

# Engineering Overhead Rates

23 CFR 172

# **Why ADOT reviews Professional Service firms billing rates?**

# History

**October 18,  
1972 enacted  
the Brooks  
Act (PL  
92-582)**

- A&E Qualification based awards
- Price cannot be used

**GAO Audit  
over federal  
highway  
reliance on  
contracts**

- Poor state oversight
- Overstated OH rates
- Cost not supported

1972

1991

2008

2015

**Intermodal  
Surface  
Transportation  
Equity Act in  
1991**

- FHWA delegated
- States used consultants

**23 CFR 172 Updated**

- Clarified Responsibility
- Provided Risk-based Approach

# 23 CFR 172

- Guides the procurement, management and administration of engineering and design related services.
- Requires state DOTs to provide reasonable assurance that the consultant costs comply with federal cost principles.
- Requires state DOTs to review billing rates as part of the contract negotiation process.

# Consultant Audit Guide

Provide guidance with respect to review/audit requirements and processes for consultants contracting with the Arizona Department of Transportation (ADOT) through the Engineering Consultants Section (ECS).

<https://azdot.gov/sites/default/files2019/05/consultant-audit-guide.pdf>

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**What are the different limits that trigger a Cost/Price review (Unit Rate vs. Indirect Cost Rate)?**

# Payment Methods

A single contract may contain different payment methods as appropriate for compensation of different elements of work.

## Lump Sum

Shall only be used when the contracting agency has established the extent, scope, complexity, character, and duration of the work to be required

L

## Cost plus fixed fee

C

## Cost per unit worked

U

## Specific rates of compensation

Shall only be used when it is not possible to estimate the extent or duration of the work with any reasonable degree of accuracy.

S

# Cost Per Unit Worked (unit cost)

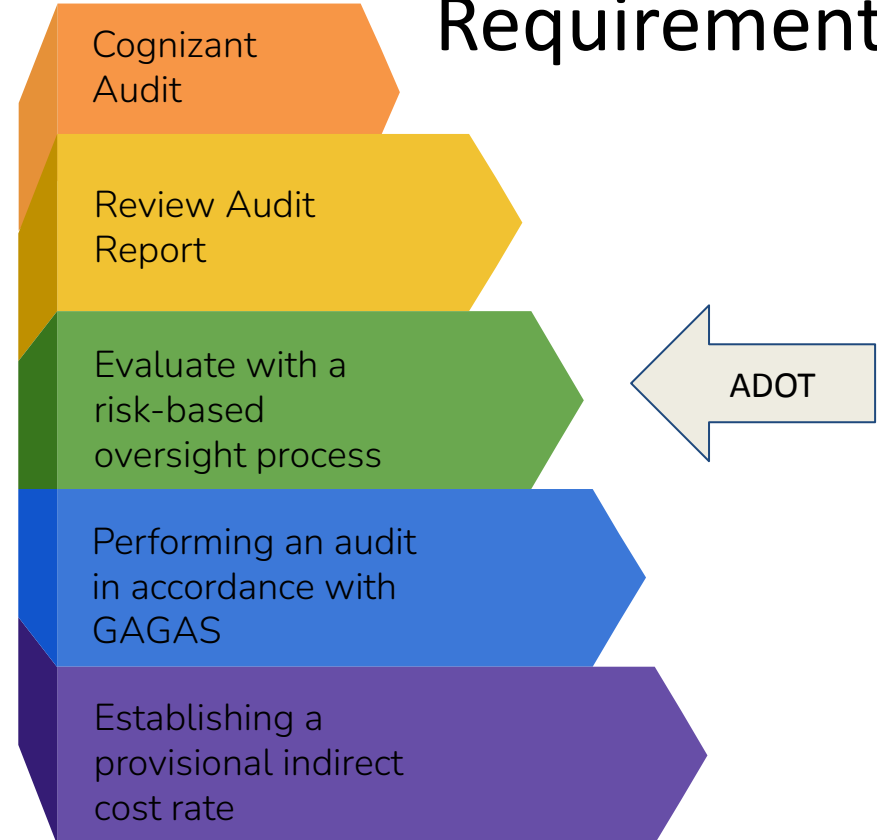
- Consultants receiving less than \$200,000 in payments during the prior or the current year may opt to use a Cost per unit worked basis.
- Consultants proposing commercial items, or those who have not been in operation for at least one complete calendar year, may be required to use a Cost per unit worked basis.



