



Uniform Grant Guidance for Higher Educational Institutions: Personal Services and Fringe Benefits

Higher education institutions applying for and receiving federal grants and cooperative agreements are in for some significant reforms that promise to increase competition for grant funds, add new administrative processes, change long-established principles, and impact the audits of organizations receiving federal grants. The Office of Management and Budget's 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, commonly known as the Uniform Guidance (UG) but previously referred to as the Super Circular or Omni Circular, will apply to new awards and to additional funding (or funding increments) to existing awards made after December 26, 2014.

Personal services and fringe benefits

One area that has proven to be confusing for higher education is compensation for personal services and fringe benefits. The current guidance in OMB Circular A-21, Cost Principles for Educational Institutions, governs how these specific costs can be treated by educational institutions that are charging a portion of the costs to a grant,

contract, or other agreement with the federal government. While the new UG contains only minor changes regarding compensation for personal services and fringe benefits for higher education, the OMB has updated its guidance and includes additional areas such as extra service pay, personnel insurance costs, post-retirement health costs, tuition costs, and pension plan costs.

It is important that organizations review these changes to stay in compliance. In addition, the new guidance allows federal agencies to approve alternative accounting methods that tie salaries and wages to the achievement of performance outcomes. This includes areas that blend funding from multiple programs to achieve a more efficient combined outcome.

At more than 100 pages long, the new guidance includes sweeping changes to the processes of applying for, managing, and auditing federal grants and cooperative agreements.

This white paper compares requirements under the new UG with the current requirements under OMB Circular A-21 in the area of compensation for personal services and fringe benefits, and offers insight into what the change will mean for higher education institutions.

Compensation — Personal Services	Uniform Guidance §200.430	Cost Circular A-21 10. Compensation for Personal Services	What it means for higher education institutions
Definition of compensation and allowability	<p>(a) Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits.</p> <p>Costs of compensation are allowable to the extent:</p> <p>(i) Is reasonable for the services rendered and conforms to the established written policy of the nonfederal entity consistently applied to both federal and nonfederal activities</p> <p>(ii) Follows an appointment made in accordance with a nonfederal entity's laws and/or rules or written policies and meets the requirements of federal statute, where applicable</p> <p>(iii) Is determined and supported as provided in paragraph (i), Standards for Documentation of Personnel Expenses, when applicable.</p>	<p>a. Compensation for personal services covers all amounts currently paid or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements. Such amounts include salaries, wages, and fringe benefits.</p> <p>These costs are allowable to the extent:</p> <ul style="list-style-type: none"> • Total compensation to individual employees conforms to the established policies of the institution and is consistently applied. • Charges for work performed directly on sponsored agreements and for other work allocable as facilities and administration (F&A) costs are determined and supported. 	<p>Allowability of compensation now includes references to it being reasonable (see next section).</p>
Reasonableness	<p>(b) Compensation for employees engaged in work on federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the nonfederal entity. In cases where the kinds of employees required for federal awards are not found in the other activities of the nonfederal entity, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the nonfederal entity competes for the kind of employees involved.</p>	<p>Does not define reasonableness</p>	<p>The old guidance did not define reasonableness, and it is important to ensure that those paid with federal funds have wages that are consistent with that paid for similar work in other activities of the institution.</p>
Professional activities outside of the nonfederal entity	<p>(c) Unless an arrangement is specifically authorized by a federal awarding agency, a nonfederal entity must follow its written nonfederal entity-wide policies and practices concerning the permissible extent of professional services that can be provided outside the nonfederal entity for non-organizational compensation. Where such nonfederal entity-wide written policies do not exist or do not adequately define the permissible extent of consulting or other non-organizational activities undertaken for extra outside pay, the federal government may require that the effort of professional staff working on federal awards be allocated between:</p> <p>(1) Nonfederal entity activities, and</p> <p>(2) Non-organizational professional activities. If the federal awarding agency considers the extent of non-organizational professional effort excessive or inconsistent with the conflicts-of-interest terms and conditions of the federal award, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.</p>	<p>e. Unless an arrangement is specifically authorized by a federal sponsoring agency, an institution must follow its institution-wide policies and practices concerning the permissible extent of professional services that can be provided outside the institution for noninstitutional compensation. Where such institution-wide policies do not exist or do not adequately define the permissible extent of consulting or other noninstitutional activities undertaken for extra outside pay, the federal government may require that the effort of professional staff working on sponsored agreements be allocated between (1) institutional activities, and (2) noninstitutional professional activities. If the sponsoring agency considers the extent of noninstitutional professional effort excessive, appropriate arrangements governing compensation will be negotiated on a case-by-case basis.</p>	<p>Much of the wording is similar here in the new guidance, but you should be aware that the term “inconsistent with the conflicts-of-interest terms and conditions of the federal award” was added to an instance where appropriate arrangements governing compensation will be negotiated on a case-by-case basis.</p>

