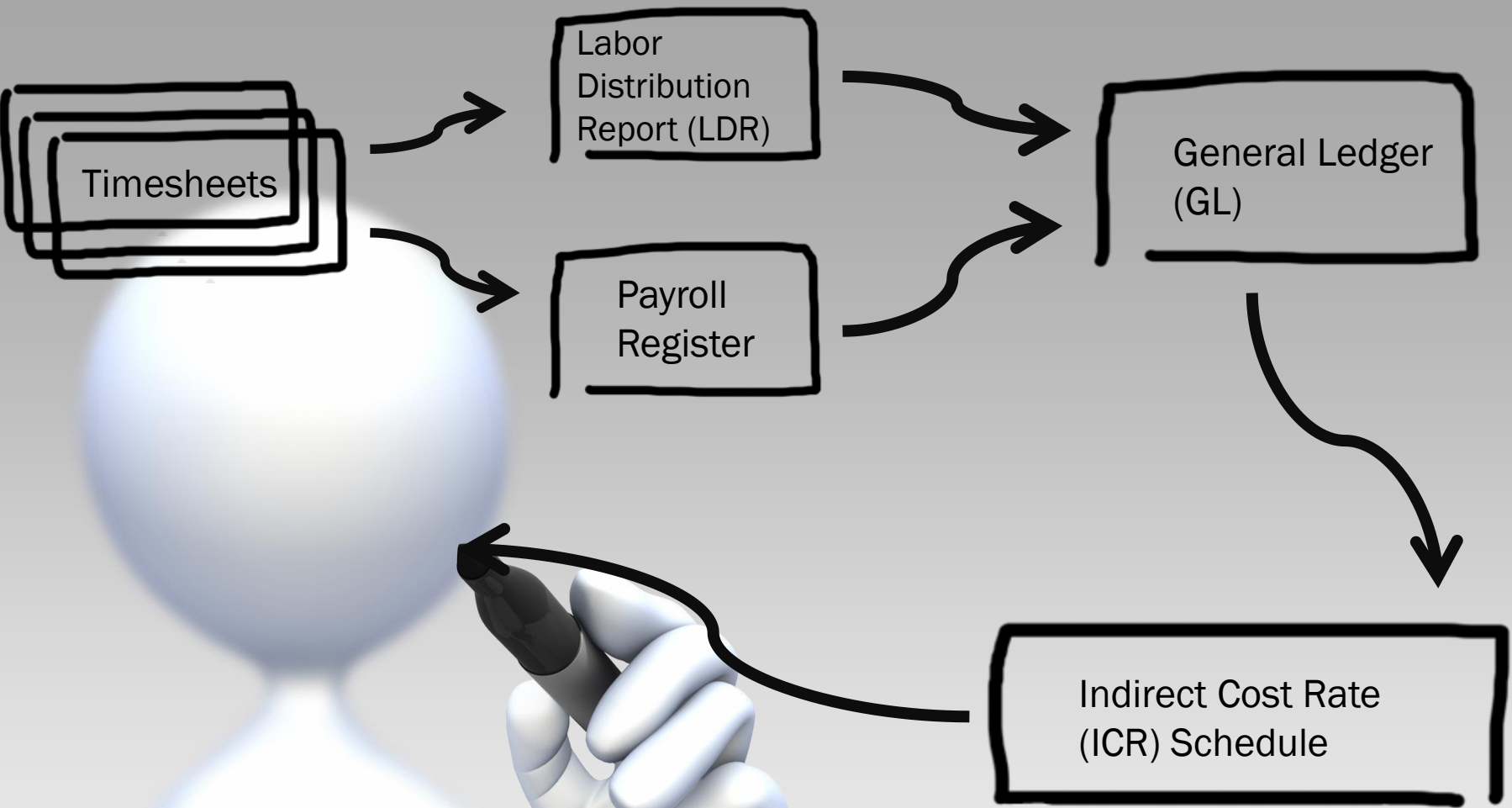




Indirect Cost Rate (ICR) Training

Labor Reconciliation (Module 5)

