



**Washington State
Department of Transportation**

Interpretive Guidance Document

Uncompensated Overtime

Indirect Cost Rate for Architectural & Engineering Firms

WSDOT Internal Audit Office

December 5, 2016 Update

(Originally published September 23, 2011; the guidance in this document applies to indirect costs incurred after December 4, 2016)

This interpretive guidance document will discuss uncompensated overtime. Uncompensated overtime is defined in FAR 52.237-10 as “hours worked without additional compensation in excess of an average of 40 hours per week by direct charge employees who are exempt from the Fair Labor Standards Act. Compensated personal absences such as holidays, vacations, and sick leave must be included in the normal work week for purposes of computing uncompensated overtime hours.”¹

Firms contracting with WSDOT under Architecture & Engineering (A&E) agreements must have procedures covering the consistent recording and accounting for all hours worked, whether paid or unpaid, to ensure the proper distribution of labor costs. This is necessary because labor rates and labor overhead costs can be affected by total hours worked, whether paid or unpaid.²

Calculating Uncompensated Overtime

The AASHTO Audit Guide Chapter 5, Section, 5.4, F. Internal Labor Costs, 2. Uncompensated Overtime for Salaried Employees gives an example of the *Salary Variance Method* for calculating uncompensated overtime at Table 5.1. The *Salary Variance Method* is the preferred method for determining labor costs associated with agreements between the consulting firm and WSDOT. The example at Table 5.1 is based on the standard where an employee is expected to work 2,080 hours a year based on a 40-hour work week. The *Effective Rate Method*, also discussed in the AASHTO Audit Guide, is not consistent with the WSDOT A&E Cost Reimbursement Agreements.

Standard Wage Rates based on the annual salary divided by the standard hours per year, commonly computed at 2080 hours per year, should be used to compute hourly rates for agreements with WSDOT. If your firm accounts for labor using the *Effective Rate Method*, your Indirect Cost Rate Schedule will need to be converted using the *Salary Variance Method*; with an adjustment to the Indirect Cost Rate Schedule as described below. The adjustment to convert the labor from the effective rate to the standard rate will ensure the labor reported on the Indirect Cost Rate Schedule is consistent with how labor is billed on WSDOT A&E Cost Reimbursement Agreements.

Adjustments for Uncompensated Overtime

The direct labor section of the Indirect Cost Rate Schedule should reflect the labor for salaried employees at the hourly rate based on the employee’s annual salary (e.g. $\$72,800/2080 = \35 per hour). If a salaried employee’s labor summary for the year reports 1,800 hours of direct labor, the direct labor base should reflect \$63,000 ($1,800 \times \35 per hour). This would apply to all salaried employees that are direct chargeable.

¹ Reference AASHTO Audit Guide, Chapter 1, Pg. 9.

² Reference AASHTO Audit Guide, Chapter 5, Section 5.4, F. Internal Labor Cost, 2. Uncompensated Overtime for Salaried Employees

As a firm is expected to record all hours worked whether paid or not, the resulting difference between what was recorded to the project in the general ledger and what was paid to a salaried employee results in uncompensated overtime. For a firm that records its labor in the general ledger at the standard labor rate, the uncompensated overtime is captured in a payroll variance account. Using the figures from the previous paragraph, the following example depicts how a firm using the standard labor rate would post labor to its general ledger:

Direct Labor	+ Indirect Labor	- Payroll Variance	= Annual Salary
1,800 hrs @ \$35 per hr	475 hrs @ \$35 per hr	(195) hrs @ \$35 per hr	
\$63,000	\$16,625	(\$6,825)	\$72,800

For a firm that records its labor using the effective rate the 2,275 (1,800 direct + 475 indirect) hours worked for the year would be distributed between the direct and indirect labor in the general ledger using what the employee was paid (e.g. \$72,800/2,275 = \$32 per hour):

Direct	+ Indirect	= Annual Salary
1,800 hrs @ 32 per hr	475 hrs @ 32 per hr	
\$57,600	\$15,200	\$72,800

Converting the direct labor on the Indirect Cost Rate Schedule from the effective to the standard rate, is just a matter of applying a credit adjustment to the general overhead and a debit adjustment to the direct labor cost pool:

Labor Category	Financial Statement	Adjustments	Accepted Amount
Direct	\$57,600	\$5,400	\$63,000
Indirect	\$15,200		\$15,200
Job Cost Variance		(\$5,400)	(\$5,400)
Total	\$72,800		\$72,800

Exhibit - Uncompensated Overtime Example



Exhibit A
Uncompensated
Overtime Guidance

To open the Exhibit A Uncompensated Overtime Guidance document, please double click the document on the left under attachments.

If you have any questions, please contact us at (360)705-7003.