WATKINS | MEEGAN

Uncompensated Overtime & Government Contractors

By Kristen Soles

Many government contractors have found themselves in a “discussion” with DCAA auditors regarding uncompensated overtime at one point or another. Uncompensated overtime is the unpaid hours worked over the standard 40 hours for exempt employees. DCAA is concerned about how these hours are recorded. Total time accounting requires all hours worked to be recorded and prorates the salaried cost of the individual across all charges.

This is the standard amongst defense contractors for recording time as well as the most accepted method by DCAA. Without a total time accounting policy, it is up to the employee’s discretion how hours will be charged to the government. This flexibility leaves the door wide open for the possibility of unfairly increased profit margins, distorted pool bases, and irritable DCAA auditors. Total time accounting is the standard amongst government contractors for a reason. The DCAA audit manual, or DCAM, cites in that “If it is determined that government contracts are being overcharged by a material amount due to an inequitable allocation of costs because the contractor does not Labor Accounting for Government Contractors record all time worked, the contractor should be cited as being in noncompliance with FAR 31.201-4 and CAS 418.”

Government contractors have also run into trouble with CAS 401 on this issue. While there are no regulations that specifically identify total time accounting as required, DCAA uses the regulations to support its position on total time accounting as follows: FAR 31.201-4 “A cost is allocable if it is assignable or chargeable to one or more cost objectives,” meaning that all hours worked should be applied to final cost objectives.

CAS 401 deals with the consistency between accounting and bids and proposals. If all hours worked are recorded on your general ledger, they should be included in the build-up of your cost proposals.

CAS 418 relates to the proper allocation bases for direct and indirect costs; DCAA cites this to support its view that the exclusion of uncompensated overtime hours will distort the pool base.

The two most widely used methods for recording uncompensated overtime are the effective hourly rate method and the payroll variance method. The effective hourly rate (or auto adjust) method takes the hours an employee works over 40 in a week and prorates their hourly rate down accordingly. The payroll variance (or overhead credit) method takes the variance of hours from a 40-hour week and multiplies it by the standard hourly rate and charges the variance to an overhead “variance” account.