**Compliance with Federal Cost Principles: Personal Services**

**Salaries and Wages: Time Distribution Records**

In general, salaries and wages of employees who work on federal programs may be paid with federal funds as long as appropriate “time and effort” records are maintained. (These are also referred to as “time distribution” records.)

It is important to understand that the standards regarding time distribution exist in addition to the standards for payroll documentation. Entities must document both “time and attendance” (reflecting the hours the employee worked on a given day, as documented in the payroll system), as well as “time and effort” (reflecting the federal programs on which the employee spent effort during his or her workday).

Over the last 20 years of federal education program administration, one of the most frequent and costly audit findings has involved deficiencies in time distribution records. Compliance is easy for auditors to monitor; they need only ask, “Did the entity maintain appropriate time and effort records?” And the penalty for noncompliance is substantial: ED may disallow all federal funds used for salaries that were not supported by adequate documentation. Because most federal grant funds are spent on salary expenditures, these findings are often the largest monetary findings in OIG audits. With so much on the line, it is important for administrators to take heed of the rules described in this chapter.

OMB Circular A-87 sets out very detailed and prescriptive standards for maintaining documentation identifying the federal programs on which an employee worked for the designated period. The particular type of record-keeping requirements depends on whether the employee works on a single “cost objective” or multiple “cost objectives.”

A cost objective is defined in OMB Circular A-87 as “a function, organizational subdivision, contract, grant or other activity for which cost data are needed and for which costs are incurred.” For instance, within most federal education programs, the recipient needs to track not only basic program service costs, but also cost associated with any mandated set-aside, statutory cap, or reservation requirement, which may include administration, school improvement, parental involvement, etc. Time distribution records reflect the amount of time the employee spent on each of these cost objectives.

In determining which rules apply (those for single vs. multiple cost objectives), the significant factor is the number of cost objectives on which the employee works, not the number of funding sources supporting the employee’s salary. Assume, for example, that an employee works 100 percent of the time on Perkins administration, but the employee is paid 50 percent from Perkins and 50 percent from nonfederal funds that constitute the mandatory nonfederal match. This employee works on a single cost objective, Perkins administration.

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| **OMB Circular A-122**  The time distribution standards of OMB Circular A-122, which apply to nonprofit organizations, are more similar to the prescriptive rules of Circular A-87 than the flexible requirements of Circular A-21.  A-122 requires that the distribution of salaries and wages be supported by personnel activity reports (PARs) for all staff (professional and nonprofessional) whose compensation is charged, in whole or in part, directly to federal awards. Like the A-87 rules, the PARs must reflect after-the-fact activity, be signed by the individual employee or supervisor, and be prepared at least monthly. Unlike OMB Circular A-87, however, A-122 does not authorize semi-annual certifications for employees who spend 100 percent of their time working on a single cost objective, nor does it allow the use of budget estimates for interim accounting purposes.  In addition to time distribution records, charges for the salaries and wages of nonprofessional employees must also be supported by records indicating the total number of hours worked each day maintained in conformance with Department of Labor regulations implementing the Fair Labor Standards Act.  A-122 specified that any premiums required for overtime, extra-pay shifts and multi-shift work are allowable only with the prior approval of the awarding agency, with four exceptions:   1. when necessary to cope with emergencies, such as those resulting from accidents, natural disasters, breakdowns of equipment, or occasional operational bottlenecks of a sporadic nature; 2. when employees are performing indirect functions, such as administration, maintenance or accounting; 3. in the performance of tests, laboratory procedures or similar operations which are continuous in nature and cannot reasonably be interrupted or otherwise completed; or 4. when a lower overall cost |

**Single Cost Objectives**

If an employee is expected to work solely on a single federal award or direct cost objective, such work must be supported with a periodic certification that indicates the employee worked solely on that program for the period covered by the certification. The certification must be prepared at least semi-annually (every six months). The certification must be signed and dated by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

In an effort to reduce paperwork, ED has authorized the use of a “blanket semi-annual certification” that would identify multiple employees working on the same single cost objective. This single record would be signed by the supervisory official having firsthand knowledge of the work performed by the employees. A sample certification from for this purpose is provided in the table.

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| \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ School Time Certification Form  Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  This is to certify that the following individuals have worked 100% of their time during the last six months under cost objective \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, activity account number \_\_\_\_\_\_\_\_\_\_\_\_ (if known).  Position Printed Name Signature  -Teacher \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  -Teacher \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  -Teacher \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  -Teacher \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  -Teacher \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  -Instructional Assistant \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  -Tutor \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  -Guidance Counselor \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  I HAVE FULL KNOWLEDGE OF 100% OF THESE ACTIVITIES:  PRINCIPAL: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

There are a couple of exceptions for employees working on single cost objectives. First, if the employee working on a single indirect cost objective, payroll (time and attendance) documentation is all that is required. Second, payroll documentation also is sufficient if all of the following conditions are met: (a) an employee is working on a single direct cost objective; (b) the payroll system codes the position as a “dedicated function” not benefitting multiple functions or programs; and (c) the supervisor does not have the authority to reassign the employee to multiple programs or activities.

