

SUBJECT: Vacation Leave Accounting

We understand there have been questions on campus about the proper method of accounting for vacation leave.

The approved UCSF Cost Accounting Standards Disclosure Statement (DS-2) provides: "Leave costs, including vacation, sick, holiday, sabbatical, and other (e.g. jury duty) leave costs, are charged on the cash basis of accounting, determined based on actual cost, assigned to the University fiscal year in which the leave is taken, and allocated to direct and/or indirect objectives on a prorated basis consistent with the allocation of the employee's salary and wages at the time the leave costs are paid. UCSF is in the planning stages of a time and attendance system to facilitate recording vacation leave and automated distribution of vacation leave costs to all fund sources. Once vacation leave expense accrual is implemented, vacation leave costs will be charged on an accrual basis, rather than on a cash basis."

In other words, our agreement with the federal government is that no funding will be transferred with an employee to pay for accrued vacation hours when the employee changes funding sources or leaves a department. In the DS-2, we attested to UCSF's consistent treatment of this practice. (Of course, every employee remains entitled to all of his/her accrued leave after transferring to a new department. Hiring departments should request leave records from the transferring department.)

As disclosed to the government, this campus policy will change when the Financial Leave Assessment module within the PPS system is implemented in 2010.

Failure to comply with the accounting practices, policies and procedures disclosed in the DS-2 can jeopardize our standing with research sponsors, affect our ability to obtain future research funding, and result in monetary penalties.

If you have any questions regarding these practices, please click the following link for FAQs <http://acctg.ucsf.edu/payroll/index.htm> or contact Yvonne Deshayes, Payroll Manager at 476-3169 or by e-mail at yvonne.deshayes@ucsf.edu. Thank you.

FAQs for Accounting Vacation Leave Transfer

1. Why do we need to be consistent with this method of accounting for vacation leave?

We are required to obtain approval of our accounting methodologies (in a document called the Disclosure Statement, or DS-2) from the Federal

Government. In the DS-2 we have stated that vacation leave is accounted for on a cash basis, which means that no accrued vacation liability should be transferred when an employee changes funding sources or leaves a department. The Federal Government has approved this practice with the understanding that we intend to replace it at a future date with an accrual-based vacation leave assessment program. Until that time, we need to be consistent with our stated DS-2 position.

2. Would there be consequences to UCSF if we were not compliant with the DS-2?

Failure to comply with the accounting practices, policies and procedures disclosed in the DS-2 can jeopardize our standing with research sponsors, affect our ability to obtain future research funding, and result in monetary penalties.

3. Should we submit a Vacation Leave Transfer of Expense form when an employee changes funding sources or moves to another department?

No. Payroll no longer accepts Vacation Leave Transfer of Expense forms. When an employee transfers out of a department, the accrued vacation leave hours transfer with the employee to another department, but no accrued vacation expense is transferred. This includes transfers to or from the Medical Center.

4. How should we expense vacation leave?

Vacation leave should be expensed on a pro-rated basis consistent with the allocation of the employee's salary and wages at the time the leave is paid.

5. Will this practice change after the implementation of Vacation Leave Assessment (VLA)?

Yes. Once VLA is implemented, vacation leave will be managed on an accrual basis rather than a cash basis. VLA is a function of the On-line Payroll Personnel System (OLPPS). When implemented, this function will generate a monthly assessment against each non-Medical Center account/fund from which salaries are paid. The assessed funds will be held in a central account set up for this purpose. When vacation is taken or paid out, the cost will be paid out of the central account. Both the assessment and the credit will show on the Distribution of Payroll Expense (DPE) reports.

6. What happens to the vacation hours when the employee transfers to another department?

Vacation hours should continue to be transferred to the new department.

7. **An employee who has accrued 300 hours in department A moves to department B and then retires within 3 months. Who must pay for his/her accrued vacation hours?** Until VLA is implemented, department B must pay the terminal vacation on a pro-rated basis consistent with the allocation of the employee's salary and wages at the time the leave is paid. Once VLA is implemented, the central pool will pay it.

8. **Who should I contact if I have any questions about this announcement?**

If you have additional questions, please contact Yvonne Deshayes, Payroll Manager at 476-3169 or by e-mail at yvonne.deshayes@ucsf.edu.