

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.



START HERE

***Set up
unallowable
expense
accounts***



***Move 2 steps
Forward...***

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.

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

- **Alcohol** *48 CFR 31.205-51*

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



***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.
 - **FHWA (through the National Highway Institute (NHI) Training) has noted that the term "Marketing" is too general and not defined in the Federal Acquisition Regulations (FARs). They recommend that the term no be used to track labor & expenses.**



"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

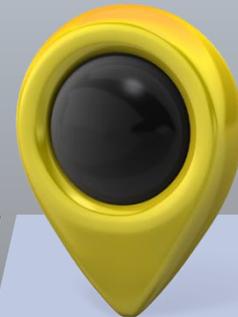
Expressly Unallowable Expenses (Cont.)

- 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

Contributions and/or donations are unallowable regardless of the recipient!



Bad Debts, including actual or estimated losses arising from uncollectible accounts receivable are unallowable.

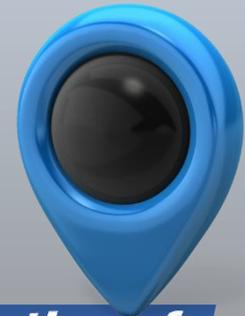


Indirect Cost Rate (ICR) Adjustments

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 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!

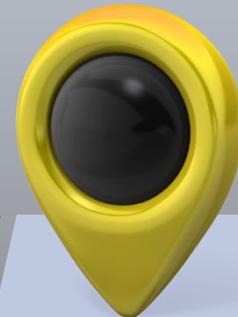
Valuable Resources

- 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 adjustment under one reference letter!



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



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.

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	\$432,206				\$432,206	100.00%
Indirect Costs:						
Fringe Benefits						
Vacation Pay	\$51,419				\$51,419	11.90%
Sick Pay	11,117				11,117	2.57%
Holiday Pay	24,869				24,869	5.75%
Payroll Taxes	120,125				120,125	27.79%
Health Insurance	25,490				25,490	5.90%
Workers' Comp. Insurance	15,980				15,980	3.70%
Profit Sharing (401-k)	150,240				150,240	34.76%
Severance	5,400	(\$5,400)		R	0	0.00%
Fringe Benefit Adjustment		(28,400)		O	(28,400)	-6.57%
Total Fringe Benefits	\$404,640	(\$33,800)	\$0		\$370,840	85.80%
General Overhead						
Indirect Labor	\$198,249				\$198,249	45.87%
Payroll Variance Account	(36,355)				(36,355)	-8.41%
Bid & Proposal Labor	9,129				9,129	2.11%
Advertising Labor	4,005	(\$4,005)		H	0	0.00%
Public Relations Labor	2,580	(2,580)		H	0	0.00%
Direct Selling Labor	10,312	(10,312)		N	0	0.00%
Education/Research Labor	3,010				3,010	0.70%
Incentive Bonus	65,000	(65,000)		Q	0	0.00%
Rent	98,000	(24,612)		A	73,388	16.98%
Maintenance & Repairs	18,340	(997)		P	17,343	4.01%
Automobile	16,420	(15,200)		B,C,P	1,220	0.28%
Travel	25,600	(1,600)		B,C	24,000	5.55%
Travel - Meals	42,000	(42,000)		B,C	0	0.00%
Insurance	23,789	7,000		D,P	30,789	7.12%
Telephone	11,125				11,125	2.57%
Utilities	9,671				9,671	2.24%
Taxes & Licenses	38,900	(25,140)		E	13,760	3.18%
Depreciation & Amortization	22,140	(7,664)		F,P	14,476	3.35%
Dues & Subscriptions	6,500	(1,175)		G	5,325	1.23%
Employee Train/Recruit/Moving	2,100	(1,500)		I	600	0.14%
Advertising	25,650	(23,250)		M	2,400	0.56%
Public Relations Expense	18,240	(15,140)		M,I	3,100	0.72%
Direct Selling Expenses	9,400	(4,800)		N	4,600	1.06%
Professional Fees	38,000	(23,369)		J	15,631	3.62%
Interest	450	(450)		K	0	0.00%
Computer	28,400				28,400	6.57%
Supplies & Miscellaneous	36,900	(25,480)		L	11,420	2.64%
Total General Overhead	\$727,555	(\$286,274)	\$0		\$441,281	102.10%
Total Indirect Costs & Overhead	\$1,132,195	(\$320,074)	\$0		\$812,121	187.90%
Indirect Cost Rate (Less FCC)	261.96%	187.90%			187.90%	
Facilities Cost of Capital					\$0	0.00%
	\$1,132,195	(\$320,074)	\$0		\$812,121	
Indirect Cost Rate (Includes FCC)					187.90%	

