

TIME REPORTING POLICIES AND PROCEDURES

5.11 TIME REPORTING POLICIES AND PROCEDURES

5.11.1 GENERAL

Time reporting is the process by which Southern Research (SR) gathers labor hours and cost data. SR will maintain a system of time reporting for labor hours which ensures that compensation and leave policies are appropriately administered and that labor costs are accurately and consistently assigned or allocated to cost objectives based upon actual time worked.

5.11.2 DEFINITIONS

The definitions below explain many of the key terms used in the time reporting process. These terms may not appear on the employee Time Sheet; however, they represent the way in which labor hours reported on Time Sheets are categorized for cost accounting purposes.

- a. **Compensated Overtime** – Compensated overtime is all overtime labor paid to an employee by SR. It is comprised of all overtime incurred by non-exempt employees, paid at time and one-half, and overtime paid to exempt employees. Exempt employees may be compensated, at a straight-time rate of pay, for overtime worked and authorized in advance for compensation (see Section 5.11.6).
- b. **Cost Objective** – A cost objective is the targeted or intended recipient of an incurred cost, including labor, materials, other direct costs or indirect costs. It may be a project, work order, bid or proposal effort, a departmental overhead or general and administrative account, or any other specific task assigned by management (for example, development or construction of an internal asset). A “final” cost objective is one that receives charges through direct assignment and indirect allocation but does not allocate charges any further. Projects, work orders, and bid and proposal efforts are examples of final cost objectives.
- c. **Direct Labor Hours** – Direct labor hours encompass time spent on client engagements, bid and proposal preparation, and independent research and development as described below:
 - i. **Engagement Hours** – This category refers to time spent performing a specific assignment under a client project or contract. It includes activities related to fulfilling the requirements of the contract’s statement of work, time spent in planning, directing, and controlling the project, and specific tasks or assignments under the contract. Under some contracts this category may include preparing a response to a Task Order proposal. Unless preparation of such responses is expressly stated as a contractual/task order requirement, hence, chargeable to the client, it is to be charged as Bid and Proposal time (see below).

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- ii. **Bid and Proposal Time (B&P)** – As defined in the US Federal Acquisition Regulation (FAR) Part 31.205-18, this category refers to direct technical work undertaken to prepare and submit both solicited and unsolicited bids and proposals, including Best and Final Offers (BAFOs), to obtain Government and non-Government contracts/grants (i.e., time spent on work that results in a deliverable on a bid). It does not include time spent on efforts covered by a grant or cooperative agreement or time required performing contract activities.
- iii. **Independent Research & Development Time (IR&D)** – As defined in the FAR Part 31.2040-18, this category includes basic research, applied research, development, and other concept formulation studies. IR&D does not include work done as part of a client engagement or of proposal preparation or development of in-house administrative capabilities.

NOTE: B&P and IR&D are classified under direct labor, even though they ultimately become part of an indirect cost rate (i.e. G&A), because government regulations require project accounting as if they are separate cost objectives inclusive of direct costs and indirect costs excluding G&A.

- d. **Exempt vs Non-exempt** – The Federal Fair Labor Standards Act distinguishes between employees based on the type of work performed. In general, if the work is discretionary in nature, the employee is termed Exempt and has great discretion over his/her schedule (see Partial Day Pay for Exempt Employees). If the work is non-discretionary or discretionary within narrowly defined limits, the employee is termed Nonexempt and is eligible for premium overtime pay.
- e. **General and Administrative Employees** – Includes employees assigned to either Corporate or Business Unit General and Administrative (“G&A”) cost centers who typically do not charge their time out to multiple cost objectives. Examples would include business development, accounting, etc.
- f. **Hours Worked** – Includes time spent on direct labor and indirect labor activities. All employees **must include all time spent** on such activities (see Section 5.11.6.d); Hours worked does not include activities that:
 - i. An employee undertakes on his/her own initiative for his/her own benefit, and
 - ii. Do not directly benefit SR or its clients.
- g. **Indirect Labor Hours** – Refers to time spent in support of a general business effort or cost objectives that are not attributable to specific client engagements, proposal preparation or IR&D. They include administrative hours (whether overhead or general and administrative effort), marketing, training and employee counseling and development.
- h. **Other Labor Categories** – Time charged to any of the compensated Leave accounts.

