VOLUME 4, CHAPTER 10: “ACCRUALS FOR PERSONNEL RELATED LIABILITIES”

SUMMARY OF MAJOR CHANGES

Changes are identified in this table and also denoted by blue font.

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by bold, italic, blue, and underlined font.

The previous version dated November 2013 is archived.

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<th>EXPLANATION OF CHANGE/REVISION</th>
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<td>1.2 (100102)</td>
<td>Added required Authoritative Guidance paragraph to identify the chapter’s statutory or other authority per the Department of Defense Financial Management Regulation Revision Standard Operating Procedures dated June 2015.</td>
<td>Addition</td>
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<td>3.1.4. (100301.D.)</td>
<td>Revised paragraph to state material bonuses and awards should be accrued and that materiality is the responsibility of the Components.</td>
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<td>3.1.8. (100301.H.)</td>
<td>Added distinction between funded annual leave for Working Capital Funds and unfunded annual leave for all other fund types.</td>
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<td>3.1.9. (100301.I.)</td>
<td>Revised paragraph to indicate that sick leave is now used in the calculation of federal employees’ retirement.</td>
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<td>3.3 (100303)</td>
<td>Added general requirements to account for Liability for Pensions, Other Retirement Benefits, and Other Postemployment Benefits.</td>
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<td>Added detailed requirements to account for pensions.</td>
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CHAPTER 10

ACCRUALS FOR PERSONNEL RELATED LIABILITIES

1.0 GENERAL (1001)

1.1 Purpose (100101)

This chapter provides accounting policy and related requirements for recording Department of Defense (DoD) liabilities for accrued payroll and benefits, actuarial liabilities, and civilian severance pay.

*1.2 Authoritative Guidance (100102)

This chapter prescribes the accounting policy and authoritative guidance necessary to establish financial control over the DoD accruals for personnel related liabilities. This chapter implements applicable provisions of Statement of Federal Financial Accounting Standards 1, “Accounting for Selected Assets and Liabilities.” The accounting events discussed in this chapter must be recorded in accordance with the United States Standard General Ledger Standard Financial Information Structure Transaction Library and reported in accordance with the regulations promulgated by the Department of the Treasury and the Office of Management and Budget.

2.0 AUDIT READINESS/INTERNAL PROCEDURES (1002)

Each DoD Component must develop and implement internal operating procedures and/or guidance to execute this overarching policy in a manner that ensures complete, consistent, timely, accurate, valid, and relevant financial data.

3.0 ACCOUNTING POLICY FOR ACCRUALS (1003)

3.1 Standards (100301)

The accounting principles and policy applicable to the Financial Control of Liabilities are cited in Chapter 8. In addition to this guidance, and to ensure clarity, the standards, as listed in the following subparagraphs must be adhered to in accounting for accruals associated with personnel related liabilities.

3.1.1. The accounts must be updated based on appropriate source documents and reflect the latest pay adjustments, leave balances, levels of benefits, and changes in benefit rules.

3.1.2. Reasonable estimates (accruals) of the costs of services performed by DoD military and civilian employees, including overtime, must be made when a pay period does not coincide with the end of an accounting period. Such accruals must be recorded in the applicable accounting period based on journal vouchers with supporting documentation (or mechanized programs) that clearly shows the calculations and data used to compute the amount of the liability. The journal vouchers
must be signed by the appropriate authorized accounting official. These accruals must be removed from the accounts only when the related pay is disbursed.

3.1.3. Amounts due for annuities, adjudicated claims, and benefit payments as of the end of the period must be recorded in the applicable accounting period based on available information, provided that the payment is probable and the amount estimable. Such amounts must be recorded based on journal vouchers and supporting documentation clearly showing the basis for the amounts recorded. The journal vouchers must be signed by the appropriate authorized accounting official. Except for the DoD Component's share of fringe benefits computed as a part of the pay computation process, applicable accruals must be reversed at the start of the next accounting period and actual costs accumulated.

* 3.1.4. Accrue merit bonuses and awards, if material in amount, in the accounting period earned. Components are responsible for assessing a material threshold.

3.1.5. A compensated absence is an employee absence (ordinarily for vacation or illness) for which the employee will be paid. When DoD employees accrue rights to take leave with pay, DoD Components incur an expense and liability measured by the salary cost at the time that the leave may be taken.

3.1.6. Accrue the cost of unused annual leave, including restored leave, compensatory time, and credit hours earned as well as the fringe benefit costs associated with the leave. Obtain accrued leave amounts from the Defense Civilian Payroll System.

3.1.7. The expense and related liability for annual leave must be recorded at the regular hourly rate at which the leave is earned. Use of a fringe benefit rate is also acceptable for calculating accrued annual leave.

* 3.1.8. The balance of the liabilities for annual leave and other leave (compensatory time and credit hours), including fringe benefit costs associated with the leave, must be assessed and, as needed, adjusted to reflect all pay increases and unused leave balances at least quarterly for financial statement purposes. For General funds, unused annual leave is typically unfunded until the leave is used. However, the accrual of unused annual leave in working capital fund should be funded.

* 3.1.9. Sick leave is expensed as taken as absences due to illness or other contingencies. In addition, home leave and compensatory time for travel are not accrued, as balances not used are not reimbursed by DoD. However, sick leave is used in the calculation of federal employee’s retirement for both the Civil Service Retirement System (CSRS) and the Federal Employees Retirement System (FERS).

