

# HARVARD UNIVERSITY



## Severance on Sponsored Awards

Originally Issued: March 2010

Last Revised: March 2016

Responsible Office: Office for Sponsored Programs

---

## Federal Regulations

Federal guidance regarding severance expenses comes from two primary sources:

### [NIH Grants Policy Statement, Part II, Subpart A, Cost Considerations](#)

#### *Severance Pay*

- Allowable only to the extent that such payments are required by law, are included in an employer-employee agreement, are part of an established policy effectively constituting an implied agreement on the part of the organization, or meet the circumstances of the particular employment. The amount of severance pay to be provided should be determined according to established organizational policy consistently applied regardless of the source of funds and should be reasonable, taking into consideration the practice of similar types of organizations and the extent of the organization's dependence on Federal funds. The applicable cost principles should be consulted regarding the different treatment of severance pay in regular and mass termination situations.

### [OMB Uniform Guidance, Subpart E §200.431](#)

#### *Severance Pay*

- Severance pay is compensation in addition to regular salary and wages which is paid by an institution to employees whose services are being terminated. Costs of severance pay are allowable only to the extent that such payments are required by law, by employer-employee agreement, by established policy that constitutes in effect an implied agreement on the institution's part, or by circumstances of the particular employment.

- Severance payments that are due to normal recurring turnover and which 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 the institution's activities during that period.
- Severance payments that are due to abnormal or mass terminations are of such conjectural nature that allowability must be determined on a case-by-case basis. However, the Federal Government recognizes its obligation to participate, to the extent of its fair share, in any specific payment.
- Costs incurred in excess of the institution's normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unallowable.

---

### **Charging Severance Expenses against Federal Grants Awarded to Harvard**

Given the federal guidance detailed above, and in keeping with Harvard's own internal policies, the charging of severance expenses against federal awards is allowable provided:

- Severance expenses comply with the "proportionality principle"; that is, they are charged in proportion to the amount of benefit received by the project. Variables to be considered include number of years worked on the award and percentage of effort expended by the employee during those years. For example, if an employee worked and was charged 50% of her salary to ABC Grant for the entirety of her employment with Harvard, ABC grant would pay 50% of the severance cost for this employee. The 50% balance of severance representing the activity completed by the employee would be charged to another source of funds, or to an unrestricted source.
- Severance payments comply with Harvard's Cost Transfer policy (i.e., all charges must be made within 90 days of the severance payment; no expenses beyond this date will be allowed).

---

## FAQs

### 1. What is work security?

Work security applies to non-exempt employees only. In accordance with the [Harvard Union of Clerical and Technical Workers \(HUCTW\) Agreement](#), work security may be provided in situations such as those which occur because a grant ends, when a department restructures, or when other changes make the future of particular positions uncertain.

### 2. May I charge work security expenses on a federal award for a non-exempt employee?

In general, work security would be considered costs incurred in excess of the individual's regular salary and wages and therefore would normally not be allowable. Work security expenses can only be charged directly if the employee continues working directly on an active award.

### 3. What does "proportionality principle" mean?

As with all expenses against federal awards, severance expenses must be charged in proportion to the amount of benefit received by the project. For example, if you have a 3-year award with severance for a staff member who has been working in a group for 10 years; they have worked 100% of his/her time and have been paid 100% of his/her salary from this award, however this is the last and only source of funding remaining, what should I do?

Following the proportionality principle, you may charge 3 years' worth of the severance expense against the grant because the individual was charged 100% of his/her time and was paid 100% of his/her salary from this award.

### 4. What if I don't have any other funding sources? Where does the difference come from?

It is up to each School/local unit to determine and communicate internally how these costs should be funded if there is no available source of sponsored funding at the PI or org level.

**5. Can I charge severance to a grant that is not ending if the employee is split-coded?**

It is appropriate and allowable to charge severance against any open award (or within the 90 day reconciliation period on a closed award) provided the amount of severance charged to both is proportional to the benefit received by each project. For example, if a person works 50% on a grant that is ending, and 50% on a grant that will remain active, both awards may be charged 50% of the severance (with the total amount being determined by how long the person has worked at 50% effort on each of the awards). This must also factor in the number of years that the individual has been on each award. See FAQ #3 above.

**6. If the grants belong to different PIs, should the second PI be responsible for a severance situation caused by the first PI?**

Yes, unless other arrangements are made (e.g., the employee opts to remain at 50% on the one award, or the Department/School offers to pay the second part of the severance), the second PI is responsible for covering his/her proportion of the severance expenses.

**7. May I charge severance against non-federal awards?**

Yes, to the extent that such charges comply with the terms and conditions of the sponsored award and University policy.

---

## **Revision History**

- 7/25/13 – Added to OSP website in PDF format
- 12/3/14 – Updated references to the Uniform Guidance
- 3/15/16 – Document identified as Guidance and FAQs updated