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Allocating Payroll How to Make “Cents” of it All

2024 WHSFMA Conference



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CLA – Wisconsin

- CLA Wisconsin includes teams focused exclusively on Local Governments. Teams are located across the state and collectively provide financial and single audit services for 35+ counties. We also provide various non-audit services to both audit and non-audit clients.



Bridget Van Laanen

- 17 years' experience
- Schenck merged into CLA in 2019
- Audited full-time from 2006-2012
- Moved into Human Services consulting in 2012.



Human Services Consulting

- Accounting and reporting
- Chart of accounts
- **Cost allocations**
- Internal controls
- Individualized guidance



Human Services Payroll Challenges

- A Human Services department may have 100+ grant and billing programs funded by local tax levy, state and federal grants and various third-party revenues.
- Human Services departments have grown exponentially over the last few decades from just a handful of grant programs 40 years ago.
- Many counties have integrated Aging, ADRC, Child Support and/or Public Health into their Human Services departments while facing staff turnover across their entire Human Services department - program, fiscal and management.



Why does this matter?

- Payroll is the largest cost at virtually any Human Services department. Financial Managers need to be familiar with the rules on compensation for grants – both personal services and fringe benefits. They are most often an allocated cost, but sometimes can be a direct cost.
 - Most grants do not have specific rules for payroll costs in their contracts; they reference the DHS or DCF allowable cost policy manual and/or Federal regulations.
 - Examples of specific rules would include Income Maintenance and ADRC requiring 100% time reporting.



General Federal Requirements - Grants

- Compensation must be reasonable – can't pay more than other employees or the market rate just because you have a grant.
- There are some Federal maximums on pay, but typically not a concern in Wisconsin/Human Services.
- Payroll costs claimed need to follow the county's payroll policies and procedures approved by the board – benefits must be part of a written, approved policy.



General Federal Requirements - Grants

- How a county allocates payroll and all other allocated grant costs needs to be part of a written, board-approved Cost Allocation Plan.
 - This is not the indirect cost plan, but an agreed-upon, acceptable method that is part of county policies.
- Benefits, including PTO, must be proportionally allocated to all programs an employee works in and all employees must be allocated using the same methodology – must be consistent.
 - Cannot allocate one employee in a unit and not another when they both work in the same two programs.



General State Requirements - Grants

- Wisconsin allows AMSO/allocated admin costs to be claimed on most grants. AMSO must be allocated based on an approved, logical methodology using real data, not budgets.
 - The majority of AMSO costs are direct and allocated payroll
- Career payouts for banked sick/vacation/flex cannot be allocated to the program(s) an employee works in currently; they typically will need to be added to the main AMSO cost pool.
 - Example: a social worker retires from an ADRC position after 30 years with the county in multiple positions and receives a \$15,000 payout. It needs to be part of the AMSO allocation, not reported as an ADRC cost.



Payroll Expenditures – Documentation Requirements

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
 - Need to track employee time, typically 100%-time reporting.
 - Need review, certification and approval processes by employee, supervisor, and Financial Manager.
 - There used to be very specific employee certification requirements – most have been removed. DCF requires employees to sign off at least annually.
 - Best practice - have a uniform, standard monthly process for all employees, even if not required by grant. Easier to enforce the same rules for everyone.



Payroll Expenditures – Documentation Requirements

- Be incorporated into the official records of the agency.
 - Paid through the general ledger.
 - Allocations recorded on the general ledger.
- Reasonably reflect the total activity for which the employee is compensated for.
 - Must track all programs– can't just track one because there is grant funding available.
 - Must include all compensation.



Payroll Expenditures – Documentation Requirements

- Support the distribution of the employee’s compensation among specific activities if the employee works on more than one activity/task.
 - Need to split costs between all activities – may be multiple categories.
 - Grant program
 - Shared unit cost pool
 - Shared department cost pool
 - AMSO
 - Need to include all time off/non-program time.
 - PTO, general training and other non-specific time needs to be included in the timekeeping records and accounted for in allocation percentages. The costs of these items typically should be allocated to worked programs.



Payroll Expenditures – Documentation Requirements

- Comply with established accounting policies and practices.
 - County Human Services departments have to follow
 - GAAP
 - GASB standards
 - Governments in Wisconsin use modified accrual accounting for governmental funds (Human Services and related funds).
 - Revenues are recorded when measurable and available and expenditures are recorded when the liability is incurred, with some exceptions.
 - Counties usually have specific revenue recognition policies for grants, often 180 days after year end.
 - Counties should accrue payroll and other 12/31 payable expenditures in the year of service/purchase.
 - Grant reporting is based on the year of service/purchase and must agree to the corresponding GL.



