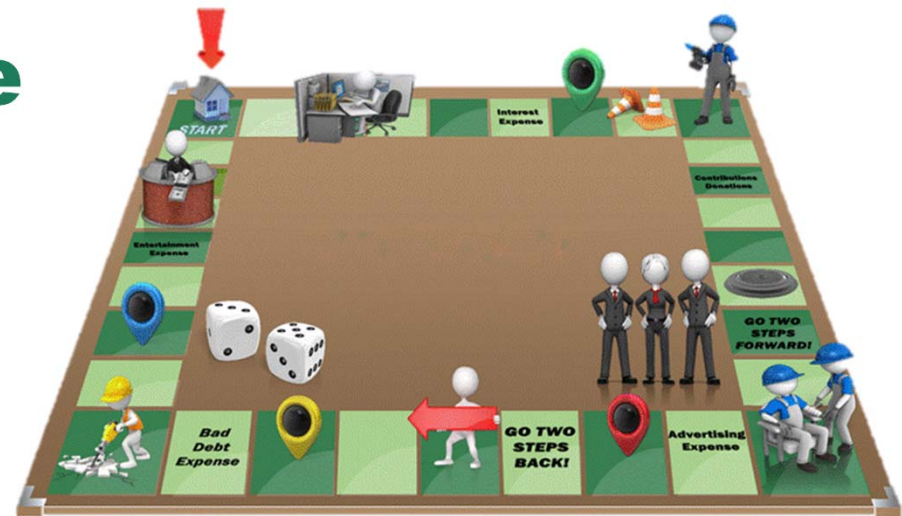


Indirect Cost Rate (ICR) Training

Indirect Cost Rate Adjustments

(Module 6)

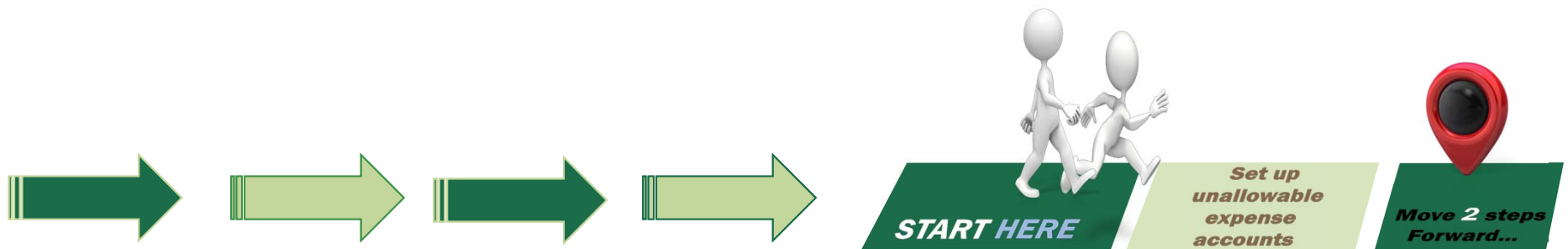


Indirect Cost Rate (ICR) Adjustments



Unallowable Expenses

- The firm should set-up separate General Ledger (GL) accounts to track and account for all unallowable expenses at the point of entry (entered into accounting system).
- Separate accounts will help prevent unallowable expense items from being left in the Indirect Cost Rate (ICR) Schedule.
- Segregating unallowable expenses complies with FHWA Order 4470.1A and Cost Principles per 48 CFR Part 31, which requires firms to certify that all unallowable costs have been adjusted out on the ICR schedule.