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Unallowable costs	(d) (1) Costs which are not allowable under other sections of these principles must not be allowable under this section solely on the basis that they constitute personnel compensation. (2) The allowable compensation for certain employees is subject to a ceiling in accordance with statute. For the amount of the ceiling for cost-reimbursement contracts, the covered compensation subject to the ceiling, the covered employees, and other relevant provisions, see 10 U.S.C. 2324(e)(1)(P), and 41 U.S.C. 1127 and 4304(a)(16). For other types of federal awards, other statutory ceilings may apply.	Does not define unallowable costs	The old guidance did not define this issues; however, it was always in practice. The new guidance includes that personnel costs for certain employees are subject to a statutory ceiling, including employees that are reimbursed under defense contracts.
Special considerations	(e) Special considerations in determining allowability of compensation will be given to any change in a nonfederal entity's compensation policy resulting in a substantial increase in its employees' level of compensation (particularly when the change was concurrent with an increase in the ratio of federal awards to other activities) or any change in the treatment of allowability of specific types of compensation due to changes in federal policy.	Does not address special considerations	The old guidance did not address this issue, so this is an area that you should give attention to if your institution has changes in its compensation policy.
Incentive compensation	(f) Incentive compensation to employees based on cost reduction, or efficient performance, suggestion awards, safety awards, etc., is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the nonfederal entity and the employees before the services were rendered, or pursuant to an established plan followed by the nonfederal entity so consistently as to imply, in effect, an agreement to make such payment.	Does not address incentive compensation	The old guidance did not address this issue, so this is an area that you should give attention to if your institution gives incentive compensation to employees that are paid through federal awards.
Allowable activities	(h) (1)(i)Charges to federal awards may include reasonable amounts for activities contributing and directly related to work under an agreement, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research subjects, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.	a. Charges to sponsored agreements may include reasonable amounts for activities contributing and intimately related to work under the agreements, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.	The new guidance clarifies wording from activities that are "intimately related" to "directly related." The new guidance also expands the examples of allowable activities to research and development activities: "developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research subjects."
Incidental activities	(h)(1)(ii)Incidental activities for which supplemental compensation is allowable under written institutional policy (at a rate not to exceed institutional base salary) need not be included in the records to directly charge payments of incidental activities, such activities must either be specifically provided for in the federal award budget or receive prior written approval by the federal awarding agency.	a. Incidental work (that in excess of normal for the individual), for which supplemental compensation is paid by an institution under institutional policy, need not be included in the payroll distribution systems, provided such work and compensation are separately identified and documented in the financial management system of the institution.	The new guidance requires that incidental activities for which supplemental compensation is received must either be specifically provided for in the federal award budget or receive prior written approval by the federal awarding agency.
Salary basis — Faculty members	(h)(2) Charges for work performed on federal awards by faculty members during the academic year are allowable at the institutional base salary (IBS) rate. Except as noted in incidental activities, in no event will charges to federal awards, irrespective of the basis of computation, exceed the proportionate share of the IBS for that period. This principle applies to all members of faculty at an institution. IBS is defined as the annual compensation paid by an intra-institution of higher education (IHE) for an individual's appointment, whether that individual's time is spent on research, instruction, administration, or other activities. IBS excludes any income that an individual earns outside of duties performed for the IHE. Unless there is prior approval by the federal awarding agency, charges of a faculty member's salary to a federal award must not exceed the proportionate share of the IBS for the period during which the faculty member worked on the award.	d.(1) Charges for work performed on sponsored agreements by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the policy of the institution concerned, constitutes the basis of his salary. Charges for work performed on sponsored agreements during all or any portion of such period are allowable at the base salary rate. In no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period. This principle applies to all members of the faculty at an institution.	The new guidance uses the term "institutional base salary rate" to replace "the individual faculty member's regular compensation" and defines the term. The new guidance also allows for charging of a faculty member's salary exceeding the proportionate share of the IBS only if there is prior approval by the federal awarding agency. By contrast, the old guidance stated that "in no event" is it allowable.