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- i. **Leave Without Pay** – Represents hours not worked during normally scheduled time that **are not recorded** as compensated leave. Leave Without Pay should occur very infrequently and normally only when Personal Leave and PTO have been exhausted. Non-exempt employees do not record Leave without Pay on their timesheets and their timesheets will, accordingly, reflect fewer than 40 hours in a week for which the employee has Leave without Pay. Exempt employees must record Leave without Pay on their timesheets to the account LEAVE.LOA.
- j. **Overtime** – Any hours worked outside of the employee's scheduled Work Week.
- k. **Pay Week** – Employees are paid on a biweekly schedule. For payroll purposes, including overtime pay, the Pay Weeks are called Work Weeks (see Section 5.11.2.o). Hours will be recorded on Time Sheets according to the Pay Week, regardless of Work Week assignments.
- l. **Time Sheet** – For all employees, exempt and non-exempt, a Time Sheet is a labor distribution record. It is prepared and maintained to permit the accurate recording of work performed so that SR can appropriately charge its customers and account for B&P, IR&D and operating costs.
- m. **Total Time Method of Accounting** – Relates to all Exempt employees; a method of accounting for hours worked in which all hours worked (whether under, at or over the scheduled Work Week) are recorded and charged to an appropriate charge number, reflective of the nature of the work performed. Hours may be direct labor hours or Indirect labor hours. Total labor effort is recorded whether the employee's labor in excess of his/her scheduled Work Week will be compensated or uncompensated. This includes direct labor hours, indirect labor hours, compensated leave, and leave without pay.
- n. **Uncompensated Overtime** – Relates to all Exempt employees; comprised of overtime hours worked for which the employee received no compensation in excess of their regular biweekly salary amount.
- o. **Work Week** – The normally scheduled days and hours when employees are expected to carry out their employment obligations. The specific days and hours of the Work Week depend upon business requirements and local practices, but typically include five days and a total of 40 hours. Vice Presidents may establish alternative Work Weeks to meet project demands.

5.11.3 PREPARATION OF TIME SHEETS

All time must be entered into the accounting system through the electronic time collection system. Certain groups of employees who may not have daily access to a computer may, with supervisor approval, enter their time on a manual timesheet that is transferred on a weekly basis by a proxy into

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the electronic time collection system. Each employee who completes a manual timesheet must review and sign the electronic timesheet after completion by the proxy.

a. Employee Responsibilities – All Employees are responsible to:

- i. Obtain appropriate charge numbers from the assigned project or department manager for all time worked.
- ii. Complete and sign his/her own Time Sheet (in ink if a manual Time Sheet is used).
- iii. Maintain the confidentiality of their passwords to the electronic system and not share it with anyone.
- iv. Complete manual Time Sheet information legibly and include accurate totals by column and row.
- v. Enter hours worked in 1/10 hour increments (0.1 hours) .
- vi. Fill out Time Sheets at the time work is performed on a project, work order, task, bid/proposal, IR&D, overhead, or administrative activity.
- vii. Record all hours onto Time Sheets daily. It is not acceptable to wait until the end of the week or the reporting period to record time related to previous days. An exception will be made when an employee occasionally cannot access the electronic Time Sheet system (such as for travel away from home) – see 5.11.3.i for how to use this exception.
- viii. Keep his/her Time Sheet readily accessible.

b. Completing Time Sheets in Advance – Time Sheets may not be filled out in advance unless time is charged to an appropriate leave account.

c. Time Sheet Completion and Submission - At the end of each week, electronic Time Sheets must be finalized and **signed (electronically) by the employee**. The employee's signature certifies that, to the best of the employee's knowledge and belief, the entries are true and accurate and in compliance with SR's time recording policy. After the Time Sheet is signed by the employee, it is to be submitted to his/her Time Sheet approver (see Section 5.11.3.d). Time Sheets should not be signed until they are complete and ready to be submitted for Time Sheet approver review.

d. Time Sheet Approval – Time Sheet approval is a key control in the process of recording and reporting labor effort. Therefore, individuals are to be designated as primary and alternate approvers who are competent to know and understand both the time and attendance process and the work being performed by those employees whose Time Sheets they are responsible to approve.