Indirect Cost Rate (ICR) Adjustments



Allowable Expenses

For a firm to claim expenses in their Indirect Cost Rate (ICR) Schedule, the expenses must be:

- Allowable 48 CFR 31.201-2, must comply with the following requirements:
 - Reasonableness,
 - Allocability,
 - Terms of the contract, and
 - Accounting for costs appropriately is the responsibility of the consultant.
- Reasonableness 48 CFR 31.201-3, depends upon the following:
 - Generally accepted sound business practice,
 - Ordinary or necessary business expense,
 - Without significant deviations from the consultant's established practices, and
 - Burden of proof is on the firm.
- Allocability 48 CFR 31.201-4, a cost is allocable if:
 - Incurred specifically for the contract,
 - Benefits both the contract and other work, and
 - Necessary to the overall operation of the business

It is important for a firm to keep adequate supporting documentation!



Please Refer to
AASTHO Audit
Guide, Chapter 4
For More
Information!



Indirect Cost Rate (ICR) Adjustments



Expressly Unallowable Expenses

The following list addresses expenses that under no circumstance are allowable in the firm's Indirect Cost Rate (ICR) Schedule:

- Entertainment 48 CFR 31.205-14, includes:
 - Amusement, diversions and social activities.
 - Civic organization memberships.
 - Cost unallowable under this principal are not allowable under any other cost principle.

For More Information On Unallowable Expenses Refer to AASTHO Audit Guide, Chapter 8!



- Interest 48 CFR 31.205-20, includes:
 - Interest on borrowing
 - Costs of financing or refinancing

- Alcohol 48 CFR 31.205-51

Expressly unallowable expenses must be adjusted out of the firm's ICR!



Indirect Cost Rate (ICR) Adjustments



Expressly Unallowable Expenses (Cont.)

- Advertising/Public Relations 48 CFR 31.205-1, includes:
 - Enhances firm's image or disseminate favorable attention of the firm;
 - Trade shows not focused on promoting export of US goods.
 - Promotional material and souvenirs;

Corporate celebrations.

- The AASHTO Audit Guide uses the term "Marketing" to identify unallowable types of selling efforts. The term "Marketing" is too general, and is not defined in the Federal Acquisition Regulations (FARs).



"Marketing" should not be used to track labor or expenses



Bid & Proposal, Direct Selling, Advertising, and Public Relations should replace the term "Marketing".



Indirect Cost Rate (ICR) Adjustments



Expressly Unallowable Expenses (Cont.)

- Contributions/Donations 48 CFR 31.205-8, includes:
 - Cash
 - Property
 - Services
 - Bad Debts 48 CFR 31.205-3, includes:
 - Losses from uncollectible accounts receivable
 - Directly associated costs – collections/legal expenses



Indirect Cost Rate (ICR) Adjustments



Expressly Unallowable Expenses (Cont.)

- Lobbying/Political Activities 48 CFR 31.205-22, includes:
 - Influence outcome of elections or legislation; and
 - Portion of organization dues used for lobbying/advocacy.
- Organization/Reorganization Costs 48 CFR 31.205-27, includes:
 - Planning or executing mergers and acquisitions;
 - Raising capital;
 - Resisting or planning to resist reorganization.

Organization costs include expenditures for incorporation fees and costs of attorneys, accountants, brokers, promoters and organizers, management consultants and investment counselors!



Lobbying portion of Organization dues can often be found in small print on a applications Or annual invoices



Indirect Cost Rate (ICR) Adjustments



Directly Associated Costs (48 CFR 31.201-6)

- When a cost is unallowable the directly associated costs are also unallowable.
 - For Example, labor associated with unallowable advertising, or labor associated with a trade show booth would be unallowable.
- Payroll taxes paid for unallowable labor and bonus would also be unallowable, as they are directly associated to the unallowable activity.
 - When vehicle expense is deemed unallowable, all of the associated costs to the vehicle (related insurance, depreciation, fuel, repairs & maintenance) are also unallowable.

Depending on the circumstance, a normally allowable expense may be unallowable, if associated to an unallowable activity!



It is important for firms to maintain mileage logs to help support their vehicle expenses.



