

CHAPTER III
METHODS FOR CHARGING THE COST OF
WAGES AND SALARIES

3000 GENERAL

The documentation a grantee or subgrantee needs to support personnel costs charged to Federal programs is described in the Federal cost principles (A-87, Attachment B, paragraph 11.h.; A-122, Attachment B, paragraph 7.m.; or 45 CFR Part 74, Appendix E, paragraph IX.B.7.c.; as applicable). The text of these requirements is paraphrased in this guide in order to explain what documentation is required to charge the cost of wages and salaries to a Federal WIC Program grant or subgrant.

A. Structure of Cost Data.

A State or local agency must capture data on employee time and effort by “cost objective.” A cost objective is a “function, organizational subdivision, contract, grant, or other activity for which cost data are needed and for which costs are incurred.” (A-87, Attachment A, paragraph B.11.) WIC and other Federal programs operated by a State or local agency meet this definition. In addition, four functions within WIC are cost objectives: nutrition education, breastfeeding promotion and support, client services, and program management. Nutrition education and breastfeeding promotion and support are statutory requirements for which compliance is measured by costs incurred. Cost data are needed to determine whether a State met these requirements, and a State agency that fails to meet them is subject to claims action by FNS. Cost data on all four functions are needed to demonstrate that WIC NSA costs do not consist disproportionately of administrative overhead.

B. Documentation – General Rule.

The required documentation system is known as “continuous time reporting” because employees engaged in multiple programs or cost objectives must continuously generate documentation supporting the distribution of their time and effort. Salary costs charged to WIC and other Federal programs by a State or local agency using continuous time reporting must be supported by payrolls documented in accordance with the generally accepted practice of the State or local agency and approved by a responsible official of such organization. In addition, the distribution of employees’ compensated time to programs and other cost objectives must be supported by “personnel activity reports [(PARs)] or equivalent documentation.” This documentation must: reflect an after-the-fact distribution of the actual activity performed by the employee; cover 100 percent of the employee’s time; and be prepared and signed by the employee at least monthly, to coincide with the end of a pay period. In other words, the record must show not only how many hours employees were present for duty, but also what they did while they were there. (A-87, Attachment B, paragraph 11.h.(1)-(2)); A-122, Attachment B, paragraph 7.m.(1); 45 CFR Part 74, Appendix E, paragraph IX.B.7.c.) This procedure is described in more detail in section 3010, below.

There are two exceptions to the general documentation requirements for State and local agencies using continuous time reporting:

1. Single Cost Objective – Governmental Agencies.

In addition to the payroll records referenced above, each employee of a State agency or a governmental local agency that performs work under only one cost objective must sign a semi-annual certification to that effect. A supervisory official having first-hand knowledge of the employee’s work must also sign such document. A PAR is not required in such cases. (A-87, Attachment B, paragraph 11.h.(3))

2. Multiple Cost Objectives – Hospitals.

In local agencies that are hospitals, “professional staff” are not required to complete PARs as outlined above. Instead, they are required to complete monthly “estimates” of the distribution of their work time to Federal programs. Such an estimate must be completed not later than one month (not necessarily a calendar month) following the month in which the employee performed the work to which the estimate pertains. For this purpose, “professional staff” include personnel who “normally fulfill duties, the competent performance of which usually requires persons possessing degrees from accredited institutions of higher learning and/or State licensure.” This category includes physicians, nurses, nutritionists, and other persons performing work at responsible levels of activities. (45 CFR Part 74, Appendix E, paragraph IX.B.7.c.)

