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OMB A-87 ALLOWABLE COSTS/CONSISTENT TREATMENT

Wisconsin Department of Public Instruction

OMB A-87 ALLOWABLE COSTS – GENERAL OVERVIEW

②

- **PURPOSE**
 - Establish principles and standards:
 - ✦ Determining costs for federal awards carried out through:
 - Grants,
 - Cost reimbursement contracts and;
 - Other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).

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OMB A-87 ALLOWABLE COSTS – GENERAL OVERVIEW

③

- **POLICY**
 - Establishes principles and standards to:
 - ✦ Provide a uniform approach for determining costs and;
 - ✦ To promote effective program delivery, efficiency, and better relationships between governmental units and the federal government
 - Principles for determining allowable costs only
 - Designed to provide that federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by law

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OMB A-87 ALLOWABLE COSTS – GENERAL OVERVIEW

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- **Agencies responsible for administering programs:**
 - Issue regulations to implement the provisions of OMB A-87 and its appendices
 - ✦ EDGAR

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PROPOSED OMB UNIFORM GUIDANCE

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- **Current OMB circulars that apply to State, Local and Indian Tribal governments:**
 - OMB Circular A-102 Common rule
 - OMB Circular A-87 Cost Principles
 - OMB Circular A-133 Single Audit

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PROPOSED OMB UNIFORM GUIDANCE

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- Streamline and consolidate the format of these with circulars that apply to Institutions of Higher Education, Hospitals and Non-Profit Organizations
- Streamline the language from existing OMB circulars into one document

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PROPOSED OMB UNIFORM GUIDANCE

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- **Reforms to Cost Principles (Circulars A-21, A-87, and A-122)**
 - Uniform set of cost principles for all grant recipients
 - Eliminate duplicative language
 - Clarify where there are important substantive policy variances across entities
 - Update language to reflect 21st Century business practices (i.e. electronic submissions of information)

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CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **To be allowable under Federal awards, costs must:**
 - Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

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CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **Example:**
 - Funding OPEB
 - Excess cost reported in fund 27 (MOE)
 - Incentive or wage increases

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CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **To be allowable under Federal awards, costs must:**
 - Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

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CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **Direct cost**
 - Can be identified specifically with a particular final cost objective
 - Typical direct costs chargeable to Federal awards specific to the performance of award:
 - ✦ Compensation of employee for the time devoted and identified
 - ✦ Cost of materials acquired, consumed, or expended
 - ✦ Equipment and other approved capital expenditures
 - ✦ Travel expenses

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CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **Indirect Cost:**
 - Incurred for a common or joint purpose benefiting more than one cost objective and not readily assignable
 - ✦ Supplies
 - ✦ Services
 - ✦ Facilities

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CONSISTENT TREATMENT/ EQUITABLE DISTRIBUTION

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- **Example:**
 - OPEB allocation
 - Supplies
 - Central Printing
 - Software

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **Selected Items of Cost**
 - 8. *Compensation for personal services*
 - *Reasonable for services rendered*
 - *Representative of labor market*
 - *Conforms to established policy of the governmental unit consistently applied to both Federal and non-Federal activities*
 - *Reasonable to the extent consistent with that paid for similar work in other activities of the governmental unit.*
 - *Comparable to similar work performed*

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **Selected Items of Cost**
 - 8. *Compensation for personal services*
 - ✦ *Fringe Benefits*
 - *Compensation in addition to regular salaries and wages:*
 - *Leave*
 - *Employee Insurance*
 - *Pensions*
 - *Unemployment Benefit Plans*

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **Selected Items of Cost**
 - 8. *Compensation for personal services*
 - ✦ *Fringe Benefits*
 - *Allowable if:*
 - *Reasonable*
 - *Required by law*
 - *Required by governmental unit-employee agreement*
 - *Established policy of the governmental unit*

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **DIRECT OR INDIRECT**
- **NOT BOTH**

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **Compensated Absences (current employee)**
 - ✦ Accumulated sick leave
 - ✦ Accumulated vacation
- Allowed if:
 - ✦ Established written leave policies
 - ✦ Equitably allocated to all related activities
 - ✦ Accounting basis selected for costing each type of leave is consistently followed

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **Compensated Absences**
 - ✦ Accumulated sick leave
 - ✦ Accumulated vacation
- Cash or Accrual
 - ✦ School Districts use a modified accrual basis of accounting
 - ✦ Compensated absences are an expenditure when payment is due
 - ✦ Accordingly, eligible when payment is due not when absence is accumulated

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **Lump sum payouts for unused vacation or sick leave when an employee retires or terminates employment**
 - Paid upon separation or in future years
 - Allowable in year of payment provided allocated as a general administrative expense to all activities of the governmental unit or component.
 - ✦ **INDIRECT COST**
 - One-time in nature or tend to distort normal annual operating expenses