Indirect Cost Rate (ICR) Adjustments



48 Code of Federal Regulations (CFR) Part 31

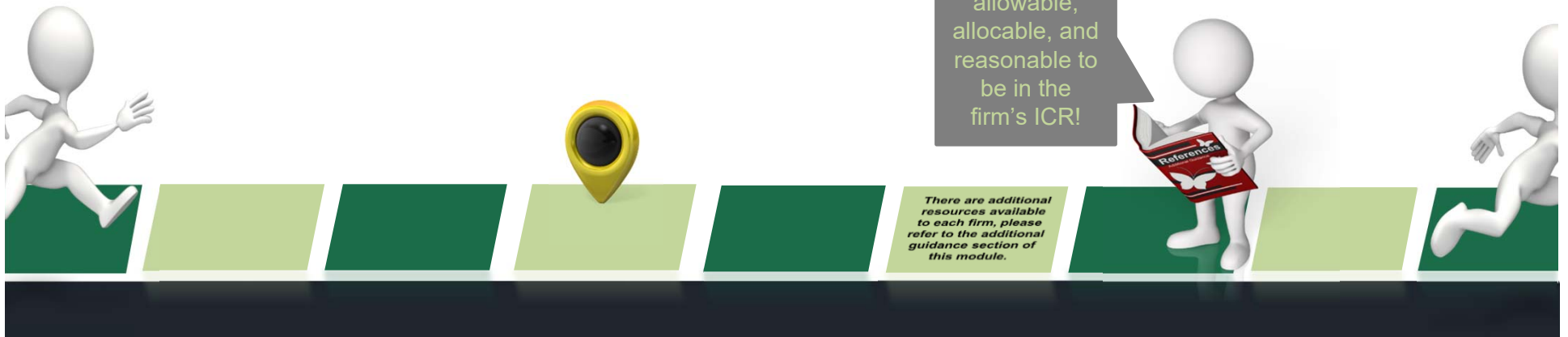
- The code does not cover every element of cost.
 - If a type of cost is not mentioned, it does not imply the cost is allowable.
 - When in doubt, adjust the cost out!

Valuable Resources

- American Association of State Highway and Transportation Officials (AASHTO) Uniform Audit & Accounting Guide.
- WSDOT Interpretive Guidance documents.

Remember:
An expense
must be
allowable,
allocable, and
reasonable to
be in the
firm's ICR!

*There are additional
resources available
to each firm, please
refer to the additional
guidance section of
this module.*



Indirect Cost Rate (ICR) Adjustments



Indirect Cost Rate (ICR) Schedule Adjustment References

- The unallowable expense adjustments are presented in the reference section at the bottom of the ICR Schedule.
- Each adjustment will have a Federal Acquisition Regulations (FARs) reference attached to it.
- Each adjustment will be detailed in the reference section.

Examples

- Adjustment A. \$500 adjustment for unallowable contributions per 48 CFR 31.205-7.
- Adjustment B. \$2,500 adjustment for unallowable advertising labor per 48 CFR 31.205-1(f)(2).

It is important to put the dollar amount of each adjustment, especially if there are multiple adjustments under one reference letter!



A visual illustration of an ICR adjustment can be seen on the next page.



Indirect Cost Rate (ICR) Adjustments



How does it look on the Indirect Cost Rate (ICR) Schedule?

The following is an illustration of where the unallowable adjustments, reference letters, and reference sections are located on the ICR Schedule.

- The firm's adjustments will be placed in the third column of the ICR Schedule.
- Each adjustment will have a correlating reference letter, which will be placed in the fifth column.
- At the bottom, under the ICR Rate, each reference letter will be placed in the reference section with a detailed explanation.

