

TxDOT Overhead Review Process for Administrative Qualification

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It is incumbent upon a Consultant or CPA to learn and maintain the specialized knowledge of FAR 31 guidelines prior to completion of an Overhead Audit report. Additionally, the Consultant's accounting department should be knowledgeable of FAR guidelines in maintaining the records of the consultant to ensure compliance and separation of allowable and unallowable costs in the required job cost accounting system.

[FAR 31 \(48 CFR Part 31 Contract Cost Principles and Procedures\)](#)

TxDOT Administrative Qualifications reviews of consultant's Overhead Audit Reports are based on FAR 31 which establishes boundaries and parameters regarding allowable and unallowable costs that can be claimed under government contracts.

[AASHTO \(American Association of State Highway and Transportation Officials\) Guidelines](#)

Management and CPA's should have an understanding of AASHTO which is a resource/guide "designed to assist engineering consultants, independent CPA's, and state DOT auditors with the preparation, and/or auditing, of Statements of Direct Labor, Fringe Benefits and General Overhead (indirect cost rate schedules)" and for understanding FAR 31 guidelines and Overhead Audit Reports.

[TAC 9.34, Comprehensive Process](#)

The TxDOT Administrative Qualifications Process for contracting is subject to the rules published under the Texas Administrative Code Title 43, Part 1, Chapter 9, Subchapter C, Rule 9:34, Comprehensive Process.

[Job Cost Accounting Systems](#)

Under FAR, the consultant must maintain a job cost accounting system which accumulates and assigns costs to contracts/projects. The CPA and accounting department should be well versed in job cost accounting practices and systems used by A/E firms. The OHA report should include a

description of accounting policies and procedures governing the classification of costs as direct or indirect, and describe how project costs are accumulated and assigned to projects.

Management Responsibilities

Management should establish Policies and Procedures for compliance with FAR 31 and TAC 9.34. Management bears the sole responsibility to see that all relevant employees should have a clear and consistent understanding of the policies and procedures for recording allowable costs and for identifying, segregating and removing unallowable costs as transactions occur, and the necessary documentation required under FAR 31. Management must be responsible to certify that the indirect cost rate schedule includes only allowable costs in preparation for an independent audit or self-certification report. Management bears the ultimate responsibility for the Overhead Audit Report and should perform its own analysis of high-risk accounts, assurance that internal controls are adequate and working properly, and that all unallowable costs have been removed from the final report.

Responsibility of Consultant Accounting Departments

The Accounting Department is responsible for the Consultant's understanding of the principles in FAR Part 31.2, which are the primary federal regulations addressing Allowable Costs and Unallowable Costs. The Accounting Department shall:

- Ensure Employees are formally trained in the requirements of FAR Part 31.2.
- Maintain an appropriate chart of accounts and maintain cost accounts in the general ledger to enable the segregation of Unallowable Costs.
- Ensure costs are properly coded as "Allowable" or "Unallowable" and that Employees do not submit Unallowable Costs for reimbursement.
- Ensure all Unallowable Costs are identified and removed from the indirect rates used for OHA Indirect Cost Rate schedules.
- Arrange for periodic internal reviews and audits to ensure that the Consultant is complying with FAR Part 31 and any applicable state or local regulations such as TAC 9.34.
- Have final authority within the Consultant to decide which costs are allowable and which are unallowable.
- Enforce this Policy on behalf of the Consultant and update and revise the Policy as needed.

CPA Responsibilities

Before accepting a FAR audit engagement, CPAs must determine if they have the required specialized knowledge, including CPE courses, to complete the engagement. The CPA auditor is responsible for performing an audit in accordance with Government Auditing Standards (GAGAS) to obtain reasonable assurance that the engineering consultant complied with FAR Part 31 and applicable Cost Accounting Standards. A CPS's testing must be performed independently to verify that the engineering consultant's internal controls are properly designed and are operating effectively. Adequate testing of accounts, especially high risk areas as noted in AASHTO, is critical in issuing an opinion of the Overhead Audit Report.