C. Documentation – Substitute Systems.

A State or local agency **must** use continuous time reporting unless its cognizant Federal agency has approved the use of a substitute system. (A-87, Attachment B, paragraphs 11.h.(4) and (6); A-122, Attachment B, paragraphs 7.m.(1) and (2)) The cognizant agency for geographical State agencies is the U.S. Department of Health and Human Services (DHHS); for Indian State agencies, it is the Department of the Interior. The exception is that FNS, the awarding agency, rather than the cognizant agency may approve the use of a substitute system for employees who work solely for the WIC Program, but for more than one of the Program’s four cost objectives. FNS regional offices may therefore grant approval for their WIC State agencies to distribute the salary costs of WIC-only employees to WIC’s four NSA cost categories using a substitute system, such as periodic time reporting. WIC State agencies may, in turn, grant approval for their local agencies to use the substitute system as well.

Section 3030 provides the principles of appropriate periodic time reporting. Placement of approval authority with the awarding rather than the cognizant agency is allowed because time reporting for an employee who works solely for the WIC Program does not affect assignment of costs to other programs.

Substitute systems that cognizant agencies may approve include, but are not limited to, those described in sections 3030 through 3040, below. A State agency shall obtain cognizant agency review of a substitute system through the following procedure:

1. State Agency Systems.

A State agency shall submit its substitute system to the applicable office of its cognizant agency and request review under A-87, Attachment B, paragraph 11.h.(6). If the cognizant agency declines to perform such review, then the State agency shall submit its substitute system to the applicable FNS regional office (FNSRO). The FNSRO shall then review the State agency's proposed substitute system to satisfy itself that it would result in a reasonable allocation of salary costs to WIC cost objectives (and to other FNS programs if applicable). If the State agency submitted a random moment sampling system (RMSS) and the FNSRO does not have sufficient statistical expertise to review it, then the FNSRO shall forward the State agency's submission to FNS Headquarters for review.

A FNSRO that reviews a substitute system to obtain satisfaction regarding the resulting distribution of salary costs to WIC shall notify the cognizant agency that it has done so. The FNSRO shall advise the cognizant agency of any significant deficiencies noted in the State agency's submission, and of the changes requested to correct them.

2. Local Agency Systems.

- a. General. A State agency is responsible for rolling up the WIC salary costs incurred by its subgrantees to statewide summaries for use in preparing reports to FNS. Therefore, the State agency must require every local agency, regardless of the system it uses, to gather the same categories of employee time distribution data and submit these data to the State agency in the same format.
- b. Cases Where all Subgrantee Funding is Pass-Through From State. If all Federal funding received by local agencies operating the WIC Program under the State agency's oversight consists of sub-awards passed through the State, cognizant agency review of a substitute system is not required. The State agency may prescribe such a system for use by its subgrantees in capturing employee time and effort data.
- c. Cases Where Subgrantees Have Direct Federal Funding. If a local agency under a State agency's oversight receives direct awards from one or more Federal agencies, the Federal agency that provided the greatest share of such direct awards to a local agency is that local agency's cognizant Federal agency. The State agency shall coordinate with such cognizant agency to determine that any substitute data gathering system it has approved for the local agency meets the State agency's information and reporting needs. The State agency shall prescribe data gathering systems for all remaining local agencies under its oversight as outlined in paragraph C.2.b., above. If a local agency's cognizant Federal agency has not approved a substitute system for such local agency and the State agency has prescribed one for local agencies that receive only pass-through funds, then the State agency shall seek the cognizant agency's approval of that substitute system for the local agency.

D. Use of Budget Projections in Reporting Salary Costs.

Regardless of the system used to document the distribution of employees' time and effort to programs, it should be noted that budget estimates or other distributions of services established before the employees perform the services do not qualify as support for salary costs charged to WIC and other Federal programs. Budget estimates may only be used for interim accounting and reporting purposes. If they are so used, the budgeted amounts must be periodically reconciled to reflect actual amounts. (A-87, Attachment B, paragraph 11.h.(5)(e))

3010 CONTINUOUS TIME REPORTING

A. Principles.

1. Data to be Used.

Employees not eligible for the exceptional cases outlined in paragraphs 3000 B.1. and B.2. of this chapter shall record their compensated time by program/cost objective.

