

Frequently Asked Questions: Basic Timekeeping

This document is a follow up to our timekeeping webinar. These are some of the questions that we have been asked since our webinar. We hope that you will find these helpful.

Please check back to this site often. As we receive more questions we will update this document. The following link will take you to our guides and timekeeping webinar:

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

1. How do I compute my raw labor rate if I don't work full-time (2,080 hours a year)?

We recognize that some owners/principals of small firms do not work full time, which is 2,080 hours per year. This could also apply to exempt salaried employees that do not work full time. If you do not work full time, your raw labor rate is computed by dividing total compensation by the total hours worked for the year.

For owners that do not receive compensation through payroll the total draws/distributions for the year divided by the total hours worked for the year would establish the raw labor rate.

In order to compute your raw labor rate accurately, you will need to track all hours worked.

Examples:

John Doe's total compensation was \$65,000 in draws last year. He worked a total of 985 direct hours, 312 administrative hours, 89 direct selling hours, and 110 bid & proposal hours. The \$65,000 divided by the total hours worked – 1,496 – equals the raw labor rate of \$43.45. This firm does not have paid time off.

Mary Smith's total salary was \$45,000 for the year. Her salary had been reduced this year because she is now working part time. She is an exempt employee, and works a total of 1,500 hours – 1,383 hours direct labor, 48 hours administrative/indirect labor, 25 hours bid & proposal, 20 hours direct selling, 16 hours paid time off, and 8 hours holiday. The salary of \$45,000 divided by 1,500 total hours worked equals the raw labor rate of \$30.00 for Mary.

If you did not track your indirect labor for the past year, phone us and we will assist you with making an estimate for indirect labor for the year.

2. What does tracking "all hours worked" on timesheets mean?

All hours worked means that you track all activities in support of your business. You will need to track all hours whether they are paid or not, billable and non-billable, and direct and indirect. It also includes any work for the private sector, business development, advertising, public relations, bid & proposal,

searching proposal databases, etc. If paid time off and holidays are applicable to your firm, this must be tracked on your timesheet.

3. What documentation should I have to support my draws?

If draws are the method of compensation, we should be able to verify proof of payment. Proof of payment may include a list of draws which indicates the date paid, amount paid, and to whom. We should be able to verify that any payments/business expenses come after you pay yourself. (*Remember to pay yourself first!*)

In our experience, firms with more than one owner have a written agreement in regard to compensation/draws. If you have questions, please contact us.

4. What is the definition of a small firm?

The number of employees may not necessarily define a small firm. Some of the other factors that will be considered are the gross revenue, number/variety of clients, etc.

5. I am a single member firm; do the federal regulations apply to me?

The federal regulations apply to all firms, regardless of size. The same rules that apply to a 1,000 person firm will apply to a one person firm. A one person firm may not need the same accounting/timekeeping systems that a large firm would need to meet the intent of the federal regulations. For example, an automated timekeeping system isn't necessary to meet the record keeping requirement in 48 CFR 31.201-2(d). **A manual timekeeping system can be just as effective for a small firm.** Chapter 6.4-b.2 of the AASHTO Audit Guide and the Checklist at the end of the chapter provides a good summary of what a manual timekeeping system should include to support that records are adequately document labor.

Please refer to the following link for a more detailed explanation in the AASHTO Audit Guide:

<http://audit.transportation.org/Documents/UAAG-3%20FINAL.pdf>

All firms need to keep the proper/adequate records, but this may be accomplished in different ways.

6. Do I have to show paid time off on my time sheets?

A small firm may choose not to pay for vacation, sick, and holiday. Annual leave is an elective benefit, which may or may not be provided by your firm. The firm should have a written/dated policy, regardless of whether they pay for annual leave or other benefits. The timekeeping system (or manual timesheets) should record all paid holidays, vacation, sick leave and any other fringe benefit tracked by the hour and provided by your firm.

(Exception - for those firms that fall under the City of Seattle Paid Sick/Safe Leave Ordinance # 123698).

