



Construction Working Group

Consultant Overhead Rates

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Deputy Director

March 14th, 2016



Consultant Overhead Rates

Who is responsible for verifying O.H. Rates?

What is an Overhead Rate?

Federal Rules and Guidance

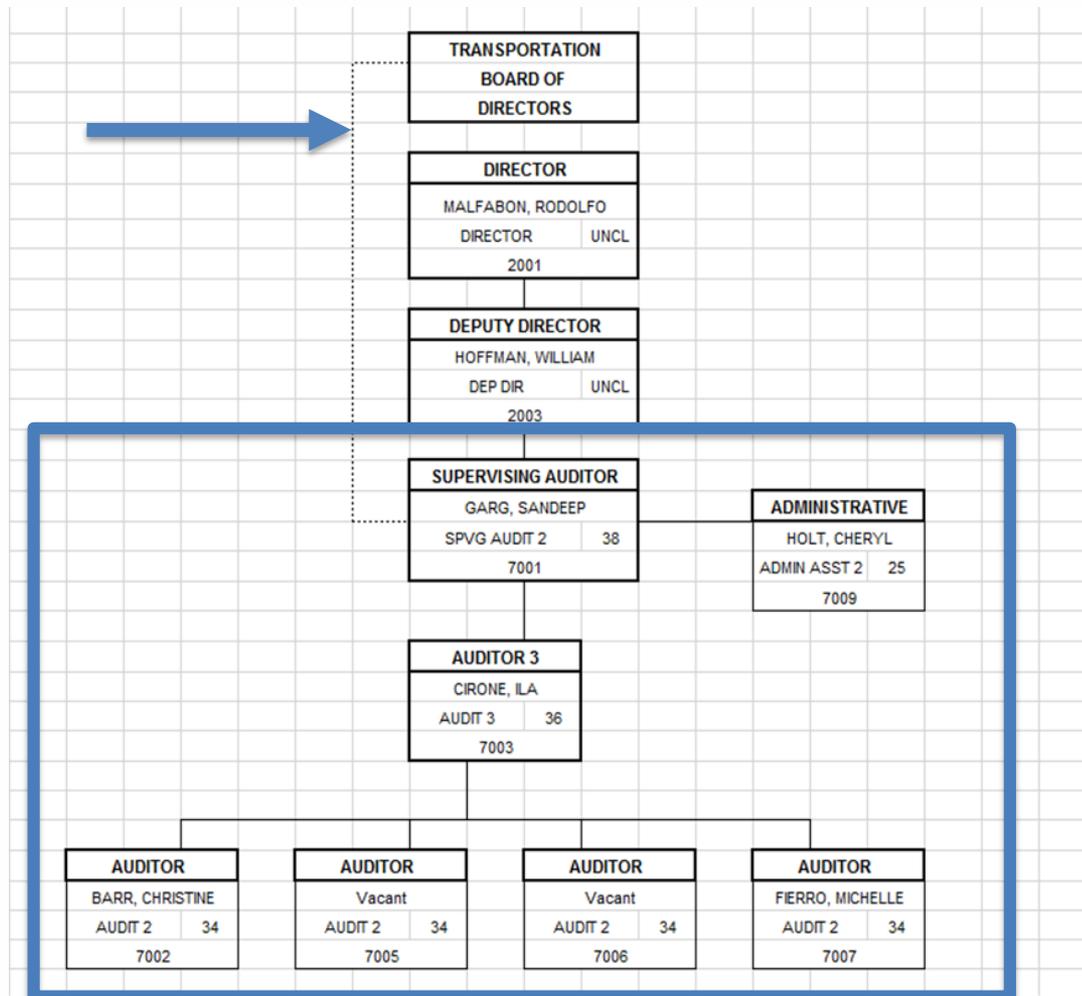
National Peer Reviews

Example of How O.H. Rates are Calculated

NDOT's Process for Auditing O.H. Rates



NDOT Audit Services Division





Audit Services Duties

- **Cost Verification Audits**

<u>Item</u>	<u>In Numbers</u>	<u>\$ Value in Millions</u>	<u>Comments</u>
Balance July 1, 2015	85	67	In addition, we had 55 unassigned audit requests
Audit Assigned	80	64	We received 95 audit requests during July 1, 2015 thru December 31, 2015
<i>sub-total</i>	<i>165</i>	<i>131</i>	
<u>Audit Completed</u>			In addition, 6 one page audits were completed.
First Quarter	(49)	(34)	Findings: \$445,825.38 – Due to NDOT
Second Quarter	(40)	(32)	
<i>sub-total</i>	<i>(89)</i>	<i>(66)</i>	
In-process	76	65	Estimated Completion of Work: 30 Million Dollars
Unassigned Audits	64	38	Progress Payments – Amount Billed is determined at the time of audit.
Pending Work – December 31, 2015	140	103	Estimated Completion of Work: 30 Million Dollars

- **Pre-Negotiation Audits**

Completed four audit waivers – Two audits are in-process.

- **Pre-Stewardship Audits**

No pending request.

- **Performance Audits**

No pending request.

- **OMB Circular A-133 Audits/Reviews**

Fiscal Year 2015: Survey letters are in process (46 Sub-recipients).

- **Force Account Change Order Audits**

No pending request.

- **Special Request Audits**

Completed one audit – No Pending Request.



What is an Overhead Rate?

- Direct Labor Costs – Any Cost Identified With a Single Project or Cost Objective.
- Indirect Cost – Costs not directly identified with a single project or cost objective.
 - Fringe Benefits
 - General Overhead
 - Allowable
 - Unallowable

$$\text{Overhead Rate (Percentage)} = \frac{\text{Total Indirect Costs}}{\text{Total Direct Labor Costs}}$$



