OMB Circular A-122 and Personnel Activity Reports

New York State Association of Community Action Agencies
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Agenda

- OMB Circular A-122: Cost Principles for Non-Profit Organizations
  - Overview
  - General guidelines for charging costs to federal grant funds
  - Selected specific costs

- Charging compensation costs: Personnel Activity Reports

- Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards
OMB Circular A-122

Cost Principles for Non-Profit Organizations
What is the purpose of A-122?

• To determine which costs can be paid with, or used as a match for, federal grant funds -- an “allowable cost”
  – Applies to subawards of federal grants too
• Federal government should not pay more than its fair share for the costs of federal program.
• Codified in 2 C.F.R. Part 230
• Federal Community Services Block Grant Act requires states to ensure that recipients, i.e. CAAs and others, are subject to OMB cost principles
• Appendix A: General guidelines
• Appendix B: Detailed guidance on specific costs
A-122 Appendix A: General Guidelines

• To be “allowable,” a cost must be all of below:
  – Reasonable for performance of grant;
  – Allocable;
  – Conform to limitations or exclusions under Appendix B
  – Consistent with policies that apply uniformly to both federally-financed and other activities of grantee;
  – Accorded consistent treatment;
  – Adequately documented;
  – Calculated in accordance with generally accepted accounting principles (GAAP);
  – Not be included as cost or used to meet match requirement of any other federally-financed program; and
  – Not be used to overcome funding deficiency or avoid cost restrictions of another federal grant
A-122 Appendix A: General Guidelines

• Reasonable: “Necessary and ordinary,” arms length bargaining

• Allocable: (1) in accordance with relative benefit received by grant; (2) calculated similarly to all other costs incurred under similar circumstances; and (3) incurred during same period of time as the award.
A-122 Appendix A: General Guidelines

• Must credit to grant any credits, discounts, or rebates
• Documentation: how and to what extent cost benefited program activities.
• Generally accepted accounting principles: accounting standards and rules issued by the Financial Accounting Standards Board (FASB).
• Restriction or requirement in federal law governing specific program, such as federal authorizing legislation, federal appropriations law, or federal regulations, will trump A-122
  – Try to interpret A-122 consistently with CSBG Act
  – Example of inconsistency: A-122 allows grantees to use grant funds to pay for capital improvements with approval of funding agency; CSBG Act does not (unless waiver granted for extraordinary circumstances)
A-122 Appendix A: General Guidelines

• Total costs are sum of direct costs and allocable indirect costs less applicable credits

• Direct costs – can be identified with specific award/program
  – May include shared costs if reasonable basis for allocation
  – May include administrative costs

• Indirect costs – incurred for common or joint objectives and can’t be readily identified with a particular cost objective (need federally negotiated rate to charge)
  ❖ Facilities – depreciation or use allowance, interest on debt related to buildings, equipment & capital improvement, and operations & maintenance costs.
  ❖ Administration – general overhead costs
A-122 Appendix B: Key Specific Cost Rules

- **Advertising**: generally unallowable except for recruitment of personnel, procurement of goods & services, disposal of scrap or surplus materials (unless already reimbursed), and other specific purposes necessary to meet award requirements.
- **Alcoholic beverages**: unallowable
- **Audits**: allowable if required (expend more than $500,000 in federal funds)
- **Bad debts**: unallowable
- **Compensation for personal services**: Generally allowable with some special rules on:
  - Fringe benefits
  - Organization-furnished automobiles
  - Pension plan
  - Incentive compensation
  - Severance pay
  - Overtime
A-122 Appendix B: Key Specific Cost Rules

• Defense and Prosecution costs
  – Legal and other related costs incurred by grantee in connection with criminal, civil, or administrative proceeding brought by the government are generally not allowable if proceeding results in adverse decision against grantee
  – Also applies to settlement if action could have resulted in adverse action against grantee, unless government agrees otherwise
  – Legal and other related costs incurred by grantee in defending federal government claims or appeals, antitrust suits, patent infringement, or prosecution of claims or appeals against the federal government are unallowable
A-122 Appendix B: Key Specific Costs

