



Fringe Benefit Costs

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February 15, 2022

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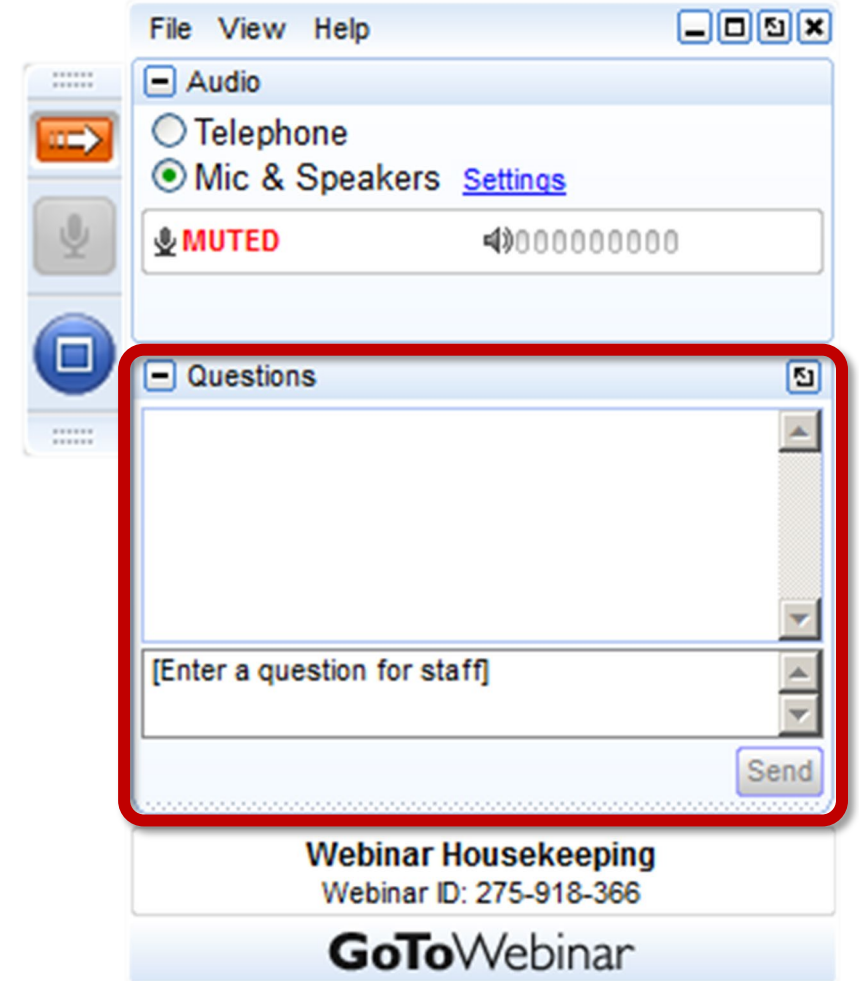
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Fringe Benefit Costs

Facilitated by: Allmond & Company, LLC

U.S. Department of Housing and Urban Development
Office of Housing Counseling

February 15, 2022

Agenda

- Introductions
- Course Objectives
- Cost Principles Fundamentals
- Fringe Benefit Cost Principles
- Fringe Benefit Documentation
- Example Fringe Benefit Cost Calculation

Introductions

- US Department of Housing of Urban Development, Office of Housing Counseling
- Allmond and Company
 - Blair Clarke, CPA, CGFM – Assistant Project Manager
 - Vanessa McCollum, CPA, CGFM – Manager

Course Objective

- Understand general cost principles established in the Uniform Guidance (2 CFR 200) and the CHC Grant Agreement
- Understand cost principles related to fringe benefits
- Understand how to document and calculate fringe benefit costs.

Background

OMB's Uniform Administrative Requirements, Cost Principles, & Audit Requirements for Federal Awards: Commonly known as Uniform Guidance; is the authoritative set of rules governing all Federal awards. It includes Standards for Fringe Benefit Expenses.