National Rules & Guidance

- Code of Federal Regulations (48 CFR 12)
- CAS – Cost Accounting Standards
- FAR – Federal Acquisition Regulation, Part 31
- GAAP – Generally Accepted Accounting Principles
- GAAS – Generally Accepted Auditing Standards
- GAGAS – Government Auditing Standards
- AASHTO Uniform Audit & Accounting Guide
- State DOT Peer Reviews



► For Audits of Architectural and Engineering
(A/E) Consulting Firms ◀

UNIFORM AUDIT & ACCOUNTING GUIDE

2012 Edition

AASHTO
THE VOICE OF TRANSPORTATION

American Association of State Highway and Transportation Officials THE VOICE OF TRANSPORTATION

GUIDE





National Peer Review



AASHTO Peer Review of the
Nevada Department of Transportation
Internal Audit Division

Review Period
July 1, 2013 through June 30, 2014

Peer Review Team Members

Sandra Healy, Idaho, Team Lead
Ruth Wu, Oregon
George Currie, Colorado



Peer Review Recommendations

1. The **name** of the **Division is changed** to **“Audit Services”** from “Internal Audit Division”;
2. Audit responsibilities are grouped as **“Internal Audit Activity”** and **“External Audit Activity”** (minimum requirement per GAGAS 3.31 and 3.32 is “Internal Audit Activity”);
3. NDOT TP 1-1-8, Audits will be revised in such a way that it will suffice as “Audit Charter”;
4. There will be **a dashed line between Chief Auditor position and NDOT Board of Directors** of the Department Organization Chart; and
5. The Audit Services **Annual Management Report** consisting of an annual audit plan, resources and its applications, responsibilities and accomplishments **will be reported to the NDOT Board of Directors** (audit organizations that conduct audits in accordance with GAGAS are encouraged to use the IIA standards in conjunction with GAGAS – in order to use the IIA standards, auditors may need additional trainings to improve their knowledge, skills, and abilities. As such, it is not necessary to follow guidelines stated in the model internal audit activity charter as provided by the Peer Review Team.)



