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PayCert White Paper Draft version 1.6

Streamlining of the Payroll Certification (PayCert) System

An FDP Initiative to Reduce Administrative Burdens (IRAB)

Introduction

The Federal Demonstration Partnership (FDP) is an organization conceived and sponsored by Federal grants making agencies in collaboration with research institutions. The purpose of the FDP is to provide a formalized structure to enable member agencies and universities to work together to develop methods that will simplify and streamline the administration of Federal grants for grantors and grantees. FDP committees and Task Forces comprised of agency and university representatives, including faculty, collaborate on the development, evaluation and implementation of new methods designed to streamline administrative processes. The FDP provides a framework for the sharing of ideas, perspectives, goals and objectives to ensure that solutions meet the needs of all parties engaged in Federally sponsored research activities. By working together as partners, FDP member agencies and research institutions implement improvements that are superior to those developed unilaterally by agencies or institutions.

The Initiative to Reduce Administrative Burdens (IRAB) is a Task Force of the FDP established to evaluate ways to streamline the Federal regulations related to cost reimbursement, the administration of grants and audits (i.e. OMB Circulars A-21, A-122, A-110 and A-133). More than fifty institutions have signed on to the IRAB Task Force and based on their input, a prioritized list of issues has been developed. Task teams of the IRAB have been established to address the specific regulations or requirements that are the highest priorities for each of the three broad areas (i.e. costing, administrative and audit requirements). One of the task force teams is the Payroll Certification or PayCert.

The PayCert task team, which is co-chaired by Louis Guin from the University of Southern California and Joe Gindhart from the Washington University in St. Louis, gathered information regarding current practices via a survey questionnaire of PayCert systems at several colleges and universities. A follow up meeting took place at the FDP meeting in Irvine, California, in January 9, 2003, whereby many attendees voiced their concerns and provided many points of views about alternatives for streamlining of the PayCert system.

The goal of the PayCert team is to construct an alternative but efficient method(s) for assuring that salaries and associated fringe benefit expenses charged to federally funded projects represent fairly the activities of research personnel who are working on the projects. As part of an FDP demonstration endeavor, the efficiency impact of the ensuing

method(s) will be assessed in terms of administrative cost savings from the legacy (current) payroll certification practices. Additionally, the method(s) will be used as the foundation from which the team will propose changes to the current regulatory language on payroll certification.

Current Payroll Certification Guidelines

The FDP Pay-Cert Task Force is concerned about section J.8 in OMB Circular A-21 and the current application and interpretation of this guidance by the academic research community. This section describes the requirement for documenting and distributing personal services (salaries, wages and fringe benefits) to sponsored agreements. The funding provided and costs associated with personal services are normally the single largest dollar amounts associated with sponsored agreements, therefore, this section has a material impact on a grantee's ability to complete the goals and objectives of the project. The Task Force concurs with the basic principles described in section J.8., and we realize that this is a key financial compliance issue for the awarding agencies. Additionally, the Task Force has determined that this section could be updated/revised to better reflect current management practices and system capabilities within the grantee community.

A brief description of the basic principles in J.8 and a discussion of several specific sections is provided below.

Basic Principles:

- Personal services covers all amounts paid by an institution for services rendered by employees directly on a sponsored agreements and other work allocable as Facilities and Administrative (F&A) costs.

- The compensation provided to the employee must conform to the institution's established policies and the costs must be consistently applied and documented.

- The apportionment of employees salaries which are chargeable to more than one sponsored agreement or other cost objective should produce an equitable distribution of costs and distinguish the individual's direct activities from their F&A activities.

- In an academic setting, teaching, research, service and administrative activities are often inextricably intermingled, therefore, apportioning salaries to these functions in a precise manner is not always feasible. Reliance is placed on estimates in which a degree of tolerance is appropriate.

- The costs must be confirmed by a responsible person with suitable means of verification stating that the salaries charged to sponsored agreements are reasonable in relation to the work performed.

- The system will provide for modification of an individual's salary or salary distribution commensurate with a significant change in the employee's workload.

Short-term fluctuations in workload need not be considered as long as the distribution of salaries is reasonable over the long term.

Issues & Observations:

- The Circular requires the grantee to confirm the *activity* allocable to each sponsored project. The *activity* associated with each project may be expressed as a *percentage* of total *activity* (section J.8.b. (2)(d)).

