

**University of Wisconsin System
SFS Accounting Manual**

Category: General Ledger - Allocations		Effective Date: July 1, 2017 (updated as needed)	
Task or Process: Terminal Leave Allocations		Revision Date: Issued Date: May 2016	
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Background

See Appendix 1

Allocations

All Salary expenditures are posted to the ledger during the month.

At month end, institutions will run the allocation steps that start with TL (Terminal Leave). Because the rates for University Staff (Classified) and Faculty/Academic Staff/ Limited Staff (Unclassified) may be different, there are different allocation steps based on employee type.

The allocations for terminal leave on gifts and grants funding, both University Staff and Faculty/Academic Staff/Limited Staff, charge the fringe pool using accounts 1979 and 1975. The credit is posted to the institution's terminal leave pool using fund 136 account 3960.

The allocations for terminal leave on funding other than gifts and grants, both University Staff and Faculty/Academic Staff/Limited Staff, charge the departments that have salary expenditures using account 3960. The credit is posted to the institution's terminal leave pool using fund 136 account 3960.

See Appendix 2 for T Accounts.

Terminal Leave Payments

As employees leave and lump sum terminal leave payments are made, the service center will change the salary and related fringes to the institutions terminal leave pool department. The instructions for processing the payroll are provided on KB document 18173.

<https://kb.wisc.edu/hrs/page.php?id=18173>

Year End Procedures

At Year End, a tool will be provided similar to the Fringe tool to help calculate the next year's terminal leave rates for both University Staff and Faculty/Academic Staff/Limited Staff. The tool will take into consideration the institutions pool balance and the average expenditure of the 3 previous years.

Source of Funding for Termination (e.g., ALRA) Payouts

PROPOSAL

Develop a methodology that will:

1. Reduce reluctance on hiring an employee with ALRA balances increasing employee mobility;
2. Spread terminal leave costs over multiple accounting periods to reduce the financial burden on one budgetary period;
3. Better utilize financial resources within an institution;
4. Apply to all funding sources; and
5. Be implemented for FY17.

CURRENT STATE

Vacation Leave Benefit

Eligible employees are granted vacation according to their appointment type and/or years of service in an annual vacation allotment. If vacation is not used within the year it is earned, it may be banked or carried over into the following year. If vacation is not used by the end of the carryover period, it is lost.

Employees can bank (save) unused vacation in an Annual Leave Reserve Account (ALRA) for use at a later date. Banked leave does not expire and accumulates from year to year without limit. Banked leave can be used like any other paid leave. Banked vacation is also referred to as sabbatical.

At retirement or termination of employment, any remaining unused vacation or banked vacation can be paid out as a lump sum on the final check, or used to extend time on payroll (with supervisor approval). The last employing department is responsible for these pay outs.

In addition, when an employee changes positions, the hiring department has discretion on whether they will accept the employees ALRA balances or require that they be paid out from the previous employing department.

Financial Reporting/GAAP

The ACTUALS ledger does not contain accrual entries for unused vacation or ALRA balances. However, the FY14 Annual Financial Report reported a total compensated absences liability of \$131,184,984.

Federal Regulations

The UW's current practice of using the cash basis of accounting for fringe benefits is compliant with the Uniform Guidance as indicated in 2 CFR §200.431(b)(3).

§200.431 Compensation—fringe benefits.

(b) *Leave*. The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if all of the following criteria are met:

(3) The accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the non-Federal entity or specified grouping of employees.

Appendix 1

(i) When a non-Federal entity uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid for. Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment.

(ii) 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 non-Federal entity uses the accrual basis of accounting, allowable leave costs are the lesser of the amount accrued or funded.

However, the draft Uniform Guidance would have required terminal leave to be accounted for on an accrual basis. Based on feedback received, the draft was revised to allow for cash basis. Those close to the rule setting process have indicated this change will likely be revisited in future federal rules.

Budget Cuts

Recent budget cuts have increased the challenges departments face in covering costs with diminishing resources, especially general purpose revenue (GPR) and grant funding. Departments with no excess budget lack the flexibility needed to manage substantial payout requests, some of which are requested with little notice. In addition, although payouts are an allowable cost, they put a substantial strain on grant and sponsored project resources and bring into question the use of short term funds to cover long term costs.

DISCUSSION POINTS

When the draft Uniform Guidance was released and would have required accrual accounting, a workgroup was established that included RSP and Business Services from UW-Madison, Controllers from UW-Parkside and UW-Platteville, and System Administration's Finance, Budget, and Service Center offices.

PAYOUTS, LUMP SUM AND/OR EXTENDED TIME ON PAYROLL

At retirement or termination of employment, any remaining unused vacation or banked vacation is paid out as a lump sum on the final check, unless the supervisor approves using it to extend time on payroll. The lump sum payouts are charged for social security and medicare taxes. However, the extended time on payroll payouts are charged for all the fringe benefit components including health, life, retirement, and social security and medicare taxes resulting in higher costs.

The workgroup recommended that only banked (ALRA/Sabbatical) lump sum payouts would be covered by the new methodology.