Fundamental Principle of Reimbursement

To be reimbursed, a cost must meet all of the following conditions:

- Be Allowable
 - Per Grant Agreement
 - Per Uniform Guidance (2 CFR 200 Subpart E)
- Be Reasonable
- Be Properly Allocated

Allowable Under Grant Agreement

HUD's Housing Counseling Program FY 2020 Grant Agreement establishes the requirement that costs be incurred pursuant to an **eligible activity**.

Per FY20 Grant Agreement, Article IV(C) *Eligible Activities*

Allowable Under Grant Agreement

Eligible Activities

- Housing counseling and group education
- Oversight, compliance, and quality control
- Supervision of housing counseling staff
- Housing Counselor training and certification
- Marketing and outreach of the housing counseling program to potential clients

Allowable Per Uniform Guidance

- “Costs must meet the following general criteria in order to be allowable ... Conform to any limitations or exclusions set forth in these principles” *2 CFR 200.403(b) Factors Affecting Allowability of Costs*
- See “*General Provisions for Selected Items of Cost*” (§200.400 – §200.476) for details on allowable and unallowable costs.

Reasonable Costs

“A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a **prudent person under the circumstances prevailing** at the time the decision was made to incur the cost.”

Reasonable Costs

- a) Ordinary and necessary for the operation of the housing counseling agency
- b) Sound business practices; arm's-length bargaining
- c) Market prices for comparable goods or services for the geographic area
- d) Acted with prudence in the circumstances
- e) No deviations from its established practices and policies

Properly Allocated

“A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award... **in accordance with relative benefits** received.”

Uniform Guidance – Fringe Benefits

GENERAL PROVISIONS FOR SELECTED ITEMS OF COST (§§ 200.420 - 200.475)

§ 200.420 Considerations for selected items of cost.

§ 200.421 Advertising and public relations.

§ 200.422 Advisory councils.

§ 200.423 Alcoholic beverages.

§ 200.424 Alumni/ae activities.

§ 200.425 Audit services.

§ 200.426 Bad debts.

§ 200.427 Bonding costs.

§ 200.428 Collections of improper payments.

§ 200.429 Commencement and convocation costs.

§ 200.430 Compensation - personal services.

§ 200.431 Compensation - fringe benefits.

§ 200.432 Conferences.

§ 200.433 Contingency provisions.

§ 200.434 Contributions and donations.

§ 200.435 Defense and prosecution of criminal and civil proceedings, claims, app

§ 200.436 Depreciation.

§ 200.437 Employee health and welfare costs.

§ 200.438 Entertainment costs.

§ 200.439 Equipment and other capital expenditures.



Uniform Guidance

2 CFR Subpart E - Cost Principles, §200.431 Compensation – fringe benefits, states, in part:

Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages.

Uniform Guidance

The costs of fringe benefits are allowable provided that the benefits are **reasonable** and are required by law, non-Federal entity-employee agreement, or an established policy of the non-Federal entity.

Uniform Guidance

The cost of fringe benefits in the form of employer contributions or expenses . . . are **allowable**, provided such benefits are granted under established written policies. 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 . . .

Uniform Guidance

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
- unemployment benefit plans

Fringe Benefit Costs

- Agency management should determine the best fringe benefit calculation method for their agency, based on entity size, its information technology, and the judgment needed in responding to these differing factors.
- Agency management should be able to properly support, with documentation, the method and inputs used to calculate its fringe hourly rates charged to the grant.