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Intra-institution of higher education (IHE) consulting	(h)(3) IHE consulting by faculty is assumed to be undertaken as an IHE obligation requiring no compensation in addition to IBS. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the faculty member is in addition to his or her regular responsibilities, any charges for such work representing additional compensation above IBS are allowable provided that such consulting arrangements are specifically provided for in the federal award or approved in writing by the federal awarding agency.	d. (1) Since intra-university consulting is assumed to be undertaken as a university obligation requiring no compensation in addition to full-time base salary, the principle also applies to faculty members who function as consultants or otherwise contribute to a sponsored agreement conducted by another faculty member of the same institution. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to his regular departmental load, any charges for such work representing extra compensation above the base salary are allowable provided that such consulting arrangements are specifically provided for in the agreement or approved in writing by the sponsoring agency.	Although the wording changed slightly in the new guidance, the principle is the same, in that, if consultation is across departmental lines and is in addition to a faculty member's regular responsibilities, the additional charges for compensation above IBS are allowable.
Extra service pay	(h)(4) Extra service pay normally represents overload compensation, subject to institutional compensation policies for services above and beyond IBS. Where extra service pay is a result of intra-IHE consulting, it is subject to the same requirements of the reasonableness paragraph. It is allowable if all of the following conditions are met: (i) The nonfederal entity establishes consistent written policies which apply uniformly to all faculty members, not just those working on federal awards. (ii) The nonfederal entity establishes a consistent written definition of work covered by IBS which is specific enough to determine conclusively when work beyond that level has occurred. This may be described in appointment letters or other documentations. (iii) The supplementation amount paid is commensurate with the IBS rate of pay and the amount of additional work performed. (iv) The salaries, as supplemented, fall within the salary structure and pay ranges established by and documented in writing or otherwise applicable to the nonfederal entity. (v) The total salaries charged to federal awards including extra service pay are subject to the standards of documentation.	Does not address extra service pay	The old guidance did not address this issue, so this is an area that you should give attention to if your institution awards extra service pay.
Periods outside the academic year	(h)(5)(i) Except as specified for teaching activity, charges for work performed by faculty members on federal awards during periods not included in the base salary period will be at a rate not in excess of the IBS. (ii) Charges for teaching activities performed by faculty members on federal awards during periods not included in IBS period will be based on the normal written policy of the IHE governing compensation to faculty members for teaching assignments during such periods.	d.(2)(a) Except as otherwise specified for teaching activity, charges for work performed by faculty members on sponsored agreements during the summer months or other period not included in the base salary period will be determined for each faculty member at a rate not in excess of the base salary divided by the period to which the base salary relates, and will be limited to charges made in accordance with other parts of this section. The base salary period used in computing charges for work performed during the summer months will be the number of months covered by the faculty member's official academic year appointment. d.(2)(b) Charges for teaching activities performed by faculty members on sponsored agreements during the summer months or other periods not included in the base salary period will be based on the normal policy of the institution governing compensation to faculty members for teaching assignments during such periods.	The new guidance is the same in principle; however, it refers to institutional base salary rather than defining the base salary to be used when charging for periods outside of the base.

