Leadership...Service...Accountability

MEMORANDUM

TO: Lo

Local Education Agencies

FROM:

Natalie Grange CPA, CFE

Internal Auditor

DATE:

October 24, 2012

SUBJECT: Payroll Certification Requirements

Payroll certification requirements are set forth in the Office of Management and Budget (OMB) cost circulars A-87, for government Local Education Agencies (LEAs) and A-122 for nonprofit organizations.

In the State of Utah, LEAs that are legally organized as a school district or a charter authorized under a school district follow the guidelines set forth for governments in OMB Circular A-87. LEAs that are legally organized as nonprofit organizations (most charter schools) follow the guidelines set forth in OMB Circular A-122.

OMB Circular A-87 Appendix B 8.h. (Governmental LEAs)

Support of salaries and wages: These standards regarding time distribution are in addition to the standards for payroll documentation.

- 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.
- 2. No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- 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 the program for the period covered by the certification. These certifications will be prepared at lease semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

- 4. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activities reports (PARs) or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
 - a. More than on Federal award,
 - b. A Federal award and a non-Federal 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 direct or indirect cost activity.
- 5. Personnel activity reports or equivalent documentation must meet the following standards:
 - 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 <u>monthly</u> and must coincide with one or more pay periods, and
 - d. They must be signed by the employee.
 - 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 ten percent; and
 - iii. The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
- 6. Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. The Department of Education issued guidance on September 7, 2012 allowing LEAs to establish a substitute system for time-and-effort reporting. State Educational Agencies (SEAs) are authorized to approve LEAs to use a substitute system for time-and-effort reporting in accordance with the following guidelines:
 - a. This substitute system must be approved by the SEA prior to implementation. This will be coordinated through the Director of School Finance at the Utah State Office of Education. An approved substitute system is to be implemented across all Federal Education programs. Approved systems are subject to all subrecipients and monitoring requirements. LEAs are expected to update the USOE on the status of their substitute system annually.

- b. The SEA must obtain from the LEA a management certification certifying that only eligible employees will participate in the substitute system. LEA's management must certify that the system used to document employee work schedules includes sufficient controls to ensure that the schedules are accurate.
- c. The certification must include a full disclosure of any known deficiencies with the system or known challenges with implementing the substitute system.
- d. This substitute system only applies to employees who:
 - i. Currently work on a schedule that includes multiple activities or cost objectives that must be supported by monthly personnel activity reports;
 - ii. Work on specific activities or cost objectives based on a predetermined schedule; and
 - iii. Do not work on multiple activities or cost objectives at the exact same time on their schedule.
- e. Under the substitute system, in lieu of personnel activity reports, eligible employees may support a distribution of their salaries and wages through documentation of an established work schedule that meets the standards under section (g). An acceptable work schedule may be in a style and format already used by an LEA.
- f. Employee schedules must:
 - i. Indicate the specific activity or cost objective that the employee worked on for each segment of the employee's schedule;
 - ii. Account for the total hours for which each employee is compensated during the period reflected on the employee's schedule; and
 - iii. Be certified at least <u>semi-annually</u> and be signed by the employee and a supervisory official having firsthand knowledge of the work performed by the employee.
- g. Any revisions to an employee's established schedule that continue for a prolonged period must be documented and certified in accordance with the requirements in section (g). The effective dates of any changes must be clearly indicated in the documentation provided.
- h. Any significant deviations from an employee's established schedule, that require the employee to work on multiple activities or cost objectives at the exact same time, including but not limited to lengthy, unanticipated schedule changes, must be documented by the employee using a personnel activity report that covers the period during which the deviations occurred. The State of Utah defines a significant deviation as any change in time or dollars greater than 10%. Significant deviations must be documented and reconciled to grant expenditures.
- i. LEAs are required to establish a reconciliation process which ensures the established employee schedule and signed certifications are reflected in expenditures charged to the grant. This reconciliation must occur with the semi-annual certification.
- 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.

OMB Circular A-122 Appendix B 8.m. (Nonprofit LEAs)

Support of salaries and wages.

- 1. Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports (PARs), as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.
- 2. Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. The Department of Education issued guidance on September 7, 2012 allowing LEAs to establish a substitute system for time-and-effort reporting. State Educational Agencies (SEAs) are authorized to approve LEAs to use a substitute system for time-and-effort reporting in accordance with the following guidelines:
 - a. This substitute system must be approved by the SEA prior to implementation. This will be coordinated through the Director of School Finance at the Utah State Office of Education. An approved substitute system is to be implemented across all Federal Education programs. Approved systems are subject to all subrecipients and monitoring requirements. LEAs are expected to update the USOE on the status of their substitute system annually.
 - b. The SEA must obtain from the LEA a management certification certifying that only eligible employees will participate in the substitute system.
 - c. LEA's management must certify that the system used to document employee work schedules includes sufficient controls to ensure that the schedules are accurate.
 - d. The certification must include a full disclosure of any known deficiencies with the system or known challenges with implementing the substitute system.
 - e. This substitute system only applies to employees who:
 - i. Currently work on a schedule that includes multiple activities or cost objectives that must be supported by monthly personnel activity reports;
 - ii. Work on specific activities or cost objectives based on a predetermined schedule; and
 - iii. Do not work on multiple activities or cost objectives at the exact same time on their schedule.
 - f. Under the substitute system, in lieu of personnel activity reports, eligible employees may support a distribution of their salaries and wages through documentation of an established work schedule that meets the standards under section (g). An acceptable work schedule may be in a style and format already used by an LEA.
 - g. Employee schedules must:
 - i. Indicate the specific activity or cost objective that the employee worked on for each segment of the employee's schedule;
 - ii. Account for the total hours for which each employee is compensated during the period reflected on the employee's schedule; and

- iii. Be certified at least monthly and signed by the employee and a supervisory official having firsthand knowledge of the work performed by the employee.
- h. Any revisions to an employee's established schedule that continue for a prolonged period must be documented and certified in accordance with the requirements in section (g). The effective dates of any changes must be clearly indicated in the documentation provided.
- i. Any significant deviations from an employee's established schedule, that require the employee to work on multiple activities or cost objectives at the exact same time, including but not limited to lengthy, unanticipated schedule changes, must be documented by the employee using a personnel activity report that covers the period during which the deviations occurred. The State of Utah defines a significant deviation as any change in time or dollars greater than 10%. Significant deviations must be documented and reconciled to grant expenditures.
- j. LEAs are required to establish a reconciliation process which ensures the established employee schedule and signed certifications are reflected in expenditures charged to the grant. This reconciliation must occur with the semi-annualⁱⁱ certification.
- 3. Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such function or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:
 - a. The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.
 - b. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.
 - c. The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.
 - d. The reports must be prepared at least <u>monthly</u> and must coincide with one or more pay periods.

- 4. Charges for the salaries and wages of nonprofessional employees, in addition to the supporting documentation described in subparagraphs (1) and (2), 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 (FLSA) (29 CFR part 516). For this purpose, the term "nonprofessional employee" shall have the same meaning as "nonexempt employee," under FLSA.
- 5. Salaries and wages of employees used in meeting cost sharing or matching requirements on awards must be supported in the same manner as salaries and wages claimed for reimbursement from awarding agencies.

ⁱ The alternative method of certification would be permissible for charter schools following A-122, assuming the guidelines set forth above are followed. However, there are conflicting opinions as to whether the letter issued by the Department of Education on September 7, 2012 has sufficient authority to remove the requirement to certify monthly for charter schools. The USOE is working with the Department of Education to obtain further clarification. For the time being, we do not feel that the monthly requirement has been changed.

ii See note i above.