



VACATION PAY GUIDELINES FOR NON PROFITS DOING BUSINESS WITH THE CITY

Authority

Per the City Charter, the Controller has the responsibility to protect the financial and functional integrity of City government. City government includes approximately \$400 million of services provided annually by non-profit contractors. These guidelines are meant as best practices, and serve as part of an overall endeavor to ensure the integrity and efficiency of the City's non-profit expenditures.

Applicable Federal Regulations

Federal guidelines detailed in OMB Circular A-122 indicate that fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as vacation leave, sick leave, military leave, and the like, are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.

OMB Circular A-122 establishes principles for determining costs of grants, contracts and other agreements with non-profit organizations. It does not apply to colleges and universities which are covered by Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions"; State, local, and federally recognized Indian tribal governments which are covered by OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments"; or hospitals. The principles are designed to provide that the Federal Government bear its fair share of costs except where restricted or prohibited by law. The principles do not attempt to prescribe the extent of cost sharing or matching on grants, contracts, or other agreements. However, such cost sharing or matching shall not be accomplished through arbitrary limitations on individual cost elements by Federal agencies. Provision for profit or other increments above cost is outside the scope of this Circular.

City Guidelines

In most cases, accrued vacation is not a reimbursable cost when invoicing the City. Even though an agency cannot compel an employee to take vacation time on specific dates, the City is, in most contracts, reimbursing costs for a term with a specific beginning and specific end date. If vacation time is earned but not taken within the grant period then accrued vacation cannot be added to the costs billed to the City. However, while options may be limited (for example, accrued vacation is not an allowed expense under most Federal funding sources) the appropriate treatment for accrued vacation depends on the funding source: nonprofit agencies should talk to the contract monitor(s) from the City department with which they are contracting and determine the best course of action.

Online research conducted by the Controller's Office Financial Audits Division indicates that many organizations' personnel policies require their staff to take their vacations within certain grant cycles. Although not all nonprofit agencies may feel that they want to do this, for most organizations this cost reimbursement method evens out over more than one year because -- in most cases -- there are employees who take less vacation than earned during a fiscal period and those who take more vacation than earned during that same fiscal period. Because of this, there is a very practical reason that most government agencies do not fund accrued vacation. In many payroll systems, it is very difficult to look at salary expenses in any given year and determine if some of those salary expenses represent a payment for vacation time actually accrued in a prior fiscal period. Under a strict accrual method, those costs would already have

been reimbursed out of prior year contract funds. This becomes especially difficult to track when staff moves from one program with one funding source to another, and when staff accrue vacation at higher dollar values as earnings increase.

Illustration

Vacation expense Model A: Vacation expense becomes a billable cost to contracts when an employee actually takes vacation and is paid for previously accrued vacation hours. The advantages of this method are that it is easy for the contractor to administer, easy for the city to monitor, and it provides for even cash flow throughout the contract period. The disadvantages are that the City may wind up paying for vacation that was earned by employees prior to them starting work on the contract. This is the method most frequently required for billing government grants.

Vacation expense Model B: Vacation expense becomes a billable cost to contracts when employees earn the vacation. However, when actual vacation hours are paid, those costs cannot be billed. Most organizations do not keep a separate general ledger account that reports vacation time paid (separate from other types of wages), so it is difficult to pull out these unbillable costs out of the agency's financial reports. An advantage is that the exact amount of vacation earned is billed in the contract period. Disadvantages are that the cash flow to contractor can be uneven during vacation months, it requires additional accounting by contractor and it is difficult for the City to monitor.

Use of a hybrid method that bills vacation when paid and then adds any increase in vacation accrual for the cost center at the end of the billing or contract period is not an acceptable method.

Examples of Vacation Expense Reimbursement

Model A "Vacation Paid"	Employee #1		Employee #2		Employee #3		Regular Time Billed	Vacation Time Billed	Total Time Billed	Hourly Rate	Total Amount Billed
	worked hours	vacation hours	worked hours	vacation hours	worked hours	vacation hours					
July	5.00	5.00	5.00	5.00	10.00		20.00	10.00	30.00	\$15.00	\$450.00
August	10.00		5.00	5.00	10.00		25.00	5.00	30.00	\$15.00	\$450.00
September	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
October	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
November	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
December	5.00	5.00	10.00		10.00		25.00	5.00	30.00	\$15.00	\$450.00
January	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
February	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
March	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
April	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
May	10.00		10.00		10.00		30.00	0.00	30.00	\$15.00	\$450.00
June	10.00		10.00			10.00	20.00	10.00	30.00	\$15.00	\$450.00
	110.00	10.00	110.00	10.00	110.00	10.00	330.00	30.00	360.00	N/A	\$5,400.00
Model B "Vacation Earned"	worked hours	vacation hours	worked hours	vacation hours	worked hours	vacation hours	Regular Time Billed	Vacation Time Billed	Total Time Billed	Hourly Rate	Total Amount Billed
July	5.00	0.83	5.00	0.83	10.00	0.83	20.00	2.50	22.50	\$15.00	\$337.50
August	10.00	0.83	5.00	0.83	10.00	0.83	25.00	2.50	27.50	\$15.00	\$412.50
September	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
October	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
November	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
December	5.00	0.83	10.00	0.83	10.00	0.83	25.00	2.50	27.50	\$15.00	\$412.50
January	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
February	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
March	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
April	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
May	10.00	0.83	10.00	0.83	10.00	0.83	30.00	2.50	32.50	\$15.00	\$487.50
June	10.00	0.83	10.00	0.83		0.83	20.00	2.50	22.50	\$15.00	\$337.50
	110.00	10.00	110.00	10.00	110.00	10.00	330.00	30.00	360.00	N/A	\$5,400.00