ABC Engineering - In Process "Indirect Cost Rate still subject to WSDOT Audit"					
ABC Engineering Indirect Cost Rate Schedule For the Year Ended December 31, 2013					
Description	Financial Statement Amount	ABC ADJ.	WSDOT ADJ.	Ref.	Accepted Amount
Direct Labor	\$432,200				\$432,200
Indirect Costs					
Fringe Benefits					100.00%
Sick Pay	851,410				851,410
Holiday Pay	11,117				11,117
Payroll Taxes	24,800				24,800
Medical Insurance	120,125				120,125
Public Retiring (RPL)	25,000				25,000
Workers' Comp. Insurance	5,000				5,000
Private Retiring (PRP)	150,200				150,200
Unemployment	500				500
Private Benefits Adjustment	(28,400)				(28,400)
Total Fringe Benefits	(53,390)				(53,390)
General Overhead					
Indirect Labor	8,100,200				8,100,200
Payroll Variance Account	(36,255)				(36,255)
Health & Retirement Labor	91,200				91,200
Advertising Labor	4,000				4,000
Public Relations Labor	2,000				2,000
Direct Selling Labor	10,312				10,312
Education/Research Labor	3,000				3,000
Incentive Bonus	(65,000)				(65,000)
Rent	100,000				100,000
Maintenance & Repairs	18,300				18,300
Automobiles	14,420	(15,200)			1,220
Travel	5,000				5,000
Travel - Meals	5,000				5,000
Insurance	30,700				30,700
Telephone	5,000				5,000
Utilities	2,000				2,000
Taxes & Licenses	1,000				1,000
Depreciation & Amortization	2,100				2,100
Drawn & Subscriptions	(1,175)				(1,175)
Employee Travel/Recreation/Leasing	2,000				2,000
Advertising	28,200				28,200
Public Relations Expenses	18,200				18,200
Direct Selling Expenses	6,000				6,000
Professional Fees	38,000				38,000
Interest	500				500
Computer	28,400				28,400
Supplies & Miscellaneous	(25,400)				(25,400)
Total General Overhead	(7,372,855)				(7,372,855)
Total Indirect Costs & Overhead	(53,390)				(53,390)
Indirect Cost Rate (Less FCC)	261.06%				187.96%
Facilities Cost of Capital					50
Indirect Cost Rate (Includes FCC)	31,132,195				3872.07%

References

Add the dollar amount in each reference, as an expense account can have multiple adjustments.

XYZ Corp. Indirect Cost Rate Audited by ABC Corp.

A Unallowable costs of (\$24,612) idle capacity per 48 CFR 31.205-17(c)
 B Lodging (\$1,600), Meal (\$42,000), and Mileage (\$3,200) rates in excess of federal travel regulation unallowable per 48 CFR 31.205-46(a)(2).
 C Inadequate supporting documentation unallowable per 48 CFR 31.201-2(d).
 D Key person life insurance for (\$6,000) unallowable per 48 CFR 31.205-19(c)(2)(v).
 E Unallowable taxes and licenses per 48 CFR 31.205-41.
 F Amortization of goodwill for (\$7,000) unallowable per 48 CFR 31.205-49.
 G Costs of memberships in civic and community organization unallowable per 48 CFR 31.205-1(f)(7).
 H Public relations (\$2,580) and advertising (\$4,005) unallowable per 48 CFR 31.205-1.
 I Entertainment unallowable per 48 CFR 31.205-14.
 J Legal Costs in relation to litigation unallowable per 48 CFR 31.205-47(f)(5).
 K Interest unallowable per 48 CFR 31.205-20.
 L Contributions unallowable per 48 CFR 31.205-8L.
 M Promotional Marketing unallowable per 48 CFR 31.205-1 and 31.205-38.
 N Unsupported direct selling costs of (\$10,312), no documentation available to demonstrate and support "person to person" selling unallowable per 48 CFR 31.205-38(b)(5).
 O Fringe Benefit adjustment; directly associated cost to unallowable Advertising (\$17,360), Public Relations (\$8,120) and Direct Selling Labor (\$2,920) unallowable per 48 CFR 31.201-6(a).
 P Auto Allowance payments of (\$12,000) unallowable per 48 CFR 31.205-6(m)(2) and 31.201-2(d), documentation of mileage log not available and unable to support and show segregation of business and personal use.
 Associated costs for vehicle unallowable per 48 CFR 31.205-46(d) and 31.205-6(m)(2). Associated costs include Insurance (\$1,000), Maintenance (\$997), and Depreciation (\$664).
 Q Bonus payments of (\$65,000) unsupported and not performance based unallowable per 48 CFR 31.205-6 and 2010 AASHTO Audit Guide, Chapter 7, Section 7.12 C.
 R Severance payment does not follow company's established severance policy, (\$5,400) is unallowable per 48 CFR 31.205-6(g).



