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To: All Consultants Seeking Business with Georgia Department of Transportation

Through: Russell McMurry, P.E., Commissioner

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Meg Pirkle, P.E., Chief Engineer

From: Josh Nix, CPA, CFE, Office of Audits Administrator

Subject: ***Accounting Systems, Internal Control and Consultant Business Questionnaire, Overhead Rates and Other Direct Costs***

Dear Consultant:

The Department encourages all qualified firms to seek consultant work with the Department and take steps as necessary to meet all eligibility requirements. This memo* serves to provide certain eligibility information to firms seeking consultant/design work with the Department. This memo details the Department's requirement that a consultant must have an adequate accounting system in order to be awarded a contract with the Department and gives information related to completing internal control and consultant business questionnaires and requirements for indirect cost rates (overhead) reports and other direct costs.

**This information was originally communicated to the consultant community in Georgia in a memo dated June 1, 2005. The information below continues the expectations of the Department for its consultants related to these topics. For more information related to additional compliance and contracting requirements, please see the Department's Procurement Manual: For the Procurement, Management, and Administration of Engineering Design Related Consultant Services and federal/state regulations noted therein.*

Accounting Systems

The Department continues to require that all consultants who contract with the Department have an adequate accounting system. This requirement applies to both prime and sub-consultants and applies to Disadvantaged Business Entities (DBEs).

The Department requires that a potential consultant submit information to the Office of Audits which support that the consultant has an adequate accounting system. This includes a completed Internal Control and Consultant Business Questionnaire (ICQ), policies and procedures related to the consultant's accounting system, and financial statements.

The Office of Audits will assess the adequacy of the accounting system using this information. Key elements of an adequate accounting system include:

- The accounting records must comply with Generally Accepted Accounting Principles (GAAP).
- The accounting system must be on an accrual basis; cash basis accounting is not in accordance with GAAP.
- The direct and indirect expenses must be segregated. There should be no direct expenses in the overhead pool.
- The accounting system must have a job-costing component. Direct costs must be identified and accumulated by contract.
- The accounting system should be integrated with the other accounting components.
- The method of allocating indirect costs to cost objectives should be logical and consistent.
- The accumulation of costs should be under general ledger control.
- The timekeeping system should identify employee labor by cost objectives and the labor distribution system should charge direct and indirect labor to appropriate cost objectives.
- The consultant should produce monthly interim reports from the accounting system that provide the results of charges to contracts.
- Costs must be accumulated and reported in accordance with the Federal Acquisition Regulations (FAR).
- The consultant should have written accounting and internal control policies and procedures specific to the firm's practices.
- The consultant should maintain separate accounts for expressly unallowable expenses.
- Miscellaneous credit recovery accounts are not allowable in the overhead pool.

This list is not meant to be all-inclusive. It is provided to assist the consultant with questions they may have regarding the adequacy of their accounting system. If a consultant obtains an accountant to assist them with their accounting system issues, they should ensure the accountant is familiar with GAAP, FAR and all applicable rules and regulations governing the accounting for costs incurred on Government contracts.

If the accounting system is deemed inadequate, the Office of Audits will provide a report notifying the consultant of the issues with their accounting system. The consultant should take the necessary actions to correct their accounting system issues if they wish to continue doing business with the Department. The Office of Audits will perform a follow-up review of the system, if requested by the contracting officer. A follow-up review will not be conducted until at least one full month of financial information has been recorded in the accounting system. If the accounting system is deemed adequate upon completion of the follow up review, a revised report will be issued.

The consultant will not lose their prequalification status due to an inadequate accounting system; however, they will not be eligible for any contract(s) until the accounting system is deemed adequate for contracting purposes by the Department.

Internal Control and Consultant Business Questionnaire

The Department's Internal Control and Consultant Business Questionnaire (ICQ) is an important tool used by the Department when assessing the adequacy of the consultant's accounting system. It is very important that the consultant provide complete and accurate responses on the ICQ. It is also very important that the consultant update their ICQ if there are any changes in the information previously submitted to avoid potential issues that may arise during final audits due to changes. In addition to being submitted initially for accounting system assessment, the ICQs are required to be updated and submitted annually to the Office of Audits.

As defined in the FAR, "falsification or destruction of records or making false statements" is a cause for debarment, suspension and/or ineligibility. If the Department determines that a consultant falsified records or made false statements on the ICQ or any other documents provided to the Department, the consultant may be subject to debarment, suspension or may become ineligible for future contracts with the Department.

CPA Audited Overhead Rates

The Department continues to require that all Georgia based consultants with \$250,000 or more in contracts with the Department obtain an audited overhead rate by a Certified Public Accountant (CPA) for each year the consultant has contracts with the Department. GDOT does not prequalify or approve CPAs/firms for this type of work. It is the consultant's responsibility to ensure that the CPA they procure is fully aware of the following requirements regarding CPA audited overhead rates:

- The audit must be performed in accordance with Generally Accepted Government Auditing Standards (GAGAS).
- The overhead rate must be established in accordance with 48 CFR Part 31.
- The audit must be performed in accordance with the most recent version of the AASHTO "Uniform Audit & Accounting Guide".
- The CPA audit must be received by the Office of Audits within the 6-month period following the consultant's accounting year-end close.

The Office of Audits will review the CPA's audit report and work papers upon receipt of the overhead report before the audited rate will be accepted by the Department. The Office of Audits will issue a letter to the consultant and the Department's contract officer stating the rate that is accepted upon completion of the review.

If the CPA does not perform the overhead audit in accordance with GAGAS, 48 CFR Part 31, and the AASHTO Audit Guide, it will not be accepted by the Department. Therefore, care should be taken when selecting the CPA to ensure they are qualified to perform GAGAS audits and are familiar with the Federal Acquisition Regulations and the AASHTO Audit Guide.

The audited overhead rate, once it is accepted by the Department, will be used for that year's billings and as the provisional overhead rate for estimating purposes during the one-year period

following acceptance of the rate for estimating and contract negotiation purposes on future contracts.

Provisional Overhead Rates for New (Start-up) Companies

A provisional home office overhead rate of 125% of direct labor will be used by the Department for estimating purposes for new (start-up) companies with no audited rate. A CPA audited overhead rate must be obtained after the first full year of business.

A provisional field overhead rate of 115% of direct labor will be used by the Department for estimating purposes on Construction Engineering Inspection (CEI) and Subsurface Utility Engineering (SUE) contracts for new (start-up) companies with no audited rate. A CPA audited field rate must be obtained after the first full year of business. The audited field overhead rate must be received by the Department within the 6-month period following the consultant's accounting year-end close. After the consultant's audited field overhead rate has been reviewed and accepted by the Office of Audits, the audited field rate will be applied to that year's billings and the following year's proposals for estimating purposes. A CPA audited field rate must be obtained for each year the consultant has CEI or SUE contracts with the Department.

Other Requirements

- Other Direct Costs:

A consultant who intends to submit proposals containing direct vehicle expenses, reproduction or printing costs, CADD costs, or any other direct expense that is based on a usage rate must obtain an audited rate for the direct expenses. Direct expenses based on a usage rate will not be allowed as a direct expense if an audited rate is not obtained by the consultant. Expenses to obtain CPA audited rates, including overhead and field rates, will not be allowed as a direct expense.

- Facilities capital cost of money (FCCM) must be reported in accordance with FAR 31.205-10.
- Bonuses that have been reclassified as commissions will not be an allowable cost on GDOT contracts.

As additional information becomes available, we will provide the consultant community with updates. If there are any questions or concerns, please contact the GDOT Office of Audits at IndirectCostRates@dot.ga.gov.