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Part-time faculty	(h)(6) Charges for work performed on federal awards by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for part-time assignments.	d.(3) Charges for work performed on sponsored agreements by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for the part-time assignments.	The language change here is that “federal awards” replaces “sponsored agreements” in the new guidance.
Sabbatical leave costs	(h)(7) (i) Costs of leaves of absence by employees for performance of graduate work or sabbatical study, travel, or research are allowable provided the IHE has a uniform written policy on sabbatical leave for persons engaged in instruction and persons engaged in research. Such costs will be allocated on an equitable basis among all related activities of the IHE. (ii) Where sabbatical leave is included in fringe benefits for which a cost is determined for assessment as a direct charge, the aggregate amount of such assessments applicable to all work of the institution during the base period must be reasonable in relation to the IHE’s actual experience under its sabbatical leave policy.	f. (4) (a) Costs of leave of absence by employees for performance of graduate work or sabbatical study, travel, or research are allowable provided the institution has a uniform policy on sabbatical leave for persons engaged in instruction and persons engaged in research. Such costs will be allocated on an equitable basis among all related activities of the institution. (b) Where sabbatical leave is included in fringe benefits for which a cost is determined for assessment as a direct charge, the aggregate amount of such assessments applicable to all work of the institution during the base period must be reasonable in relation to the institution’s actual experience under its sabbatical leave policy.	No differences in the new guidance.
Salary rates for nonfaculty members	(h)(8) Nonfaculty full-time professional personnel may also earn “extra service pay” in accordance with the nonfederal entity’s written policy and consistent with paragraph (h)(1)(i) of this section.	Does not address salary rates for nonfaculty members	The old guidance did not address this issue, so this is an area that you should give attention to if your institution has full-time professional personnel who earn extra service pay.
Standards for documentation of personnel expenses	(i)(1) Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) Be incorporated into the official records of the nonfederal entity; (iii) Reasonably reflect the total activity for which the employee is compensated by the nonfederal entity, not exceeding 100 percent of compensated activities (for IHE, this per the IHE’s definition of IBS); (iv) Encompass both federally assisted and all other activities compensated by the nonfederal entity on an integrated basis, but may include the use of subsidiary records as defined in the nonfederal entity’s written policy; (v) Comply with the established accounting policies and practices of the nonfederal entity; (vii) Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and nonfederal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.	b. Payroll distribution (2) Criteria for acceptable methods. (a) The payroll distribution system will (1) be incorporated into the official records of the institution; (2) reasonably reflect the activity for which the employee is compensated by the institution; and (3) encompass both sponsored and all other activities on an integrated basis, but may include the use of subsidiary records. (Compensation for incidental work described in subsection a need not be included.) (1) General principles (a) The distribution of salaries and wages, whether treated as direct or F&A costs, will be based on payrolls documented in accordance with the generally accepted practices of colleges and universities. Institutions may include in a residual category all activities that are not directly charged to sponsored agreements, and that need not be distributed to more than one activity for purposes of identifying F&A costs and the functions to which they are allocable. The components of the residual category are not required to be separately documented. (1)(b) The apportionment of employees’ salaries and wages which are chargeable to more than one sponsored agreement or other cost objective will be accomplished by methods which will- (1) be in accordance with Sections A.2 and C; (2) produce an equitable distribution of charges for employee’s activities; and	This is an example where the Uniform Guidance reduces administrative burden and risk of waste, fraud, and abuse by focusing on performance over compliance for accountability. It does this by streamlining reporting requirements for salaries and wages to focus on high standards for internal controls, with flexibility for nonfederal entities in how they meet the standards. A-21 included three examples of acceptable methods for payroll distribution: plan confirmation, after-the-fact, activity records, and multiple confirmation records. The new guidance is less prescriptive on documentation and places more emphasis on internal control.

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<p>Standards for documentation of personnel expenses <i>Continued</i></p>	<p>(ix) Because practices vary as to the activity constituting a full workload (for IHEs, IBS), records may reflect categories of activities expressed as a percentage distribution of total activities.</p> <p>(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.</p> <p>(2) For records which meet the standards required in paragraph (i)(1) of this section, the nonfederal entity will not be required to provide additional support or documentation for the work performed, other than that referenced in paragraph (i)(3) of this section.</p>	<p>(3) distinguish the employees' direct activities from their F&A activities.</p> <p>(2)(c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A costs and the functions to which they are allocable. The activities chargeable to F&A cost categories or the major functions of the institution for employees whose salaries must be apportioned, if not initially identified as separate categories, may be subsequently distributed by any reasonable method mutually agreed to, including, but not limited to, suitably conducted surveys, statistical sampling procedures, or the application of negotiated fixed rates.</p> <p>(2)(b) The method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and F&A cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or F&A cost activities if other responsible persons make appropriate confirmations.</p> <p>(2)(d) Practices vary among institutions and within institutions as to the activity constituting a full workload. Therefore, the payroll distribution system may reflect categories of activities expressed as a percentage distribution of total activities.</p> <p>(1)(c) In the use of any methods for apportioning salaries, it is recognized that, in an academic setting, teaching, research, service, and administration are often inextricably intermingled. A precise assessment of factors that contribute to costs is not always feasible, nor is it expected. Reliance, therefore, is placed on estimates in which a degree of tolerance is appropriate.</p> <p>(2)(g) For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.</p> <p>(2)(f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.</p>	