CHAPTER 5/COST ACCOUNTING

TABLE 5-5. SAMPLE INDIRECT COST RATE SCHEDULE

SAMPLE CONSULTING COMPANY, Inc.
Statement of Direct Labor, Fringe Benefits, and General Overhead
For the Year Ended December 31, 201x

Account Number & Description	General Ledger Account Balance	Direct Costs	Disallowed Costs	Proposed Company Wide	% of Direct Labor
DIRECT LABOR	\$ 1,950,501	\$ 1,950,501	\$ -	\$ 1,950,501	100.00%
INDIRECT COSTS:					
FRINGE BENEFITS					
6300 Benefits: Bonuses.....	\$ 234,060	\$ -	\$ (28,560) (a)	\$ 205,500	10.54%
6310 Benefits: 401(k).....	97,525	-	-	97,525	5.00%
6320 Benefits: PTO (vac., sick, and holiday).....	253,565	-	-	253,565	13.00%
6820 Insurance: Disability.....	58,515	-	-	58,515	3.00%
6830 Insurance: Life.....	21,846	-	(800) (b)	21,046	1.08%
6840 Insurance: Medical.....	136,535	-	-	136,535	7.00%
6850 Insurance: Workers' Comp.....	15,799	-	-	15,799	0.81%
7500 Payroll Taxes: FICA and Med.....	180,421	-	-	180,421	9.25%
7510 Payroll Taxes: FUTA and SUTA.....	78,020	-	-	78,020	4.00%
TOTAL FRINGE BENEFITS	\$ 1,076,266	\$ -	\$ (29,360)	\$ 1,046,926	53.67%
GENERAL OVERHEAD					
6700 Indirect Labor.....	\$ 741,190	\$ -	\$ (3,300) (c)	\$ 737,890	37.83%
5010 Direct: Lodging, Meals, and Travel.....	122,101	(122,101)	- (d)	-	0.00%
5020 Direct: Employee Mileage Reimbursements....	159,941	(159,941)	- (d)	-	0.00%
5030 Direct: Rentals and Supplies.....	21,651	(21,651)	- (d)	-	0.00%
5040 Direct: Subconsultants.....	44,862	(44,862)	- (d)	-	0.00%
6000 Advertising and Marketing.....	23,991	-	(6,750) (e)	17,241	0.88%
6100 Automobile Expense.....	68,268	-	(13,580) (f)	54,688	2.80%
6200 Bank Service Charges.....	9,753	-	-	9,753	0.50%
6400 Contributions and Gifts.....	14,629	-	(14,629) (g)	-	0.00%
6500 Depreciation Expense.....	117,030	-	-	117,030	6.00%
6600 Dues and Subscriptions.....	16,189	-	(350) (h)	15,839	0.81%
6800 Insurance: Automotive.....	15,409	-	-	15,409	0.79%
6810 Insurance: Business Liability.....	23,406	-	-	23,406	1.20%
6900 Interest Expense.....	36,084	-	(36,084) (i)	-	0.00%
7000 Licenses and Permits.....	21,456	-	-	21,456	1.10%
7100 Maintenance and Repairs.....	97,135	-	-	97,135	4.98%
7200 Meals & Entertainment.....	19,310	-	(1,050) (j)	18,260	0.94%
7300 Misc. Fees, Fines, Penalties.....	6,827	-	(6,827) (k)	-	0.00%
7400 Office Expense: Cleaning.....	8,192	-	-	8,192	0.42%
7410 Office Expense: Postage and Delivery.....	4,486	-	-	4,486	0.23%
7420 Office Expense: Office Supplies.....	32,183	-	-	32,183	1.65%
7430 Office Expense: Other Office Expense.....	35,889	-	-	35,889	1.84%
7600 Personal Property Tax.....	42,911	-	-	42,911	2.20%
7700 Prof Fees: Accounting and Legal.....	30,428	-	-	30,428	1.56%
7800 Rent.....	180,049	-	(2,400) (l)	177,649	9.11%
7900 Telephone.....	60,466	-	-	60,466	3.10%
8000 Utilities.....	29,472	-	-	29,472	1.51%
Credit for Internal Allocations.....	-	-	(107,278) (m)	(107,278)	-5.50%
TOTAL GENERAL OVERHEAD	\$ 1,983,306	\$ (348,555)	\$ (192,247)	\$ 1,442,505	73.96%
TOTAL INDIRECT COSTS & OVERHEAD RATE	\$ 3,059,593	\$ (348,555)	\$ (221,607)	\$ 2,489,431	127.63%

