

Grants Management Guidance 2015-002

SUBJECT: Severance Pay

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Revised 11/14/2018

The purpose of this document is to provide guidance when applying severance pay to a federal grant.

Severance pay or dismissal wages is a payment by non-federal entities to workers whose employment is being terminated. This payment is in addition to regular salaries and wages. Costs of severance pay and similar employee benefits are allowable only to the extent that in each case, it is required by (a) law, (b) employer-employee agreement, (c) established policy that constitutes, in effect, an implied agreement on the non-federal entity's part, or (d) circumstances of the particular employment.

Note that payments for unused leave (accruals) are not considered severance pay. Payment for unused leave when an employee retires or terminates employment are allowable in the year of payment as an indirect cost.

➤ **Grant(s) awarded after July 1, 2015, per OMB Uniform Guidance (UG) 2 CFR 200.431**

Severance Pay

Charging severance expenses against federal grants

Given the federal guidance in the **OMB Uniform Guidance** and in keeping with your internal policies, the charging of severance expenses against federal awards is allowable provided:

- Severance payments that are due to normal recurring turnover and that otherwise meet the conditions of [§200.431\(i\) \(1\)](#) may be allowed provided the actual costs of such severance payments are regarded as expenses applicable to the **current fiscal year** and are equitably distributed among all activities of the non-federal entity during that period.
- Actual claims paid to or on behalf of employees or former employees for workers' compensation, unemployment compensation, severance pay and similar employee benefits (e.g., post-retirement health benefits), are allowable in the year of payment provided that the non-Federal entity follows a consistent costing policy.
Severance payments that are due to abnormal or mass terminations [§200.431\(i\)\(2\) \(ii\)](#) are of such conjectural nature that these costs may be unallowable. The federal government recognizes its obligation to participate, to the extent of its fair share, in any specific payment. Therefore, allowability must be determined on a case-by-case basis and prior approval by the Federal awarding agency or cognizant agency for indirect cost. As appropriate, is required. Costs incurred in certain severance pay packages which are in an amount in excess of the normal severance pay paid by the non-Federal entity to an employee upon termination of employment and are paid to the employee contingent upon a change in management control over, or ownership of, the non-Federal entity's assets, are unallowable. [§200.431\(i\)\(3\)](#).

Notes:

- 1) Variables to be considered when determining percentage of severance allowable include number of years worked on the award and "percentage of effort" expended by the employee during those years.

QUESTIONS AND ANSWERS

Q. CAN I CHARGE A FEDERAL GRANT FOR SEVERANCE PAY PER UNIFORM GUIDANCE?

A. Yes, the charging of severance expenses against federal awards is allowable and should follow a consistent costing policy.

Q. DO I NEED AN INDIRECT COST RATE TO CHARGE SEVERANCE PAY TO MY FEDERAL GRANT(S)?

A. No.

Q. DO I NEED AN INDIRECT COST RATE TO CHARGE PAYMENTS FOR UNPAID LEAVE TO MY FEDERAL GRANT?

A. Yes. Clarification provided in the US Chief Financial Officers Council 's frequently asked questions document under reference .431-2 states that unused leave expenses cannot be charged directly to Federal programs. Charging the expense directly would result in inequitable distribution of costs. The expense must be allocated in the year of payment as a general administrative (indirect) expense to all activities.

Q. WHAT IS PERCENTAGE OF EFFORT?

A. For example, if an employee worked and 50 percent of the employee's salary was charged to the Title I grant for the entirety of her employment, the Title I grant could be charged 50 percent of the severance cost for this employee, providing the non-Federal entity follows a consistent costing policy. The 50 percent balance of severance representing non-Title I activity completed by the employee must be charged to another source of funding or to an unrestricted source.

Q. IF I DON'T HAVE ANY OTHER FUNDING SOURCES WHERE SHOULD I CHARGE THE DIFFERENCE?

A. Each school must communicate internally in order to determine how these costs should be funded if there is no available source of sponsored funding at the program level.

Q. MAY I CHARGE SEVERANCE AGAINST NON-FEDERAL AWARDS?

A. Yes, to the extent that such charges comply with the terms and conditions of the sponsored award and the school's consistent costing policy.

General questions should be emailed to Grants.Management@education.ohio.gov.

Related Resources

Subject	Document/Resource
Federal Cost Principles	Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Chapter I, Chapter II, Part 200, Uniform Guidance)