2. Data Gathering Process.

a. Except where special rules apply (per paragraphs 3000 B.1. and B.2. of this chapter), employees who work in two or more cost objectives shall record their time on a PAR which:

- (1) shows the total number of hours for which the employee was compensated, including compensated absences (annual leave, sick leave, holidays, etc.).
- (2) covers a period not longer than one month whose ending date coincides with the end of a pay period.

In State and local agencies with bi-weekly or semi-monthly pay periods, this document will generally cover two pay periods.

- (3) is prepared and signed by the employee. PARs and other data gathering instruments described in paragraph 3000 B. of this chapter are not substitutes for agency payroll records. They are in addition to such records.
- b. At a minimum, reportable categories on PARs must include: (1) the four WIC functions identified in section 3000 A. of this chapter; (2) each additional Federal program operated by the State or local agency; and (c) non-work time for which the employee is compensated (lunch, compensated absences, etc.).
 - c. The increments in which employees must report their time (hours, fractions of hours, etc.) depend on the complexity of their duties. Generally, duties that benefit multiple cost objectives during a workday require more detailed reporting than duties that benefit one or two cost objectives during that period.
 - d. The following conditions are necessary for this method to work:
 - (1) The State or local agency must gather data on 100 percent of each employee's compensated time. Therefore, the PAR must provide space for every program/cost objective that applies to the clinic or office and its employees.
 - (2) Employees must relate the services or tasks they perform to the specific cost objectives on which data must be gathered. Accordingly, instructions for PAR preparation must facilitate the

identification of specific tasks or services, or combinations of tasks and services, with codes for programs, functions, and other cost objectives.

- (3) Employees required to complete PARs must record their time promptly. This method depends on employee recall; therefore, delays in recording their time may adversely affect the data's accuracy. An employee should record his/her time as soon as possible after performing duties relating to a cost objective, but never later than the close of business each working day. The frequency of an employee's recording interval should be related to the complexity of his/her duties; multiple tasks involving several different cost objectives require more frequent recording than large blocks of time spent working in the same cost objective. (ASMB C-10, paragraph 3-21, page 3-15)
- (4) Reports must be collected and processed in a timely manner. State agencies and regional/area offices within the State must maintain systems of management control to identify missing or incomplete documents and follow up with the responsible office.

3. Use of the Data.

The State agency shall prescribe procedures for summing the data gathered at the clinic and local office level, and using it to charge employees' wages and salaries to applicable cost objectives. A simplified example of such a process is given in Table 3-1, below.

Table 3-1

ALLOCATION OF SALARY COSTS IN CONTINUOUS TIME REPORTING SYSTEM									
Employee	WIC	MCH	Non-work	Total	Pay Rate	Total Cost	Work Hours	WIC Percent	WIC Cost
A	72	0	8	80	\$14	\$1,120	72	100	\$1,120
B	19	57	4	80	\$10	\$800	76	25	\$200
C	30	30	0	60	\$7	\$420	60	50	\$210
Total	121	87	12	220		\$2,340	208		\$1,530

It should be noted that this procedure provides for the allocation of salary cost to cost objectives solely on the basis of work hours. Non-work time is not considered in the allocation because it may distort the results. For example, non-work time is substantial during the summer months when employees typically take vacations. During such periods, the consideration of non-work time could materially affect the allocation.

B. Advantages and Disadvantages.

1. Advantages.

- a. This method provides complete, thorough documentation to support wages and salaries charged to WIC and other Federal health programs. A State agency that effectively used this method would be in a strong position to withstand audit.
- b. The procedure for completing employee activity reports is relatively easy to learn. If sufficient instructions are provided, employees should be able to quickly incorporate completing the report forms into their daily routine.

- c. This method literally follows the requirements of A-87. Therefore, the State agency would not need to obtain special approval from its cognizant Federal agency (or anyone else) to use this method.

