



Personnel Compensation, Labor Distribution, and Payroll Reports



Purpose and Introduction



Understand and follow the new guidelines contained in the OMB Uniform Guidance

Understand and apply the salary cap limitations that are associated with many ETA grants and sub-grants.

Address common mistakes being made on these subjects.



Course Objectives



At the end of this module, you will be able to:

- Identify the Standards for Documentation of Personnel Services costs in the OMB Uniform Guidance compared with the previous OMB Circulars
- Identify the standards for allowable personal services costs under OMB's Uniform Guidance
- Identify the standards for allowable fringe benefit costs under OMB's Uniform Guidance
- Define and apply the salary cap limitations associated with ETA grants



Course Menu



Section 1

- Documenting Payroll Distribution



Section 2

- Compensation: Personal Services



Section 3

- Compensation: Fringe Benefits



Section 4

- ETA Salary Cap





DOCUMENTING PAYROLL DISTRIBUTION



Basic Standards for Documentation



- Cost Principles: General Provisions for Selected Items of Cost
 - 2 CFR 200.430(i) Compensation – Personal Services, Standards for Documentation of Personnel Services
 - Supported by a system of internal controls
- Provides reasonable assurances that charges are
 - Accurate
 - Allowable and reasonable
 - Properly allocated



Basic Standards for Documentation (2)



Payroll distribution records

- Incorporated into the official records
- Reasonably reflect the employee's total activity
 - Not to exceed 100% of compensated activities
- Encompass both Federally assisted and all other activities compensated on an integrated basis
- Comply with accounting policies and practices
- Support the distribution of salary or wages among specific activities or cost objectives if employee works on more than one award or activity



Basic Standards for Documentation (3)



- Payroll records meeting these standards are not required to provide additional documentation of work performed
- Non-exempt employees: must record total number of hours worked each day to comply with FLSA
- Same standards apply to documenting salaries and wages for cost sharing and match requirements
- Federal Gov't may require personal activity reports or equivalent if records do not meet these standards
- Institutions of Higher Education
 - Categories of activities may be expressed as a %
 - Intermingled duties: precision not always feasible



Use of Budget Estimates



Do not alone qualify as support

May be used for interim accounting purposes provided that:

- Reasonable approximation of actual activity performed
- Significant changes in activity are identified and recorded
- Process to review after-the-fact interim charges and make needed adjustments based on actual costs is in place
- Short-term fluctuations need not be considered as long as payroll distribution is reasonable over the long term

Substitute Systems



Limited applicability 200.430(5)

- Only states, local governments, Indian tribes
- Requires approval of cognizant agency for indirect costs
 - Random moment sampling
 - “Rolling” time studies
 - Case counts
 - Other quantifiable measures of work performed
- Sampling must meet statistical sampling standards
- Cognizant agencies encouraged to approve proposals based on outcomes and performance milestones

Why This Change?



- Overall emphasis on a strong internal control system
 - Establish controls for efficiency and payroll disbursements
 - Audit testing of payroll distribution method as part of internal control system review
- Allows non-Federal entities the flexibility to design and implement an internal control system that best fits its needs



Knowledge Check 1



Must the records used for documenting payroll distribution provide reasonable assurance that the costs are accurate, allowable, and properly allocated?

- A) Yes
- B) No



Knowledge Check 1 Feedback



Must the records used for documenting payroll distribution provide reasonable assurance that the costs are accurate, allowable, and properly allocated?

- A) Yes
- B) No

FEEDBACK:

This is the basic standard that every recipient must meet, regardless of the specific methods used to document the distribution of payroll expenses.



Knowledge Check 2



Must the payroll distribution system be fully described and documented in the organization's internal control procedures?

- A) Yes
- B) No



Knowledge Check 2 Feedback



Must the payroll distribution system be fully described and documented in the organization's internal control procedures?

- A) Yes
- B) No

FEEDBACK:

The Uniform Guidance puts the focus on internal controls as the basis for supporting how payroll costs are distributed. Therefore, the methods used and the records that support those methods must be fully described and documented in the internal control procedures.