A yellow spotlight beam shines from the top left corner onto the left sign.

**We Thank
You For
Your Time
And
Patience!**

A yellow spotlight beam shines from the top right corner onto the right sign.

**Be Sure To Check Out
Our Interpretive
Guidance
Documents Online!!!**



Be Sure to Visit Us Online



 START	FIRST STEP	Allowable			Alcohol	
	<p>Our website is filled with educational material and guidance for all firms. We have published several interpretive guidance documents to further assist firms. The website below provides guidance on the following topics and we are continuing to add further topics:</p> <ul style="list-style-type: none">• Direct Selling, Public Relations, Advertising and Bid & Proposal• Labor• Uncompensated Overtime• Allowable Bonus• Auto Expense• Meals• Airfare					Bad Debts
Reorganization						Allocable
PROMOTION!!!						Contributions Donations
	<p>Please check our website on a regular basis for updates. URL – http://www.wsdot.wa.gov/Audit/</p>					Reasonableness
FREE TURN						
Entertainment	Lobbying		Interest	Advertising		Public Relations
						PAYDAY

Additional Guidance



Title 48 Federal Acquisition Regulation Part 31 Contract Cost Principles and Procedures, commonly referred to as FARs is the governing guidance for Indirect Cost Rate Schedule expense allowability. 48 CFR Part 31 can be found at the following website:

URL – <http://www.ecfr.gov/cgi-bin/ECFR?page=browse>

Select Title 48, Part 1-51, Sub Chapter 31

For updates check the following website:

URL – <http://www.acquisition.gov/far/fac.html>

The American Association of State Highway and Transportation Officials (AASHTO) Uniform Audit & Accounting Guide provides guidance to expand on FAR cost principles. The audit guide is updated approximately every two years and can be found at the following website:

URL – <https://audit.transportation.org/>

The above link also includes the National Compensation Matrix and sample worksheet - updated annually



Additional Guidance



The Consultant Services Office link below provides information related to the different types of contracts and how to apply.

URL – <http://www.wsdot.wa.gov/business/consulting/>

The General Services Administration publishes the allowable Federal per diem rates. The lodging, meals, mileage and other information by region can be found at the following website:

URL – <http://www.gsa.gov/portal/content/104877>

WSDOT Accounting Manual M13-82 Quick Reference Excerpt:

URL – <http://www.wsdot.wa.gov/business/travel>

WSDOT Safe Harbor Program (FHWA Pilot Program):

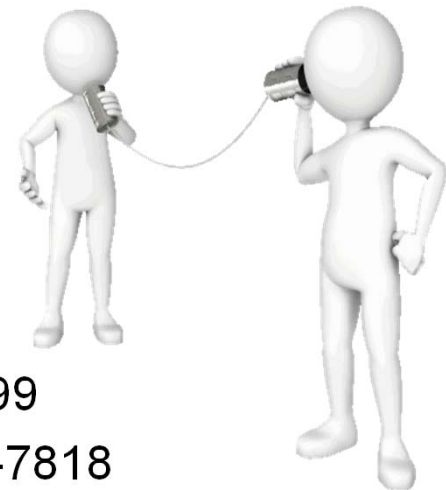
URL – <http://www.wsdot.wa.gov/audit/safeharbor/CR.htm>



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you would like in the
future!**