Based on this recommendation, HRS would utilize the following payout codes:

- TSB/TS8 – Term Sabbatical Payout – Mapped to 1545 – University Staff – Lump Sum – Terminal Leave
- TAL – Term ALRA Payout – Mapped to 1009 - Faculty - Lump Sum – Terminal Leave or 1056 - Academic Staff - Lump Sum – Terminal Leave

ALL FUNDS

Yes; however, Madison recommended excluding the following stand-alone GPR funds and the respective PR funds:

- State Laboratory of Hygiene (Fund 117) – GPR
- State Laboratory of Hygiene - Drivers (Fund 127) – PR
- State Laboratory of Hygiene (Fund 130) – PR
- Veterinary Diagnostic Laboratory (Fund 126) - GPR
- Veterinary Diagnostic Lab Non State Agency Fees (Fund 165) - PR

Appendix 1

- Veterinary Diagnostic Lab State Agency Fees (Fund 166) – PR
- Veterinary Diagnostic Lab-Federal Aid (Fund 199) – PR-F

SYSTEMWIDE OR INSTITUTION SPECIFIC RATES (Discussion Only)

The following table shows what the rates would have been Systemwide for the respective fiscal years.

Payouts	2012	2013	2014
Classified	\$3,040,720	\$1,019,571	\$995,237
Unclassified	\$3,439,409	\$2,637,138	\$2,276,843
Combined	\$6,480,129	\$3,656,709	\$3,272,080
Rates			
Classified	.73%	.25%	.24%
Unclassified	.27%	.20%	.17%
Combined	.38%	.21%	.18%

The following table shows what the rates would have been for each institution for the 2014 fiscal year.

Rates	MSN	MIL	EAU	GBY	LAC	OSH
Classified	.29%	.28%	.48%	.08%	.11%	.24%
Unclassified	.21%	.13%	.04%	.06%	.08%	.11%
Combined	.23%	.16%	.15%	.06%	.09%	.14%

Rates	PKS	PLT	RVF	STP	STO	SUP
Classified	.04%	.23%	.03%	.02%	.07%	.06%
Unclassified	.00%	.03%	.11%	.07%	.07%	.23%
Combined	.01%	.08%	.09%	.06%	.07%	.19%

Rates	WTW	COL	EXT	ADM	SYS	TOTAL
Classified	.07%	.36%	.01%	.00%	.05%	.24%
Unclassified	.04%	.12%	.30%	2.83%	.46%	.17%
Combined	.05%	.16%	.25%	1.90%	.17%	.18%

The workgroup recommended that institution specific *classified* and *unclassified* rates would be developed and applied, respectively.

Example of calculation:

	Classified	Unclassified	Combined
FY 2014	FYE 6/30/14	FYE 6/30/14	FYE 6/30/14
[A] Actual Salary & Wage Expenses	\$451,854,123	\$1,461,044,328	\$1,912,898,451
Actual Leave payouts	\$995,237	\$2,276,843	\$3,272,080
Plus: Social Security @ 6.20%	\$61,705	\$141,164	\$202,869
Plus: Medicare @ 1.45%	\$14,431	\$33,014	\$47,445
[B] Total Actual Leave Payout Expenses	\$1,071,373	\$2,451,021	\$3,522,394
[C] Leave Payout Rate in Year 1 [B]/[A]	0.24%	0.17%	0.18%

Institution specific Fund 136 departments will be established to account for cash from monthly SFS allocation process and actual payouts. Any positive or negative cash balances in this Fund 136 department will be factored into the next year's calculation.

Appendix 2

All Funds, except 133, 144, 161, 233												
		Salary Expense		Fringe Expense (Actual 50%)		3960 Expense		Cash				
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit			
A Regular Payroll	A	50000		A	25000				75000	A		
C Terminal Allocation						C	500		500	C		
Fund 136 Terminal Leave Pool for All Funds												
		Salary Expense		Fringe Expense (7.65%)		3960 Expense		Cash		Terminal Allocation Rate		
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit			
C Terminal Allocation							500	C	500		1%	Terminal Leave
D Grant Terminal Allocation							500	D	500		1%	Total
E Lump Sum Payout	E	1500		E	114.75				1614.75	E		X Total Salary Expense
Funds 133 and 144 (MSN, MIL, & EXT include 161 and 233)												
		Salary Expense		Fringe Expense 1975-1979		3960 Expense		Cash		Fringe Allocation Rate		
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit			
A Regular Payroll	A	50000							50000	A	45%	Regular
B Fringe Allocation				B	23000				23000	B	1%	Terminal Leave
											46%	Total
												X Total Salary Expense
Fringe Pool for Funds 133 and 144 (MSN, MIL, & EXT include 161 and 233)												
		Salary Expense		Fringe Expense (Actual 50%)		3960 Expense		Cash				
		Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit			
A Regular Payroll				A	25000				25000	A		
B Fringe Allocation								B	23000	B		
D Grant Terminal Allocation				D	500				500	D		
Totals												
		101500			50614.75				500		151614.8	0

MSN ONLY - Also, one additional caveat, we are looking at excluding Funds 117, 126, 127, 130, 165, 166 and 199; however, I am not exactly sure how we would make sure employees on these funds would not get coded to the Terminal Leave Pool if an actual Lump Sum payout happened. - MSN will monitor with monthly query.

We need to check to make sure that all appropriations have a S&E allotment line. - Per Bryan, this is not an issue.