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The employee's work supervisor is responsible to provide accurate charge numbers and work descriptions (scope and period of performance) to enable employees to record time worked to the appropriate task or cost objective.

The Time Sheet approver is responsible to:

- i. Review each Time Sheet for accuracy and completeness, including the validity and accuracy of charge numbers.
- ii. Review each Time Sheet to determine that compensated overtime is appropriate and correctly identified on the Time Sheet.
- iii. Review Time Sheet to ensure that time recorded for each Exempt employee equals at least the number of normally scheduled hours, or that the "Comments" section on the Time Sheet includes a satisfactory explanation of the difference.
- iv. Know which employees are Exempt or Nonexempt (for the overtime requirements for the Fair Labor Standards Act) and assure that Time Sheets are filled out accordingly (requirements are outlined in Section 5.11.5 and 5.11.6).
- v. Explain any errors identified during his/her review to the employee and ask the employee to correct and re-sign the time sheet. The approver should then reauthorize the Time Sheet (if electronic) or initial the correction (if manual). (See 5.11.3.g)
- vi. Approve each Time Sheet by electronic authorization certifying that, to the best of the Time Sheet approver's knowledge and belief, the entries made are accurate and in compliance with SR's time reporting policy.

g. Time Sheet Corrections

Corrections to Electronic or Web-based Time Sheets – All corrections to electronic timesheets must be made through the electronic time collection system.

- i. The employee, or an authorized proxy, must make changes to his/her own Time Sheet through the time and attendance system in the following situations:
 - A. Any movement of time from a direct labor hours category (see Section 5.11.2.c., Definitions, Direct Labor Hours) to any indirect labor hour category, including overhead G&A, PTO, Holiday, etc.
 - B. Any error that is identified within the current Time Sheet period.
 - C. Any singular error identified by the employee or his/her work supervisor or Time Sheet approver, whether within the current period or in one or more prior periods.

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- ii. Changes made by employee/proxy to electronic Time Sheets will be executed as follows:
 - A. Make the correction to hours on his/her original electronic Time Sheet as an addition to the correct project, task, department, or leave type (PTO, Excused Absence, Holiday, etc.).
 - B. Remove the hours originally charged to the original project, task, department, or leave type charged, as appropriate (correcting entries are not required to offset exactly to zero).
 - C. Provide an explanation and supporting reason for the change in the "Comments" section of the Time Sheet. The following are examples of explanations and supporting reasons why a Time Sheet change may be necessary. The list is not intended to be all inclusive:
 - (i) Task number error identified by project manager
 - (ii) Project number error identified by project manager
 - (iii) Task number error identified by department manager/administrator
 - (iv) Project number error identified by department manager/administrator
 - (v) Task number error identified by employee
 - (vi) Project number error identified by employee
 - (vii) Data or keystroke entry error
 - D. Sign the correction (electronically). The Time Sheet approver must then approve the correction (electronically). Changes or corrections to current and/or prior periods will be posted as current transactions for invoicing and/or pay purposes.

- iii. Corrections to Manual Timesheets:

For those groups that complete manual timesheets that are subsequently entered into the electronic time collection system, the electronic timesheets must reflect the corrected hours shown on the manual timesheets. For corrections made to manual timesheets within the current period, the final corrected version may be entered into electronic time collection. Corrections to manual Time Sheets occurring within the current time reporting period must be made by the employee using the "cross-out and new entry" technique. Erasures or "whiteouts" are not acceptable. Corrections for Time Sheet errors identified after the Time Sheet has been submitted must be made by

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submission of an electronic Correcting Time Sheet that is prepared by either the employee or an approved proxy and that is signed by the employee.

- A. Corrections are to be initialed by the employee and his/her time sheet approver.
- B. An explanation must be provided on the Time Sheet for all corrections made; if additional space is required, the explanation may be attached to the Time Sheet.

- iv. Corrections to Timesheets for Terminated Employees: All corrections or adjustments for a terminated employee (whose time was processed through the electronic system) must be submitted on a Correcting Timesheet that has been approved by the terminated employee's supervisor.

