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.

• **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!
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!
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!
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!
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


- 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!
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 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.
Indirect Cost Rate (ICR) Adjustments

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

Please check our website on a regular basis for updates.

URL – [http://www.wsdot.wa.gov/Audit/guides.htm](http://www.wsdot.wa.gov/Audit/guides.htm)
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](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](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](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.


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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](http://www.gsa.gov/portal/content/104877)

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**WSDOT Accounting Manual M13-82 Quick Reference Excerpt:**

URL - [http://www.wsdot.wa.gov/business/travel](http://www.wsdot.wa.gov/business/travel)

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**WSDOT Safe Harbor Program (FHWA Pilot Program):**

URL – [http://www.wsdot.wa.gov/Audit/SafeHarbor.htm](http://www.wsdot.wa.gov/Audit/SafeHarbor.htm)
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Future Trainings

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