Direct, Indirect and Directly Associated Expenses

Per FAR 31 and AASHTO guidelines, Costs identified specifically with a contract(s) are direct costs of that contract including labor, materials, reimbursable expenses, and non-reimbursable expenses. Costs incurred related to contracts and that further or benefit a contract should be recorded as

direct costs of the contract under a Consultant's job cost accounting system. The expense of vehicles, equipment supplies, etc. used in the performance of a contract(s) are considered job related costs and are direct costs of a contract. These costs should be tracked as direct cost of contracts in the job cost accounting system and recorded as Direct: Non-Billable costs on the Overhead Audit Report.

As a corollary item, a directly associated cost is a cost generated solely as a result of the incurrence of another cost, and which would not have been incurred had the other cost not also been incurred. If the other cost is a direct cost, the directly associated costs are disallowed. Directly associated costs may include labor, fringe, travel meals, supplies used and similar costs.

Indirect costs represent remaining general and administrative costs that are allocable to multiple cost objectives.

Documentation

Per FAR 31.201-2(d), costs included in the Overhead Audit Report must be supported and engineering consultants must maintain adequate records, including supporting documentation to demonstrate that the costs comply with applicable FAR cost principles. Receipts/Invoices must have the written purpose/reason for the expense, place, date, full names of all employees and guests, and for meals, must have the receipt that reflects the individual items ordered. Credit card statements are not acceptable proof of expenses. The AQ staff may disallow all or part of any claim that lacks adequate supporting documentation.

During the review of the Overhead Audit Report or the Self-Certification Report, the Reviewer may request additional information pertaining to proof of expenses. The Reviewer may request copies of the original receipts or invoices that support the expense item. Individual expense report, credit card statement, and bank statement are not acceptable proof of expenses. It is important for a Contractor to understand that when the Department requests additional backup information to a submitted OHA report, the Contractor has 30 days to comply or the entire submission may be rejected and no rate provided for that fiscal year. This point is noted at the bottom of the email as:

*"In accordance with TAC Title 43, Part 1, Chapter 9, Subchapter C, Rule 9:34 (3)(B), **all** information requested must be returned within **30 calendar days** of the request by the Department. Failure to return **all** information, or returning only a portion of the information requested, will result in the file being closed for the calendar year and the submittal will not be processed for administrative qualification. If the information is received after the **30 calendar days**, the file will not be reopened."*

Reasonableness of Expenses

Per FAR 31.201-3, a cost is reasonable if it does not exceed that which would be incurred by a prudent person in the conduct of competitive business and is considered an ordinary and necessary expense. The burden of proof shall be upon the consultant to establish a cost is reasonable. While the reasonableness test applies to all expenses, as noted in the AASHTO guidelines, of specific concern for reasonableness is the amount of indirect labor in relation to direct labor which may

cause concerns regarding a firm's efficiency and the extent to which the State should reimburse costs through the overhead rate.

Vehicles & Equipment

Vehicle costs in the indirect cost pool must **exclude** personal use, direct project costs, and travel associated with unallowable business-related activities (e.g., lobbying general advertising, etc.). Engineering consultants are required to maintain adequate documentation, such as vehicle mileage logs completed in accordance with IRS requirements, to separate and establish that the vehicle costs in the indirect cost pool are allowable and exclude unallowable portions noted above. Expenses associated with the operation of a vehicle for personal use or job related activities such as depreciation, repairs and maintenance and insurance should also be disallowed. (Examples of job related vehicle and equipment use are survey trucks and equipment, paving equipment, etc.) A sample vehicle tracking system is noted below. The contracting officer may disallow all or part of a claimed cost that lacks adequate support.

