PAYROLL AUDIT CHECKLIST | JURISDICTION: FEDERAL | VERSION 2026.1

Regular Rate of Pay Audit Checklist

Find the bonuses, differentials, and incentives your overtime math is ignoring — before a wage claim finds them for you.

WHAT THIS HELPS YOU DO

Use this checklist to audit whether every required payment flows into the FLSA regular rate used for overtime — because time-and-a-half of the wrong number is systematically underpaid overtime.

WHEN TO USE THIS DOCUMENT

- Any time nonexempt employees earn bonuses, commissions, or differentials
- Before year-end bonus payouts touch overtime weeks
- When setting up incentive, attendance, or safety bonus programs
- After payroll vendor or system changes
- When preparing for the overtime deduction's W-2 reporting

WHAT THIS DOCUMENT HELPS PREVENT

- Systematic overtime underpayment across every OT week — multiplied by two or three years of look-back
- Bonus programs that quietly create FLSA liability with every payout
- 'Discretionary' bonus labels that don't survive scrutiny
- Collective actions built from one employee's paystub math
- Regular-rate errors surfacing on federal tax documents

Faulkner HR Solutions focuses on the system behind the people problem. This tool is designed to help employers slow down the decision, identify the risk, and create proof before the issue becomes a claim, complaint, turnover event, or credibility problem.

BEFORE YOU START: READINESS CHECKLIST

Gather the following before working through this document. Incomplete inputs are one of the most common reasons employer decisions fail under later scrutiny.

Have it	Input	Notes / location
☐	Employee name and role	
☐	Date of incident, request, or separation	

Have it	Input	Notes / location
☐	Supervisor involved	
☐	Policy or handbook section that applies	
☐	Prior documentation on file	
☐	Pay records, if applicable	
☐	Relevant emails, texts, notes, or complaints	
☐	Decision-maker name	
☐	Deadline, if applicable	

REGULAR RATE AUDIT

The regular rate is not the hourly wage — it's total compensation for the workweek divided by total hours, with only narrow exclusions. Audit what goes in, what stays out, and whether the recalculation actually happens.

Part 1 — Payment Inventory

List every payment type nonexempt employees can receive. The audit is only as good as this inventory.

Payment type	Who receives it	In regular rate today?	Should it be?
Attendance / safety / production bonuses			
Shift differentials			
Commissions			
On-call pay			
Longevity or retention bonuses			
Non-cash prizes tied to work			

Part 2 — Must Be Included

Included	Payment that belongs IN the regular rate	Verified how
☐	Nondiscretionary bonuses — anything promised, announced, or formulaic (attendance, production, quality, safety, retention)	
☐	Commissions and piece-rate earnings	
☐	Shift differentials and hazard pay	
☐	On-call payments and non-overtime premiums	
☐	Fair value of goods, prizes, or lodging provided as compensation	
☐	Wage supplements required by contract or promise	

Part 3 — May Be Excluded (narrowly)

Qualifies	Exclusion — verify it truly fits	Notes
☐	Truly discretionary bonuses — both the fact AND amount decided at the employer's sole discretion near payment time, with no prior promise	

Qualifies	Exclusion — verify it truly fits	Notes
☐	Gifts on holidays/special occasions not tied to hours or production	
☐	PTO, holiday pay, and pay for time not worked	
☐	Expense reimbursements (reasonable, actual)	
☐	Premium pay already at 1.5x or more (creditable toward OT)	
☐	Profit-sharing and benefit plan contributions meeting DOL rules	

Part 4 — The 'Discretionary' Stress Test

The most abused word in payroll. Answer for each bonus program:

Yes?	If ANY answer is yes, the bonus is NONdiscretionary	Program
☐	Is it announced in advance, in a handbook, offer letter, or plan document?	
☐	Does a formula, target, or metric determine who gets it or how much?	
☐	Do employees expect it because it's paid regularly?	
☐	Is it promised to induce attendance, retention, or performance?	

Part 5 — Recalculation Mechanics

Working	Mechanics check	Findings
☐	Weekly bonuses: regular rate recalculated in the week earned	
☐	Monthly/quarterly/annual bonuses: allocated back across the workweeks covered and OT retroactively trued up	
☐	Percentage-of-total-earnings bonuses: structured to include OT automatically (the clean shortcut)	
☐	Multiple rates in one week: weighted average (or valid agreed-rate arrangement) applied	
☐	Payroll system actually performs the true-up — verified with a sample calculation, not vendor assurances	

Part 6 — Sample Calculation Worksheet

Employee / week sampled	
Total hours (incl. OT hours)	
Straight wages + all includable payments = total compensation	

Regular rate (total compensation ÷ total hours)	
OT premium owed (0.5 × regular rate × OT hours)	
What payroll actually paid — variance	

Role	Name / signature	Date
Audited by		
Reviewed by		

STOP AND REVIEW BEFORE ACTING

If any statement below is true, pause. Get the decision reviewed by HR, counsel, or Faulkner HR Solutions before you act.

- ☐ Any bonus labeled 'discretionary' that employees can predict or count on.
- ☐ Overtime paid at 1.5x the base hourly rate in weeks where bonuses or differentials were earned.
- ☐ Quarterly or annual bonuses paid with no retroactive OT true-up — ever.
- ☐ The payroll vendor 'handles it' but no one has verified with an actual calculation.
- ☐ A nonexempt employee has already questioned their overtime math.

MINIMUM DOCUMENTATION STANDARD

Before this file is closed, the employer should be able to answer every question below and point to where the proof lives.

Question	Your answer / where the proof is stored
What happened?	
When did it happen?	
Who observed or reported it?	
What policy, standard, deadline, or expectation applies?	
What decision was made?	
Who had authority to make the decision?	
What alternatives were considered?	

Question	Your answer / where the proof is stored
What risk was reviewed?	
What follow-up is required?	
Where is the proof stored?	

COMMON MISTAKES

1. Paying overtime on base rate alone while bonuses ride along untouched.
2. Calling every bonus discretionary because the handbook says so.
3. Skipping the retroactive true-up for period bonuses covering OT weeks.
4. Forgetting shift differentials in the rate for night and weekend OT.
5. Averaging rates across weeks instead of computing each workweek separately.
6. Assuming the payroll system does all this by default — most need explicit configuration.

WHAT TO DO NEXT

Quantify any variance found across a two-year look-back before deciding on correction strategy, fix the payroll configuration going forward, and restructure bonus programs (percentage-of-earnings bonuses solve the true-up automatically). If back wages are owed, get advice on correction mechanics before writing checks — how you correct matters.

> **Before you terminate, deduct, discipline, classify, or respond, get the decision reviewed.**
> Call 210.446.8730 or email thomas@faulknerhrsolutions.info.

Before you process payroll, terminate, classify, deduct, or respond to a claim, get the decision reviewed.

Need help applying this to a real workplace decision?

Faulkner HR Solutions helps Texas employers, nonprofits, municipalities, and growing businesses fix the people systems behind recurring workplace problems.

If this document raised a risk flag, do not guess your way through the next step.

Call: **210.446.8730**
Email: thomas@faulknerhrsolutions.info
Website: faulknerhrsolutions.info

DISCLAIMER

This resource is provided for general employer education and planning purposes. It is not legal advice and does not create an attorney-client relationship. Employment laws, agency guidance, and local requirements may change. Employers should review the facts of each situation before acting and consult appropriate HR or legal counsel when needed.