

**STATE OF WISCONSIN
STATE ACCOUNTING MANUAL**

SECTION:	V Expenditures	EFFECTIVE DATE:	July 1, 2004
SUB-SECTION:	18 – Lump-Sum Payments For Unused Leave	REVISION DATE:	October 1, 2005
SUBJECT:	Policy and Procedures	PAGE:	1 of 1

INTRODUCTION

These procedures apply to federally-funded state agencies that make lump-sum payments for unused employee leave at the time of separation. These lump-sum payments are for 1) sabbatical; and 2) annual leave that is earned but not used. The State payroll system charges these costs to the accounting string(s) in place at the time of separation.

Office of Management and Budget (OMB) Circular A-87 allows governments to allocate the cost of unused leave that is paid at the time of separation to federal grants and contracts. However, the cost must be allocated as a general administrative expense. Specifically, OMB Circular A-87, Attachment B, Paragraph 8.d. (3) states:

When a governmental unit 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 provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

ACCOUNTING PROCEDURES

Lump-sum payments for unused employee leave at the time of separation must be allocated to all activities of the governmental unit either through the Indirect Cost Rate Proposal (ICRP) or through a cost distribution system. The applicable fringe benefit costs must be included with the allocation. The applicable fringe benefit costs can be calculated using the percentages that were in effect at the time of the lump sum payment.

Allocating lump-sum payments through the ICRP

The amount of the lump-sum payment charged to a federal appropriation in the Central Payroll System should be transferred out of the federal appropriation and charged to non-federal appropriations in the year of payment. The entire amount of the lump-sum payment (federal and non-federal portions) should then be allocated to all activities through the ICRP. Lump-sum payments that are charged 100% to non-federal fund sources in the Central Payroll System may also be eligible for allocation through the ICRP.

Allocating lump-sum payments through a cost distribution system

For some federally-funded state agencies, lump-sum payments may be allocated to all activities within the governmental unit (e.g. an agency division), in the year of payment using a cost distribution system in accordance with OMB Circular A-87 guidelines. Agencies using this approach must allocate all lump-sum payments for unused employee leave at the time of separation using an appropriate cost distribution system.

Beginning in fiscal year 2006, the Central Payroll System will code lump-sum (termination) payments for unused leave to object code 1177 (Termination Payments for Unused Leave).