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Performance plan alternatives	(i)(6) Cognizant agencies for indirect costs are encouraged to approve alternative proposals based on outcomes and milestones for program performance where these are clearly documented. Where approved by the federal cognizant agency for indirect costs, these plans are acceptable as an alternative to the requirements of paragraph (i)(1) of this section. (i)(7) For federal awards of similar purpose activity or instances of approved blended funding, a nonfederal entity may submit performance plans that incorporate funds from multiple federal awards and account for their combined use based on performance-oriented metrics, provided that such plans are approved in advance by all involved federal awarding agencies. In these instances, the nonfederal entity must submit a request for waiver of the requirements based on documentation that describes the method of charging costs, relates the charging of costs to the specific activity that is applicable to all fund sources, and is based on quantifiable measures of the activity in relation to time charged.	Does not address performance plan alternatives	The old guidance did not include these alternatives. This is an example where the Uniform Guidance reduces administrative burden and risk of waste, fraud, and abuse by focusing on performance over compliance for accountability.
Budget estimates	(j)(1)(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that: (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed; (B) Significant changes in the corresponding work activity (as defined by the nonfederal entity's written policies) are identified and entered into the records in a timely manner. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and (C) The nonfederal entity's system of internal controls includes processes to review after-the-fact interim charges made to a federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.	b.(2)(e) Direct and F&A charges may be made initially to sponsored agreements on the basis of estimates made before services are performed. When such estimates are used, significant changes in the corresponding work activity must be identified and entered into the payroll distribution system. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period.	The new guidance states that "The system for establishing the estimates produces reasonable approximations of the activity actually performed," and therefore, the institution will need to defend how the estimates are considered reasonable approximations (i.e., professor's schedule for the academic term, etc.). The new guidance also places emphasis on a good internal control system that includes reviewing after-the-fact interim charges made based on the estimates. In addition, the new guidance states that a system and process needs to be in place to show that any adjustments were made to "true up" the difference between the estimate and what should be charged to the grant based on actual time spent.
Nonexempt employees	(j)(3) In accordance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.	Does not address nonexempt employees	The new guidance includes a requirement that nonexempt employees must also have the proper supporting records as required by the Department of Labor.
Cost sharing or matching	(j)(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from federal awards.	Does not address cost sharing or matching	The new guidance requires that salaries and wages of employees used in meeting cost-sharing or matching requirements on federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from federal awards.

Compensation — Fringe Benefits	Uniform Grant Guidance §200.431	Cost Circular A-21 10. Compensation for Personal Services	What it means for higher education institutions
Definition of fringe benefits and allowability	(a) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave (vacation, family-related, sick, or military), employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, nonfederal entity-employee agreement, or an established policy of the nonfederal entity.	Does not define fringe benefits any further than in f. (1) and f.(2) below.	The old guidance did not define allowability of fringe benefits separately from compensation. The new guidance clarifies and states that they must be reasonable.
Leave	(b) Leave. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if all of the following criteria are met: (1) They are provided under established written leave policies; (2) The costs are equitably allocated to all related activities, including federal awards; and, (3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the nonfederal entity or specified grouping of employees. (i) When a nonfederal entity uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable as indirect costs in the year of payment. (ii) The accrual basis may only be used for those types of leave for which a liability as defined by generally accepted accounting principles (GAAP) exists when the leave is earned. When a nonfederal entity uses the accrual basis of accounting, allowable leave costs are the lesser of the amount accrued or funded.	f.(1) Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, military leave, and the like, are allowable, provided such costs are distributed to all institutional activities in proportion to the relative amount of time or effort actually devoted by the employees.	The new guidance clarifies that holidays, court leave, and administrative leave are all allowable. It also is expanded to state that they are only allowable if they are provided under established written leave policies, and that the accounting basis (cash or accrual) chosen for costing each type of leave is consistently followed.
Other fringe benefits	(c) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance; pension plan costs; and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits must be allocated to federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such federal awards and other activities, and charged as direct or indirect costs in accordance with the nonfederal entity's accounting practices.	f.(2)Fringe benefits in the form of employer contributions or expenses for social security, employee insurance, workmen's compensation insurance, tuition, or remission of tuition for individual employees are allowable, provided such benefits are granted in accordance with established educational institutional policies, and are distributed to all institutional activities on an equitable basis.	The new guidance states that pension plan costs are allowable as fringe benefits and clarifies that they can be charged as direct or indirect costs in accordance with the institution's accounting practices.

