

DRAFT Model Policy for Compensation Charged to Federal Awards

Background and Use: This model policy should be used in conjunction with the materials developed for Cohort For Alternatives to Effort Reporting <https://researchadmin.asu.edu/cohort/model>. These materials include the: Policy Matrix, OIG Report Analysis, Internal Control Framework, and Institutional Control Program. There are parenthetical references to them or their content throughout this model policy. When considering institutional compliance to CFR 200.430 and adopting an alternative to Effort Reporting, the foundation for compliance rests in an institution's system of internal controls for compensation. The method for the after-the-fact review of interim charges, whether is it based on traditional "Effort Reporting" concepts or a review that compensation charges on a project are reasonably accurate for the work performed, it is but one key control to the broader framework necessary for compliance.

The approach taken for this project on alternatives to effort reporting and by extension this model policy, was a focus on the reduction of faculty and administrative burden as well as considerations to reduce the risk of potential audit findings for an institution. The premise also is rooted in the changes OMB afforded institutions in the UG and within the dialogue from various national reports surrounding burden and the confusing concept of "Effort Reporting" can be for faculty. An institution may find practices within this Model Policy or supporting Cohort materials that can reduce burden and audit risk beyond that of an alternative after-the-fact review method to Effort Reporting.

Title: Policy for the After-the-fact Review of Compensation Charges to Sponsored Projects

Purpose: Institutional compliance to CFR 200.430 Compensation – an after-the-fact review is conducted to support that compensation charged to a sponsored project and/or committed as cost sharing reasonably reflects the work performed on the project.

Scope: All sponsored projects governed under CFR 200.430 ([Policy Matrix - Scope](#))

Alt1: "Compensation charged to all sponsored projects". Based on an Institution's DS-2, risk assessment (# of projects governed under 200.430 and those that are not), and electronic systems (programming a specific subset), an institution may choose to apply this policy to all sponsored projects rather than those governed under 200.430. Doing so will increase administrative and faculty burden, however, it will provide greater consistency in implementation.

Alt2: An institution may consider adopting a policy for only projects governed under .430, but in practice provide the same compensation reports for review to all sponsored projects. Projects not covered under the policy would not require the same level of confirmation during the review process (limiting additional administrative burden and the potential for noncompliance to institutional policy). This a good practice for consistency and transparency.

Policy:

The institution's system of internal controls help support that compensation costs are charged in accordance with applicable policies governing the proper authorization of expenditures ([Internal and Institutional Control Framework](#)). Central to, but not exclusive among these internal controls is the federal guidance for the after-the-fact review of interim charges that are based on budget estimates. In accordance with 2 CFR 200.430(h)(viii)(C), this policy addresses the after-the-fact review requirements so that the final amount charged to the federal award is accurate.

All compensation costs charged to a sponsored project must be **reasonable for the work performed**, **necessary** for the performance of the project, **allowable** per sponsor and institutional policy, and **allocable to the project**.

For federally funded projects, compensation charges must be based on a rate not in excess of an individual's Institutional Base Salary, adequately documented in accordance with 2 CFR 200 Subpart E Section 430 Compensation-Personal Services, and be in accordance with applicable governing authoritative guidance, including sponsor requirements and institutional policy.

In accordance with 2 CFR 200.430(h)(8)(x) "it is recognized that teaching, research, service and administration are often inextricably intermingled in an academic setting. When recording salaries and wages charged to Federal awards for IHEs, a precise assessment of factors that contribute to costs is therefore not always feasible, nor is it expected." ([Internal Control Framework – may consider adding a policy statement here or in the reallocation of payroll procedure for a +/- 5% variance threshold](#))

The after-the-fact review of Project Compensation Reports are performed by the Principal Investigator (PI) or the PI-assigned Program/Project Director/Co-Investigator or other individual that can reasonably review on a not less than annual basis, that the compensation of individuals charged to or committed as cost sharing towards a project reasonably reflects the work performed. ([Policy Matrix – Who Performs Review](#))

