**WSDOT Safe Harbor Indirect Cost Rate**

**-Pathway to Compliance-**

The Safe Harbor Indirect Cost Rate is offered under a pilot program from the Federal Highway Administration.[[1]](#footnote-1) The fundamental goal of the Safe Harbor Indirect Cost Rate is to allow time for small consulting firms, new consulting firms, and consulting firms that may not have previously had a FAR compliant Indirect Cost Rate to become compliant with State and Federal Laws and Part 31 of the Federal Acquisition Regulations. Each consulting firm opting to participate in the Safe Harbor program agrees to establish a “Pathway to Compliance”.

The Pathway must include:

* A timekeeping system which includes the Internal Controls described in chapter 6 of AASHTO
* An accounting system which separates indirect costs and direct costs
* An accounting system which separates allowable and unallowable cost
* A compliant job cost system which is general ledger driven
* Training for accounting personnel and key management on Part 31 of the Federal Acquisition Regulations, Contract Cost Principles and Procedures
* A strong written internal control policy with a policy and procedures manual

**Timekeeping system**

The consultant must have a system in place that meets the criteria in chapter 6 of the AASHTO Audit Guide. All employees must keep timesheets for all hours worked – this does include exempt staff/principals/owners. This applies to all size firms – even a one-person firm. Firms should have a written timekeeping policy, and a system should be in place for labor and payroll reconciliations that occur no less frequently than once every thirty days.

**An accounting system which separates indirect costs and direct costs**

In evaluating an engineering consultant’s overhead, consulting firms should consider direct as well as indirect costs. A direct cost is any cost that can be identified specifically with a particular contract or project. Costs identified specifically with a contract or project are direct costs and must be allocated/charged directly to the contract or project. All costs specifically identified with a project are direct costs of that project and may not be allocated to another project, either directly or indirectly. Finally, a cost may not be charged as direct and also be included in an indirect cost pool.

Indirect costs should be accumulated by logical cost groupings with due consideration of the reasons for incurring such costs. The engineering consultant must record indirect costs in accordance with Generally Accepted Accounting Principles (GAAP), or an Other Comprehensive Basis of Accounting, and must consistently allocate these costs to intermediate or final cost objectives, as appropriate.

Federal Acquisition Regulation Part 31.202 provides guidance on direct costs. Federal Acquisition Regulation Part 31.203 provides guidance on indirect costs.

**An accounting system which separates allowable and unallowable cost**

Management bears the sole responsibility for identifying, segregating and removing unallowable costs from all government contracts. This applies to direct costs, indirect costs, and any cost proposals that are submitted for government contracts. A cost is allowable when the cost is allocable, reasonable and complies with the cost principles of Federal Acquisition Regulation Part 31.

The consultant is responsible for accounting for costs appropriately and for maintaining records adequate to demonstrate that costs claimed have been incurred, are reasonable and are allocable.

Chapter 7 of The AASHTO Audit Guide discusses the reasonableness and allowability of Labor Costs. Chapter 8 of The AASHTO Audit Guide provides FAR interpretations on the allowability of selected areas of costs.

Appendix C of The AASHTO Audit Guide provides a keyword index to the Federal Acquisition Regulation Part 31. It lists the type of cost, if it is generally allowable and a reference to the Federal Acquisition Regulation that is applicable.

FHWA Order 4470.1A requires a certification that the indirect cost rate does not include any unallowable costs.

**A compliant job cost system which is general ledger driven**

The job cost system should integrate with or otherwise reconcile to the financial accounting control accounts (general ledger accounts). It should record all direct labor and other direct costs, whether billable or not, to projects on a consistent basis.

**Training for accounting personnel and key management on Part 31 of the Federal Acquisition Regulations, Contract Cost Principles and Procedures**

Training of accounting personnel and key management on Part 31 of the Federal Acquisition Regulations, Contract Cost Principles and Procedures is important to ensure. This training will:

* Promote a uniform interpretation and consistent application of the FARs in A/E contracting. (Ex. Costs are consistently classified as either indirect costs or direct costs, costs are correctly classified as either allowable or unallowable.)
* Increase compliance with the federal rules and regulations that govern A/E agreements
* Improve the quality of Indirect Cost Rate schedules

Because an indirect cost rate is based on direct labor, all employees should be instructed to prepare timesheets to account for all hours worked and paid leave. They should also be instructed on the documentation requirements necessary for a cost to be allowable.

**A strong written internal control policy with a policy and procedures manual**

Internal Controls include the plans of the organization and the methods and procedures adopted by management to ensure that the firm’s goals and objectives are met; that resources are used consistent with laws, regulations and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed is reports.

The following are internal control resources:

Chapter 6.4 of The AASHTO Audit Guide provides guidance on the development of an effective internal control system. It paraphrases The Defense Contract Audit Agency (DCAA) issued Pamphlet No. 7641.90 (DCAAP 7641.90), *Information for Contractors*.14. The DCAAP provides useful guidance as referenced at FAR 31.002 and provides extensive guidance regarding labor-charging systems. Specifically, sections 2-301 through 2-302.2 provide guidance regarding the:

Accounting system internal control,

Labor charging system internal control,

Timecard preparation methods, and

Timekeeping policy

Table 6-1 of The AASHTO Audit Guide provides a checklist of the model characteristics of a labor charging system.

1. Federal Highway Administration Test and Evaluation Program (TE-045) [↑](#footnote-ref-1)