- **Depreciation and use allowance:** either is allowable, but not both
- **Entertainment:** Unallowable
- **Equipment and other capital expenditures:** Unallowable as direct costs unless prior approval was provided
  - Equipment is defined as any item with a life expectancy of more than one year and an acquisition cost of at least $5,000.
  - Prior approval is not needed if the cost of equipment is below $25,000.
- **Insurance premiums and deductible where reasonable:** Allowable
- **Interest:** Allowable where related to debt used to acquire or replace capital assets (but watch out for programs that require prior approval or prohibit)
- **Lobbying:** Unallowable, with some exceptions
- **Maintenance and repair:** Allowable
- **Meetings and conferences:** Allowable
- **Memberships, subscriptions, and professional activity:** Allowable
A-122 Appendix B: Key Specific Costs

- **Professional services**: Allowable, but not if provided by grantee employee or officer. Look at combination of factors:
  - Nature and scope of services
  - Necessity of contracting for service, considering grantee’s capability in that area
  - Past pattern of costs
  - Impact of federal grants on grantees’s business (i.e. what new problems have arisen?)
  - Whether proportion of federal work to grantee’s total business is such as to influence grantee in favor of incurring cost
  - Whether it would be more economical to perform services in-house by employee
  - Qualification of service provider and customary fees charged
  - Adequacy of contractual agreement
A-122 Appendix B: Key Specific Costs

- **Pre-agreement expenses incurred in anticipation of award**: Allowable to extent that costs are in line with award program and written approval is received.
- **Publication and printing**: Allowable
- **Rent**: Allowable (must be reasonable in light of fair market value), but only up to cost if property owned by grantee or less than arms’ length transaction
- **Training of employees**: Allowable
- **Travel**: Allowable
What is purpose of A-87?

- Cost principles for government entities (including public community action agencies)
- Similar to A-122 but with some differences.
- More defense and prosecution related costs are allowable.
- General government expenses are unallowable.
- Training of employees is allowable but no details are provided.
- Travel is allowable but other details such as whether director or trustee travel is permitted is not described.
Personnel Activity Reports
What is a Personnel Activity Report ("PAR")

• Written record of employee’s work activities used to document benefit of that employee’s time to grants or projects employee works on

• Not needed for employees whose compensation is charged 100% to an indirect cost rate
  – Or, for public CAAs only, if employee works on only one federally-funded grant; semi-annual certifications are sufficient

• Required by cost principles for federal grant funds – OMB Circular A-122 (2 CFR Part 230) for nonprofits; OMB Circular A-87 (2 CFR Part 225) for governments
  – But A-87 permits equivalent documentation and more flexibility
Why Should CAAs Pay Attention to PARs?

- Recent focus by auditors and monitors, particularly Head Start
- Numerous cost disallowances and findings
- Often difficult to design and implement, particularly as component of larger payroll system
- When converting to electronic payrolls, PARs need to be considered
- OMB has proposed changes to requirements

• Which employees must have a PAR?
  – Compensation charged in whole or in part directly to federal grant funds
  – Compensation used as a direct match for a grant
  – Compensation charged to more than one indirect cost pool

• Which employees do not need a PAR?
  – Compensation charged 100% to one indirect pool in a federally approved indirect cost rate
  – Compensation not charged to federal grant funds, either directly or indirectly, and not required by funding source to follow A-122
    • But check grant requirements to see if another form of reporting required

• PAR requirements apply to exempt and non-exempt employees
PAR Requirements

• PAR must:
  – Reflect after-the-fact, not budget estimate, determination of activities
  – Account for total work activity of employee
  – Be signed by the employee or supervisor with first-hand knowledge of activities performed by employee
  – Be prepared at least monthly and coincide with one or more pay periods
• Distribution of activity on PAR should represent reasonable estimate of actual work performed by employee during periods covered by reports
• Charges for compensation of nonprofessional employees must also be supported by records indicating total number of hours worked each day maintained in conformance with Fair Labor Standards Act
Keys to Compliance

• Review existing system
• Ensure that system is workable, transparent, documented, and accountable
• Doesn’t have to be minute-by-minute tally; hourly ok
• Determine if PARs will be part of time card or separate document
• Electronic or paper?
• Train all employees and supervisors
• Monitor
  – Red flag if all time records match budget estimates
• Hold staff, including supervisors, accountable
Interaction between PARs and Cost Allocation

• Compensation costs charged directly to more than one funding source must be allocated among them on some reasonable basis that reflects relative benefit to each funding source

• Experts and funders are inconsistent as to whether PARs should document activities, allocation among funding sources, or both