Knowledge Check 3



May budget estimates alone may be used to distribute payroll expenses?

- A) Yes
- B) No



Knowledge Check 3 Feedback



May budget estimates alone may be used to distribute payroll expenses?

- A) Yes
- B) No

FEEDBACK:

Budget estimates may be used only on an interim basis to distribute payroll expenses. The Uniform Guidance states explicitly that budget estimates alone do not meet these standards for documentation. The recipient must have processes in its internal control system to review after-the-fact the interim budget-based charges and make needed adjustments to conform to actual usage.

Knowledge Check 4



Must personnel activity reports to document payroll distribution always be used as previously required in A-87 and A-122?

- A) Yes
- B) No



Knowledge Check 4 Feedback



Must personnel activity reports to document payroll distribution always be used as previously required in A-87 and A-122?

- A) Yes
- B) No

FEEDBACK:

The Uniform Guidance does not require any specific method of documenting payroll distribution. This is a significant change from the previous OMB Circulars A-87 and A-122.

Knowledge Check 5



May a Federal agency require the use of personnel activity reports if the recipient fails to meet the payroll distribution standards in the Uniform Guidance?

- A) Yes
- B) No



Knowledge Check 5 Feedback



May a Federal agency require the use of personnel activity reports if the recipient fails to meet the payroll distribution standards in the Uniform Guidance?

- A) Yes
- B) No

FEEDBACK:

This is one of the remedies that the Uniform Guidance provides for addressing the failure of a recipient to comply with the basic standards for payroll distribution.