- h. **Retaining Time Sheets** – Employees should never destroy an original manual Time Sheet for any reason. If a manual Time Sheet becomes illegible or is damaged, they should complete a new Time Sheet and attach the old Time Sheet to it.

- i. **Completing Time Sheets During an Employee's Absence**

- a. **Electronic Time Sheets** – Electronic Time Sheets may be filled out in advance only if time is to be charged to an appropriate Leave account and may then be submitted to the employee's Time Sheet approver for electronic approval. When the employee is absent, Payroll may complete the employee's Time Sheet provided that the employee is unable to complete his/her timesheet. An assigned approver will then approve the employee's Time Sheet. Upon the employee's return, the employee is required to review and re-sign the Time Sheet. If necessary, the employee will enter any modifications or corrections to the Time Sheet into the time and attendance system and will be required to electronically re-sign the Time Sheet once the corrections have been made. Employees who are traveling away from home should access the electronic Time Sheet system through VPN and complete their time sheet daily as required. If the employee knows they will not have access to a computer or the internet they should complete the Time Sheet when they return IF they insert comments into the Time Sheet prior to departure and IF they will return to sign before the end of the work week. The comments should be inserted on each day they will be unable to access the system indicating they are traveling. The comments will inform Payroll not to notify the employee of a violation if a floor check is performed and failed during the absence.
- b. **Manual Time Sheets** – Employees using manual Time Sheets who are absent or traveling when Time Sheets are due should take their Time Sheet with them, complete it as described above, sign their Time Sheet, and either scan & email it or fax it to their Time Sheet approver for signature and submission. Upon return, the original Time Sheet is to be signed by the Time Sheet approver. If the preceding procedure is not feasible, the employee's Time Sheet approver may complete the Time Sheet. The employee's Time Sheet approver will submit a copy of the

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completed Time Sheet. Upon return, the employee must make any corrections; acknowledge the correctness of appropriate entries made by their time sheet approver on their behalf by initialing such entries, signing and re-submitting the original time sheet.

5.11.4 CODING OF TIME

- a. Employees are to charge time to specific cost objectives based upon actual hours worked. Time charges may be made to projects, work orders, tasks, bids and proposals, IR&D, overhead departments, or general and administrative departments, or to any combination thereof, depending on the work performed by the employee. Absent time should be charged to an appropriate leave time code.
- b. Employees should obtain appropriate codes to be utilized on time sheets from their work supervisors .
- c. Labor Suspense – In those cases where work begins on a project prior to its setup in the Accounting system, an employee may charge his/her time to a Labor Suspense Project/Account . If the project is set up subsequently within the same Work Week, the employee will correct the timesheet in accordance with Section 5.11.3(g). If the project is set up after submission of the timesheet, the employee/proxy will complete a correcting timesheet in accordance with Section 5.11.3(g). The “Comments” section of the time sheet should be used to denote any unusual items that may need explanation or attention, including hours not recorded (Leave Without Pay).

5.11.5 ENTERING HOURS – NONEXEMPT EMPLOYEES

- a. **General Rule**
 - i. Nonexempt employees must record all hours worked and also record compensated leave, as appropriate. Compensated leave need not be used provided that time away from work is made up during the same Work Week.
 - ii. Employees in casual pay status are nonexempt, regardless of salary grade.
- b. **Overtime**
 - i. SR pays one and one-half times regular pay (premium overtime) to nonexempt employees for those hours worked outside of the employee’s scheduled Work Week and, in accordance with the Fair Labor Standards Act, for hours worked in excess of 40 per pay week.
 - ii. Premium overtime is designed to compensate nonexempt employees for time worked in excess of normally scheduled hours. Eligible employees are expected to record at least 40 “regular-time” hours of time worked or compensated leave during their scheduled Work Week in order to receive premium overtime.

