

Time and Effort Reporting for Commercial Organizations

Policy

Commercial (for-profit) organizations must document salaries and wages charged to contracts and grants by maintaining a labor distribution system for all employees regardless of function. The labor distribution system must account for **total** hours and charge direct and indirect labor to the appropriate cost objectives in order to accurately identify labor costs:

- Charged to direct projects.
- Charged to indirect activities.
- Included in the base to which indirect costs are allocated.

Internal controls

Timekeeping procedures and controls on labor charges are of utmost concern. Unlike other costs, labor is not supported by external documentation or physical evidence which provides independent checks and balances. It is critical that managers indoctrinate individual employees on their independent responsibility for accurately recording their time. Internal controls over labor charging should meet the following criteria:

- The responsibility for timekeeping and payroll accounting should be separated.
- Procedures must be clear and reasonable so there is no confusion regarding the rationale for the controls or misunderstanding as to what is and is not permissible.
- Maintenance of controls must continually be verified, and violations must promptly and effectively be acted upon to serve as a deterrent to prospective violations.
- Individual employees must constantly be made aware of controls that act as an effective deterrent against violations. This awareness can be accomplished by emphasizing the importance of accurate time and effort reporting in orientation sessions, periodic meetings and the posting of messages as reminders.
- Changes on timesheets to the number of hours recorded or the cost center identified should be made by the employee **and** must be initialed by the employee.
- The company policy must state that the nature of the work performed determines the proper distribution of time, not the availability of funding, type of contract/grant or other factors.
- The company policy should emphasize that complete and accurate time and effort reporting is an important part of an employee's job. Careless or improper reporting may lead to disciplinary actions under company policies as well as applicable Federal statutes.

Time and Effort Documentation Requirements and Responsibilities

Detailed instructions for time documentation should be established in written company procedures. A manual system would require handwritten pen and ink entries on a paper timesheet reflecting all the days in the pay period. An automated timekeeping system typically would use remote data entry for recording labor charging data and sending it directly to a central computer for processing. Supporting documentation for an automated system would normally consist of computer printouts showing data that appear on source documents, i.e., timesheets, in a manual system.

Employee Responsibilities

Whether a manual or automated time and effort reporting system is in place, the employee is personally responsible for:

- After the fact recording of hours (or fractions thereof) on a daily basis.
- Recording all hours worked and all hours absent. All hours should be recorded whether or not they are paid.
- Recording of hours on the timesheet in ink (manual system only).
- Recording the correct distribution of hours by project or indirect category. The nature of the work performed determines the proper distribution of time, not the availability of funding, type of contract/grant or other factors. To ensure accuracy, a listing of project numbers/indirect categories and their descriptions should be provided in writing to each employee.
- Any changes/corrections to timesheets should be made by the employee and must show what was initially recorded, i.e., no erasures or “white out” of entries. The employee also must initial any change(s).
- At the end of each pay period, the employee must sign the timesheet or electronically certify the labor distribution in an automated system.

Supervisor Responsibilities

An authorized company official (e.g., supervisor) must cosign timesheets or electronically certify individual time and effort reporting at the end of each pay period.

- The supervisor is prohibited from completing an employee’s timesheet or entering hours in an automated system unless the employee is absent for an extended period of time on some form of authorized leave.