• Examples:
  – Compensation charges charged to grants based on distribution of actual time spent by individual employees
    • For these employees, PARs should show either number of hours or % of time spent on each grant
    • Some experts and funding sources also require some description of activities, through use of alpha or numeric codes, for example:
      – Meeting with clients
      – Entering data
      – Writing reports
Examples of Basis for Compensation Allocation

- Compensation charges allocated on basis other than time
  - Description of activities required, through code or otherwise, and number of hours or percentage of time allocated to that activity
    - Just first step of determining allocation of costs to each funding source
  - In this scenario, the “activity” is not a grant or funding source
  - Charges are pooled in a cost center, such as HR, then allocated to a funding source on some other basis, such as:
    - Number of FTEs employed on each grant
    - Number of financial transactions processed for each grant
    - Number of children enrolled in federal Head Start versus state program
  - Some of employees whose compensation is allocated on this basis may work on only activity, i.e. HR, others may work on more than one, i.e. Director of Administration
Charging Time to Both Indirect Cost Pools and Directly to Grants

• Part of some employees’ time may be included in federally-approved indirect cost pool, but balance of time is charged directly to grants or unrestricted funds. For example:
  – Direct charge to unrestricted funds of Executive Director’s lobbying and fundraising time
  – Accounting clerk spends part of her time processing accounts payable transactions for entire organization and part of her time costing out Head Start in-kind

• PARs should reflect both time spent on indirect activity (although no description is necessary beyond “indirect”) and time spent on direct activity
Executive Director

• Often causes problems if no federally-approved indirect cost rate
• If not 100% in indirect rate, needs to complete PAR just like any other employee
• Could be a combination of time allocated directly to a funding source, such as meeting with Head Start director to review prepare for peer review, and time allocated to intermediate cost center, such as allocation to HR for review of pension plan, or allocation to Finance Department for review of agency-wide budget
• Compensation for time not allocated based on time spent specifically on a grant activity is allocated on same basis as other employees in that department
Methods of PARs

- Separate system of records
  - Weekly spreadsheet that includes all employees in one department, signed by supervisor
  - Monthly spreadsheet kept by employee, that breaks down number of hours spent each day on each grant, with activity codes, and formulas that automatically tabulate percentage of compensation allocated to each funding source
  - Percentage from these separate records are then applied to total compensation for each employee for relevant time period and entered into financial system
  - Another alternative is to charge compensation based on budget, then make monthly adjustments based on PARs
Methods of PARs

• PARs integrated into payroll system
• Time cards or time sheets include entry for allocation of time and activity description
• Includes formula to use time allocation information to allocate compensation charged to grants
• Electronic spreadsheets
Sample PARS
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### DO NOT TOUCH

|                  | 0.51                 | 0.49         | 1.00        |

### BUDGET

|                  | 60%                  | 40%          | 100%        |
Using PARs to Manage Budget

- Review compensation allocations regularly
- Adjust either budget or work activity as needed
- Revise compensation allocations as needed
- If charging to budget, then making adjustments, do so on monthly basis
Proposed Changes to OMB Rules

• Would go into effect no earlier than 2014
• More flexibility in documenting and allocating time and effort
• PARs not necessarily required, although certifications and documentation still required
• Look at regulations.gov and comment by June 2, 2013
Resources

- Community Action Partnership/CAPLAW Toolkits and on-demand webinars:
  - PARs Toolkit for CAAs, by Janet Johnson of WIPFLI
  - Cost Allocation Toolkit, by Kay Sohl

- 2 CFR Part 230, Appendix B, pgh. 8

- 2 CFR Part 225, Appendix B, pgh. 8
Proposed OMB Uniform Guidance
What is the purpose of the Proposed OMB Uniform Guidance?

• To consolidate all administrative grant rules, cost principles, and audit requirements for all entities into one set of guidelines and rules.

• To promote uniformity.

• Will be made effective no earlier than January 1, 2014.
Proposed OMB Guidance: Highlights of Some Proposed Changes

• Threshold for small purchases increased to $150,000 and more detailed procurement requirements.
• Federal agency must close out grants within 180 days of grantee report.
• Clearer guidance on subgrantee selection and monitoring.
• More flexibility on time and effort reporting.
• Negotiated indirect cost rates will generally be accepted by all federal agencies.
• If grantee doesn’t have negotiated indirect cost rate, rate of 10% will be set.
• Pass-through entities must accept or negotiate indirect rates
• Allowable residual inventory set at $5,000.
• Travel costs of trustees and directors are allowed only with prior approval.