

THE MONTANA COMPACT ON TIME DISTRIBUTION

Subject: A Few Words about Time Distribution and the Office of Management and Budget (OMB) Circular A-87 Cost Principles.

Background

The 28th Annual conference of the Association of Education Federal Finance Administrators (AEFFA), in Whitefish, Montana, contributed a group discussion between State and Local fiscal staff and representatives from the Office of the Chief Financial Officer (OCFO) on how OMB Circular time distribution standards fit with the "education environment". This dialogue resulted in a pledge (aka "The Montana Compact") for State and Local fiscal staff to continue working cooperatively with the OCFO on simply "writing down" common understandings regarding the OMB Circular A-87 time distribution requirements. Many months of follow-up emails, phone calls and site visits help provide perspective on the unique challenges faced by State and Local financial managers and educational administrators. Audit reports were also studied to assess stewardship responsibilities and administrative capability. An analysis of numerous questions and requests for clarification of OMB Circular A-87 language gave focus to common issues and trends. Attached is the compilation of the OMB Circular A-87 "Understandings" that resulted from this cooperative initiative, together with "Frequently Asked Questions" on time distribution.

The OCFO would like to express appreciation to the AEFFA in helping provide clarity to documentation standards in a cost area with significant economic impact. The OCFO welcomes any further comments and inquiries. Please address them to:

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I. GENERAL OVERVIEW

OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," establishes cost principles for using federal funds to support compensation for personnel services. (See Attachment B, paragraph 8(h) (as revised May 10, 2004)) The Implementation Guide for OMB Circular A-87 ("C-10") also provides significant insight on time distribution issues. This may be accessed at http://www.knownet.hhs.gov/policy/policy/c10/asmb_C-10.htm.

Federal funds may be used to pay salaries and wages as long as appropriate time distribution records are maintained documenting time on Federal cost objectives. Such records are maintained in addition to the standards for payroll documentation.

Glossary of Terms

Cost Objective: A function, organizational subdivision, contract, or other work unit for which cost data is desired or for which provision is made to accumulate and measure the cost processes, products, jobs, capitalized projects, etc.

Single Cost Objective: A set of work activities that are allowable to one or more funding sources and which may be funded out of a variety of eligible funding sources where the activities and purposes or population served are not distinguishable.

Joint Costs: A pool of costs which are eligible to be shared by more than one fund source.

Exception Reporting: The use of a standard distribution of time based on a prior period or other appropriate data (including budgets) in which only changes from the predetermined effort are reported

Blended Program Environment (Integrated Activities): Programs that are blended together serving the same or a mixed student population in a classroom environment where the activities, purpose and targeted population are not distinguishable.

Time and Attendance: System or procedure which shows work attendance.

Time Distribution: Reporting mechanism for allocating employees' effort to benefiting activities.

A. Single Cost Objectives

If an employee is expected to work solely on a single Federal award or cost objective, such work must be supported with a periodic certification that indicates the employee worked solely on that program for the period covered by the certification. The certification must be prepared at least semi-annually (every six months). The certification must be signed and dated by the employee or supervisory official having first hand knowledge of the work performed by the employee.

In an effort to reduce paperwork, USDE has authorized the use of a “blanket semi-annual certification” that would identify multiple employees working on the same single cost objective. This single record would be signed by the supervisory official having first hand knowledge of the work performed by the employees.

In some instances the requirement for a semi-annual certification may be satisfied through certain payroll codings and time and attendance certification pursuant to payroll authorizations. For example, if (1) employees work in a dedicated function (i.e., on a single cost objective); (2) their potential assignment to multiple programs/ activities is not within the authority, function, or purview of the supervisor responsible for certifying payroll time and attendance, and (3) the employee is coded to a dedicated function not benefiting multiple functions or programs, then the payroll certification shall be accepted in lieu of the semi-annual certification of time and effort.

B. Multiple Cost Objectives

If an employee is expected to work on multiple cost objectives, a distribution of his or her salaries or wages must be supported by Personnel Activity Reports (“PARs”), unless a statistical sampling system or other substitute system has been approved by the US Department of Education (“Department”) or Department designee. For local education agencies (LEA) the approving agency is the state education agency (SEA).

