

Basic Characteristics of a Compliant Overhead Submittal

Only allowable costs should be included in the submitted overhead.

¹Expressly **unallowable** costs must not be included. These include:

- Interest (Cost of Money)
- Political, Charitable, and Other Contributions
- Profit Distribution
- Public Relations and Related Advertising
- Bad Debts
- Contingencies
- Gifts, Recreation, Entertainment, Amusement
- Alcohol
- Accelerated Depreciation (Book Depreciation Methods Are Acceptable)
- Fines and Penalties
- Lobbying
- Labor Relations
- Losses on Other Contracts
- Organization
- Patents
- Legal Expenses that Result from Mistakes or Negligence by the Firm
- Goodwill
- Personal Use of Company Assets (Automobiles, etc.)

Certain costs may be allowable, depending on the situation.

- Advertising, for example, is generally allowable only for personnel recruitment, and then only if the ad addresses a specific position, or if specifically required by the contract.
- Related party costs are allowable only to the extent that the actual costs of ownership are not exceeded.
- Bonus costs are allowable if the bonus is not a distribution of profits, if the bonuses are based on performance, and if the bonus plan is either in writing and available to the employees, or is a long-standing program, which is understood and expected by the employees.
- Costs must be allocable (must be beneficial, either directly or indirectly, to the contract).
- Costs must be reasonable. Generally, ADOT Audit & Analysis examines the following cost categories for reasonableness:
 - Executive Compensation
 - Indirect Labor
 - Rent

Other categories may be considered, as deemed appropriate by the auditor.

Useful information sources include Federal Acquisition Regulation (FAR) part 31, the AASHTO Audit & Accounting Guide, and ADOT Audit & Analysis personnel.

¹ Please note; this list is not all inclusive.

Facilities Capital Cost of Money may be allowable, but only if it is proposed on a given contract (see various online sources for correct calculation methodology).

If a firm decides to bill company-owned vehicle cost as a direct project cost, then an annual vehicle mileage rate should be developed (total vehicle cost / Total mileage driven). If the vehicles are used for personal purposes (commute, etc.) then that portion of the costs should be removed from overhead.

When examining Executive Compensation, the 2015 National Compensation Matrix should be used to establish benchmarks of reasonableness for each position.

Engineering Consultants Section (ECS) will examine Direct Labor hourly rates for reasonableness.

All requested documentation must be made available to the auditors for the audit to be accomplished in a timely manner, to the benefit of both your firm and ADOT.

Important point – Internal Revenue Service regulations have little or no relevance when applying federal cost regulations. An expense may be deductible for income taxes, but not allowable on federally-funded contracts.

An example of an overhead schedule is included on the following page. As is typical for overhead rate calculations of this nature, the “base” is Direct Labor. In calculating the overhead rate, Direct Labor is the denominator, and Total Overhead is the numerator. The adjusted overhead rate in the example is therefore $2,201,500/1,800,000$, or 122.31%.

We are happy to answer any related questions that might arise. I can be reached at 602-712-8537 or solson2@azdot.gov

Example Consultants, LLC

Overhead Schedule

FYE 12/31/2014

DESCRIPTION	Amount	Adjustments	Notes	Adjusted Overhead
Direct Labor	\$ 1,800,000			\$ 1,800,000
Fringe Benefits				
Payroll Taxes	\$ 161,500			\$ 161,500
Vacation Holidays & Sick	172,800			172,800
Group Health	165,000			165,000
Pension/Retirement Funds	45,200			45,200
Bonus	100,500			100,500
Other	18,000			18,000
Total Fringes	\$ 663,000			\$ 663,000
General Overhead				
Indirect Labor	\$ 680,000			\$ 680,000
Advertising Expense	26,600	(26,600)	A	-
Auto Expense	4,500			4,500
Bank Charges	500			500
Contributions	12,400	(12,400)	B	-
Depreciation	170,500			170,500
Dues & Subscriptions	15,000			15,000
Insurance	35,000	(9,000)	C	26,000.0
Interest Expense	8,000	(8,000)	D	-
Licenses & Permits	16,500			16,500
Miscellaneous	2,500			2,500
Office Supplies & Exp	90,000			90,000
Postage	5,000			5,000
Printing	3,500			3,500
Professional Fees	52,000			52,000
Rent	365,000	(75,000)	E	290,000
Repairs & Maintenance	86,000			86,000
Telephone	65,500			65,500
Travel	26,000			26,000
Utilities	5,000			5,000
Total Gen. OH	\$ 1,669,500	\$ (131,000)		\$ 1,538,500
TOTAL OVERHEAD	\$ 2,332,500	\$ (131,000)		\$ 2,201,500
	129.58%			122.31%