Documents to Support Fringe Benefits

Benefit	Defined	Supporting Documentation
FICA	Employer paid taxes under the Federal Insurance Contributions Act (FICA) are composed of the Social Security and Medicare taxes.	<ul style="list-style-type: none">• Payroll records• Current rates can be verified on the IRS website.
Insurance	Employer paid costs for employee life, health, unemployment, and worker's compensation insurance.	<ul style="list-style-type: none">• Written policy, usually documented in an employee handbook• Copies of invoices and payments to vendors• Employee enrollment forms

Documents to Support Fringe Benefits

Benefit	Defined	Supporting Documentation
Pension/ Retirement Plan	Employer paid costs for employee retirement plans.	<ul style="list-style-type: none">• Written policy, usually documented in an employee handbook• Copies of invoices and payments to vendors• Employee enrollment forms

Documents to Support Fringe Benefits

Benefit	Defined	Supporting Documentation
Leave	Regular compensation paid to employees during periods of authorized absences from the job, such as annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits	<ul style="list-style-type: none">• Written leave policy, usually documented in an employee handbook.

Example: Calculating Fringe Benefit Costs

How to Determine Fringe hourly rate:

- Calculate the total cost of each fringe benefit provided to each employee on an annual basis.
- Determine the total hourly cost of the benefit by dividing the total cost of the benefit provided by 2080 hours (40 hours/week x 52 weeks) to obtain the hourly fringe.

Note: Hourly Fringe rate is needed for the grant activity report.
(See FY20 Grant Agreement, Article XI(A) *Grant Activity Reports*)

Example Calculation: Agency Facts

Agency Benefits per Employee Handbook:

- FICA: Agency pays 6.2% for Social Security and 1.45% Medicare taxes of employee's salary to IRS.
- Paid time off:
 - Agency recognizes 5 paid holidays.
 - Employees with less than 5 years of service earn 10 days of PTO.
 - Employees with 5 years or greater service earn 15 days of PTO.
- Health Insurance: Agency pays \$100/month for each employee's health insurance costs.
- Retirement: Agency contributes 3% of employee's salary to retirement plan.

Example Calculation: Employee Facts

Employee Name	Annual Salary	Years of Service	No. of PTO days <small>(based on years of service)</small>	Enrolled in Health Plan (Yes or No)	Enrolled in Retirement Plan (Yes or No)
Employee #1	\$50,000	3	10	No	Yes
Employee #2	\$45,000	6	15	Yes	Yes
Employee #3	\$40,000	2	10	Yes	Yes

Example Calculation: PTO Costs

Employee Name	No. of PTO days	No. of Paid Holidays	Total Leave Hours <small>((PTO + Holidays) x 8 hours)</small>	Hourly Rate <small>(Salary ÷ 2080)</small>	Annual PTO Costs
Employee #1	10	5	120	24.04	2,884.80
Employee #2	15	5	160	21.63	3,460.80
Employee #3	10	5	120	19.23	2,307.60

Example Calculation: Total Benefit Costs

Employee Name	Annual Leave Costs	Annual FICA Expense (Salary x FICA rate)	Annual Health Plan Costs	Annual Retirement Plan Costs	Total Benefit Costs
Employee #1	2,884.80	3,825.00	0	1,500.00	8,209.80
Employee #2	3,460.80	3,442.50	1,200.00	1,350.00	9,453.30
Employee #3	2,307.60	3,060.00	1,200.00	1,200.00	7,767.50

Example Hourly Benefit Rate: Method #1

Employee Name	Annual Salary	Total Benefit Costs (TBC)	Fringe % (TBC ÷ Salary)	Hourly Rate (Salary ÷ 2080)	Benefit Costs Hourly Rate (Fringe % x Hourly Rate)
Employee #1	\$50,000	8,209.80	16%	24.04	3.85
Employee #2	\$45,000	9,453.30	21%	21.63	4.54
Employee #3	\$40,000	7,767.50	19%	19.23	3.65

Example Hourly Benefit Rate: Method #2

Employee Name	Annual Salary	Total Benefit Costs (TBC)	Fringe % (Total TBC ÷ Total Salary)	Hourly Rate (Salary ÷ 2080)	Benefit Costs Hourly Rate (Hourly rate x Fringe %)
Employee #1	50,000	8,209.80		24.04	4.57
Employee #2	45,000	9,453.30		21.63	4.11
Employee #3	40,000	7,767.50		19.23	3.65
Total	135,000	25,430.70	19%		

Common Error - Employee Paid Time Off

- Employee paid time off, annual, sick and holiday leave hours, should not be included in the Staff's direct hours on the grant activity report.
- PTO expenses should be captured in the fringe benefit costs rate.