FAR 31 states that for reasons of practicality, the contractor may treat any direct cost of a minor dollar amount as an indirect cost if the accounting treatment provided that; a) the cost is consistently applied to all final cost objectives; and, b) it produces substantially the same results as treating the cost as a direct cost. Some Contractors use this to lump all vehicle expenses into an indirect cost pool for vehicles. However, this is *only* after all vehicle costs directly associated with the performance of a contract, or that further or benefit the performance of a contract, have been excluded. What are left are the true general and administrative costs of the vehicles of which the personal usage of the vehicles must be adjusted. Records of such costs must be maintained by the consultant as noted below in the Vehicle Tracking Schedule or like system.

Direct and indirect expenses including insurance, depreciation, fuel, repairs and maintenance, etc. for vehicles/equipment used in the performance of jobs/contracts are directly associated expenses and are project related. The contracting officer may disallow all or part of a claimed cost that lacks adequate support.

Cell Phone Expenses

Per the ICQ, a consultant should maintain a log of cell phone usage indicating the phone numbers of incoming and outgoing calls to verify the use of cell phones for business purposes only. Such documentation of calls is normally included on the monthly cell phone billings and can be used as a cell phone log if broken down between business and personal calls. Only business calls are allowable under FAR; personal calls are disallowed. Therefore, only the portion of business related calls should be reported on the Overhead Report.

For a phone owned by and billed to the consultant for business purposes, if no logs are kept or the consultant does not trace business and personal calls via the monthly billing, the contracting officer may disallow all or part of a claimed cost that lacks adequate support.

At times, a consultant will allow employees to use personal phones in the course of doing business and provide a reimbursement expense. In such cases, the consultant must provide a cell phone log or billing record to determine the breakout of business and personal usage to verify the expense on

the Overhead Report. A cell phone allowance or reimbursement, with no log or backup documentation from phone billings, is not allowable. The contracting officer may disallow all or part of a claimed cost that lacks adequate support.

Combined, Office and Field Rates

Under AASHTO 4.2- State and Local Cost Principles

“Although FHWA regulations require state DOT’s to accept indirect cost rates compliant with FAR Part 31 and to accept cognizant audits of FAR-compliant indirect cost rates, those regulations are not applicable to contracts *that do not involve Federal funding*”. Accordingly, for contracts with no Federal funding, some state DOT’s and local agencies define allowable cost more restrictively than FAR Part 31.” And further that, “...methodologies prescribed by contracting agencies sometimes include: restatement of multi-tiered indirect cost rate structures to a single rate based on direct labor; and, Restatement of separate field and home office indirect cost rates as a combined consultant-wide rate”.

It is TxDOT policy that:

- For State funding contracts that require a field rate, the home office and field rate will be used. In the event the consultant does not have a field rate, the Department will establish a field rate per TAC 9.34.
- The established field rate is a calculation of the Departments database of companies that have actually developed a home office and field rate. The average is the percentage used to establish the final field rate for the contract. At the end of each FY, the average is reviewed and may be adjusted for future contracts.
- For Federal funded contracts, the rate will follow the FAR 31 guidelines for Federal funded contracts.

Meetings, Conferences, Trade Shows

For all meetings, conferences, trade show, seminary, chamber of commerce, or any professional meetings of any kind attended by employees, officers, directors, quests, outside contractor on behalf of the firm, the Reviewer requires a copy of the agenda, original receipts for the expenses and employee’s title and relationship to Firm. Any expense item not properly supported in accordance with FAR 31.201-2(d); FAR 31.205-46 will be disallowed

Meals Eligibility and Documentation

Per AASHTO guidelines, meals associated with valid travel purpose expenses are governed by FAR 31.205-46 which includes references to maximum per diem rates. Travel meal expenses in excess of the per diem allowable is disallowed. Non-travel business meals are governed by FAR 31.205-43(c), which provides that incidental meal costs incurred during business meetings are allowable if the principal purpose of the meeting is the dissemination of trade, business, technical, or professional information, are properly supported, and are reasonable in amount.

Documentation for meals must contain receipts/invoices with the written purpose/reason for the expense, place, and date, full names of all employees and quests, and a receipt that reflects the individual items ordered by each person. Individual receipts are important to verify reasonableness