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TREATMENT OF SPECIFIC EMPLOYEE FRINGE BENEFITS

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- **Lump sum payouts for unused vacation or sick leave when an employee retires or terminates employment**
 - Where is this coded?
 - ✦ Function of Individual
 - ✦ Object 150? Leave Payments
 - ✦ Object 296? Other taxable employee benefits
 - When pulling this individuals salaries and benefits into the grant claim, be sure NOT to include this amount.
 - Include this amount in indirect cost (adjustment)

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POST RETIREMENT HEALTH BENEFITS

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- **Cost of health insurance or health services not included in a pension plan for retirees, spouses, dependents and survivors**
 - Pay as you go
 - ✦ Function 29200, object 292
 - Actuarial cost method
 - ✦ Function of Individual, object 218

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POST RETIREMENT HEALTH BENEFITS

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- **Pay as You Go**
 - Actual payments to retiree or beneficiaries
 - ✦ (i.e payment of health insurance premium on retiree)
 - Circular is silent on allocation treatment
 - Per response from DOE
 - ✦ Further removed from active work than those receiving terminal leave and severance
 - ✦ No benefit to current programs for payment to people not actively working under these programs
 - ✦ Logical to conclude pay as you go must be allocated to all activities of the government unit
 - INDIRECT COST

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POST RETIREMENT HEALTH BENEFITS

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- **Actuarial Cost Method**
 - Benefits are funded and paid on current employees
 - Funded (cash paid) for that year within six months after the end of that year
 - ✦ For State aid - 30 days after year end
 - ✦ Claims filed within 90 days
 - Only amount up to ARC may be allowed in the current year.
 - Excess over the ARC is allowed as a contribution in a future period
 - Implicit Rate Subsidy reduces the health insurance cost of active employees

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CASH MANAGEMENT

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- **Funding OPEB or Post Retirement Health Benefits**
 - ✦ Each payroll a % or dollar amount is set up as a fringe benefit to the individual and a liability for an OPEB contribution
 - ✦ The individual's salaries and fringe benefits are included on an IDEA or Title I grant claim filed December 31st.
 - ✦ The school district does not make the contribution to the OPEB trust until July 30th (30 days after year-end)
 - ✦ What if the district decides not to make the contribution or makes a lesser contribution amount?

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SEVERANCE PAY

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- **Payments in addition to regular salaries and wages made to workers whose employment is being terminated**
 - Required by law
 - Employer-employee agreement
 - Established written policy
 - Coded to
 - ✦ Function 291000, Object 296

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SEVERANCE PAY

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- **Normal turnover**
 - INDIRECT COST
- **Abnormal or mass severance pay**
 - Considered on a case-by-case basis
 - Must be approved by cognizant Federal agency

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RETIREMENT BENEFITS – PAY AS YOU GO

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- **Supplemental pension type benefits**
 - Not funding a trust
 - Function 292000, object 292
 - ✦ INDIRECT COST

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HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **Current Employees – for future retirement**
- **Established to fund district's OPEB liability**
 - Considered an OPEB benefit
 - Valued in OPEB study
 - School District has an established OPEB trust
 - Funded based on actuarial study
 - Allocated in the ARC
 - Coded as an OPEB contribution (object 218)

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HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **Current Employee – for future retirement**
- **Established to fund district's OPEB liability**
 - Not included in actuarial valuation
 - ✦ Funded 100% each year
 - Placed in a custodial agreement
 - Allowable as direct cost to employee
 - Forfeitures
 - Function of individual, object 219

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HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **Retiree**
- **Established to provide for retiree's current (pay as you go) medical expenditures**
 - Not included in actuarial valuation
 - ✦ Funded 100% each year
 - Placed in a custodial agreement
 - Function 292000, object 292
 - Indirect Cost

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HEALTH REIMBURSEMENT ACCOUNTS/HEALTH SAVINGS ACCOUNTS

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- **Current employees**
 - Not OPEB
 - Employees may use funds during employment
 - Funds are put into a custodial agreement
 - Allowable as direct cost to employee
 - HRA Forfeitures
 - Function of individual, object 249

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HEALTH REIMBURSEMENT ACCOUNTS

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- **Current Employee**
 - An identified amount to be used
 - Medical costs are paid as incurred and claimed
 - Only amount of actual medical costs paid is allowable as direct cost to employee
 - Function of individual, object 249

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YEAR END ADJUSTMENTS

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- **Be Sure Appropriate Costs are Included in Claims**
 - Self-Funded Health Insurance
 - Post Employment Health Benefit Less Implicit Rate Subsidy
 - HRA Medical Payments

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UNEMPLOYMENT

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- **Allowable**
- **Allocated in a consistent manner with the pattern of benefits attributable to the individual(s) or group(s) of employees chargeable to federal award and other activities**
- **Function 270000, Object 730**

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OTHER

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- **Obligation Versus Accrual**

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QUESTIONS?

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