



Uniform Grant Guidance for State and Local Government Entities: Personal Services and Fringe Benefits

Government entities 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 funding. The Office of Management and Budget's (OMB) *2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, commonly known as the Uniform Guidance (UG) and 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.

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.

Changes to the administrative rules for federal grants take effect December 26, 2014. It is important that state and local government entities review these changes to stay in compliance.

This white paper compares the requirements under the new UG to the current requirements under OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, in the area of compensation for personal services and fringe benefits, and offers insight into what the change will mean for state and local government entities.

Personal services and fringe benefits

Current guidance in OMB Circular A-87 governs how compensation for personal services and fringe benefits can be treated by government entities that are charging a portion of the costs to a grant, contract, or other agreement with the federal government.

The guidance includes some significant changes in time and effort reporting, which are defined in the “Standards for documentation of personnel expenses” section of the comparison that follows.

Under Circular A-87, an employee who spends 100 percent of his or her time on a federal program, if appropriate, must periodically certify that he/she worked solely on that program. Currently, employees who work on more than one federal program must report an after-the-fact distribution of activities and account for the total activity for which the employee is compensated.

Under the UG, all employees (regardless of how many federal programs they work on) may use budget estimates as a percentage of time spent in each federal program, as long as they certify at the end of the period that those estimates are accurate.

Clarified and expanded rules

In addition, the OMB has clarified and expanded guidance in multiple areas, including professional activities outside the entity and post-retirement health plans. It is important that government entities review these changes to stay in compliance.

The new guidance also allows federal agencies to approve alternative accounting methods for salaries and wages based on the achievement of performance outcomes. This includes areas that blend funding from multiple programs to achieve a more efficient combined outcome. See “Performance plan alternatives” for a detailed description.

Compensation — Personal Services	Uniform Guidance § 200.430	Cost Circular A-87 8. Compensation for Personal Services	What it means for state and local government entities
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> <ul style="list-style-type: none"> (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 (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 (iii) Is determined and supported as provided in paragraph (i), Standards for Documentation of Personnel Expenses, when applicable. 	<p>a. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this circular, and that the total compensation for individual employees:</p> <ul style="list-style-type: none"> (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both federal and nonfederal activities; (2) Follows an appointment made in accordance with a governmental unit’s laws and rules and meets merit system or other requirements required by federal law, where applicable; and (3) Is determined and supported as provided in subsection h. 	<p>No significant differences in the new guidance.</p>

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Reasonableness	(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.	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 governmental unit. In cases where the kinds of employees required for federal awards are not found in the other activities of the governmental unit, 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 employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.	The new guidance does not specifically state that “compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.” However, with the new guidance this would still be an acceptable basis.
Professional activities outside of the nonfederal entity	(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 nonorganizational compensation. Where such nonfederal entity-wide written policies do not exist or do not adequately define the permissible extent of consulting or other nonorganizational activities undertaken for extra outside pay, the federal government may require that the effort of professional staff working on federal awards be allocated between: (1) Nonfederal entity activities, and (2) Nonorganizational professional activities. If the federal awarding agency considers the extent of nonorganizational 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.	Does not address professional activities outside of the nonfederal entity.	The old guidance did not address this issue, so this is an area that you should give attention to if your entity has employees who provide professional services outside of the entity.
Unallowable costs	(d) (1) Costs that are not allowed under other sections of these principles must not be allowed 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.	c. Costs that are not allowed under other sections of these principles shall not be allowed under this section solely on the basis that they constitute personnel compensation.	The new guidance says 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 the 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 any special considerations.	The old guidance did not address this issue, so this is an area that you should give attention to if your entity has changes in its compensation policy.