FAR References and Notes:

- (a) 31.205-6(a)(6)(ii)(B): Owners' compensation in excess of reasonable amount is disallowed (distribution of profits).
- (b) 31.205-19(e)(2)(v): Officers' life insurance is disallowed.
- (c) 31.201-6(e)(2): Marketing, lobbying, and any labor associated with unallowable activities is disallowed.
- (d) 31.202: Excluded direct project costs (both billable & non-billable costs) from indirect cost pool.
- (e) 31.205-1: Costs for general marketing materials are disallowed.
- (f) 31.205-6(m)(2) & 31.205-46(d): Personal use of a company asset (automobile) is disallowed.
- (g) 31.205-8 & 31.205-13(b): Contributions and gifts are disallowed.
- (h) 31.205-22: Lobbying costs, paid as a percentage of professional dues, are disallowed.
- (i) 31.205-20: Interest is disallowed.
- (j) 31.205-14 & 31.205-51: Costs for entertainment and alcoholic beverages are disallowed. (The entertainment cost principle supersedes all others.)
- (k) 31.201-4, 31.205-15, & 31.205-20: Disallowed late fees; Government-imposed fines and penalties; and credit card interest.
- (l) 31.205-36(b)(3): Related-party rent (not an arm's-length transaction) is limited to actual cost of ownership, net of interest and other unallowable items.
- (m) 31.202: Direct costs segregated and removed from indirect cost pool.





Table 5-6. SAMPLE INDIRECT COST RATE SCHEDULE (WITH FIELD RATE)

SAMPLE CONSULTING COMPANY, Inc.
Statement of Direct Labor, Fringe Benefits, and General Overhead (with Field Rate)
For the Year Ended December 31, 201x