2. Disadvantages.

- a. This method is paperwork intensive. Employees may perceive it as burdensome.
- b. Because it is conducted on an ongoing basis, it may be prone to becoming routinized. Efforts to accurately record the time worked in each cost objective may decline over time; management must be alert to employees becoming accustomed to reporting “stock” data.
- c. Because this method depends on after-the-fact recall, it may not generate data as accurate as those generated by such methods as RMSS. Management must therefore stress the need for accurate reporting.

C. Application.

Unless the cognizant agency has approved another method, this method **must** be used to capture the time distribution of employees whose work benefits more than one cost objective. It would work best, however, in situations where employees’ duties are fairly program-specific or involve relatively few cost objectives. Employees whose duties are generic or entail many shifts between cost objectives during the course of a workday would have the most difficulty identifying work with cost objectives or otherwise producing accurate data. An agency with many such employees should consider adopting the modified continuous time reporting method or the RMS system described in sections 3020 and 3030, respectively, of this chapter.

3020 MODIFIED CONTINUOUS TIME REPORTING

A. Principles.

This method is a variant of the continuous time reporting method described in section 3010, above. Except as explained in this section, it operates in the same way.

1. Data Gathering Process.

In addition to the reportable space for programs and other discrete cost objectives, the personnel activity report provides for the reporting of time spent performing common activities that are not readily identifiable to recognized cost objectives. Examples of such activities may include appointment scheduling, client in-take, nutrition and health screening for multiple programs that included WIC, etc. Employees who perform such generic duties report the time they spent doing so in the space designated for that purpose. Employees whose work time is devoted partially or fully to other duties report time spent performing such duties under applicable cost objectives as they would in a continuous time reporting system. Likewise, governmental employees engaged solely in a single cost objective would prepare the semi-annual certifications described above.

2. Use of the Data.

Data on employee time and effort in discrete cost objectives are used to identify salary costs and roll them up to State totals, as described in section 3010, above. However, salary costs associated with employee time and effort reported in common activities are allocated to programs and other cost objectives on a reasonable basis. Examples of such bases include:

a. Weighted Case Counts.

The cost of work performed in common activities may be allocated to programs and other cost objectives on the basis of weighted case counts. The case counts should be weighted in a manner that reflects differences between programs in eligibility determination and case management requirements. Such requirements can differ along such dimensions as complexity, amount of data that must be collected, and/or length of time required to determine eligibility for program benefits.

b. Costs of Staff Supported by Generic Workers.

The cost associated with work performed in common activities may be allocated to programs and other cost objectives on the basis of the time and effort distribution of workers that the generic workers support. That is, 40 percent of the cost associated with work performed in common activities would be assigned to WIC if 40 percent of the salary cost incurred in other activities for a reporting period (both on PARs and on semi-annual certifications) had been incurred in WIC.

B. Advantages and Disadvantages.

1. Advantages.

This method retains the advantages of the continuous time reporting method while providing relief for those employees whose duties are the most difficult to identify to specific programs or other cost objectives.

2. Disadvantages.

a. If a State or local agency allocates salary costs associated with common activities by weighted case counts, it will need to devise a weighting scheme meeting the

conditions of paragraph A.2.a., above. Setting up a data gathering system may therefore require more work.

- c. Because this method entails a departure from the “pure” continuous time reporting model, its use would require cognizant agency approval.

C. Application.

This method would be appropriate for an office or clinic with employees whose duties are so generic that they cannot be readily identified to programs and other cost objectives. Where to draw the line between situations where this method is appropriate and situations where continuous time reporting should be used is a matter of professional judgment.

3030 PERIODIC TIME REPORTING

A. Principles.

This method is similar to continuous time reporting, and could be presented to the cognizant agency as a substitute for it. Rather than reporting 100 percent of their time continuously throughout a fiscal year, employees report their activities for designated periods of time during the fiscal year. During these designated periods, employees not eligible for one of the exceptional cases described in paragraphs 3000 B.1. and B.2. of this chapter are required to complete PARs. The amount of time that employees spend in each program or other cost objective during these designated periods is used to calculate the amount of compensated time that should be assigned to each program or other cost objective in which the employee worked during the fiscal year as a whole.

