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PROGRAM GUIDANCE

PROGRAM: All Programs

FOR: All Tribal Government Leaders and Tribally Designated Housing Entities Board of Commissioners


FROM: Ted Key, Acting Deputy Assistant Secretary

TOPIC: Accounting for Labor Distribution

Purpose: This Guidance provides information to program participants on Federal requirements for labor costs supporting documentation.

Background: The HUD Office of Inspector General (OIG), in its report titled *Nationwide Audit of Implementation of the Native American Housing Assistance and Self-Determination Act of 1996* (issued on August 2, 2001), identified charging labor costs to Indian Housing block grants as a potential problem area in the administration of the program. A number of housing entities reviewed by the OIG did not have an adequate system for recording labor costs on Federal grants.

OMB Requirements: The Office of Management and Budget has issued Circular A-87 (Circular) which requires, in Attachment B section 11.h (4), that grant recipients maintain documentation supporting employee salary and wage charges when employees are working on jobs funded from multiple sources. The requirements are applicable to both salaried and wage employees paid by the recipient. The Circular provides that documentation supporting labor distribution charges is required when employees work on:

1. More than one Federal grant;
2. A Federal grant and a non-Federal activity;
3. An indirect cost activity and a direct cost activity;
4. Two or more indirect cost activities that distribute costs on different bases; or
5. An unallowable activity and allowable activity.

Acceptable supporting documentation listed in the Circular includes timesheets, logs, or similar reports. Reports or records, which are maintained by the employee, must account for 100 percent of the employees' time. The

objective of the documentation is to identify the amount time spent on multiple activities, programs and grants.

The salaries and wages for employees who are assigned to work solely on a single activity, project, or Federal grant are not required to be supported by timesheets, logs, or similar reports but may be documented by a periodic certification. The certification should indicate that the employee worked on a single activity, project or Federal grant during the certification period. These certifications should be prepared at least semi-annually and be signed by the employee or a supervisor having first hand knowledge of the work performed by the employee.

The Circular provides that budget estimates or distribution percentages determined before the work is performed are not acceptable methods for distributing salaries and wages expenses. Estimates may be used for interim accounting purposes if (1) the estimates are reasonable approximations of the actual cost; (2) at least quarterly the estimates are adjusted to actual costs (adjustments of less than 10 percent may be made annually); and (3) the estimates are revised based upon the quarterly comparisons.

Federal grant recipients may use substitute systems for distributing salary and wages expenses to Federal grant programs. Such substitute systems may include random moment sampling, case counts, or other quantifiable measure of employee effort. These alternative methods are subject to the approval of the Federal agency providing the largest amount of grant funds.

Summary: Recipients of HUD funding must maintain documentation supporting labor expense charged to grants. The type of documentation varies depending on circumstance.

- Timesheets or the equivalent are required when an employee is working on multiple grants or activities;
- In lieu of timesheets, a certification may be used when an employee is working on only one grant or activity
- Alternative methods for distributing labor charges may be proposed by the recipient.

Additional information is available in the Department of Health and Human Service guide, *A Guide for State, Local and Indian Tribal Governments - Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government* (ASMB C-10). The guide is available from the Government Printing Office or on the Internet at:

<http://www.hhs.gov/grantsnet/state/index.htm>.