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



**ADVANCE ONE
SPACE**

Finish Line

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.

*ABC Engineering- In Process
"Indirect Cost Rate still subject to WSDOT Audit"*

References

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

XYZ 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(e)(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).

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**ADVANCE ONE
SPACE**

Finish Line



WSDOT

We Thank
You For
Your Time
And
Patience!

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





**FIRST
STEP**

Allowable



Alcohol



Be Sure to Visit Us Online

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:

- Direct Selling, Public Relations, Advertising and Bid & Proposal
- Small Firms
- Labor
- Uncompensated Overtime
- Allowable Bonus
- Auto Expense
- Meals
- Airfare

Please check our website on a regular basis for updates.

URL - <http://www.wsdot.wa.gov/Audit/guides.htm>



**Bad
Debts**

Allocable

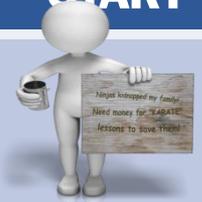


**Contributions
Donations**

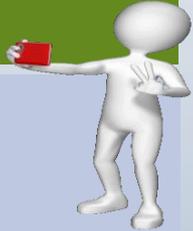
Reasonableness



**\$\$\$
PAYDAY**



Reorganization



PROMOTION!



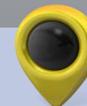
**FREE
TURN**

Lobbying



Interest

Advertising



**Public
Relations**

Entertainment

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 -

<http://audit.transportation.org/Pages/default.aspx>

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>

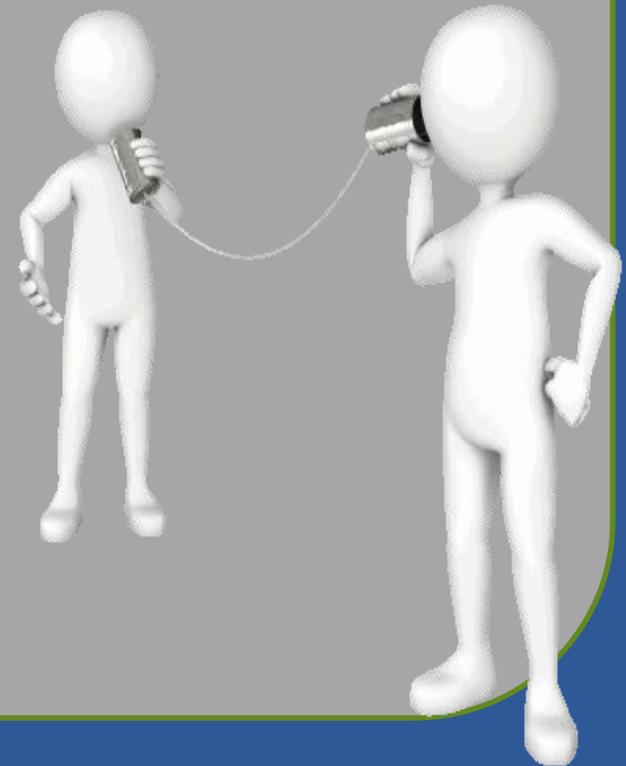
WSDOT Safe Harbor Program (FHWA Pilot Program):

URL - <http://www.wsdot.wa.gov/Audit/SafeHarbor.htm>



Contacts

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Future Trainings

Please let us know
what type of training
you would like in
the future!