An employee is considered to work on multiple cost objectives if they work on:

- more than one Federal award;
- a Federal award and a non-Federal award;
- a Federal award with specific earmarking (set-asides) or matching requirements;
- an indirect cost activity and a direct cost activity;
- two or more indirect activities which are allocated using different allocation bases; or
- an unallowable activity and a direct or indirect cost activity.

For employees working on multiple cost objectives, PARs must be maintained that reflect the following standards:

- After-the-fact record: The PAR must be created after the work has been executed. Projections of how an employee is expected to work or position descriptions would not be sufficient.
- Total activity: The PAR must account for the total activity for which each employee is compensated, including part-time schedules or overtime.
- Monthly: The PAR must be prepared at least monthly and must coincide with one or more pay periods; and
- Signed and dated: The PAR must be signed and dated by the employee. Unlike the semi-annual certification, signature of a supervisor alone would not be sufficient, however, the supervisor could sign in addition to the employee.

II. Montana Compact Understandings

General Questions and Answers:

1) *Is the distinction between single or multiple cost objectives based on how employees are paid or how they work?*

The significant factor is the number of cost objectives on which the employee works, not the number of sources supporting the employee's salary. For example, an employee may work 100 percent of the time on Perkins Administration, but the employee is paid 50 percent from Perkins and 50 percent from non-federal funds, whereby the non-federal funds are used for a match. This employee works on a single cost objective (Perkins Administration) and would keep a semi-annual certification.

2) *If an employee works on a single **indirect cost** activity, is she required to keep a semi-annual certification?*

No. Aside for normal payroll records, no further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

3) *If an employee works on a state and/or local activity that is serving to meet a match or local cost share requirement, is she required to maintain time and effort records, even though she is not being charged to a federal program?*

Yes. If the activities are 100% local and/or state, the employee would still need to maintain a semi-annual certification. If the local and/or state activities are only accounting for a portion of the employees day, that employee must maintain monthly PAR's.

4) *If an employee works 100 percent of her time on an activity that is allowable under more than one federal program (i.e., professional development that is authorized under Titles I, II, and V), must the employee's time be allocated among the allowable programs?*

No. A function or activity within the government organization that benefits two or more programs may be set up as a single cost objective. Costs allocable to that cost objective would be allowable under any of the involved programs which benefit from these activities/costs. The government can make a business decision regarding what combination of funds made available under these programs would be applied to this cost objective.

Therefore if an activity is allowable under multiple programs, the agency has discretion in determining which authorized program(s) may be charged. According to the "Education Department's General Administrative

Requirements” (EDGAR), a state or subgrantee may use funds under more than one program to support different parts of the same project if the state or subgrantee complies with the requirements of each program with respect to the part of the project assisted with the funds under that program, and the state or subgrantee has an accounting system that permits identification of the costs paid for under each program. 34 CFR 76.760. In such case, the employee could simply report time on the substantive activity (i.e., professional development, curriculum development, etc), not on the specific federal program at issue. However, the organization could also use the data to develop a cost allocation plan for use in charging costs in lieu of time distribution recording.

5) If an agency maintains an ADP on-line PAR system which is fully computerized and paperless, would a “digital signature” (occurring when an employee logs on to the PAR system with a logon ID and a secret password) be an acceptable alternative to an employee signature?

As long as the governmental unit can demonstrate and document that only the employees’ actions would result in the identification of the activities to be charged, and that it complies with the other criteria in Attachment B, paragraph 8.h(5), the procedure would be acceptable.

6) Some employees in our district have supplemental contracts in addition to their regular employment contracts, allowing them to work different jobs after school (i.e., athletic coach, tutor, etc.). Are these employees required to keep time distribution records reflecting this supplemental time?

In general, PARs or equivalent documentation must account for 100% of the “total activities” for which each employee is compensated.