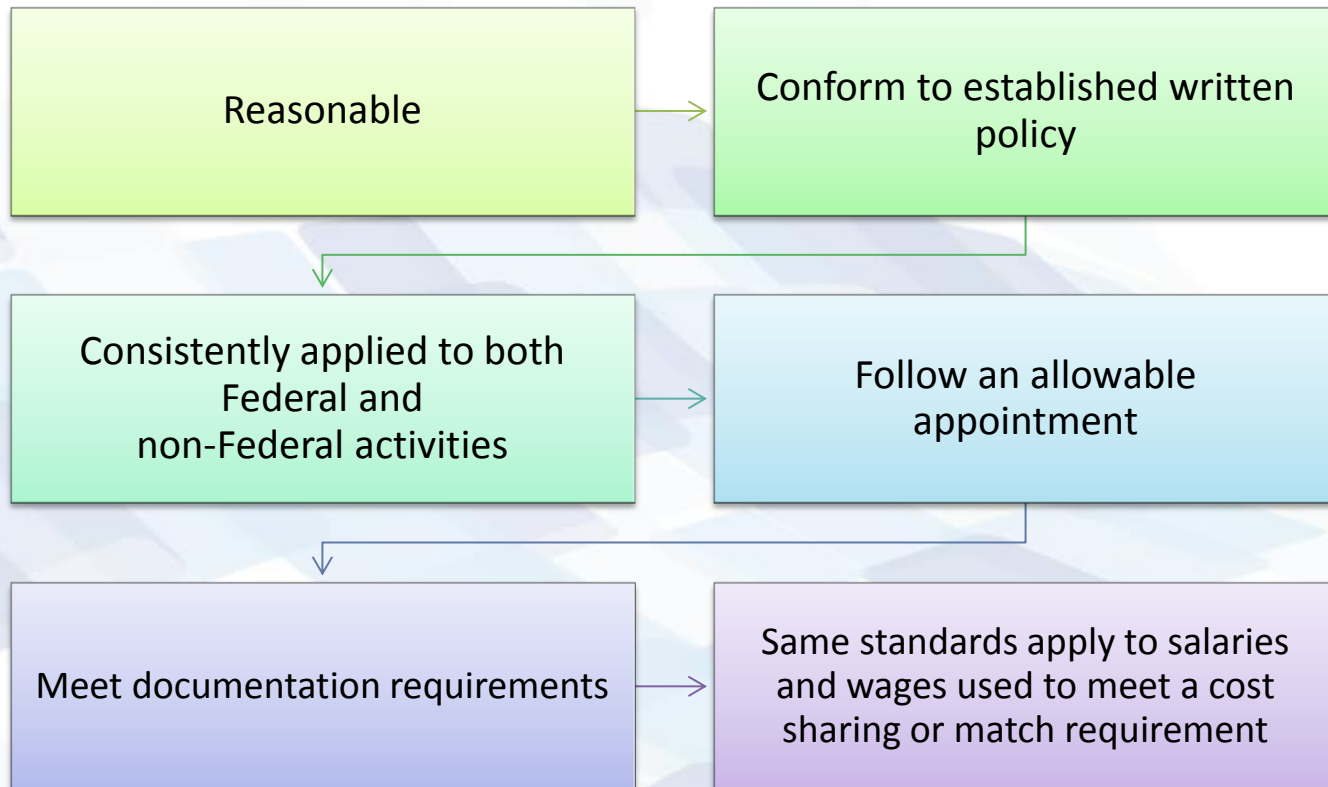
COMPENSATION: PERSONAL SERVICES



Allowable Personal Services Costs



200.430 Compensation — Personal Services Criteria



Reasonable Level of Compensation



- If consistent with level of compensation paid to employees doing similar work in other activities
- Or if no similar position, cost is comparable to that paid for similar work in the labor market
- Separate salary cap requirement applicable to ETA-funded grants (addressed later)



Incentive Compensation



Incentive compensation allowable

- If based on cost reduction, efficient performance, suggestions awards, safety awards etc.
- Allowable to extent that overall compensation is determined to be reasonable
- Pursuant to an agreement between recipient and employee before services were rendered or pursuant to established plan



Discretionary Recipients



IMPORTANT CHANGE - BUDGET MODIFICATION & PRIOR APPROVAL PROCESS

- For funds awarded after December 26, 2014, requests for budget modifications must be submitted in writing at least 30 days before the effective date of any change
- A transfer of funds between a cost category such as personnel or fringe benefits that is expected to exceed 10% of the total approved budget requires Grant Officer approval
 - (See 200.308(e), 2900.9, and 2900.10)
- Replaces previous requirement that all changes in salaries and fringe benefits required Grant Officer approval

Federal Funding Accountability and Transparency Act (FFATA)



- Federal Funding Accountability and Transparency Act
- Prime recipients (receiving Federal funding through Federal awards) 2 CFR Part 170
 - threshold of \$25,000
 - reporting of subawards
 - reporting of five highest compensated individuals
- Single, searchable website www.fsrs.gov
 - Data uploaded into USASpending.gov
- Not an ETA reporting system
- ETA pre-populates prime recipient award information
- Details available online in ETA training library





COMPENSATION: FRINGE BENEFITS



200.431 Compensation – Fringe Benefits



General Standard: Allowable if:

- Reasonable and required by
 - Law
 - Entity-employee agreement or
 - Established written policy of entity
- Applies to
 - Leave, Social Security, life and health insurance, unemployment compensation, workers compensation, pension plans, severance payments



Recognition of Leave Costs



- Cash basis: costs recognized when taken and paid
 - Unused leave after retirement or termination allowable as indirect cost in year of payment
- Accrual basis: may only be used when a liability as defined by GAAP exists when leave is earned
 - At the lesser of amount accrued or funded
- UG reflects new family friendly leave policies



Pension Costs



Allowable if:

- Reasonable
- In accordance with established policy
- Method of allocation is not discriminatory
- If accrual basis: assigned to fiscal year in accordance with GAAP
- Funded for all plan participants within 6 months after year-end



Severance



- Allowable if required by law, employer-employee agreement, established policy that constitutes an implied agreement, or circumstances of the particular employment
- Normal turnover severance
 - Paid and allocated to all activities or
 - Reserve acceptable if charge to current operations is reasonable in light of past payments and if charged to all activities
- Mass abnormal severance
 - Accruals generally not allowable; prior approval required