Definitions (should include if these definitions are not captured elsewhere in institutional policy or procedures):

- **Reasonable:** A cost is **reasonable** if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.
- **Necessary:** A cost is **necessary** if the objectives of the project cannot be met without incurrence of the cost.
- **Allowable:** A cost is **allowable** if it is in conformity with governing laws and the policies and procedures of the institution.
- **Allocable:** A cost is **allocable** if it is assignable to a specific cost objective in reasonable proportion to the benefit provided to the project to which it is charged. If a cost benefits two or more projects in proportions that cannot be determined because of the interrelationship of the work involved, the cost may be allocated or transferred to the benefitted projects on any reasonable documented basis (200.405 (d)).
- **Principal Investigator:** Typically, a faculty member named in the award who has primary responsibility for technical compliance, completion of programmatic work, and fiscal stewardship of sponsor funds. (Can cross reference any other policies that may address PI eligibility and responsibilities)
- **Committed Cost Share:** The portion of project or program costs not borne by the sponsor that has been quantified in the proposal and made as a condition of award. Committed cost share can be mandatory or voluntary committed.
- **Institutional Base Salary:** The base annual compensation set by the institution for an individual's appointment, whether that individual's professional activities are spent on instruction, research, public service, administration, or on other areas of focus, and whether that employee is appointed full-time or part-time. IBS excludes income that an individual may be permitted to earn outside of duties to the institution. (Can cross reference any other policies that define base salary / academic rate of faculty)
- **Project Compensation Report:** The report distributed to the principal investigator or designee of the compensation expenditures charged to a sponsored project. The purpose of the Project Compensation Report is to support that expenditures are accurate and reasonable in relation to the work performed by each individual. (Policy Matrix - Should consider showing total compensation received on a cumulative basis. In addition, the compensation should also include a % of total IBS received by the institution)

Policy Exclusions:

- Compensation charged to institutional sources is not covered under this policy, except for compensation used in support of committed cost sharing requirements. (Internal Control Framework - An institution must still have the means to account for all sources of funds for the full allocation of the IBS compensation received by individual)
- The accounting of Voluntary Uncommitted Cost Sharing for a specific project (faculty project time that is not compensated or committed as cost sharing towards the project). (Internal Control Framework)

Sources:

- 2 CFR Part 200, Subpart E – Cost Principles, Basic Considerations
- Sponsor Policies
- Program and Project Specific Terms and Conditions
- Governing State Policies

Other University Policy or Procedure References:

Internal Control Framework - Provide links to any related policies (for example IBS policy statement, etc.), processes, or procedure documents related to the initial allocation, account monitoring/reconciling and after the fact review process for compensation. Any available training related to those activities should also be included.

- **After-the-fact review for Compensation Procedure** (Policy Matrix - this procedure should specify the interval by which the estimate is confirmed to be accurate – project budget cycle or other institutionally specified interval. In addition, this process may require a positive or negative confirmation that the review is completed and the timeframe for its completion; e.g. within 90 days)
- **Institutional Base Salary** (link to payroll or HR policy for what is considered base salary; guaranteed with their appointment versus what is defined as outside or additional compensation).

- **Additional Compensation outside of IBS** (associated procedures for supplements, intra-university consulting or other forms of compensation that are not based on a budget estimate)
- **Project/University wide Account Reconciliation Procedures** (should be performed in a timely manner as specified by institutional policy e.g. quarterly, bimonthly).
- **Compensation Reports**
- **Allocation and Re-Allocation of payroll procedures** (Reallocation procedures should address how significant changes in work activity are identified and performed in a timely manner)
- **Cost Transfer Policy and Procedure** (Internal control Framework).
- **Internal Control Framework for Compensation** (Internal and Institutional Control Framework – consider the establishment of an institutional mapping of policies, procedures, and practices to the Internal Control Framework for Compensation).

Contact and Responsible University Official: List contact info for policy questions