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Assigned to cost objectives	(d) Fringe benefits may be assigned to cost objectives by identifying specific benefits to specific individual employees or by allocating on the basis of entity-wide salaries and wages of the employees receiving the benefits. When the allocation method is used, separate allocations must be made to selective groupings of employees, unless the nonfederal entity demonstrates that costs in relationship to salaries and wages do not differ significantly for different groups of employees.	f.(5) Fringe benefits may be assigned to cost objectives by identifying specific benefits to specific individual employees or by allocating on the basis of institution-wide salaries and wages of the employees receiving the benefits. When the allocation method is used, separate allocations must be made to selective groupings of employees, unless the institution demonstrates that costs in relationship to salaries and wages do not differ significantly for different groups of employees. Fringe benefits shall be treated in the same manner as the salaries and wages of the employees receiving the benefits. The benefits related to salaries and wages treated as direct costs shall also be treated as direct costs; the benefits related to salaries and wages treated as F&A costs shall be treated as F&A costs.	The new guidance removes the requirement that fringe benefits be treated in the same manner as the salaries and wages of employees receiving the benefits.
Insurance	(e) (1) Provisions for a reserve under a self-insurance program for unemployment compensation or workers' compensation are allowable to the extent that the provisions represent reasonable estimates of the liabilities for such compensation, and the types of coverage, extent of coverage, and rates and premiums would have been allowable had insurance been purchased to cover the risks. However, provisions for self-insured liabilities which do not become payable for more than one year after the provision is made must not exceed the present value of the liability. (2) Costs of insurance on the lives of trustees, officers, or other employees holding positions of similar responsibility are allowable only to the extent that the insurance represents additional compensation. The costs of such insurance when the nonfederal entity is named as beneficiary are unallowable. (3) Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay, and similar employee benefits (e.g., post-retirement health benefits), are allowable in the year of payment provided that the nonfederal entity follows a consistent costing policy and they are allocated as indirect costs.	Does not specifically address insurance	The old guidance did not address insurance under a self-insurance program, so this is an area that you should give attention to if your institution has this type of plan.
Automobiles	(f) That portion of automobile costs furnished by the entity that relates to personal use by employees (including transportation to and from work) is unallowable as fringe benefit or indirect (F&A) costs regardless of whether the cost is reported as taxable income to the employees.	g. That portion of the cost of institution-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable regardless of whether the cost is reported as taxable income to the employees.	The new guidance clarifies wording stating that these costs are unallowable for both fringe and indirect costs, as has always been the practice.

Compensation — Fringe Benefits	Uniform Grant Guidance §200.431	Cost Circular A-21 10. Compensation for Personal Services	What it means for higher education institutions
<p>Pension plan costs</p>	<p>(g) Pension plan costs which are incurred in accordance with the established policies of the nonfederal entity are allowable, provided that:</p> <p>(1) Such policies meet the test of reasonableness.</p> <p>(2) The methods of cost allocation are not discriminatory.</p> <p>(3) For entities using accrual-based accounting, the cost assigned to each fiscal year is determined in accordance with GAAP.</p> <p>(4) The costs assigned to a given fiscal year are funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 calendar days after each quarter of the year to which such costs are assignable are unallowable. A nonfederal entity may elect to follow the Cost Accounting Standard for Composition and Measurement of Pension Costs (48 CFR 9904.412).</p> <p>(5) Pension plan termination insurance premiums paid pursuant to the <i>Employee Retirement Income Security Act of 1974</i> (ERISA) (29 U.S.C. 1301-1461) are allowable. Late payment charges on such premiums are unallowable. Excise taxes on accumulated funding deficiencies and other penalties imposed under ERISA are unallowable.</p> <p>(6) Pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the nonfederal entity.</p> <p>(i) For pension plans financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</p> <p>(ii) Pension costs calculated using an actuarial cost-based method recognized by GAAP are allowable for a given fiscal year if they are funded for that year within six months after the end of that year. Costs funded after the six-month period (or a later period agreed to by the cognizant agency for indirect costs) are allowable in the year funded. The cognizant agency for indirect costs may agree to an extension of the six-month period if an appropriate adjustment is made to compensate for the timing of the charges to the federal government and related federal reimbursement and the nonfederal entity's contribution to the pension fund. Adjustments may be made by cash refund or other equitable procedures to compensate the federal government for the time value of federal reimbursements in excess of contributions to the pension fund.</p> <p>(iii) Amounts funded by the nonfederal entity in excess of the actuarially determined amount for a fiscal year may be used as the nonfederal entity's contribution in future periods.</p> <p>(iv) When a nonfederal entity converts to an acceptable actuarial cost method, as defined by GAAP, and funds pension costs in accordance with this method, the unfunded liability at the time of conversion is allowable if amortized over a period of years in accordance with GAAP.</p> <p>(v) The federal government must receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the nonfederal entity in the form of a refund, withdrawal, or other credit.</p>	<p>f.(3) Rules for pension plan costs are as follows:</p> <p>(a) Costs of the institution's pension plan which are incurred in accordance with the established policies of the institution are allowable, provided:</p> <p>(i) such policies meet the test of reasonableness,</p> <p>(ii) the methods of cost allocation are equitable for all activities,</p> <p>(iii) the amount of pension cost assigned to each fiscal year is determined in accordance with GAAP, and</p> <p>(iv) the cost assigned to a given fiscal year is paid or funded for all plan participants within six months after the end of that year. However, increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assignable are unallowable.</p> <p>(b) The amount of pension cost assigned to each fiscal year shall be determined in accordance with GAAP. Institutions may elect to follow the Cost Accounting Standard for Composition and Measurement of Pension Cost (48 Part 9904 412).</p> <p>(c) Premiums paid for pension plan termination insurance pursuant to the <i>Employee Retirement Income Security Act of 1974</i> (ERISA) (Pub. L. 93 406) are allowable. Late payment charges on such premiums are unallowable. Excise taxes on accumulated funding deficiencies and prohibited transactions of pension plan fiduciaries imposed under ERISA are also unallowable.</p>	<p>The new guidance states that pension plan costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the nonfederal entity. This generally only affects the government entity's sub-industry, and was included in Cost Circular A-87. It is now included since the Uniform Guidance covers cost principles for all nonfederal entities.</p>