# Indirect Cost Rate

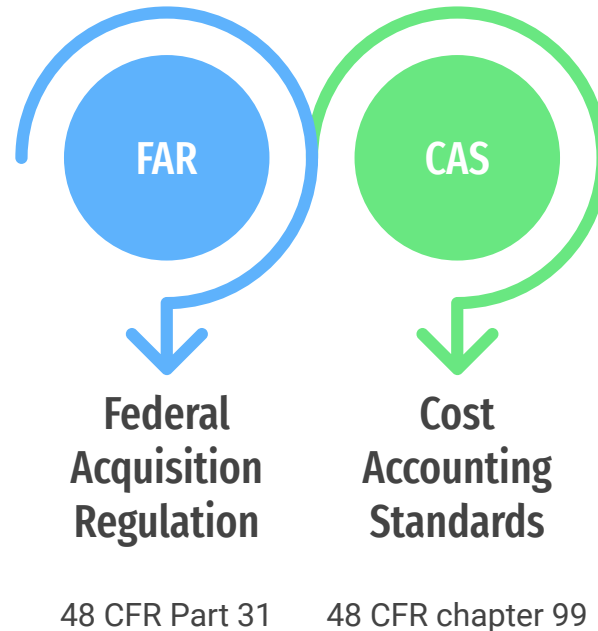
Indirect cost rates shall be updated on an annual basis in accordance with the consultant's annual accounting period and in compliance with the Federal cost principles.