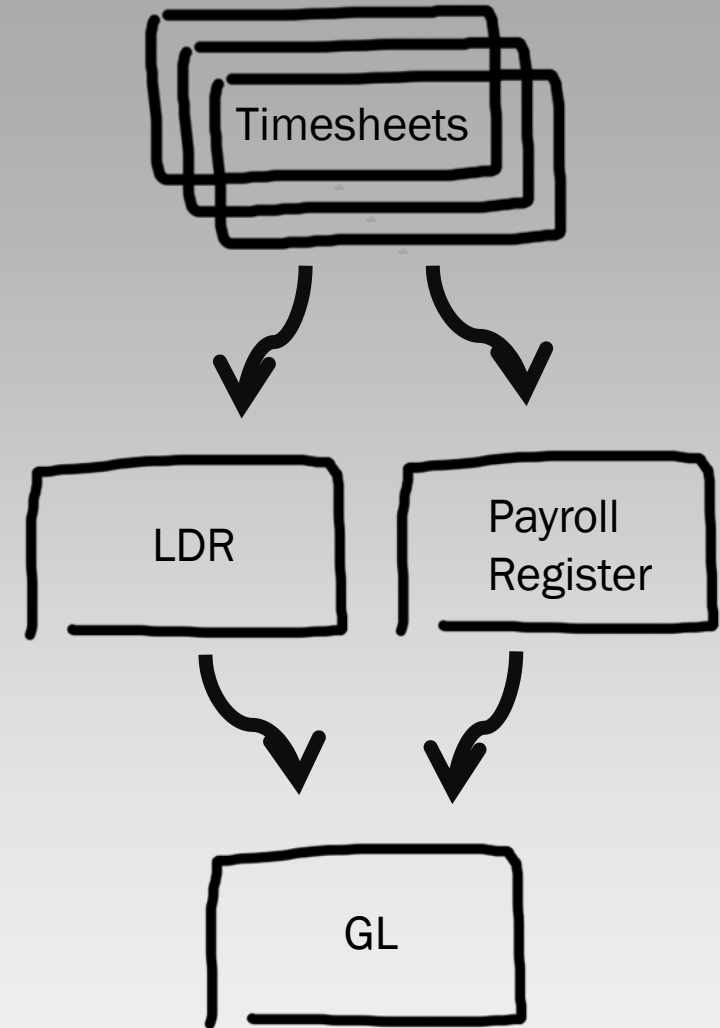


**Washington State
Department of Transportation**

Labor Reconciliation

Labor Reconciliation – What do we mean?

- The firm should be performing a labor reconciliation at the level of the individual employee (e.g. Timesheets).
- The firm will begin with reconciling the individual's timesheets to the Labor Distribution Report (LDR) and the Payroll System.
- The firm's LDR and payroll register should tie to the firm's General Ledger (GL).



Labor Reconciliation

Labor reconciliations **SHOULD** be performed at least monthly per Federal Regulations, as reconciliations help to:

- Verify rate of pay matches employee records,
- Verify labor expenses tie to timesheets, and
- Catch errors as they occur.

Labor reconciliations are an important procedure, as the firm's labor constitutes the largest component of the Indirect Cost Rate (ICR) schedule.

Labor Reconciliations attest that the labor charges to contracts represent actual paid or accrued costs and such costs are appropriately recorded in the accounting records.

Labor Reconciliation

Owner Draws

- Owners should be tracking all hours worked, whether the hours are billable/non-billable and/or direct/indirect.
- If the owner's form of compensation is draws (Balance Sheet account), then the payments will not be processed through payroll (Income Statement account).
 - This will cause the Labor Distribution Report (LDR) and Payroll Register to not reconcile, nor will the Income Statement reconcile to the Indirect Cost Rate (ICR) schedule.
 - To combat this problem, the firm can create offsetting accounts that will hit the firm's Income Statement without impacting the report.
 - Please refer to the following link on instructions on how to perform this task in QuickBooks:
<http://longforsuccess.com/2011/10/28/quickbooks-tip-applying-owners-time-for-job-costing/>
- For examples of how the LDR will reflect owner's draws, please refer back to **Module 2**.

Labor Reconciliation

Tracking All Hours

- All hours should be tracked in the same manner whether you are an owner, principal, or employee.
- Direct labor should be tracked and categorized in the proper line item on the Indirect Cost Rate (ICR) Schedule. Direct labor will include both billable and non-billable project labor hours.
- Indirect labor should be tracked and categorized in the proper line items on the Indirect Cost Rate (ICR) Schedule. Indirect labor will include general administration, bid & proposal (B&P), direct selling, advertising, public relations, training, etc.



Tracking All Hours

Labor Reconciliation

Period of Labor Costs

- Labor costs should be reported for the 12 months of the fiscal year in review.
- Labor performed in the previous year and/or subsequent year should not be included in the firm's current year Indirect Cost Rate (ICR) Schedule.
- Example
 - If the firm's payroll cycle is a bi-weekly pay cycle (26 paychecks) and the 2013 year's cycle runs from 12/23/2012 to 12/21/2013, and the firm's fiscal year is 01/01/2013 to 12/31/2013, the firm will need to do the following:

Step 1

Adjust out wages paid from 12/23/2012 to 12/31/2012.

Step 2

Adjust in wages paid from 12/22/2013 to 12/31/2013.

Step 3

Net the two adjustments and debit/credit to the total payroll.