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- iii. Compensated leave will be counted as time worked for computing overtime. Nonexempt employees who work on an SR designated Holiday receive two and one-half times regular pay for that day if they meet the requirements for overtime pay as described above.
- iv. Supervisory approval must be obtained prior to working hours that exceed the normally scheduled Work Week. Overtime will be recorded for all hours in excess of the normal schedule and for hours in excess of 40 per Pay Week. All overtime hours recorded, including those hours recorded without approval, will be compensated at one and one-half times regular pay. However, unauthorized recording of overtime is a performance issue to be considered by management.

c. Travel Time

- i. Local Travel – Record all hours spent in required, non-commuting travel that is a principal work activity, such as travel from one job site to another during the work day.
 - ii. Non-Local Travel – Record all hours spent traveling during normal working hours and during those corresponding hours on non-work days. Record only those hours spent on company-related work performed during travel time if travel occurs outside of normal working hours.
- d. **Business Meeting Meals** – Record time spent attending business meeting meals. In order for time to be recorded, the primary purpose of the business meeting meal must be to conduct SR's business. Do not record the time spent in any business meeting meal if SR's business is only incidental to the meeting.
- e. **Other Activities** – Time spent before or after business hours on activities such as SR sponsored athletic events, employee recognition and other similar events should not be recorded on a time sheet. Time spent on activities that are not intentionally and directly for the benefit of SR, or that are incidental, should not be recorded on a time sheet.

5.11.6 ENTERING HOURS – EXEMPT EMPLOYEES

All Exempt employees shall use the total time method of accounting for hours worked. Under the total time method of accounting, all hours worked (whether under, at or over the hours in the scheduled Work Week) are recorded and charged to an appropriate charge number. (See Section 5.11.2.M Definitions, Total Time Method of Accounting.)

- a. **General Rule** – An employee who is exempt from the Fair Labor Standards Act should report their normally scheduled hours, for example, 8 hours a day, Monday through Friday, divided as appropriate among Hours Worked and compensated leave. See below for hours worked in excess of 40 in a Work Week.
- b. **Partial Day Absence** – Exempt employees have greater scheduling flexibility to accomplish their work. Brief absences may be recorded as time worked provided that their supervisor's expectations are met. Extended partial day absences will be recorded on time sheets as PTO on the day of the absence or at the end of the normally scheduled Work Week to reach a total of

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normally scheduled hours. Exempt employees are paid on a “salaried basis” and receive their full salary in any Work Week in which they perform exempt job duties without regard to the number of hours worked in accordance with the Fair Labor Standards Act. In accordance with the Fair Labor Standards Act deductions can be made from the Exempt employee’s pay for the following exceptions:

- i. Absence from work for one or more full days for personal reasons, other than sickness or disability.
- ii. Absence from work for one or more full days due to sickness or disability if deductions are made under the company’s Paid Leave guidelines, policy or practice of providing wage replacement benefits for these types of absences.
- iii. To offset any amounts received as payment for jury fees, witness fees, or military pay.
- iv. Penalties imposed in good faith for violating safety rules of “major significance.”
- v. Unpaid disciplinary suspension of one or more full days imposed in good faith for violations of workplace conduct rules (Code of Business Conduct).
- vi. Proportionate part of an employee’s full salary may be paid for time actually worked in the first and last weeks of employment.
- vii. Unpaid leave taken pursuant to the Family and Medical Leave Act.

In the event pay is allegedly deducted improperly by the Corporation, the Payroll department should be notified promptly for further research and if appropriate, payment.

c. Overtime

- i. Compensation for Regular and Uncompensated Overtime Hours – Exempt employees will be paid their base salary regardless of the number of regular and Uncompensated Overtime hours worked.
- ii. Compensated Overtime – In those instances where a Vice President authorizes the use of compensated overtime to complete a task or activity, an Exempt employee will be compensated for overtime worked at straight-time.

d. Exceptions

- i. Recording Hours Worked – Exempt employees shall record time spent on productive company business while at work in SR offices, client facilities and other normal workplaces. Travel time outside of normal working hours shall be recorded only when required and productive work is being performed while in transit. Time spent on marketing activities or at business meeting meals shall be recorded only when the primary purpose of the marketing activity or business meeting meal is to conduct SR’s business. Time spent before or after business hours on activities such as SR– sponsored

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athletic events, employee recognition and other similar events should not be recorded on a time sheet. Time spent on activities that are not intentionally and directly for the benefit of the Corporation, or that are incidental, should not be recorded on a time sheet. Casual or personal time spent on non-work related activities should not be recorded.