References



OMB's Uniform Guidance (2020)

- https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl
<https://www.grants.gov/web/grants/learn-grants/grant-policies/omb-uniform-guidance-2014.html>

HUD's Housing Counseling Program Handbook (7610.1)

- https://www.hud.gov/program_offices/administration/hudclips/handbooks/hsg/7610.1

U. S. Department of HUD, Housing Counseling Program, Grant Agreement

- mailed directly to grantees

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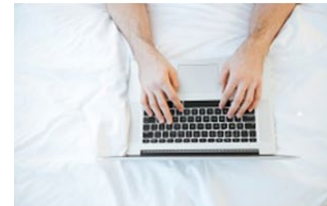
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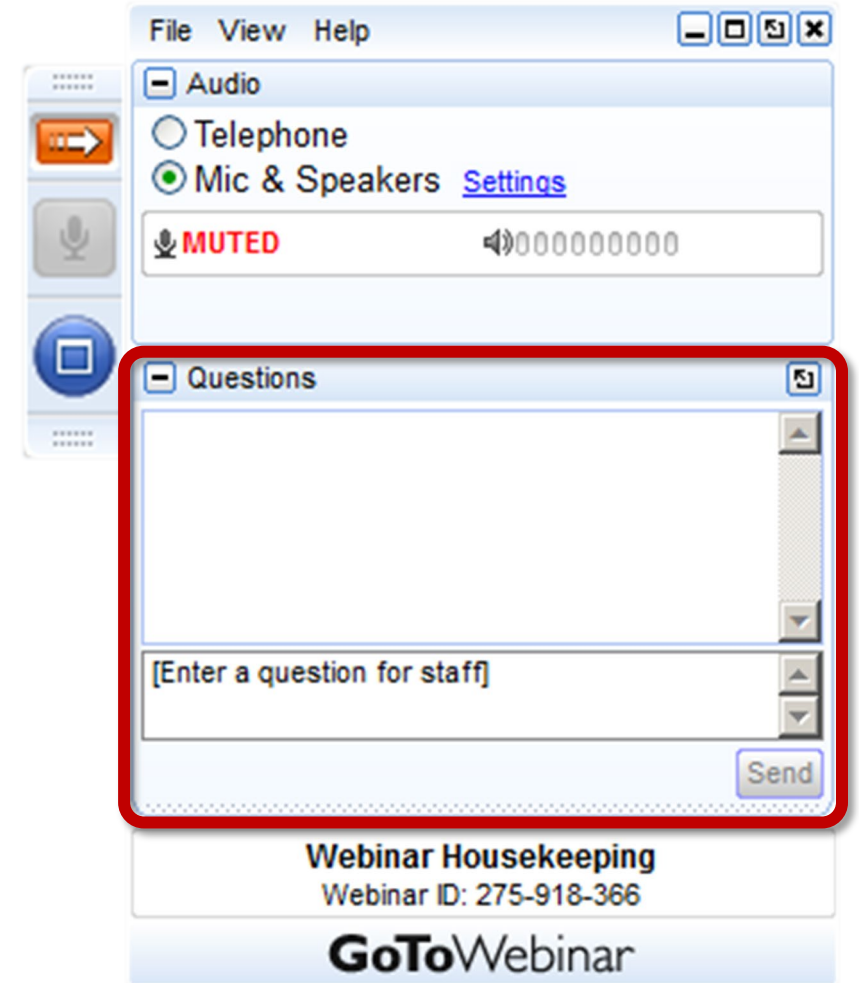
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