General Policy and Procedure Overview:
Benefit-eligible employees of the University of Missouri earn vacation leave each month. Any unused balance is payable to the employee upon termination or retirement from the institution. The University of Missouri records a liability for this accrued vacation leave in accordance with the financial reporting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 16. The University’s vacation benefit, exclusive of sick leave, meet the definition of compensated absences as defined in Statement 16; therefore the liability is calculated only on vacation balances.

According to GASB Statement 16, the compensated absence liability is measured using the pay or salary rates in effect at the balance sheet date. It also requires additional amounts to be accrued for certain salary-related payments associated with the payment of compensated absences, including employer provided benefits.

Definition of Key Terms:
Compensated Absence or Vacation Leave – Absences for which employees will receive full compensation – either as paid time off or compensation at termination or retirement. Employees earn the right to be compensated for these absences based only on rendering past service.

Program Classification Structure (PCS) – Categories used in higher education to report expenditures by function or purpose.

Detail Policy and Procedure:
The University has chosen to record the accrued liability and expenses in high level Deptids for all Business Units except Hospital where the liability and expense is recorded in the detail ChartField string from which the employee is paid.

The accrued vacation liabilities and expenses must be recorded in such a manner that financial reports can be run to reflect total expenses by program classification structure (PCS), as well as by natural expense classification. To achieve this purpose, Deptids have been set up at all business units (except HOSPT) for each type of PCS code. The liabilities and expenses are recorded to the corresponding Deptid with the same PCS code as the Deptid from which the individual is paid. The transaction will also retain the same fund as the payroll chartfield. In short, all accrued vacation expense for individuals at a business unit who are paid from fund 2285 and a deptid with a Research PCS code (21) will be recorded in the same deptid called Vacation Pay Accrual 2.1 using fund 2285. It is important that the PCS associated with all deptids is correct, as it is an important component in determining where these entries are recorded.
Vacation leave balances are stored in the HR/Payroll module. A process is run every month to calculate the dollar amount associated with these accrued vacation balances and to record the dollar amount as a liability to the University. The program calculates the hourly pay for each employee and multiplies it by the number of hours in the Vacation Accrual table for that employee. The program stores this information in a Finance Table and uses this data to create journal entries in the General Ledger.

On a monthly basis, the campus accounting offices review the vacation accrual contrasting it with the prior month and prior year. The Controller’s Office performs a monthly informal review of the accrual for reasonableness. Annually the controllers department performs a formal analysis of the accrual to assure reasonableness. The analysis consists of several tests that may include fluctuation analysis, contrasting the change in the accrual with the change in salaries, etc. This analysis is performed by the Director of Financial Reporting and reviewed by the Controller. This control function tests the accuracy and completeness of the accrual with the review by the controller serving as an authorizing function.

Responsibility:
Campus Accounting Offices
- Ensure the PCS code assigned to each deptid is correct.
- Monthly review the accrual for reasonableness and contrast to budget.

Controller’s Office
- Running the vacation accrual program each month.
- Monthly an informal review of the accrual for reasonableness.
- Perform an annual formal analysis of the accrual to assure reasonableness.

Accounting for the Transactions:
The journal below is an example of what is created from the vacation accrual program. 2 lines of debits for expenses related to salary and benefits are created as well as offsetting entries for the accrued liabilities. The entries are made every month for the total liability and then reversed the first day of the next month. The net effect on expenses for the month would be the change in liability.
Questions and Comments?
Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.