

# Office of Audit - Executive Compensation/National Compensation Matrix Guidance

## What is it?

Engineering consultants must provide policies and procedures that show the reasonableness of executive compensation per FAR 31.205-6. This is used for overhead rate development and approval. Consultants must ensure that only the allowable amount of executive compensation gets included in their overhead rate calculation. Compensation includes:

- Salary
- Total wages
- Bonuses
- Deferred compensation
- Employer contributions to pension plans for the fiscal year

## Why is it required?

FAR 31.205-6 requires engineering consultants evaluate the reasonableness of executive compensation. Engineering consultants must show how they set their executive compensation levels and assess if the compensation is reasonable per FAR 31.205-6. Engineering consultants must document and describe how the executive compensation levels get set, who approves them, and how they develop eligibility criteria for other pay bonuses.

## How do I fill it out?

The engineering consultant can either perform a compensation analysis that complies with FAR 31.205-6 or use the National Compensation Matrix (NCM) to find out if the executive compensation is reasonable. If an amount is over the reasonable compensation, it is unallowable to determine the overhead rate. Use [these instructions for filling out the NCM](#) and for referencing the position descriptions that apply to the NCM.

## Resources

- The FAR reference is [FAR 31.205-6](#).

- Visit [Acquisition.gov](https://www.acquisition.gov) for more information on FAR 31.205-6.
- [The AASHTO Uniform Audit & Accounting Guide \(2016\)](#) includes helpful information about performing a compensation analysis.
- Use [these contractor compensation cap amounts](#) for contracts awarded on or after June 24, 2014.
- The NCM's for 2020-2023 are available on the [Office of Audit's website](#).
- Consultants can also reference the [Sample NCM Compliance Schedule](#).
- For additional questions about the NCM, please use the [NCM Questions and Answers guide](#).

## References

*FAR Part 31 - Contract Cost Principles and Procedures*. Part 31 - Contract Cost Principles and Procedures | Acquisition.GOV. (n.d.). [https://www.acquisition.gov/far/part-31#FAR\\_31\\_205\\_6\\_d1961e49](https://www.acquisition.gov/far/part-31#FAR_31_205_6_d1961e49)

*Uniform Audit & Accounting Guide*. (2016). American Association of State Highway and Transportation Officials.