

# Overview of Uncompensated Overtime

## Independent Office of Audits and Investigations (IOAI)

### What is Uncompensated Overtime?

#### Uncompensated Overtime

FAR 52.237-10 defines uncompensated overtime 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.”

#### Uncompensated Overtime for Salaried Employees

Engineering consultants may not be required to pay overtime to salaried employees for hours worked in excess of 40 hours per week. Any unpaid hours worked by salaried employees in excess of the normal 40 hours per week are commonly called “uncompensated overtime.”

#### Why is Uncompensated Overtime Important to Caltrans A&E Contracts?

- Caltrans need to verify the consultants’ costs conform to the Federal Cost Principles.
- The staff billing rates need to be fair and reasonable.
- If not properly accounted for, Caltrans could overpay consultants for allowable costs.

#### Accounting for Uncompensated Overtime

##### Effective Rate Method

Using this method, effective hourly pay rates are computed weekly, based on actual time charges. (Effective hourly rates also could be computed per payroll period or monthly; the concept is the same). This requires the firm to divide each employee’s total salary by their respective hours worked for the period, which results in variable wage rates being allocated to cost objections (direct and indirect).

##### Standard Rate Variance Method

Under this method, labor costs are allocated at standard hourly rates for every hour worked and overhead is reduced for the appropriate portion of labor costs generated by uncompensated overtime hours. Standard rates are computed as the total salary cost to be paid divided by the estimated number of hours that a salaried employee is expected to work.

#### Consultants Allowed to Bill Caltrans for Uncompensated Overtime

The consultant must meet all the following requirements to be reimbursed for uncompensated overtime:

- Exempt salary employees work more than 40 hours per week on Caltrans specific projects.
- The employees must not receive additional compensation for the uncompensated hours.
- The consultant needs to demonstrate the use of the Salary Variance Method.

- For CPA Audited ICR Reports, the Report Notes should include the use of the Salary Variance Method and the applicable credit to the ICR schedule.
- For internally generated ICR schedules, the Labor Summary Report needs to show the uncompensated overtime total amount that ties to the credit in the ICR schedule.

### Consultants Not Allowed to Bill for Uncompensated Overtime

- Firms using the Safe Harbor Rate
- Firms with no uncompensated overtime history using the Salary Variance Method
- Exempt hourly employees who receive compensations for overtime (typically at the straight time rate)
  - Ex. Exempt employees at certain classifications who work billable hours in exceed of the standard hours in a pay period will be eligible for straight time incentive pay.

### IOAI's Conclusions for Uncompensated Overtime

- Consultants are allowed to bill for uncompensated overtime if they properly account for it using the Standard Variance Method.
- If consultants do not have nay uncompensated overtime in their accounting records, the consultants should not bill for uncompensated hours.
- IOAI will assist DPAC with reviewing each firm's uncompensated accounting practices as part of the verifying the reasonableness of the staff billing rates.

### Contact Information

Steve Castillo, Senior Management Auditor (Retired) [Steven.Castillo@dot.ca.gov](mailto:Steven.Castillo@dot.ca.gov)

Email Inbox [Conformance.review@dot.ca.gov](mailto:Conformance.review@dot.ca.gov)