If an employee works in a single position or job, then a single set of time distribution records must be kept to capture the entire time the employee works in that position. If an employee works additional hours as part of the employees’ regular job (i.e., overtime), then these hours must be included in the single set of time distribution records. The single set of time distribution records would capture 100% of the effort for the position, and would be used to distribute funding for all compensation, including compensation from one or a combination of the following:

- Base Contract
- Supplemental Contract
- Stipend

However, if an employee works in two distinct positions (i.e., teacher during day and coach after school), then each position must comply with federal reporting requirements. If the daytime position is paid with federal funds, and the after-school position is paid with general revenue, then time distribution records must be kept for the former but not later position. If both positions are paid with

federal funds, then two distinct sets of time distribution records may be kept. For example, a teacher may have a base contract to provide Title I and basic ed services during the regular school day and an additional supplemental contract for providing "21st Century Learning" program activities after school. A PAR would be required for the base contract, and a semi-annual certification would be required for the supplemental contract.

7) *How must we handle stipends or bonuses paid to employees?*

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. Therefore, in general, the amount of any compensation over and above the regular salary or wages must be distributed in accordance with the time distribution records kept by the employee. Time and effort reports (or equivalent systems) must be averaged for the period covered by the bonuses (i.e., a year-end bonus would be averaged for the entire year). However, if it can be demonstrated that the time and effort or other statistical data for the period in which the bonus was paid is typical of the entire period for which the bonus was awarded, then no redistribution is required.

8) *How must we handle time and effort for an employee who is paid over a 12 month period, but works over a shorter time period (i.e., 9 months of school year)?*

The annual allocation among the various funding sources would be based on the period that the employee was working and maintaining time and effort records. This would be done by distributing charges over the period when the employee is not working in the same proportion as were allocated throughout the period that the employee was working based on actual time and effort records.

9) *Are classroom teachers or other instructional staff who are paid with federal funds required to keep time distribution records?*

Generally, yes. Any employee paid with federal funds is required to have appropriate time distribution records or equivalent documentation. However, for teachers, paraprofessionals, and other instructional staff, the PAR or semi-annual certification format may be too rigid. For these employees, Circular A-87 standards would be met if the employee kept appropriate "equivalent documentation." To meet this requirement for equivalent documentation, instructional staff may use their lesson plans to confirm that their written schedules were followed, in lieu of PARS, if: 1) after-the-fact notes are made on those plans to indicate the completion of each scheduled activity; (2) the lesson plans account for the total time the employee is compensated; (3) the lesson plans are prepared at least monthly and coincide with one or more pay periods; and (4) the completed lesson plans are signed by the employee. If a district elects to use

this method, it must retain the lesson plans as timekeeping records that are in addition to time and attendance.

Para professionals may use their regular time sheets, in lieu of PARs, as long as they; (a) reflect an after the fact distribution of their actual activity, (b) account for the total activity for which they are compensated, showing the hours of percentages for the programs they worked on, (c) are prepared at least monthly and coincide with one or more pay periods, and (d) are signed by the employee.

In both "equivalent documentation" scenarios, frequent monitoring must ensure that this salary support is consistent with effort performed. It is not sufficient wait or rely on A-133 audit coverage.

In the absence of equivalent documentation, a teacher working on multiple cost objectives would need to maintain monthly PARs. A teacher working on a single cost objective could meet the requirements through a semi-annual certification, dedicated function code, or exception reporting, as described elsewhere in this guidance.

10) Are substitute teachers or other temporary personnel required to keep time distribution records? How are their salaries charged?

As a general practice, if the temporary employee works on the day the record must be signed, then the employee may sign it to certify the time that he or she worked. If the temporary employee is not present on the day of signing, they are not required to sign the form.

In charging the salary of temporary employees, the agency may either: 1) pool the salary of all temporary employees and allocate the total based on the time of the individuals who were replaced, or 2) charge the individual substitute based on the effort of the person replaced.

11) If an employee spends a brief amount of time addressing a question unrelated to the federal cost objectives on which he ordinarily works, must that time be reflected in the time distribution records?

If an employee spends a very brief amount of time working on a cost objective that is not part of his ordinary duties, the time is considered to be *de minimus* and need not be captured in the records. In this context, the concept of *de minimus* applies to the recording of time.

12) Are time distribution records required for programs where funding is provided on a basis other than reimbursement of actual costs, such as Impact Aid, School Lunch, or Schools and Roads, as opposed to a cost-incurred basis?

No. Federal funds received on a basis other than reimbursement for actual costs incurred are not required to track costs to the program, including personnel costs monitored through time distribution records.