  Issue:
  The utilization of the term "activity" and expressing it as a percentage is not consistent with the basic principles. Section J.8. intends to provide guidance on the design and operation of a grantee's payroll distribution system so that the salaries and wages charged to sponsored projects can be confirmed. The Task Force concurs with this premise, but believes that it is best supported by actual payroll distribution amounts and not "activity" percentages.

  Observation:
  The Task Force contends that the term "activity" should be replaced with "actual salary and wages". Accordingly, the primary method for confirming personal services would be actual payroll distribution dollar amounts. Grantees could still retain the use of activity percentages based upon their existing systems and practices.

- The Circular requires the grantee to obtain a *signed document* that confirms the salary distribution for the employee's providing services to the project (J.8.b. (2) c. (1)(e) & (2)(c) & (3)(e)).

  Issue:
  At the time that this section was composed, distributed financial systems did not exist and financial/payroll data was available to department personnel only in hard copy format and access was limited. Under these conditions, a physical signature on a report was the only way to confirm the figures. In today's technology environment, detailed data from a grantee's financial system can be retrieved, manipulated, distributed and certified instantaneously in an electronic format. Additionally, electronic signatures and/or transaction approval systems are commonly utilized to verify non-personnel amounts charged to sponsored agreements.

  Recommendation:
  The Task Force contends that the physical signature of a hard copy document should be designated as an option, but not a requirement of the Circular. Institution should have the option to confirm payroll distributions via electronic verification methods. Providing grantees with this flexibility will enable grantees

to leverage the emerging system/technology capabilities and provide more accurate and timely data to their research community.

- Under the after-the-fact activity record method, the Circular requires faculty to confirm their salary distribution on a semi-annual basis, and non-faculty must confirm on a monthly basis (J.8.b. (2) c. (2)(e)).

  Issue:
  Most institutions assign classifications to employees within their payroll and/or human resources systems. This classification drives pay frequency and applicable fringe benefits, however, it does not materially effect how employees render services to sponsored agreements. Additionally, the basic principles require that salaries charged to sponsored agreements are documented and confirmed, however, they do not make a distinction between an individuals pay type/frequency. Accordingly, it is unclear why the employee's pay type should effect the confirmation periods.

  Observation:
  The Task Force contends that grantees should have the option of confirming salary distributions, for employees providing personal services to sponsored agreements, on a consistent basis, regardless of an individual's faculty /non-faculty status and/or pay type. Transitioning to a single confirmation period schedule will allow many institutions to streamline their current processes, while at the same time providing more accurate and consistent data to the principal investigators.

- The Circular presents three examples of acceptable methods for apportioning salaries and wages; Plan-Confirmation, After-the-fact Activity Reports and Multiple Confirmation Records (J.8.b.(2)c.(1), (2) & (3)).

  Issue:
  These methods have been widely adopted and utilized throughout the grantee community in order to ensure their compliance with the Circular. The exclusive use of these methods by grantees has been promoted/encouraged by sponsoring agencies, inspector general's offices, facilities and administrative rate negotiators and external audit firms. These entities, and/or individuals within these organizations, often maintain that the Circular contains only three acceptable methods, thus a grantee must utilize one to be in compliance. This narrow interpretation and implementation of this section by both the federal government and the grantee's has limited each group's ability embrace new technology, business practices, funding streams and grant mechanisms.

  Observation:
  The Task Force contends that the Circular should promote minimum standards for a grantee's payroll distribution system, as opposed to detailed methodologies. The criteria and basic principles should be sufficient for the design of a system,

whereas, specific examples are unnecessary and confusing. These new standards would replace the sections regarding the Plan-Confirmation, After-the-fact Activity Reports and Multiple Confirmation Records. Grantees would ensure compliance with this section by maintaining a payroll distribution that incorporates the minimum standards. This idea of defining minimum standards is consistent with the approach used in OMB Circular A-110. A-110 dictates standards for a grantee's financial, property and procurement systems but it does not prescribe detailed specifications for these systems.

- The Circular requires a positive confirmation of payroll distribution under all three acceptable methods (J.8.c.(1)(e), c.(2)(c) & c.(3)(e))

  Issue:
  The positive confirmation requirement has created an unnecessary administrative process for projects in which salaries are charged on a consistent basis. Grantees are required to generate, distribute, track and retain thousands of documents that contain no significant fluctuation or changes in their salary distribution. The Task Force contends that confirming static data does not add significant value to the fiscal management of sponsored project. Additionally, faculty and staff have electronic access to financial data, therefore, providing them with an annual report of a project's payroll distribution is duplicative and not necessary.

