



Compensated Absences and Capital Grants (Accounting Issue #6)

Background

The Comprehensive Grant Program (CGP) Handbook 7485.3G, dated 10/96, states the following definition for fungibility:

“**Fungibility** is a concept which permits the HA to substitute any work item from the latest approved Five-Year Action Plan to any previously approved CIAP budget or CGP Annual Statement and to move work items among approved budgets without prior HUD approval.”

“**Work Item** is any separately identifiable unit of work constituting a part of a modernization program.”

The Handbook also states that the salaries of non-technical and technical HA personnel assigned full-time or part-time to modernization are eligible costs. This is true, only where the scope and volume of the work are beyond that which could be reasonably expected to be accomplished by such personnel in the performance of their non-modernization duties. The HA shall properly apportion to the appropriate program budget any direct charges for the salaries of persons assigned full or part-time to modernization.

Under former HUD-accounting, HAs been only required to disclose the liability related to compensated absences. For recording purposes, HUD required only a cash basis approach. Any expense was recorded when the payment was made to an employee.

In accordance with the Uniform Financial Reporting Standards for HUD Housing Programs (UFRS), 24 CFR Part 5, et al., HAs are now required to submit annual financial information in accordance with generally accepted accounting principles (GAAP). Under GAAP, the HA can select to account for the compensated absences under the Enterprise or Governmental Methods.

In accordance with GAAP, vacation leave and sick time should be accrued if payments to the employees are for services already rendered and are non-contingent. This calculation for the compensated absences liability is based on the pay or salary rate in effect at the balance sheet date. An additional amount is also accrued as a liability for salary-related payments, such as Social Security, Medicare, and the employer's contributions to pension plans.

According to **GASB Statement No. 16, *Accounting for Compensated Absences***, vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Sick leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees but only to the extent it is probable that the employer will compensate the employees.

Currently, it appears that leave is being accrued for staff funded out of grant funds (CGP, CIAP, DEP, YSP, EDSS, etc.). However, in many cases, when the related grant is closed, the actual payment for the compensated absences comes out of the Low-Rent Public Housing program. This situation is an unfunded liability as far as grant funds are concerned, because these costs are being funded with Low Rent funds and not with grant dollars.

ISSUE:

How should Housing Authority (HA) grant programs properly accrue for compensated absences at year-end?

Analysis:

The CGP Handbook is not considered GAAP, and therefore should not be considered as the HA implements the UFRS. OMB Circular A-87, "*Cost Principles for State, Local, and Indian Tribal Governments*", (revised 5/4/95, further amended 8/29/97), discusses the following:

- A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assigned to such cost objective in accordance with relative benefits received.
- Compensation of employees for the time devoted and identified specifically to the performance of those awards is considered a direct cost chargeable to Federal awards.
- Any cost allocable to a particular Federal award or cost objective under the principles provided in Circular "A-87 *Cost Principles for State, Local, and Indian Tribal Governments*", may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons. However, this prohibition would not preclude governmental units from shifting costs that are allowable under two or more awards in accordance with existing program agreements. This could be interpreted as being consistent with the CGP definitions of fungibility.
- 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 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.

GAAP is also discussed in GASB 16, *Accounting for Compensated Absences*. This is discussed in the background section above. While GASB 16 describes to the reader what should be properly accrued as a compensated absence, it does not attempt to shed additional light on the issue of accruing grant costs at year-end.

Currently, it appears that the only solution would be for the HAs to leave the grants open so they can properly track the costs that would match to the **specific program and program year**. By doing this, the HAs would probably have to spend more time tracking these costs, especially for employees who work in different types of grant programs.

Recommendations/Conclusions:

- Compensated absences can't be considered a separately identifiable unit of work. It is an administrative cost that can be allocated to a particular Federal award or cost objective under the principles provided in Circular A-87.

Below are suggested procedures that can be employed in trying to properly allocate compensated absences among different CIAP/CGP programs:

- Develop a tracking system (i.e. database or Excel spreadsheet) whereby the HA can enter the beginning vacation and sick time balances by CIAP/CGP phase and track the relevant current year information to determine the year-end compensated balances.
- At the end of the phase's year, disburse an amount equal to the compensated balance for each employee. This will facilitate a proper matching of expense to the related Mod. Phase. If a CIAP or CGP funded employee subsequently takes leave and has already been paid for it, they would receive nothing at the time they take the actual leave.
- The HA could initiate a use it or lose it policy which would allow it to charge the programs for these costs and if applicable, close out the grants within a relatively short period of time. This policy should be addressed with the HA's Board of Commissioners.