



DHRM HR Highlights January 2026

Let's Get It Right: FLSA Status, Overtime Policy, and OBBBA

The rollout of DHRM's Overtime Policy – 3.20 has sparked important conversations about overtime pay practices and flexibility. At the same time, the recent weather emergency highlighted the real challenges agencies face in balancing compliance requirements with staffing coverage and mission-critical needs during emergencies.

Adding to this, the One Big Beautiful Bill Act (OBBBA) introduces a new layer of responsibility by creating federal tax deductions tied to qualified overtime compensation. This makes accurate FLSA status in Cardinal more important than ever, and not just for compliance, but for ensuring employees receive the tax deduction in which they're entitled.

While we understand these pressures, accurate FLSA classification remains essential. The 2024 OSIG Commonwealth Overtime Audit report highlighted that inaccurate classification could impact direct overtime costs and that stronger internal controls are needed.

Why Does Correct FLSA Status Matter?

Accurate FLSA classification is not new guidance. It's a long-standing requirement that underpins compliance and proper pay practices. To be exempt, a position must meet both the duties test and the salary threshold. If either requirement is not met, the employee is non-exempt and entitled to overtime pay.

FLSA misclassification isn't just a technical error. Misclassification can create real risk:

- **Operational** – Inaccurate FLSA status affects payroll and W-2 reporting.
- **Employee Engagement** – Inaccurate overtime pay and/or misreporting overtime deductions could lead to employee dissatisfaction.
- **Financial** – Incorrect classification can lead to unpaid overtime claims, overpayments, back pay obligations, and potential penalties.
- **Compliance** – Audit findings and compliance failures.

The Connection: FLSA Status, OBBBA, and Overtime Policy

Accurate FLSA classification is the critical link between compliance, proper overtime eligibility, and new federal reporting requirements. Under OBBBA, only correctly classified nonexempt employees qualify for the tax deduction tied to the premium portion of FLSA overtime.

Simultaneously, DHRM's Overtime Policy - 3.20 reinforces the need for strong internal controls. Together, these changes call for a unified approach: accurate FLSA status drives correct overtime eligibility, which ensures compliance with OBBBA and adherence to state policy.

Your Role as Fiduciary Stewards

We know reviewing and changing long-standing practices while supporting your agency's mission is challenging. But this work is critical to ensure employees are paid correctly, compliance is maintained, and state funds are managed responsibly.

What to Do Now

- Confirm FLSA status in Cardinal reflects duties tests and salary threshold requirements.
- Make sure managers understand overtime eligibility and their role in reviewing and approving timesheets.
- Verify only nonexempt employees receive overtime pay via the correct overtime pay codes.
- Reassess any additional pay practices for exempt employees. Should the pay practices continue and are they appropriate? If not, now is the time to course correct.
- Coordinate with payroll and finance to track the premium portion of overtime for OBBBA reporting.
- Reach out to DHRM to discuss any agency-specific practices that may fall outside of DHRM's Overtime Policy – 3.20 requirements so we can review and determine next steps together.

Getting this right isn't just about avoiding penalties. It's about compliance, transparency, and being good stewards of public resources.

Thank you for your continued leadership and partnership. If you have questions or would like to discuss an agency specific pay practice, please reach out to the DHRM Compensation team.