1. Data to be Used.

As with continuous time reporting, use of this method requires the gathering of data on the amount of compensated time each employee spent working in each applicable cost objective.

2. Data Gathering Process.

a. The method of data gathering is the same as is used in a continuous time reporting system: data are gathered on the amount of compensated employee time spent performing WIC and non-WIC activities. However, such data are gathered only during designated periods of time throughout the fiscal year. As with continuous time reporting, an employee not eligible for one of the exceptional cases described in paragraphs 3000 B.1. and B.2. of this chapter completes PARs covering the designated periods of time. These documents should:

- (1) show the number of hours the employee worked in each cost objective;
- (2) cover not more than one month whose end coincides with the end of a pay period; and
- (3) be signed by the employee.

b. To provide an accurate representation of the actual distribution of employees' time for cost allocation purposes, a periodic time reporting system must satisfy the following conditions:

- (1) While periodic time reporting is not a statistical method, the periods of time designated for data gathering must collectively provide a representative sample of the overall distribution of employee time and effort that can be projected to the fiscal year as a whole. At a minimum, all

participating employees engaged in two or more cost objectives should be required to complete PARs for a period of either one week per month or one month per calendar quarter.

- (2) The PAR and related instructions must provide for reporting on every program and/or activity in which participating employees worked.
- (3) The coding instructions must enable employees to clearly relate the activities or services they perform to programs or other cost objectives for which data are captured. As with continuous time reporting, non-work time must be separately identified.
- (4) The PAR must provide for accounting for 100 percent of an employee's compensated time during the time periods during which data are collected.
- (5) The data are collected with sufficient frequency to capture material fluctuations in employees' time distribution among programs and other cost objectives over the course of the fiscal year. If this condition cannot be met, the State or local agency should consider shifting to continuous time reporting or modified continuous time reporting (per sections 3010 or 3020, respectively, of this chapter).

3. Use of the Data.

The State agency should prepare formal written internal procedures, which explain how the data are to be used in developing salary costs associated with each cost objective. Periodic time reporting is similar to continuous time reporting. It differs mainly in the timing of data collection on employees engaged in two or more programs or other cost objectives. In

addition to the common features, therefore, procedures for periodic time reporting must explain how data drawn from sampled time periods are used to assign salary costs for periods when data are not gathered. The State agency may, for example: (a) calculate allocation percentages from the data collected in October of a fiscal year; (b) use these percentages to allocate salary costs of November and December; (c) recalculate the allocation percentages on a year-to-date basis after gathering data during January; (d) apply the new allocation percentages to salary costs of January through March; and so forth.

B. Advantages and Disadvantages.

1. Advantages.

- a. This method provides a good tool for allocating salary costs without the same volume of paperwork required by continuous time reporting.
- b. As with continuous time reporting, the procedure for completing PARs is relatively easy to learn. Employees are generally able to quickly incorporate completing report forms into their daily routine.
- c. The method of allocating salary costs of generic workers, described under “Modified Continuous Time Reporting,” above, could be used with this method as well as with continuous time reporting.

2. Disadvantages.

- a. Because it is practiced only during designated periods of time, employees may view this method as disruptive to their primary mission of providing health care.
- b. As with continuous time reporting, some employees may

be tempted to postpone completing report forms until the end of a week or even the entire report period. This may result in an inaccurate account of their activities.

- c. Cognizant agency approval is required.

C. Application.

Periodic time reporting is a “substitute system” that can be used only with the approval of the cognizant Federal agency. If approved, this method would be appropriate for an office/clinic that has employees engaged in two or more programs and/or other cost objectives. It would be particularly applicable to organizations whose employees generally experience a stable distribution of their duties among cost objectives over time. The more this distribution fluctuates, the greater the risk that a material shift in time distribution will not be captured during a period designated for data gathering.