Other Provisions



- Limited use of Employee Health and Welfare Costs that improve working conditions
- Institution of Higher Education only
 - Fringe benefits in form of tuition for individual employees are allowable if granted per established policy and distributed to all activities on equitable basis
 - Not allowable for family members
 - Other detailed provisions in Uniform Guidance



Pay-As-You-Go Methods



- Insurance premiums for Unemployment Insurance, Workers Compensation, health insurance, etc.
- Pension plan termination insurance premiums under Employee Retirement Income Security Act (ERISA)
- Leave when taken and paid for
- Direct payments for workers compensation, unemployment compensation, severance pay, post-retirement health insurance, and similar benefits
- Allowable in year of payment provided that entity
 - Follows a consistent costing policy
 - Allocates as indirect costs

Funded Reserves



- Reserves for self-insurance for Unemployment Compensation and Workers Compensation allowable if:
 - Based on reasonable estimates of the liabilities and
 - Types and extent of coverage and the rates/premiums would have been allowable had insurance been purchased to cover the risks
 - Severance: normal turnover reserve if reasonable and charged to all activities



Funded Reserves (2)



Pension plan costs and post-retirement health plans:

- Pay-as-you-go method, or
- Acceptable actuarial cost method in accordance with established written policies

See 200.431 for extended provisions on methods of calculation and timeframes for payments



Unallowable Payments



- Automobiles unallowable for personal use as fringe benefit or indirect F&A even if reported as taxable income to the employee
- Late charges, excise taxes, penalties under ERISA
 - Severance in excess of normal amounts or paid contingent on change in management control
- Pension fund losses
 - Increased pension costs due to delay in funding the actuarial liability beyond 30 days after each quarter
 - Penalties, fines, interest expense

Assigning Cost of Fringe Benefits



- Identifying specific benefits to specific individual employees, or
- Allocating on basis of entity-wide salaries and wages
 - Separate allocations to selective groupings of employees unless
 - Costs in relationship to salaries and wages do not differ significantly for different groups of employees



Knowledge Check 1



OMB's Uniform Guidance consolidates into one set of standards the guidelines for allowable personal services and fringe benefit costs that apply to governmental organizations, non-profits, and institutions of higher education.

- A) True
- B) False



Knowledge Check 1 Feedback



OMB's Uniform Guidance consolidates into one set of standards the guidelines for allowable personal services and fringe benefit costs that apply to governmental organizations, non-profits, and institutions of higher education.

- A) True
- B) False

FEEDBACK:

The previous Circulars have been consolidated into one "uniform" guidance, but there still remain some unique standards that apply to governmental, non-profit and educational entities.



Knowledge Check 2



General standards for the allowability of personal services and fringe benefit costs are that they must be reasonable, in accordance with established written policy, and afforded consistent treatment between Federal and non-Federal awards.

- A) True
- B) False



Knowledge Check 2 Feedback



General standards for the allowability of personal services and fringe benefit costs are that they must be reasonable, in accordance with established written policy, and afforded consistent treatment between Federal and non-Federal awards.

- A) True
- B) False

FEEDBACK:

These standards apply not only to personal services and fringe benefit costs, but to almost all categories of costs that are chargeable to Federal awards.

Knowledge Check 3



A recipient has discretion in establishing salary rates under a Federal award when it does not have any other Federal award that has comparable Federally funded positions.

- A) True
- B) False



Knowledge Check 3 Feedback



A recipient has discretion in establishing salary rates under a Federal award when it does not have any other Federal award that has comparable Federally funded positions.

- A) True
- B) False

FEEDBACK:

Salary rates for any position under a Federal award must be consistent with that paid to employees doing similar work in other activities. Or if no similar position exists within the organization, the cost must be comparable to that paid for similar work in the labor market.