Payroll Expenditures – Documentation Requirements

- Budget estimates qualify as support and could be used for interim accounting if:
 - The system for establishing the estimates produces reasonable approximations for the activity actually performed.
 - Significant changes to the employee’s workload/tasks are changed in a timely manner.
 - The finalized annual costs are allocated based on actual data and all interim accounting and grant reporting is adjusted to the actual results.
 - There is rarely a situation when using budget estimates/interim accounting for grant-related payroll is appropriate for a Human Services Department.



Accounting for Payroll Expenditures – Not Integrated

- Should be processed through general ledger payroll systems.
- 100% employees can be charged directly to program accounts.
- Employees working in/on more than one program/task should have their payroll costs allocated to a non-program cost pool that will be allocated.
 - Occasionally, a county *may* track, calculate, and directly change the employees' payroll distributions in the payroll system every pay period. While this can automate some of the allocation process, most payroll systems require manual data entry and rounding that can be tedious, time consuming and requires additional internal controls.



Accounting for Payroll Expenditures – Not Integrated

- Most counties use a worksheet to allocate payroll. Best practices include:
 - Automatic check figures – all totals should foot and cross check, totals from general ledger reports used should be entered and the worksheet should flag if they don't match.
 - Many counties use four decimal point percentages for payroll allocations; this is fairly accurate and requires minimal rounding.
 - Automatically balancing journal entry calculations
 - Accessible design and formulas
 - Someone else in the county can use and modify the worksheet immediately if needed.
 - The next person in the position can quickly learn and become familiar with the worksheet.
 - Excel includes many advanced functionalities, but they are not always appropriate – VBA, Macros.
- Example Worksheet



Accounting for Payroll Expenditures – Not Integrated

- Automatically balancing account structure - built in internal controls
 - Accounts used to record payroll should never have journal entries made directly to them for allocations – preserves amounts for finance reconciliations, budgetary calculations, audit trail and review, etc.
 - Ideally, offset/contra/allocation accounts are established in the same cost center as the payroll that will net to zero once amounts are allocated.
 - Need to be able to show that any allocation nets to zero.
 - Allocated wage/fringe accounts are located in program cost centers – can be summary accounts or could have accounts for each benefit.
 - Human Service programs don't typically need each benefit amount separate for any program reporting or grant/billing rate application.



Accounting for Payroll Expenditures – Integrated

- Time tracking system used by employees that automatically uploads time data to the payroll system. Includes all grants and programs for HS
- GL system has to be sophisticated enough and designed to allow for the programming needed to complete the integration or have it pre-built in.
- County will need skilled personnel long-term
- Typically has to be county-wide, not just HS



Accounting for Payroll Expenditures – Integrated

- Downsides:
 - Integrations are typically used by companies with thousands of employees – up front costs and staff time, plus ongoing maintenance may not make sense in a county with a couple hundred employees
 - Older GL systems lack features to enable integration and reporting options - there may not be a way to review allocated payroll without completely reperforming the allocation
 - This makes it difficult to design adequate internal controls
 - Full payroll allocation integration is not the best option for all counties; is pretty rare at this time.



Fiscal and Admin Employees

- Can be AMSO or shared or even direct in some larger agencies.
- With current staffing trends, very few employees are 100% AMSO.
- Billing employees are not AMSO – they may also complete some AMSO tasks, but billing only relates to some agency programs.
 - Should track time per program and/or create a billing cost pool, depending on circumstances/systems/programs.
 - Payroll and other billing costs can be pooled and allocated.
 - If a billing employee is 100% dedicated to Birth-to-Three for example, that is considered a direct cost for the Birth-to-Three grant.



Fiscal and Admin Employees

- Other Fiscal employees may or may not be AMSO, depending on the total number of staff, size of agency, division of work, etc.
 - An accountant in one agency may be 100% CLTS, whereas CLTS accounting may be 50% or even 5% of an FTE at other agencies.
- Receptionists in most agencies are not AMSO.
 - If more than one building/floor/entrance, need to allocate each receptionist to the programs/units covered.
 - Need to track time if there are clinic days, IM scanning or other tasks that relate to specific programs or units.