## Requirements

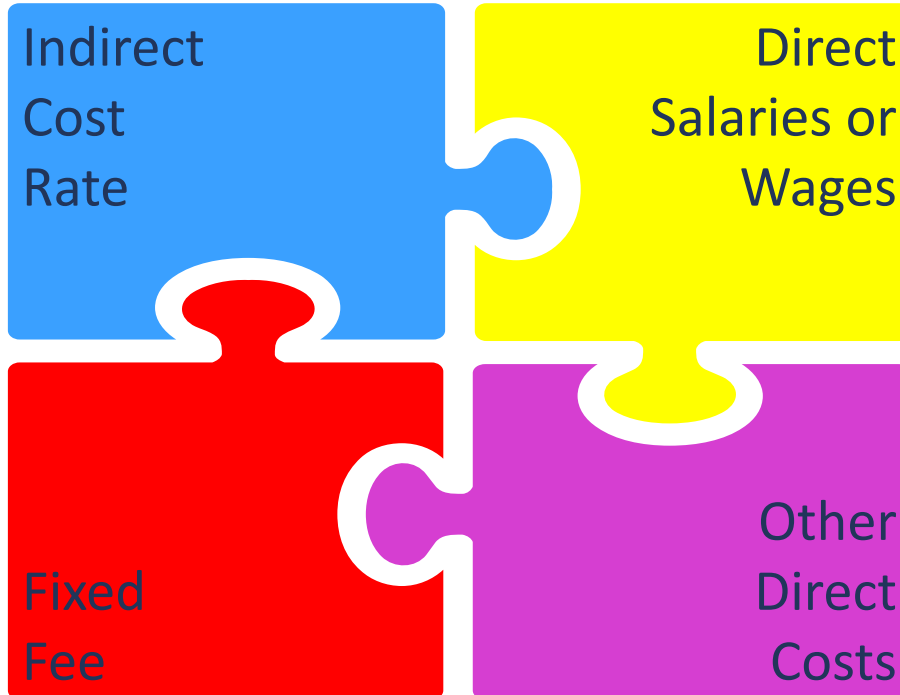


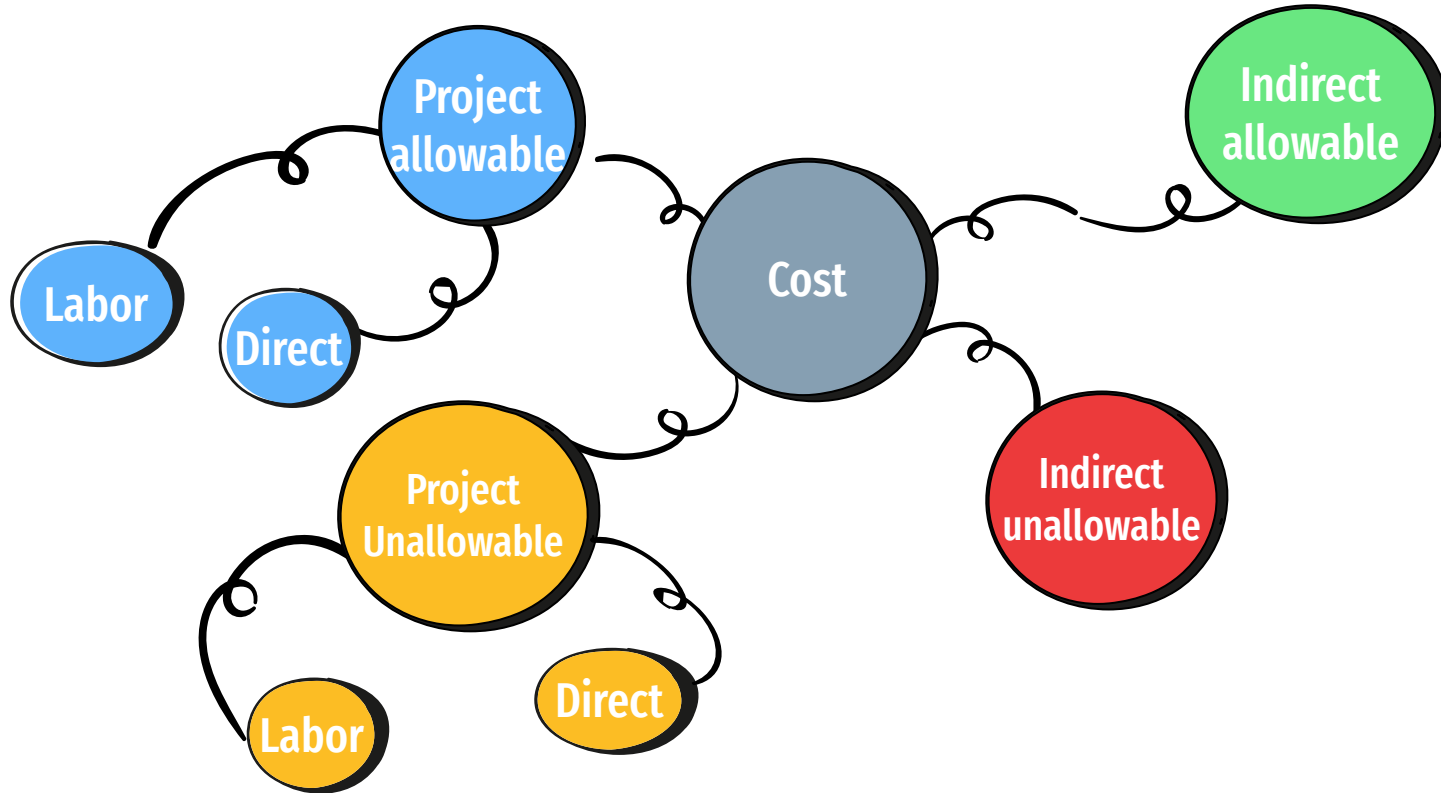
**What can a Professional Service firm do to prepare for transitioning from Unit Rate to Indirect Cost Rate?**

# Understand



# Elements of Contract Costs





**What kind of documentation is required? Is there a checklist that can be provided to the Audience?**

# 23 CFR 172.11

## (a) *Allowable costs.*

(1) Costs or prices based on estimated costs for contracts shall be eligible for Federal-aid reimbursement only to the extent that costs incurred or cost estimates included in negotiated prices are allowable in accordance with the Federal cost principles.

(2) Consultants shall be responsible for accounting for costs appropriately and for **maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with Federal cost principles.**

# Properly Designed System

- ❑ Proper segregation of direct costs and indirect costs.
- ❑ Identification and accumulation of direct costs by cost objective/contract.
- ❑ A logical and consistent method for allocating indirect costs to intermediate and final cost objectives.
- ❑ Accumulation of costs under general ledger control.
- ❑ A timekeeping system that identifies employees' labor by intermediate and final cost objectives.
- ❑ A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.
- ❑ Interim (at least monthly) determination of costs charged to a contract through routine posting to books of account.
- ❑ Exclusion from costs charged to government agreements of amounts that are not allowable pursuant to FAR Part 31 or other agreement provisions.
- ❑ Identification of costs by appropriate units, if required by the contract.



# Questions?