Compensation — Fringe Benefits	Uniform Grant Guidance §200.431	Cost Circular A-21 10. Compensation for Personal Services	What it means for higher education institutions
Post-retirement health plans	<p>(h) Post-retirement health plans (PRHP) refers to costs of health insurance or health services not included in a pension plan covered by paragraph (g) of this section for retirees and their spouses, dependents, and survivors. PRHP costs may be computed using a pay-as-you-go method or an acceptable actuarial cost method in accordance with established written policies of the nonfederal entity.</p> <p>(1) For PRHP financed on a pay-as-you-go method, allowable costs will be limited to those representing actual payments to retirees or their beneficiaries.</p> <p>(2) PRHP costs calculated using an actuarial cost method recognized by GAAP are allowable if they are funded for that year within six months after the end of that year. Costs funded after the six-month period (or a later period agreed to by the cognizant agency) are allowable in the year funded. The federal cognizant agency for indirect costs may agree to an extension of the six-month period if an appropriate adjustment is made to compensate for the timing of the charges to the federal government and related federal reimbursements and the nonfederal entity's contributions to the PRHP fund. Adjustments may be made by cash refund, reduction in current year's PRHP costs, or other equitable procedures to compensate the federal government for the time value of federal reimbursements in excess of contributions to the PRHP fund.</p> <p>(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the federal government's contribution in a future period.</p> <p>(4) When a nonfederal entity converts to an acceptable actuarial cost method and funds PRHP costs in accordance with this method, the initial unfunded liability attributable to prior years is allowable if amortized over a period of years in accordance with GAAP, or, if no such GAAP period exists, over a period negotiated with the cognizant agency for indirect costs.</p> <p>(5) To be allowable in the current year, the PRHP costs must be paid either to:</p> <ul style="list-style-type: none"> (i) An insurer or other benefit provider as current year costs or premiums, or (ii) An insurer or trustee to maintain a trust fund or reserve for the sole purpose of providing post-retirement benefits to retirees and other beneficiaries. <p>(6) The federal government must receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the entity in the form of a refund, withdrawal, or other credit.</p>	Does not address post-retirement health costs	The old guidance did not address this issue as it is generally only affects the government entity's sub-industry and was included in Cost Circular A-87. It is now included since the Uniform Guidance covers cost principles for all nonfederal entities.