Fiscal and Admin Employees

- Filing Clerks, Typists, EMR managers/IT staff
 - These positions/tasks and related costs are often related to Clinical Services programs – MH and AODA clinics, grant, and other billing programs.
 - Payroll related to these tasks/positions needs to be allocated to the programs receiving the benefit, not AMSO.
 - While some counties are expanding the use of their EMRs to more programs than just Clinical Services, its usually not 100% of clients/programs.
 - Economic Support uses CARES and other state systems.
 - CPS/YA use WISACWIS
 - Very unlikely they would use an EMR for these programs or not at the same level as other programs.



Fiscal and Admin Employees

- Department Directors and Upper Management
 - These positions have typically been 100% AMSO and would not track their time.
 - Many Directors and other Managers are currently wearing multiple hats due to staff turnover and long-term vacancies.
 - Covering for Unit/Divisional Managers
 - Covering for Program Leads
 - Covering or carrying a regular caseload for a specific grant or billing program.
 - Every time they change their hat, they need to track their time
 - Relevant payroll and other related costs need to be allocated accordingly.



Fiscal and Admin Employees – Does payroll matter?

- Yes!
 - While some counties outspend their grant allocations 10-to-1 or more with just direct costs, that doesn't mean that they cannot get reimbursements for some of their Admin staff costs.
 - Income Maintenance and ADRC have sum sufficient lines – they pay the 50% of the amounts reported with no limit.
 - CLTS Admin has been paid in full in recent years, even when it exceeds the 7/10% limits
 - WIMCR/CCS programs reimburse some admin
 - You cannot push admin through AMSO to programs that receive no benefit just because it's easier or you have no data; costs should not be reported in those cases.



Unit Managers, Supervisors & Mixed Employees

- Need to split costs between all activities – may be multiple categories.
 - If they spend time on a specific grant program, they record it in the program
 - If they spend time doing general management duties such as payroll and AP approvals, training or supervision, they typically need a shared unit cost pool
 - If their unit is program-specific with absolutely no duties for other programs or employees that split time to another program, they can record 100% of their time in the program



Program Employees

- Need to split costs between all activities – may be multiple categories.
 - If they spend time on any specific grant program, they record it in the program; if they only work in one program, they record all their time in that program
 - If they work in multiple programs, but the position/county requires material amounts of non-program time, that time should typically go to a shared unit cost pool. Examples include:
 - Required training – harassment, CPR, HR meetings, etc.
 - Non-specific time – “email”, cleaning desk, cupcake time, etc.



The Most Important Reason for Accurate Allocations

- The code of Federal Regulations CFR 200.302 includes the requirement that all Federal Awards expended must be specifically identified in the accounts of the financial management system. Almost all state grants piggyback on this guidance, even if there's no Federal funding involved.
 - <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E>
- This means that wages, (both salary and hourly), and fringe benefits need to be allocated to an individual cost center for each grant program



What Should Happen

- Counties need an updated account structure to reflect current programs and reporting needs, as well as to maintain compliance with State and Federal regulations.
- County Human Services departments need to continuously update cost allocations for their program, fiscal and administrative shared costs, and document everything in detail!



Why hasn't this happened in some counties?

- Many counties have antiquated account structures designed for the programs that existed 40 years ago. Overhauling the sprawling account structure in a Human Services department is daunting, especially for payroll accounts.
 - Large number of programs
 - Large number of employees
 - Employees split time to multiple programs.



People Issues

- Staffing challenges
 - Lack of technical program or general accounting knowledge
 - Lack of governmental accounting knowledge and experience
 - Lack of an involved County Finance department
 - Revolving door in County Finance
 - Revolving door in HS Accounting/Finance
 - No time for anything beyond the day-to-day



Systems Issues

- Some counties have multiple timekeeping systems
 - County-wide system – limited functionality
 - EMR System – used for billing
 - HS-only system – only used for HS reporting
- Many counties don't have any formal timekeeping system
 - Use Excel timesheets for each employee



Budgeting Issues

- Counties that budget and track costs by groups of employees, such as a “MH Unit” instead of by program, will have a difficult time reporting, generating accurate budgets and controlling payroll costs.
- Position-based budgeting provides more accurate cost estimates. The county should know if each position’s hours worked are funded by grants, billing programs, tax levy or some combination.
- Most agencies are too big and have too many programs to base budgets on the prior year plus inflation, etc.



What does accurate timekeeping and payroll affect?

- Unit cost allocations
- AMSO/indirect and other admin cost pools
- WIMCR
- Accounting/financial results
- Budgeting
- Staffing needs



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