ETA SALARY CAP



Implementing PL 109-234



ETA Salary and Bonus Limitations

- Applies to all ETA appropriated funds

All grants, contracts and interagency agreements

- Applies to funds available beginning on June 15, 2006
- Limits salary and bonus payments to individuals
- Implementation guidance in TEGl 05-06



Salary Cap



Applies to:

- **All** WIA funds
- Wagner-Peyser
- UI Administration
- Older Worker programs
- Native American 477 funds
- Trade Act funds
- Veterans' program funds



Exclusions



- H-1B grants where the funds are generated by user-fee payments
- Disaster unemployment assistance: FEMA appropriated funds
- WIA Incentive grants: Funded by Dept. of Education appropriation
- Job Corps: Separate limitation applicable
- UI Benefits: State Trust Fund



Who Is Covered?



- Individuals paid by ETA appropriated funds
- Direct recipients and/or subrecipients
- Direct costs or through an Indirect Cost Rate
- Anyone receiving wages or bonus payments from recipients or sub-recipients whose grants are funded from ETA appropriations
- Contractors are not subject to limitation



What Is Included?



- Compensation included on IRS form W-2
- Includes monetary awards, bonus payments, and monetary prizes
- Profit sharing, when paid pursuant to established personnel policies as supplement to salary
- Sole proprietor or partnership compensation for income realized on IRS Schedule C or E
- Exclusions
 - Fringe benefits
 - Non-monetary compensation and corporate profit
 - Corporate profits paid on per share basis that have required investment



The Cap Limitation



- Full Time RATE not to exceed Executive Level II
 - 2015 maximum is \$183,300

Adjusted annually by OPM

- Displayed in an annual and hourly amount
- Calendar year basis – IRS definition

OPM site

<http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>



Other Provisions



- States may set lower limits for subrecipients
- Salaries paid by multiple fund sources must be allocated and calculated accordingly
- Salaries paid through indirect cost rates must be calculated accordingly
- Does not impact consultant rate restrictions



Cap Example: Full Time Charged to an ETA Funded Grant



Position	Annual Rate	Time spent on the Grant	Salary Cap Limit	Amount over Cap
Director	\$200,000	100%	\$183,300	\$16,700
Manager	\$100,000	100%	\$183,300	0
CFO	\$180,000	100%	\$183,300	0



Cap Example: Part of Time Charged to an ETA Funded Grant



Position	A) Annual Rate	B) % of Time on ETA grant	C) ETA Grant Share (A * B)	(D) Salary Cap Limit (B * \$183,300)	(E) Amount over Cap (C – D)
Director	\$200,000	50%	\$100,000	\$91,650	\$8,350
Manager	\$100,000	25%	\$25,000	\$45,825	0
CFO	\$190,000	50%	\$95,000	\$91,650	\$3,350
Special Assistant	\$100,000	75%	\$75,000	\$137,475	0

Cap Example: Indirect Costs Charged to ETA Funded Grant



Position	% of Indirect Costs Allocable to ETA Grant	Actual Salary	40.5% of Salary Allocable to ETA Grant	Salary Cap Limit 40.5% * \$183,300	Amount Over Cap Limit
HR Director	40.5%	\$180,000	\$72,900	\$74,237	0
CFO	40.5%	\$200,000	\$81,000	\$74,237	\$6,763





ETA salary cap implementation guidance in TEGGL 05-06

To find most recent salary cap level, go to the Office Personnel Management website at:

<http://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>

- Find Executive Level II pay rate
- Updated annually





SUMMARY

Course Summary



Section 1

- Documenting Payroll Distribution



Section 2

- Compensation: Personal Services



Section 3

- Compensation: Fringe Benefits



Section 4

- ETA Salary Cap



Key Points to Remember



Standards for Documentation – 200.430(i)

- Recipient has some freedom in choosing a payroll distribution system, but it must be supported by internal controls

Allowable Costs - Personal Services – 200.430

- Must be reasonable, conform to written policy, consistent, allowable, and meet documentation requirements

Allowable Costs – Fringe Benefits – 200.431

- Allowable if they are reasonable and required by law, entity-employee agreement or written policy

ETA Salary Cap Limitation – PL 109-234

- ETA implementation guidance at TEGl 05-06
- Applies to many ETA funded programs
- Cannot exceed rate of pay for Federal Executive Level II salary



This presentation is complete.