13) If deviations between budget estimates and actual costs are less than ten percent, are adjustments required?

Yes. The Ten Percent Rule only addresses the question of how frequently adjustments must be made. If deviations are less than ten percent, the adjustment may be made at the end of the year. However, as stated above, any deviation, no matter how small, must be adjusted.

14) If four employees in our office each spent 50 percent of their time on the same cost objective (i.e., IDEA), then can I just charge two FTEs to IDEA, rather than half the salary of four employees?

The Department has authorized the use of "aggregate" charges to federal cost objectives, whereby necessary adjustments are made by federal cost objective, not by individual employee. A state or district may aggregate (within each department or office) the total effort toward each cost objective and charge each account once for the total effort. Individual employees must continue to maintain the required time distribution records used to determine the aggregate effort.

15) If an employee works solely on state and/or local funded activities in a schoolwide program, and those funds are included in the schoolwide plan, must that employee maintain time and effort documentation?

Yes. A schoolwide program is considered to be a single cost objective. Therefore, any school building employees who work solely on activities and allowable fund sources specifically listed in the building's schoolwide plan, regardless of whether those activities are state, local, or federally funded, the employees are required to comply with time and effort reporting requirements.

16) Are there any scenarios, where IDEA Part B program can be considered a single cost objective.

What the IDEA provides is funding to assist – at the LEA level – an LEA's efforts to fund the excess costs of special education and related services for student with disabilities. If an employee is working full time on providing special education and related services, I would view that as working on a single cost objective, even if part of the funding for the employee's salary came from Federal IDEA funds and State and/or local funds. That employee would not need time distribution records. If an employee worked half of their time on special education, and half of their time on providing non-special education services, they could only have half of their salary paid for with IDEA-B funds. In addition, of course, they would need to maintain time distribution record to

support that particular allocation.

Other Understandings:

1. Substitute Systems:

State Education Agency (SEA) – Require cognizant Federal Agency approval prior to implementation.

Local Education Agency (LEA) – Department of Education (DOED) would approve policy and guidelines used by the SEA in approving LEA substitute systems copies of approved substitute systems would be submitted to DOED for inventory and implementation follow-up based on a sampling basis.

2. Semi-annual Certification

The term “semi-annual” as it applies to the certification means “period covered by the certification” not the frequency in which the certifications are obtained.

Other Time and Effort Examples

- If you have a Head Start class in which all of the pupils qualify for Head Start and the teacher is funded 90% federal Head Start and 10% state aid because the Head Start funds are insufficient, and the teacher only teaches the Head Start class, then that would be a single cost objective and semi-annual certifications would be adequate.
- If, on the other hand, you have a Head Start program in the morning and the teacher goes to a state funded early childhood classroom in the afternoon and the teacher is funded 50% federal Head Start and 50% state early childhood, semi-annual certifications are not adequate for that teacher. The teacher could do personnel activity reports at least monthly (see the attachment for the many requirements) or use the lesson plan method. If you are unsure, it is always safest to use PARs rather than semi-annual certifications.
- Schoolwide is a single cost objective. Semiannual certifications are required for anyone charged to federal funds who works 100% on the schoolwide plan. If an employee’s time is split between activities in a schoolwide plan and those not in the schoolwide plan, then monthly PARs would be required.

3. Schoolwide Programs

In a Title I schoolwide program, LEAs may consolidate funds from federal, state, and local sources to upgrade the entire educational program of the school. The Secretary has determined that the school may consolidate all funds and resources it receives from any federal education program administered by the Secretary, with the exception of Reading First. (See Federal Register Notice, July 2, 2004)

A school that consolidates and uses funds from different federal programs shall not be required to maintain separate fiscal accounting records, by program, that identify the specific activities supported by those particular funds as long as the school maintains records that demonstrate that the schoolwide program, considered as a whole, addresses the intent and purposes of each of the federal programs that were consolidated to support the schoolwide program.