- ii. Recording Overtime Hours – Compensated overtime hours shall be recorded in a manner consistent with Section 5.11.6.c.ii above. Overtime hours that do not meet the criteria in Section 5.11.6.c.ii will not be compensated, but shall be recorded as hours worked (Uncompensated Overtime), regardless of the nature of the work. Uncompensated Overtime shall be charged to the task or cost objective on which the labor effort was expended.

5.11.7 ACCOUNTING FOR UNCOMPENSATED OVERTIME

SR will employ the following methodology for accounting for Uncompensated Overtime:

- a. **Application of the Hourly Labor Rates to Cost Objectives** – All employees will employ the total time method of accounting for hours worked. Under that method, all hours worked (whether under, at, or over the hours in the scheduled Work Week) are recorded and charged to an appropriate charge number. The employee's actual hourly labor rate will be applied against all hours recorded to derive labor dollars charged to each cost objective identified on time sheets submitted.
- b. **Accounting for Variances** – Variances between actual salary costs incurred and the amount distributed will be accounted for (charged or credited) in the individual's home organization and the associated indirect cost pool.

5.11.8 REPORTING POSSIBLE OR SUSPECTED NON-COMPLIANCE OR MISCONDUCT REGARDING TIME REPORTING

Possible or suspected non-compliance or misconduct regarding time reporting should be handled in accordance with SR's Code of Business Conduct and Ethics.

5.11.9 DISCIPLINARY ACTIONS FOR NON-COMPLIANCE OR MISCONDUCT REGARDING TIME REPORTING

Labor costs are the single largest cost incurred by the company. It is absolutely essential that labor hours and their associated costs be properly reported and recorded. The company has established policies and procedures which, when followed, insure we comply with the various commercial client and government contract requirements as well as requirements for preparation of accurate financial statements. A program of disciplinary action is designed to assist management in enforcing the company's timekeeping policies and procedures.

Each time an employee is observed to have violated the company's policies and procedures the employee will receive a notification of the violation(s). The severity of the time keeping infraction will determine the nature of the notification. Violations are categorized as Tier I or Tier II violations.

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a. Tier I Violations to Time Keeping Policy include but are not limited to:

- i. Permitting someone other than a designated approver/proxy to complete his/her time sheet.
- ii. Failure to properly record time, including time charged to the incorrect work category or task.
- iii. Sharing of the employee's password.
- iv. Failure to complete time sheet daily.
- v. Completion of time sheets early, i.e., before tasks are completed or forecasting time for non-leave pay types.
- vi. Failure to sign time sheet at the completion of the employee's designated work week.
- vii. Failure to approve time sheets for accuracy in a timely manner.
- viii. Failure to record all time worked including Uncompensated Overtime.
- ix. Failure to complete required training. Training will be required once a year or more frequently as the company deems necessary.

b. Tier II Violations to Time Keeping Policy include but are not limited to:

Substantiated instance(s) of deliberately recording hours to the incorrect work category or task, or reporting time not worked.

Employees will receive notification of violations and will be given the opportunity to explain any extenuating circumstances. Repeated "Tier I" violations will result in disciplinary action which includes 1) notification of the employee's supervisor of the employee's noncompliance, 2) the employee's supervisor will discuss the issue with the employee and document in the employee's personnel file, 3) the employee's applicable Vice President will receive a notification of the employee's violation of the prescribed policies and procedures and will implement appropriate disciplinary action which may include suspension without pay or, under certain circumstances, termination.

The most severe time keeping violations are categorized as "Tier II" violations. The first observed policy or procedure violation for "Tier II" violations requires immediate notification of the applicable Divisional Vice President and the Chief Financial Officer. Disciplinary action is required in these substantiated, deliberate cases, which may include termination. These disciplinary actions must be coordinated with Human Resources to ensure that appropriate and consistent action is taken.

Through random review of employee time sheets, floor checks, and other review techniques employed by Finance/Payroll, noncompliance with the company's prescribed policies and procedures will be identified and documented, the employee and management will be notified of the nature of the violation of company policy, and disciplinary action will be implemented as appropriate.