3.1.10. Accrue benefits, including benefits to Social Security, retirement funds, the Thrift Savings Plan, and group health and life insurance programs in the same manner as gross compensation (see Volume 8, Chapter 3). Accrue other benefits, such as relocation-related real estate costs and personnel allowances, in the period earned.
3.1.11. Accrue payments to the Office of Personnel Management (OPM) for reemployed annuitants and severance pay for former employees in the same manner as gross compensation.

3.1.12. Accrue recruitment and relocation bonuses and retention allowances in the period earned.

3.1.13. The accrued amounts to be reflected in the general ledger accounts must not be limited to the amounts covered by available budgetary resources.

3.2 Supporting Records (100302)

To the extent such liabilities are unfunded, DoD Components must maintain appropriate supporting records of the unfunded portions to provide appropriate footnote disclosure in the financial statements when necessary. Disclosures must be made for unfunded liabilities in accordance with Volume 6B, Chapter 10.

*3.3 Liability for Pensions, Other Retirement Benefits, and Other Postemployment Benefits (100303)

The liability for Pensions, Other Retirement Benefits (ORB), and Other Postemployment Benefits (OPEB) should be recognized at the time the employee’s services are rendered and must be reported in the Components’ financial statements. If existing legislation requires that amounts paid to participants be recovered from others (e.g., employing agencies), then the estimated amount to be recovered must be reported as a receivable with the sources of expected repayments clearly indicated.

3.3.1. Pension benefits include all retirement, disability, and survivor benefits financed through a pension plan, including unfunded pension plans. DoD civilian and military employees are covered primarily under the following three defined benefit retirement plans: CSRS, FERS, and Military Retirement System (MRS).

3.3.2. ORB are provided outside the pension plan by an employer to a former employee or the employee’s beneficiary upon retirement. ORB include all retirement benefits other than pension plan benefits, such as retirement health care benefits.

3.3.3. OPEB are provided to former or inactive employees, their beneficiaries, and covered dependents outside pension or ORB plans. Inactive employees are those who are not currently rendering services to the employer but who have not been terminated, including those temporarily laid off or disabled. Postemployment benefits can include salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment, workers’ compensation, and veterans’ disability compensation benefits paid by the employer entity.

3.3.4. Defined contribution plans (e.g., the Thrift Savings Plan) do not result in pension liabilities.
*3.4  Pensions (100304)

3.4.1. For DoD Civilian pension plans (CSRS & FERS), the Components should recognize a pension expense that equals the service cost for its employees for the applicable accounting period, less the amount contributed by the employees, if any. The cost factor to be applied by the Components must be provided by the administrative entity, Office of Personnel Management.

3.4.2. For MRS, actuarial estimates should be used to calculate the pension expense and liability.

3.4.2.1. The “aggregate entry age normal” actuarial cost method should be used to calculate the pension expense and liability for the MRS financial statements. The liability is the actuarial present value of all future benefits, based on projected salaries and total projected service, less the actuarial present value of future normal cost contributions that would be made for and by the employees under the plan.

3.4.2.2. Individual Component expense is based on the actuarial cost. The difference between Component expense and amount paid by the Component to OPM or MRS should be recognized as an intragovernmental liability. Refer to Volume 12 for more information.

3.4.3. Official communication between OPM and the Office of the Actuary must be maintained by the Components to support pension expense and any related liability.

*3.5  Other Retirement Benefits (100305)

Components should account for and report the ORB expense, such as medical costs for retirees, in its financial report in a manner similar to that used for pensions. ORB expense should be recognized in an amount equal to the total service cost (as determined by the Office of the Actuary). Components must record and report their portion of the ORB liability.

*3.6  Other Postemployment Benefits (100306)

Components should recognize an expense and a liability for OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. An example ‘OPEB’ is Federal Employees’ Compensation Act (FECA).

3.6.1. FECA provides federal employees injured in the performance of duty with workers' compensation benefits, which include wage-loss benefits for total or partial disability, monetary benefits for permanent loss of use of a schedule member (e.g., body part), medical benefits, and vocational rehabilitation. The FECA program is financed by direct reimbursements from agencies.

3.6.2. The FECA fund pays benefits on behalf of Federal entities as costs are incurred and bills the entity annually before August 15 for the costs incurred during the previous 12-month period ended June 30 (July 1 – June 30). Federal entities fund the FECA payments through appropriations reimbursed to the FECA fund. For those agencies that have funding through appropriation, each entity must include in its annual budget estimates for the fiscal year beginning
in the next calendar year a request for an appropriation for the amount equal to the costs (approximately 15 months). Once the appropriation is received, the payments are due to the Department of Labor (DOL) within 30 days

3.6.3. The DOL sends each agency the actuarial liability estimates for future worker’s compensation benefits amounts for both the current and prior years. The current figure represents the new balance in the Actuarial FECA Liability. The change in actuarial liability is determined by taking a difference of prior year actuarial liability sent from DOL with the current year actuarial liability sent from DOL.

3.6.4. The following support must be included with the Actuarial FECA Liability entry:

3.6.4.1. The DOL Memorandum for Chief Financial Officers of Executive Departments and Agencies, which contains the actuarial balances,

3.6.4.2. Agency-Wide Financial Statements Directorate allocation spreadsheet reflecting the percentage allocation to the entity level, and

3.6.4.3. A copy of the last three annual chargeback bills for the Department Level.