An LEA must be able to show the amount of funds from each Federal education program for each grant year that the LEA allocated to a schoolwide program. In addition, an LEA must be able to show that the Federal funds were expended by the schoolwide program to satisfy Federal reporting requirements and cash management and availability of funds requirements. Neither an LEA nor a schoolwide program school is required to assign specific costs to Federal funds combined in the schoolwide in general or to particular Federal programs. In other words, Federal funds combined in a schoolwide program lose their specific program identity and may be used for any costs of the schoolwide program. Thus, to demonstrate that the Federal funds in a schoolwide program have been expended, the LEA may use any reasonable method. For example, the LEA could allocate expenditures of Federal funds in a schoolwide program school in proportion to the Federal funds provided to the school.

Federal education funds that are combined in a schoolwide program school lose their identity as specific program funds. Therefore, neither personnel activity reports for time distribution nor periodic certifications are required. An LEA must still keep in mind the standards for general payroll documentation described in Circular A-87, Attachment B.11.a, b and c.

Records described in OMB Circular A-87, Attachment B.11.h.(3) or (4), (5), & (6), respectively, would be necessary if there are employees in the schoolwide program who are paid, in whole or in part, by Federal programs that have NOT been combined in the schoolwide program (such as Reading First).

Questions and Answers

If an employee works solely on state and/or local funded activities in a Schoolwide Program, and those funds are included in the schoolwide plan, must that employee maintain time and effort documentation?

Yes. A Schoolwide Program is considered to be a single cost objective. Therefore, any school building employees who work solely on activities and allowable fund sources specifically listed in the building's Schoolwide Plan, regardless of whether those activities are state, local, or federally funded, the employees are required to comply with time and effort reporting requirements.

Must a schoolwide program maintain a separate record for each schoolwide employee, or can these records be consolidated?

USDE has authorized use of a “blanket semi-annual certification” that would identify all employees working on the same cost objective and be signed by the supervisor having first hand knowledge of the work performed by all the employees. In a schoolwide program, the blanket certification would list all employees and be signed by the principal.

4. Consolidated Administration

Section 9201 permits a state education agency to consolidate amounts specifically made available for administration under any NCLB program that authorizes funds for administration, or such other programs as the Secretary may designate. To take advantage of such flexibility, the SEA must demonstrate that the majority of its resources are derived from non-Federal sources.

Section 9203 authorizes a local education agency to consolidate administrative funds under any NCLB program, with the approval of its SEA. The LEA cannot consolidate more than the percentage established in each program, or the amount designated by the SEA, whichever is less. An LEA that consolidates administrative funds is not permitted to use any other funds under the programs for administration for that fiscal year.

An SEA or LEA must be able to show: (1) that the amount of administrative funds from each program for each year that the agency consolidated for administrative activities; (2) that the amount consolidated from each program does not exceed any statutory or regulatory cap on administrative funds; (3) that funds were obligated within the period of availability; and (4) that the activities for which the funds were used were allowable under section 9201 and 9203 of NCLB.

An agency that consolidates administrative funds is not required to keep separate records, by individual program, to account for costs relating to the administration of the programs included in the consolidation. An SEA or LEA is not required to assign specific costs to specific Federal programs. Costs for allowable administrative activities may be paid for with any of the administrative funds that were consolidated.

For the purpose of time distribution, consolidated administrative funds are considered a single cost objective. Employees who work solely on a single cost objective are not required to prepare PARs or keep equivalent documentation as described in A-87. Normally, A-87 would require semi-annual certifications on personnel who work on a single cost objective. However, if a state’s or LEA’s general standards for payroll documentation met the criteria in section 11.a, b, and c of that attachment, the SEA or LEA may code the consolidated administrative cost objective as a “dedicated function.” Consequently, normal time and attendance processing for personnel working on that cost objective would then be acceptable in lieu of separate semi-annual certifications.

Questions and Answers

Can an LEA or SEA combine state and local administration funds in the same pool with federal administration funds?

Yes. Under certain circumstances, an SEA or LEA may consolidate state or local administrative funds along with federal administrative funds in order to eliminate the need for personnel activity reports for persons paid with both state and federal funds. Generally, State and local funds may not be consolidated with Federal administrative funds because there would be no way to determine if the Federal funds were being used in accordance with sections 9201 and 9203 of NCLB. However, if State and local funds are used only for activities authorized under those sections, those funds may be combined with Federal consolidated administrative funds, and those personnel would not have to keep PARs or equivalent documentation because they are working solely on one cost objective.

