not all proposals get funded, it is possible to include commitments of more than 100% of total effort taking into consideration existing workload requirements and all outstanding proposals. However, in preparing proposals, PIs must be careful not to over-commit themselves or others.

When a cost sharing commitment consists of direct effort on a sponsored agreement, federal regulations require that this effort be accounted for under the agreement in the same manner as the direct effort that is reimbursed by the sponsor under the agreement.

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**ACCOUNTING FOR FACULTY EFFORT**

The actual effort distribution of faculty should reflect the percentage of actual time spent on the individual's various activities (see the preceding section on Effort Reporting Categories) **expressed as a percentage of total effort, not hours.** The total effort may not exceed 100% and should include only those activities for which the individual receives compensation from the Institute, including salaries charged to sponsored agreements. The amount of effort identified to organized research should include the portion of time the PI devotes to a project, even if he/she receives no salary support from the project.

Effort on any particular project is measured as the percentage of the total obligation to the Institute. This obligation includes teaching, organized research, departmental research, administration, committee activities, etc. While the total number of hours worked may vary from month to month, total effort for each period must be expressed as 100%.

The faculty member's SANDI report must be modified when there is a significant change (i.e. 10% or greater in total workload) in the distribution of activities. A SANDI (or ESANDI) must be processed to reflect this change in workload. The modified SANDI will then be reflected in the faculty's DACCA report.

Every month the effort distribution of each faculty member must be certified for reasonableness. This after-the-fact certification, which is accomplished through the DACCA report, is an attestation that the distribution of salaries to activities is reasonable in relation to the work performed. The DACCA requires the approval/signature of the principal investigator or account supervisor, using suitable means of verification that the work was performed.

**Direct Charged Effort**

Faculty salary charged to sponsored research agreements or university research projects should be commensurate with the direct effort provided to the project. Faculty salary charges to such projects must not include administrative work or activities related solely to Instruction and Departmental Research.

Charges for work performed on sponsored research agreements or university research projects by faculty members will be based on the individual faculty member's regular compensation during the period of performance. Charges will be made at the allowable base rate; the faculty member cannot receive additional compensation for his or her participation in a sponsored project over and above the appropriate portion of the base salary allocated to the project. For example, if the base salary is \$100,000 and the faculty member devotes 25% of his effort to a sponsored project, the salary charged to the project must be \$25,000.

**Cost Shared Effort**

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Cost-sharing is that portion of a project or program cost that is not reimbursed by the sponsor. Cost-sharing represents a commitment by the Institute. It may be required by the sponsor as a condition of the award (mandatory) or it may be offered by the Institute in excess of mandatory cost sharing requirements (voluntary). It is important to realize that whether cost-sharing is required by the sponsor or is offered by the Institute or PI voluntarily, once an award is made all cost sharing commitments are considered to be mandatory and as such represent a binding obligation of the Institute.

Cost-sharing may include effort of the PI or other personnel committed to the project at no cost to the sponsor. In order to qualify as cost sharing, the effort must be necessary and reasonable for the performance of the project objectives. Cost-shared effort must be directly related to the project's objectives and must not include time spent on administrative or instructional activities.

Cost-sharing should be limited only to those situations where an agency insists upon cost-sharing or the Institute has determined that such a contribution is necessary to ensure the success of a competitive award. When an agency has not insisted upon cost-sharing or a cost-sharing commitment is not necessary to ensure the competitiveness of a proposal, PIs and departments should refrain from making such commitments in the proposal, unless it is anticipated that the level of effort on the project will be 10% or more of an individual's total workload. If there is no explicit statement of effort in the proposal and the sponsor does not insist on a specific contribution of effort at the time of the award, the PI is not required to adjust the SANDI report unless the actual effort on the project exceeds the 10% threshold.

Any questions regarding this policy should be referred to Patrick Fitzgerald, Director Office of Cost Analysis (by phone at extension 3-2762, or by e-mail to [pwf@MIT.EDU](mailto:pwf@MIT.EDU).) or Julie Norris, Director, Office of Sponsored Programs (by phone at extension 3-2492 or by e-mail to [jnorris@MIT.EDU](mailto:jnorris@MIT.EDU)).

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