**Multiple Cost Objectives**

If an employee is expected to work on multiple cost objectives, the employee must maintain a Personnel Activity Report (PAR) that demonstrates a distribution of his or her time on the federal programs. PARs must be kept unless ED or the grantee has approved an alternative form of record keeping, known as “substitute system.”

An employee is considered to work on multiple cost objectives if he or she works on:

* More than one federal award;
* A federal award and a nonfederal award;
* An indirect cost activity and a direct cost activity;
* Two or more indirect cost activities which are allocated using different allocation bases; or
* An unallowable activity and a direct or indirect cost activity.

For employees working on multiple cost objectives, PARs must be maintained that reflect the following standards:

* **After-the-fact record**. The PAR must be a contemporaneous record created after the work has been executed. Projections of how an employee is expected to work or position descriptions are not sufficient (although, as explained below, such projections may be used for initial payroll payments, as long as they are eventually reconciled with the PARs.)
* **Total activity.** The PAR must account for the total activity for which each employee is compensated, including part-time schedules or overtime.
* **Monthly**. The PAR must be prepared at least monthly and must coincide with one or more pay periods. (A dynamic work environment with many changing tasks might dictate a more frequent PAR, but the decision to keep PARs more frequently would be left to the grantee.)
* **Signed and dated**. The PAR must be signed and dated by the employee. Unlike the semi-annual certification, signature of a supervisor alone is not sufficient; however, the supervisor may sign in addition to the employee.

**Review and Adjustment of Budget Estimates**

While the time distribution record-keeping requirements are detailed (and some might say even onerous), simply keeping the right records is not sufficient to avoid compliance problems. The grantee or subgrantee must regularly compare the salaries paid (based on initial budgets) with the actual time and effort dedicated by employees and make adjustments when required. As noted above, OMB Circular A-87 authorizes an agency to use budget estimates or other distribution percentages determined before the services are performed for interim accounting purposes. If such estimates are used, the system for establishing the estimates must produce reasonable approximations of the activity actually performed. (Frequently an agency will look to time distribution records from the prior year to get a reasonable budget estimate for the future period.)

At least quarterly, the grantee or subgrantee must compare actual costs to budgeted distributions based on the monthly PARs. If that comparison reveals that the difference between budgeted and actual costs are less than 10 percent (the “10-Percent Rule”), then accounting adjustments may be made on an annual basis. If discrepancies between budget estimates and actual costs are 10 percent or greater, then adjustments must be made at least quarterly. For the purposes of reconciliation, any deviation, no matter how small, must be adjusted to actual costs by the end of the year.

Budget estimates or other distribution percentages should be revised at least quarterly, if necessary, to reflect changed circumstances.

To reduce burden on some grantees and sub grantees, ED has authorized the use of “aggregate” charges to federal cost objectives, whereby necessary adjustments are made by federal cost objective, not by individual employee. A state or district may aggregate (within each department or office) the total effort toward each cost objective and charge each account once for the total effort. Individual employees must continue to maintain the required time distribution records used to determine the aggregate effort. For example, if four employees (who are paid the same annual salary) each spend 50 percent of their time on the Individuals with Disabilities Education Act (IDEA) and 50 percent on nonfederal work, then the grantee can simply charge the salary of two employees to IDEA and two to nonfederal funds rather than charging IDEA for half the salary of four employees. A grantee or subgrantee must seek written approval from ED before undertaking aggregate adjustments.

**Consolidated Cost Objectives: Schoolwide Programs and Consolidated Administration under NCLB**

NCLB has authorized state and local educational agencies (SEAs and LEAs) to blend various aspects of multiple federal programs. In a schoolwide program under Title I, Part A, for instance, the LEA may consolidate federal, state and local funds to upgrade the entire educational program of the school. The Title I statue states that a school that consolidates and uses funds from different federal programs in a schoolwide program is not required to maintain separate fiscal accounting records, by program, that identify the specific activities supported by those particular funds, as long as the school maintains records that demonstrate that the schoolwide program, considered as a whole, addresses the intent and purposes of each of the federal programs that were consolidated to support the schoolwide program.

SEAs and LEAs may also benefit from streamlined time distribution rules under the No Child Left Behind (NCLB) Act’s “consolidated administration” option. Under this authority, education agencies are authorized (under certain circumstances) to consolidate the administrative funds from NCLB programs and use those funds for a variety of purposes, including the administration of any of the covered programs.

The statutory authority allowing education agencies to combine funds and not track a federal program dollar to an activity allowable under the particular federal program has significant consequences for time distribution. Since schoolwide programs and consolidated administration are each considered single cost objectives, employees working 100 percent of their time on such activities may be subject to less detailed time distribution requirements.

**Audit Tip**

* Failure to document time distribution is probably the single most common audit finding nationally, and ED monitors and auditors are increasingly focusing on compliance with these requirements. Auditors often sample a small number of employees, usually a non-random sample, then based on noncompliant time and effort records within the sample, make findings throughout an entire agency. For example, in one audit, OIG sampled approximately 100 employees paid with federal funds, then extrapolated its findings, based on noncompliance within the sample, across almost 15,000 school district employees. As a result of this methodology, the monetary findings, where there is noncompliant time distribution, are often very large.

Referenced from: Federal Education Grants Management: What Administrators Need to Know, 3rd Edition, Thompson Publishing