  Observation:
  The Task Force contends that payroll distributions should only be confirmed when there is a material change in the data. Payroll distributions that remain consistent on a project would be confirmed only by exception (i.e., no material changes therefore the distribution is accurate).

An Alternative Method for Payroll Certification

The working tools for streamlining the current PayCert systems at research colleges and universities are three: necessity, sufficiency, and minimum thresholds

The idea of necessity is fundamental in judging whether a given activity or task is indispensable or essential for some objective. At its roots, some have questioned whether the after-the-fact payroll confirmation/certification process is necessary in assuring the federal granting agencies that the funds are being spent in accordance with the terms and conditions of the award. The principal investigator is subjected to an exhaustive review of his or her proposal for funding, and after an award is made, is evaluated to determine whether he/she has fulfilled the technical or scientific goals of the project by delivering certain mutually agreed upon research products within a specified period of time. If the granting agency is satisfied with the end research product, then there is no need for a separate payroll certification reporting. If there is a need to identify the persons that provided services to, and were compensated from, the project the institution's payroll records should be used as a means of verification. In fact, granting agencies do not

normally receive, and rarely request, copies of signed payroll certification forms. Furthermore, grantees certify to the sponsor that all costs charged to a sponsored agreement are allowable and allocable and in accordance with the terms and conditions of the agreement. A separate certification for the labor component of the award costs seems duplicative and unnecessary. This lends credibility to the argument that these forms are not a necessary factor in the project evaluation process.

In addition to determining whether a practice is necessary, the next question is about the degree to which an institution must do to demonstrate that the requirement is performed effectively in accordance with the terms and conditions of an award. Overdoing a task is wasteful. The concept of sufficiency is applicable here as an enabling tool for setting minimum requirements of thresholds in performing a necessary task or activity. It was found in the survey that an institution processed more than 36,000 payroll certification records in fiscal year 2002, about 3,000 records per month. An illustration of a sufficient condition may be that the institution should switch from a monthly to a yearly certification process, thus reducing the administrative burden of processing and verifying 36,000 to about 3,000 records per year.

The idea of thresholds provides some numerically measurable limits for the sufficient conditions for accomplishing tasks or activities, and these tasks and activities are rendered to be in compliance with the terms and conditions of an award. One streamlining proposal was the requirement to prepare for a given project, only one payroll certification at the close out period of the award

With these three working concepts, along with the Payroll Certification survey results and the brainstorming discussion of January-2003 FDP meeting in Irvine, a simplified PayCert method is proposed along ten key parameters:

1. Frequency. An institution may prepare at the minimum a PayCert report at project close out period. The institution may opt to prepare such reports more frequently such as yearly, quarterly, monthly or by pay period.

2. Uniformity. An institution, to the extent possible, should design a common PayCert record that is applicable to all classification of personnel. Separate certification for faculty, staff and students are optional.

3. Coverage. The PayCert must cover all government funded projects that are subject to payroll charges or committed cost sharing. Certifications for other projects are optional.

4. Medium. To the extent possible, an institution should implement an electronic based payroll certification system. A paper-based system is acceptable.

5. Measurement. An institution should certify salary dollars that are charged to a project. Certification based on relative effort is optional, especially for institutions

that are concerned with disclosure, authorization or access of individual payroll data.

6. Signature Responsibility. To the extend possible, the PI should be the main person responsible for signing the certification. The PI has the authority to certify the payroll certifications for everyone who works on the PI's project. However, the PI may delegate the signature authority to a designee who knows about the performance of project.

7. Integrity. An institution should verify the integrity of the payroll certification system annually by random sampling ten accounts or more, of current and recently terminated federally funded awards. This task should be performed centrally by Internal Audit, Grants and Contracts, Sponsored Projects Accounting, the Compliance Office, or by an external auditor.

8. Exception. Once the research personnel is set up in the Payroll System for a federally project, the ensuing payroll distribution should be assumed to be valid and reflective of the activities performed on the project unless the PI or his or her designee change the payroll charges, either retroactively or prospectively.

9. Feedback. The staff conducting the integrity test of the system should provide feedback to the academic department, make corrections and train departmental staff if necessary. Corrections affecting more than one fiscal year should be carried out with sufficient departmental backing. Changes to Payroll should be carried out and reported back to the originating department promptly.

10. Cost sharing. To the extent possible an institution should integrate the reporting of committed cost sharing into the PayCert system. A separate cost sharing reporting system is optional.

The implementation of these ten payroll certification parameters or factors will result in an improved payroll certification process, a system that is both compliant with federal regulations and administratively efficient.