- After payroll is adjusted, it should align with the labor totals on the Indirect Cost Rate (ICR) Schedule. **Refer to Module 2 for illustrated example.**



Period of Labor Costs

Labor Reconciliation

End Of The Year Reconciliation

- End of the year reconciliation is slightly different than monthly reconciliations.
 - The labor reported for the period should be for the firm's fiscal year and not for the year's payroll cycle.
 - The firm will use the General Ledger (GL) to populate the Indirect Cost Rate (ICR) Schedule.
 - The Labor Distribution Report (LDR), Payroll Register, and GL should all tie to the ICR Schedule, after all adjusting entries have been performed.
 - **All four documents MUST RECONCILE, if not, WSDOT may not be able to proceed with your annual ICR Schedule review (minor discrepancies will be considered).**
- It is **NOT RECOMMENDED** to wait until year end to complete your reconciliation(s). If a firm only performs a year end reconciliation, it will most likely be harder for the firm to find the root cause of any year end discrepancies. If you still use a checkbook, imagine waiting until year end to balance your bank statements!

Monthly reconciliations may seem like an extra burden on the firm, however the benefit received is well worth the burden. The firm will be able to roll each month's reconciliation up into the final year end reconciliation. This will help save time and effort towards year end reconciling.

Labor Reconciliation

Uncompensated Overtime (Uncomp OT)

- It is important to record and account for uncompensated overtime correctly, as it will be reported on the Labor Distribution Report (LDR), the Income Statement and the Indirect Cost Rate (ICR) schedule.
- A Payroll Variance (Uncomp OT) account will be created in your General Ledger (GL) to help balance labor reported on the three above documents to the actual amount paid on the Payroll Register.
- The year-end labor reconciliation to the right, shows how the variance account adjusts each document's total labor down to the total amount paid on the Payroll Register.

Note – It is important for the firm to record labor at the standard rate (2,080 hours) for salaried employees. If labor is recorded at the effective rate, it will need to be converted to the standard rate and may result in uncompensated overtime and affect the monthly/yearly reconciliation. Refer to Module 3.

YEAR-END LABOR RECONCILIATION

Example for Bi-Weekly Pay Cycle

Payroll Register from Paychex (Check dates 12/23/12 to 12/21/13)

Regular Pay	\$	705,230
Overtime	\$	1,752
Bonus	\$	65,000
Severance	\$	5,400
	\$	777,382
12/24/12 - 12/31/12 Accrual Adj	\$	(19,794)
12/22/13 - 12/31/13 Accrual Adj	\$	23,353
Bonus	\$	(65,000)
Severance	\$	(5,400)
	\$	710,541

Labor Matches

Fiscal Year 2013 Income Statement (P&L)

Direct Labor	\$432,206
Vacation	\$51,419
Sick	\$11,117
Holiday	\$24,869
Indirect	\$227,385
Payroll Variance	(\$36,355)
	\$710,541

Labor Matches

Labor Distribution Report - 2013

Direct Labor	\$430,454
Direct OP Premium	\$1,752
Office Labor	\$198,249
B&P Labor	\$9,129
Advertising Labor	\$4,005
Public Relations Labor	\$2,580
Direct Selling Labor	\$10,312
Education Labor	\$3,010
Holiday	\$24,869
Vacation	\$51,419
Sick	\$11,117
	\$746,896

Payroll Variance (Uncompensated OT)	(\$36,355)
	\$710,541

Labor Matches

Indirect Cost Rate Schedule - 2013 - Column for Financial Statement Amount

Direct Labor	\$432,206
Vacation/Sick/Holiday Pay	\$87,405
Indirect Labor	\$198,249
B&P Labor	\$9,129
Adv Labor	\$4,005
Public Relations	\$2,580
Direct Selling	\$10,312
Ed/Research Labor	\$3,010
	\$746,896

Payroll Variance (Uncompensated OT)	(\$36,355)
	\$710,541

Labor Matches

Balance with Adjusted Payroll

Be Sure To Visit Us Online!

Our website is filled with educational material and guidance for all firms. We have published several interpretive guidance documents to further assist firms. The website below provides guidance on the following topics and we are continuing to add further topics:

- Small Firms
- Labor
- Uncompensated Overtime
- Direct Selling, Public Relations, Advertising and Bid & Proposal
- Allowable Bonus
- Auto Expense
- Meals
- Airfare

Please check this site regularly for updates.

URL -

<http://www.wsdot.wa.gov/Audit/guides.htm>

WSDOT Safe Harbor Program:

URL –

<http://www.wsdot.wa.gov/Audit/SafeHarbor.htm>



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For Additional Guidance and Contact Information

Please refer to the end of Module 6!