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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 entity gives incentive compensation to employees that are paid through federal awards.
Standards of documentation of personnel expenses	<p>(i)(1) Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:</p> <ul style="list-style-type: none"> (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; (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; <p>(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.</p> <p>(j)(1)(ix) Because practices vary as to the activity constituting a full workload, records may reflect categories of activities expressed as a percentage distribution of total activities.</p> <p>(j)(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>h.(1) Charges to federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.</p> <p>h.(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on:</p> <ul style="list-style-type: none"> (a) More than one federal award, (b) A federal award and a nonfederal award, (c) An indirect cost activity and a direct cost activity, (d) Two or more indirect activities which are allocated using different allocation bases, or (e) An unallowable activity and a direct or indirect cost activity. <p>h.(2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.</p> <p>h.(3) Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.</p> <p>h.(5) Personnel activity reports or equivalent documentation must meet the following standards:</p> <ul style="list-style-type: none"> (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and (d) They must be signed by the employee. 	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. Circular A-87 required employees that worked on multiple activities or cost objectives to have personnel activity reports or equivalent documentation to support personnel charges. The new guidance is less prescriptive on documentation and places more emphasis on internal control.

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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 award based on budget estimates. All necessary adjustments must be made such that the final amount charged to the federal award is accurate, allowable, and properly allocated.	h.(5)(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards, but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than 10 percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.	The old guidance prescribed quarterly comparison of actual costs (based on monthly activity reports) to budgeted distributions. Monthly activity reports are not required by the new guidance. Instead, emphasis is placed 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 <i>Fair Labor Standards Act</i> (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.	h.(7) Salaries and wages of employees used in meeting cost sharing or matching requirements of federal awards must be supported in the same manner as those claimed as allowable costs under federal awards.	No differences in the new guidance.

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Substitute systems	<p>(j)(5) For states, local governments, and Indian tribes, substitute processes or systems for allocating salaries and wages to federal awards may be used in place of or in addition to the records described in paragraph (1) if approved by the cognizant agency for indirect cost. Such systems may include, but are not limited to, random moment sampling, “rolling” time studies, case counts, or other quantifiable measures of work performed.</p> <p>(i) Substitute systems which use sampling methods (primarily for Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:</p> <p>(A) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in paragraph (i)(5)(iii) of this section;</p> <p>(B) The entire time period involved must be covered by the sample;</p> <p>(C) The results must be statistically valid and applied to the period being sampled.</p> <p>(ii) Allocating charges for the sampled employees’ supervisors, clerical, and support staffs, based on the results of the sampled employees, will be acceptable.</p> <p>(iii) Less-than-full compliance with the statistical sampling standards may be accepted by the cognizant agency for indirect costs if it concludes that the amounts to be allocated to federal awards will be minimal, or if it concludes that the system proposed by the nonfederal entity will result in lower costs to federal awards than a system which complies with the standards.</p>	<p>h. (6) Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.</p> <p>(a) Substitute systems which use sampling methods (primarily for Temporary Assistance to Needy Families (TANF), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:</p> <p>(i) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in subsection (c);</p> <p>(ii) The entire time period involved must be covered by the sample; and</p> <p>(iii) The results must be statistically valid and applied to the period being sampled.</p> <p>(b) Allocating charges for the sampled employees’ supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.</p> <p>(c) Less-than-full compliance with the statistical sampling standards noted in subsection (a) may be accepted by the cognizant agency if it concludes that the amounts to be allocated to federal awards will be minimal, or if it concludes that the system proposed by the governmental unit will result in lower costs to federal awards than a system which complies with the standards.</p>	<p>The new guidance includes “rolling” time studies as a possible substitute system for allocating salaries and wages.</p>
Performance plan alternatives	<p>(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.</p> <p>(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.</p>	<p>Does not address performance plan alternatives.</p>	<p>The old guidance did not include these alternatives. This is an example where the Uniform Guidance reduces administrative burden and the risk of waste, fraud, and abuse by focusing on performance over compliance for accountability.</p>