If you do work in Seattle, this may require you to pay sick leave. ***Please refer to the following link for***

the revised ordinance: <http://clerk.seattle.gov/~scripts/nph-brs.exe?s1=&s3=117216&s4=&s2=&s5=&Sect4=AND&l=20&Sect2=THESON&Sect3=PLURON&Sect5=CBORY&Sect6=HITOFF&d=ORDF&p=1&u=/%7Epublic/cbory.htm&r=1&f=G>

Verify the employment laws where you are doing business.

7. I am a small firm and I cannot afford an accountant. Do I really need to hire an accountant?

Depending on the size of your firm and how much business that the firm has, you may or may not need an accountant. It is a business decision based on what the firm can afford. If you are a very small firm, you may not need an accountant, or you may only need a bookkeeper part time.

- Some small firms are delegating this duty to a family member. We have a great deal of guidance on our website which these firms are using. ***Please refer to the following link for our audit guides:*** <http://www.wsdot.wa.gov/Audit/guides.htm>
- Many small firms are sharing an accountant/bookkeeper.
- Much of this work can be done remotely.
- You may need assistance from a tax accountant to finalize your financial statements and file your taxes.
- The cost of an accountant or bookkeeper is recoverable in your Indirect Cost Rate if you keep documentation supporting the cost.

8. Why do I need to track all hours worked on timesheets, when I do not get paid for indirect hours?

Once your firm graduates from the Safe Harbor program ¹ and is using an Indirect Cost Rate to recover costs, you will recover indirect hours worked. **Tracking all hours gives you a true and accurate picture of the cost of doing business.**

The hours you spend developing and managing your business provide a basis for the indirect labor which you would then recover as part of the indirect cost rate. Labor is the largest component of the Indirect Cost Rate (ICR) Schedule and recording all hours worked assures that labor is allocated correctly. The labor rates and indirect costs can be affected by the total hours worked, not just the hours that are paid.

¹ Safe Harbor Program: <http://www.wsdot.wa.gov/Audit/SafeHarbor.htm>

The following example shows how tracking all hours worked will benefit a firm using an indirect cost rate (ICR – Overhead) to recoup non-billable expenses:

EXAMPLE:

Description	Financial Statement
Direct Labor	\$200,000
Fringe - e.g. (Vac/Sick/Hol), Payroll Taxes	\$50,000
Indirect Labor	\$75,000
B&P Labor	\$15,000
Payroll Variance (Uncompensated Overtime)	(\$10,000)
Other Indirect Costs – e.g. Rent, Depreciation, Office Supplies	\$100,000
Total Expenses	\$230,000
Indirect Cost Rate (Expenses/Direct Labor)	115%

Please note – your ICR (overhead) will have different account titles, different dollar amounts, and a different rate based on your firm. This is an example only.

9. How do I record overtime hours on my timesheet?

This is best determined by the timekeeping system you are using and whether the overtime is paid or not. There are several variables that determine how your firm records overtime. If the following does not answer your questions, please give us a call, we would be happy to speak with you regarding your firm’s specific requirements.

If you are using a *manual system*, we recommend you just record the hours as they occur. The timesheet example in the timekeeping presentation shows all hours recorded as worked with no segregation for the hours above the standard 8 hours per day. This will be sufficient for owners that do not receive compensation for overtime as well as employees that are paid for overtime at the standard rate.

We find that the majority of overtime premium is project related and billed to clients; so this labor would be recorded in the direct section of the timesheet.

Automated timekeeping systems can be a little more complicated as you would need to set the guidelines on how to record overtime. If you have an automated system we suggest that you speak with your software provider or software customer service representative. Please keep in mind that overtime premium that is billed to clients should remain in the direct labor base.

10. How do I determine the fixed fee percentage (part of your billing rate)?

If the contract you are bidding on is a WSDOT agreement, the fixed fee is negotiated with the Project Manager or the Area Consultant Liaison. The fixed fee is individually negotiated for each contract. There are several variables taken into account to arrive at the percentage; such as the complexities of the agreement, length of the project, and inherent risk of the scope of work. Please speak with your WSDOT or Local Agency contact to negotiate the fixed fee percentage allowed for your respective agreement.