Indirect Cost Rate (ICR) Training
LABOR Components
(Module 3)
Direct Labor

- **Definition** – Direct labor is production or services labor that is assigned to a specific product, cost center, or work order. All direct labor costs must be included in the direct labor base regardless of whether the costs are billable to a client.

- The allocation base of the Indirect Cost Rate (ICR) Schedule
  - Denominator for rate calculation (Indirect Expenses / Direct Labor = ICR Rate)

- Examples of non-billable project labor hours that should be included in the direct labor base:
  - Project hours expended which exceed the allowable limit to a lump-sum agreement.
  - Project hours over budget that cannot be billed.
  - Project hours worked prior to notice to proceed.
Fringe Benefits

- **Definition** – Fringe benefits is an employment benefit granted by an employer that has a monetary value but does not affect basic wage rates. It includes costs for employee incidental payments and costs associated with the employer’s portion of payroll taxes & employment benefits.

- Applies to Employees and Owners

- Examples of possible fringe benefits (some of these categories may not apply to your firm):
  - Payroll Taxes (Employer’s Portion)
  - Bonus
  - Auto Allowance
  - Medical and/or Life Insurance
  - Paid Time Off (PTO) and Holidays (if applicable at your firm)
  - Retirement (applicable portion)
• **Definition** – Indirect Labor is hours that cannot be traced to any one specific project.
  • Examples
    • General and Administrative Labor
    • Bid & Proposal (B&P) Labor
      • See *Indirect Cost Rate Selling Labor Guidance*
    • Direct Selling Labor
    • Advertising Labor
    • Public Relations Labor
    • Education/Training Labor
  • The AASHTO Audit Guide uses the term “Marketing” to identify unallowable types of selling labor. The term “Marketing” is too general, and is not defined in the Federal Acquisition Regulations (FARs).
Uncompensated Overtime

- **Definition** – Hours worked without additional compensation.
  - Applies to salaried staff and/or owners – Exempt salaried/owners may work more than 40 hours per week with no additional pay.
  - Hours worked in excess of 40 hours per week, or 2,080 hours per year.
  - Could be Direct, Indirect, or Combination
  - Labor is recorded at the standard rate (Salary/2,080 hours)
  - If your firm records labor at the effective rate, this will need to be converted to the standard rate and may result in uncompensated overtime.
    - Effective rate is calculated weekly based on actual hours worked.
    - The effective rate is not compatible WSDOT A&E Cost Reimbursement Agreements.
Uncompensated Overtime

• Payroll Variance account is used to reconcile total dollars paid to total labor reported. The Payroll Variance account will appear in your General Ledger (GL); on your Income Statement; and on your Indirect Cost Rate (ICR) Schedule.

• **Example** – An employee works 45 hours (30 direct hours, 15 indirect hours) in a week but is paid his standard weekly salary of $800 (40 x $20 per hour).

  • The entries to the accounting system would appear as follows:
    - Direct Labor $600 (30 hours x $20 per hour)
    - Indirect Labor $300 (15 hours x $20 per hour)
    - Payroll Variance $(100) (5 hours not paid x $20 per hour)

    **Total Labor** $800

    (Matches what employee was paid yet still records the value of the 45 hours worked)

*Please review our [Indirect Cost Rate Uncompensated Overtime Guidance](#) for more information.*
Selling Labor Activities

- Your Indirect labor will include various types of activities, and depending on the category, you will need to keep certain types of documentation to support that specific type of labor.
  - The following labor categories are explained more in depth in our *Indirect Cost Rate Selling Labor Guidance*
    - Bid & Proposal
    - Direct Selling
    - Public Relations
    - Advertising
  - **Note** – Firms should not use the term “Marketing” to track and record selling activity labor and expenses
Where are the labor components on the Indirect Cost Rate (ICR) Schedule?

- Direct Labor will be its own section on the ICR.
- Fringe Benefits will be included as a separate section directly proceeding the direct labor.
- Indirect Labor will be presented in the General Overhead section directly proceeding the Fringe Benefits section.
  - Selling Labor will be broken down into their proper categories.
  - Payroll Variance (Uncomp OT) will be presented with the indirect labor.
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:

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

Please check our website on a regular basis for updates.

- URL – [http://www.wsdot.wa.gov/Audit/default.htm](http://www.wsdot.wa.gov/Audit/default.htm)

WSDOT Safe Harbor Program:

URL – [http://www.wsdot.wa.gov/Audit/SafeHarbor1CR.htm](http://www.wsdot.wa.gov/Audit/SafeHarbor1CR.htm)
For Additional Guidance and Contact Information

Please refer to the end of Module 6!
Questions?
We are Happy to Help You!

Comments?
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