Compensation — Fringe Benefits	Uniform Guidance § 200.431	Cost Circular A-87 8. Compensation for Personal Services	What it means for state and local government entities
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.	d.(1) 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, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit employee agreement, or an established policy of the governmental unit.	The new guidance includes four types of leave that are included as allowable fringe benefits: vacation, family-related, sick, or military.
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.	d. (2) 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, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: (a) They are provided under established written leave policies; (b) The costs are equitably allocated to all related activities, including federal awards; and, (c) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit. d.(3) When a governmental unit 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 in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component. d.(4) The accrual basis may be only used for those types of leave for which a liability as defined by GAAP exists when the leave is earned. When a governmental unit uses the accrual basis of accounting, in accordance with GAAP, allowable leave costs are the lesser of the amount accrued or funded.	The new guidance gives family-related and administrative leave as examples that are allowable if they meet the criteria specified.
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.	d.(5) 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 (except as indicated in Section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall 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.	The new guidance includes a requirement that the other fringe benefits are “charged as direct or indirect costs in accordance with the nonfederal entity’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.	Does not address assigned-to-cost objectives.	The old guidance did not address how fringe benefits should be assigned to cost objectives. However, it has always been in practice. The new guidance clarifies that fringe benefits may be assigned to cost objectives by either identifying with individual employees or allocating to groupings of individuals.
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 further.	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 entity 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 (facilities and administration) costs regardless of whether the cost is reported as taxable income to the employees.	Does not address automobiles.	The old guidance did not address automobiles furnished by the entity, so this is an area that you should give attention to if your entity has this type of activity.

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Pension plan costs	<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. 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</i> (ERISA) of 1974 (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>e. 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 governmental unit.</p> <p>(1) 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>(2) 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) are allowable in the year funded. The cognizant agency 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 governmental unit’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>(3) Amounts funded by the governmental unit in excess of the actuarially determined amount for a fiscal year may be used as the governmental unit’s contribution in future periods.</p> <p>(4) When a governmental unit 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 shall be allowable if amortized over a period of years in accordance with GAAP.</p> <p>(5) The federal government shall receive an equitable share of any previously allowed pension costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.</p>	<p>The new guidance says that pension plan costs incurred in accordance with the entity’s policies are allowable if:</p> <ul style="list-style-type: none"> • They are reasonable • Methods are not discriminatory • Cost is determined in accordance with GAAP • Costs for a fiscal year are funded within six months after year end • Termination insurance premiums are paid pursuant to ERISA regulations

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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>	<p>f. Post-retirement health benefits (PRHB) refers to costs of health insurance or health services not included in a pension plan covered by subsection e. for retirees and their spouses, dependents, and survivors. PRHB 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 governmental unit.</p> <p>(1) For PRHB 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) PRHB 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 cognizant agency 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 governmental unit's contributions to the PRHB fund. Adjustments may be made by cash refund, reduction in current year's PRHB costs, or other equitable procedures to compensate the federal government for the time value of federal reimbursements in excess of contributions to the PRHB fund.</p> <p>(3) Amounts funded in excess of the actuarially determined amount for a fiscal year may be used as the government's contribution in a future period.</p> <p>(4) When a governmental unit converts to an acceptable actuarial cost method and funds PRHB costs in accordance with this method, the initial unfunded liability attributable to prior years shall be 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.</p> <p>(5) To be allowable in the current year, the PRHB costs must be paid either to:</p> <ul style="list-style-type: none"> (a) An insurer or other benefit provider as current year costs or premiums, or (b) 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 shall receive an equitable share of any amounts of previously allowed post-retirement benefit costs (including earnings thereon) which revert or inure to the governmental unit in the form of a refund, withdrawal, or other credit.</p>	No differences in the new guidance.

Compensation — Fringe Benefits	Uniform Guidance § 200.431	Cost Circular A-87 8. Compensation for Personal Services	What it means for state and local government entities
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>g. (1) Payments in addition to regular salaries and wages made to workers whose employment is being terminated are allowable to the extent that, in each case, they are required by (a) law, (b) employer employee agreement, or (c) established written policy.</p> <p>g.(2) Severance payments (but not accruals) associated with normal turnover are allowable. Such payments shall be allocated to all activities of the governmental unit as an indirect cost.</p> <p>g.(3) Abnormal or mass severance pay will be considered on a case-by-case basis and is allowable only if approved by the cognizant federal agency.</p>	<p>The new guidance covers severance payments to foreign nationals employed by the nonfederal entity outside the United States. This generally only affects nonprofit organizations and was included in Cost Circular A-122. As the UG now covers cost principles for all nonfederal entities, it is included.</p>

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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