Compensation — Fringe Benefits	Uniform Grant Guidance §200.431	Cost Circular A-21 10. Compensation for Personal Services	What it means for higher education institutions
Severance pay	<p>(i) (1) Severance pay, also commonly referred to as dismissal wages, is a payment in addition to regular salaries and wages, by nonfederal entities to workers whose employment is being terminated. Costs of severance pay are allowable only to the extent that in each case, it is required by (a) law, (b) employer-employee agreement, (c) established policy that constitutes, in effect, an implied agreement on the nonfederal entity's part, or (d) circumstances of the particular employment.</p> <p>(2) Costs of severance payments are divided into two categories as follows:</p> <p>(i) Actual normal turnover severance payments must be allocated to all activities; or, where the nonfederal entity provides for a reserve for normal severances, such method will be acceptable if the charge to current operations is reasonable in light of payments actually made for normal severances over a representative past period, and if amounts charged are allocated to all activities of the nonfederal entity.</p> <p>(ii) Measurement of costs of abnormal or mass severance pay by means of an accrual will not achieve equity to both parties. Thus, accruals for this purpose are not allowable. However, the federal government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Prior approval by the federal awarding agency or cognizant agency for indirect cost, as appropriate, is required.</p> <p>(3) Costs incurred in certain severance pay packages which are in an amount in excess of the normal severance pay paid by the nonfederal entity to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the nonfederal entity's assets, are unallowable.</p> <p>(4) Severance payments to foreign nationals employed by the nonfederal entity outside the United States, to the extent that the amount exceeds the customary or prevailing practices for the nonfederal entity in the United States, are unallowable, unless they are necessary for the performance of federal programs and approved by the federal awarding agency.</p> <p>(5) Severance payments to foreign nationals employed by the nonfederal entity outside the United States due to the termination of the foreign national as a result of the closing of, or curtailment of activities by, the nonfederal entity in that country, are unallowable, unless they are necessary for the performance of federal programs and approved by the federal awarding agency.</p>	<p>h. (1) Severance pay is compensation in addition to regular salary and wages that is paid by an institution to employees whose services are being terminated. Costs of severance pay are allowable only to the extent that such payments are required by law, by employer-employee agreement, by established policy that constitutes in effect an implied agreement on the institution's part, or by circumstances of the particular employment.</p> <p>(2) Severance payments that are due to normal recurring turnover and which otherwise meet the conditions of subsection (3) Severance payments that are due to abnormal or mass terminations are of such conjectural nature that allowability must be determined on a case-by-case basis. However, the federal government recognizes its obligation to participate, to the extent of its fair share, in any specific payment.</p> <p>(4) Costs incurred in excess of the institution's normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unallowable.</p>	<p>The new guidance includes requirements for when there are severance payments to foreign nationals employed by the nonfederal entity outside the United States. This generally only affects the nonprofit entity's sub-industry, and was included in Cost Circular A-122. It is now included since the Uniform Guidance covers cost principles for all nonfederal entities.</p>
Tuition benefits	<p>(j) For IHEs only.</p> <p>(1) Fringe benefits in the form of tuition or remission of tuition for individual employees are allowable, provided such benefits are granted in accordance with established nonfederal entity policies, and are distributed to all nonfederal entity activities on an equitable basis. Tuition benefits for family members other than the employee are unallowable.</p> <p>(2) Fringe benefits in the form of tuition or remission of tuition for individual employees not employed by IHEs are limited to the tax-free amount allowed per Internal Revenue Code Section 127 of the Internal Revenue Code as amended.</p> <p>(3) IHEs may offer employees tuition waivers or tuition reductions for undergraduate education under Internal Revenue Code Section 117(d) as amended, provided that the benefit does not discriminate in favor of highly compensated employees. Federal reimbursement of tuition or remission of tuition is also limited to the institution for which the employee works.</p>	<p>Does not address tuition as a fringe benefit</p>	<p>The new guidance clarifies that tuition benefits are limited to the tax-free amount allowed per the Internal Revenue Code, that the benefit cannot discriminate in favor of highly compensated employees, and that the tuition can only be for the institution where the employee works.</p>

Compensation — Fringe Benefits	Uniform Grant Guidance §200.431	Cost Circular A-21 10. Compensation for Personal Services	What it means for higher education institutions
Costs paid by state or local government	(k) For IHEs whose costs are paid by state or local governments, fringe benefit programs (such as pension costs and FICA) and any other benefits costs specifically incurred on behalf of, and in direct benefit to, the nonfederal entity, are allowable costs of such nonfederal entities whether or not these costs are recorded in the accounting records of the nonfederal entities, subject to the following: (1) The costs meet the requirements of Basic Considerations in §200.402 Composition of costs through, §200.411 Adjustment of previously negotiated indirect (F&A) cost rates containing unallowable costs, of this subpart; (2) The costs are properly supported by approved cost allocation plans in accordance with applicable federal cost accounting principles; and (3) The costs are not otherwise borne directly or indirectly by the federal government.	Does not address costs paid by state or local government	The old guidance did not address this issue, so this is an area that you should give attention to if your institution has costs that are paid by state or local governments.

How we can help

CliftonLarsonAllen professionals have burrowed deep into the UG to find the issues that concern you most, and developed methods for implementing change. No matter how you are impacted, we can help you find effective solutions for your needs.

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About CliftonLarsonAllen

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