3040 RANDOM MOMENT SAMPLING

A. Principles.

A random moment sampling system (RMSS) is a statistically valid method for capturing the amount of time that workers spend on various programs and other cost objectives. It is a “substitute system,” which a State or local agency may use after the cognizant Federal agency has given approval. Using employees’ total time as the universe, a statistically valid sample of moments in time (dates and times) is selected for each employee whose compensation is to be allocated by RMSS. At each such moment, an observer or monitor records what the employee is doing and (if applicable) the program or other cost objective in which the employee is engaged. The data gathered thereby are used to allocate salary costs to cost objectives.

1. Data to be Used.

When designing the sampling plan and observation form, a State or local agency must give careful attention to defining the population of employees to be sampled and the programs and/or other cost objectives whose costs are to be allocated through the RMSS. The universe from which moments will be selected must encompass all employees to be sampled and all moments of work, including work performed under alternative work schedules if applicable. The employees to be sampled may be limited to those engaged in direct client contact.

Once the population to be sampled is defined, a sampling plan must be designed to pull a statistically valid sample of employees' time. In determining the size of the sample to be pulled, the agency must ensure that the sum of observations of employee activity (often called "hits" or "strikes") is statistically valid. The sample must provide for observations of non-program activity, such as leave, breaks, lunch, etc. It must also accommodate "non-strikes," which occur when a worker is not available for observation at the designated time. Additionally, it may be necessary to stratify the sample in order to accurately measure employee time and effort in activities that are performed only infrequently or in certain localities.

2. Data Gathering Process.

Under most RMSS's, some agency workers are designated as monitors or observers and trained to observe and record the activities of employees at the moments selected by the system. This can be done through telephone contacts from a central location or through personal contacts by observers assigned to each office. Periodically, an observer receives a list of the sample of moments to be observed, including the employee, day and time of day.

At the specified time, the observer contacts the employee and identifies the program or other activity in which the employee is engaged. The observer records the information on an observation form. At a minimum, the completed form should identify the worker, data, time, and activity or program. It should also contain a statement, to be signed by both the observer and the worker, attesting to the accuracy of the observation. The form may also indicate the client case number related to the observation, if applicable.

3. Use of the Data.

The individual observations would be compiled for a period of time and the percentages of time spent on each program/activity would be calculated. These percentages would then be applied to the total costs to be distributed via the RMSS. If, for example, ten percent of the total observations were for WIC nutrition education, then ten percent of the salaries for the sampled employees would be identified as WIC nutrition education. The time distributions resulting from the study might then be used to allocate the salaries of related supervisory, clerical, and support staff, whose duties are less readily identifiable to programs, functions, and activities.

B. Advantages and Disadvantages.

1. Advantages.

- a. Because an RMSS is a time study based on a statistically valid sample of moments, it is less intrusive and requires less effort by employees than the other methods discussed in this guide.
- b. RMSS results are considered more accurate than the other methods discussed herein because they do not rely on employees' after-the-fact recall or their willingness or

ability to record data promptly over an extended period of time.

2. Disadvantages.

- a. RMSS requires greater resources than the other methods discussed in this guide. For example, an agency that wishes to construct an RMSS must have expertise in statistical methodologies; if this expertise is not available in-house, the agency may need to engage a consultant. Monitors and observers must be trained to operate the system after it is in place. Thus, an RMSS requires more special skills and may be more expensive to set up and operate than the other methods.
- b. For RMSS results to be valid, the observations must be made in strict compliance with the moments statistically selected for each worker. There is little or no room for errors or oversight.

C. Application.

As a “substitute system,” an RMSS would require approval by the cognizant Federal agency. It would be appropriate for an agency with a large group of employees who perform similar activities that benefit WIC and non-WIC programs. The larger the population of participating employees, the fewer the number of observations that will be required of each employee. Accordingly, this method may work best for States in which both State and local offices are staffed with State employees; in such cases, the RMSS can be operated on a statewide scale.