

## Unused Leave Time Policy

### CDBG-DR and CDBG-MIT Subrecipients

The cost of fringe benefits in the form of employer contributions or expenses are allowable and reimbursable CDBG-DR and CDBG-MIT costs, provided such benefits are granted under established written policies and do not conflict with Master Standard Agreements or Standard Agreements. Additionally, such benefits must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities. If fringe benefits have been previously included as part of an indirect cost rate charged to the project, then unused leave is not an eligible direct cost. Lastly, accounting records must provide evidence of accrued liability associated with employee fringe benefits. Counties and cities are obligated to maintain documentation of the fiscal amount of an employee's leave balance (leave accrual) throughout applicable accounting periods and the related cost of that leave balance (accrued liability).

In the event of employee retirement or the termination of employment, subrecipients typically payout leave balances from a designated account paid by general funds. [2 CFR 200.431\(b\)](#) allows unpaid leave as an eligible cost in the event an employee retires or terminates employment, if **all three of** the following conditions are met:

1. The subrecipient has clear written policies on the leave accrual and the leave payout process.
2. The total leave accrual costs are equitably charged across all activity types or job codes for the employee, including the Federal award.
3. The accrual method for leave time costs is consistently applied to all employees and is appropriately used to determine the cost to be applied to the Federal award.

Fringe benefits include, but are not limited to, the costs of:

- FICA (Taxes under the Federal Insurance Contributions Act),
- Leave (vacation, family-related, sick or military),
- Employee insurance,
- Pensions, and
- Unemployment benefit plan.

When allocating fringe benefits between activity delivery (ADCs) and program administrative costs (PACs) subrecipients must adhere to 2 CFR 200.430 and 200.431 and the requirements in 2 CFR 200.403 and 200.412 on policies about dividing costs between PACs and ADCs, and that direct and indirect costs must be consistently applied and adequately supported. As a best practice,

subrecipients should document hours spent on an employee's time in support of project activities and charge the cost of those hours spent as direct costs to the activity. If an employee's activities cannot be documented, the subrecipient may include the entire salary of the employee in the indirect cost pool in accordance with 2 CFR part 200.

### Calculating Unused Leave Amount

To submit unused leave time for reimbursement, the subrecipient's accounting system must fully document and calculate fringe benefits on a pro rata basis, or a percentage share, by each of the entity's Federal awards and other sources and must not be currently charging an indirect cost rate to the project that includes fringe benefits.

The subrecipient must calculate the total amount of leave hours that can be attributed to the period that the employee worked on that activity and include the calculation along with supporting documentation in the Financial Report. When an amount of allocable unused leave is determined and the subrecipient is eligible to submit the costs for reimbursement (refer to criteria above), it should be included in the appropriate Financial Report.

To calculate allocable unused leave time for a CDBG-DR or CDBG-MIT project, the following formula **must** be used:

1. Determine the total period the employee worked on and charged time to the eligible project in number of weeks.
2. Multiply the number of weeks by number of hours available in work week (equals total hours worked).
3. Total the actual amount of time charged by the employee to the project during the identified period.
4. Divide the total time charged to the project by the total hours worked to calculate the percentage of time spent on project.
5. Determine the total leave time earned by the employee during the total period the employee worked on the eligible project.
6. Multiply the total leave time earned by the percentage of time spent on project. The outcome of this calculation is the eligible amount of unused leave allocable to the CDBG-DR or CDBG-MIT project.
7. Multiply the eligible amount of unused leave by the employee's hourly rate to determine the total monetary value of the hours to be charged to the project.

*For example:* If the employee earns 8 hours of leave time per month and has been working on the activity for 5 months, the total leave time earned during that period would be 40 hours. However, based on timesheets during that 5-month period, the employee worked 20 hours per week, or 50% of their time on that activity. The pro rata share of the eligible leave hours would be 20 hours.

- 5 months x 4 weeks = 20 weeks x 40 hours = 800 total hours worked
- 20 hours x 20 weeks = 400 hours charged to the project

- 400 hours / 800 hours = 50%
- 8 hours of leave earned per month x 5 months = 40 hours leave earned during period worked on project
- 40 hours x 50% = *20 hours allocable to project*
- 20 hours x hourly rate = *Dollar amount of allocable unused leave to be reported*

### **Unused Leave on Financial Report**

Because this cost is determined independently from the payroll reporting, unused leave needs to be included as an individual expense on the Financial Report and should not be included in the timecard or leave calculation. Enter the amount on the Expenditures Form and provide supporting documentation that demonstrates the unused leave costs are eligible and allocable to charge to the CDBG-DR or CDBG-MIT project.

In addition to showing the calculation of the allocable unused leave amount, supporting documentation in the Financial Report for unused leave reimbursement must include:

1. Statement affirming that the entity utilizes accrual-based accounting and includes fringe benefits in its calculation of current liabilities on the entity's Balance Sheet.
2. Financial Statement (e.g.: Balance Sheet) that includes fringe benefits as a current accrued liability.
3. Documentation that employee fringe benefits are allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities. (e.g.: Accounting records that provide a description of the full time equivalent (FTE) methodology employed to allocate fringe benefits across all the eligible revenue sources.)
4. Proof of employee leaving position, such as a letter of resignation or Human Resources verification.