Account Number & Description	General Ledger Account Balance	Direct Costs	Disallowed Costs	Proposed Company Wide	ALLOCATIONS			Percent to Field Office
					Proposed Home Office	Proposed Field Office	Proposed Field Office	
DIRECT LABOR	\$ 1,950,501	\$ 1,950,501	\$ -	\$ 1,950,501	\$ 1,826,853	\$ 123,648	(n)	6.34%
INDIRECT COSTS:								
FRINGE BENEFITS								
6300 Benefits: Bonuses.....	\$ 234,060	\$ -	\$ (28,560) (a)	\$ 205,500	\$ 193,000	\$ 12,500	(n)	
6310 Benefits: 401(k).....	97,525	-	-	97,525	91,255	6,270	(n)	
6320 Benefits: PTO (vac., sick, and holiday).....	253,565	-	-	253,565	241,421	12,144	(n)	
6820 Insurance: Disability.....	58,515	-	-	58,515	54,806	3,709		6.34%
6830 Insurance: Life.....	21,846	-	(800) (b)	21,046	19,711	1,334		6.34%
6840 Insurance: Medical.....	136,535	-	-	136,535	127,880	8,655		6.34%
6850 Insurance: Workers' Comp.....	15,799	-	-	15,799	14,798	1,002		6.34%
7500 Payroll Taxes: FICA and Med.....	180,421	-	-	180,421	168,984	11,437		6.34%
7510 Payroll Taxes: FUTA and SUTA.....	78,020	-	-	78,020	73,074	4,946		6.34%
TOTAL FRINGE BENEFITS	\$ 1,076,286	\$ -	\$ (29,360)	\$ 1,046,926	\$ 984,928	\$ 61,998		
GENERAL OVERHEAD								
6700 Indirect Labor (G&A and support allocation).....	\$ 741,190	\$ -	\$ (3,300) (c)	\$ 737,890	\$ 680,506	\$ 38,736	(o)	5.25%
6700 Indirect Labor (field labor allocation).....	-	-	-	-	-	18,648	(n)	
5010 Direct: Lodging, Meals, and Travel.....	122,101	(122,101)	- (d)	-	-	-		5.25%
5020 Direct: Employee Mileage Reimbursements.....	159,941	(159,941)	- (d)	-	-	-		5.25%
5030 Direct: Rentals and Supplies.....	21,651	(21,651)	- (d)	-	-	-		5.25%
5040 Direct: Subconsultants.....	44,862	(44,862)	- (d)	-	-	-		5.25%
6000 Advertising and Marketing.....	23,991	-	(6,750) (e)	17,241	16,336	905		5.25%
6100 Automobile Expense.....	68,268	-	(13,580) (f)	54,688	51,817	2,871		5.25%
6200 Bank Service Charges.....	9,753	-	-	9,753	9,241	512		5.25%
6400 Contributions and Gifts.....	14,629	-	(14,629) (g)	-	-	-		5.25%
6500 Depreciation Expense.....	117,030	-	-	117,030	117,030	-	(p)	
6600 Dues and Subscriptions.....	16,189	-	(350) (h)	15,839	15,008	831		5.25%
6800 Insurance: Automotive.....	15,409	-	-	15,409	14,600	809		5.25%
6810 Insurance: Business Liability.....	23,406	-	-	23,406	22,177	1,229		5.25%
6900 Interest Expense.....	36,084	-	(36,084) (i)	-	-	-		5.25%
7000 Licenses and Permits.....	21,456	-	-	21,456	20,329	1,126		5.25%
7100 Maintenance and Repairs.....	97,135	-	-	97,135	92,036	5,099		5.25%
7200 Meals & Entertainment.....	19,310	-	(1,050) (j)	18,260	17,301	959		5.25%
7300 Misc. Fees, Fines, Penalties.....	6,827	-	(6,827) (k)	-	-	-		5.25%
7400 Office Expense: Cleaning.....	8,192	-	-	8,192	8,192	-	(p)	
7410 Office Expense: Postage and Delivery.....	4,486	-	-	4,486	4,486	-	(p)	
7420 Office Expense: Office Supplies.....	32,183	-	-	32,183	32,183	-	(p)	
7430 Office Expense: Other Office Expense.....	35,889	-	-	35,889	35,889	-	(p)	
7600 Personal Property Tax.....	42,911	-	-	42,911	42,911	-	(p)	
7700 Prof Fees: Accounting and Legal.....	30,428	-	-	30,428	28,830	1,597		5.25%
7800 Rent.....	180,049	-	(2,400) (l)	177,649	177,649	-	(p)	
7900 Telephone.....	60,466	-	-	60,466	57,291	3,174		5.25%
8000 Utilities.....	29,472	-	-	29,472	29,472	-	(p)	
Credit for Internal Allocations.....	-	-	(107,278) (m)	(107,278)	(107,278)	-	(p)	
TOTAL GENERAL OVERHEAD	\$ 1,983,306	\$ (348,555)	\$ (192,247)	\$ 1,442,505	\$ 1,366,008	\$ 76,497		
TOTAL INDIRECT COSTS	\$ 3,059,593	\$ (348,555)	\$ (221,607)	\$ 2,489,431	\$ 2,350,936	\$ 138,495		

OVERHEAD RATES (as percentages of direct labor cost).....	127.63%	128.69%	112.01%
	Company Wide	Home Office	Field Office



Overhead Rate Process

- Mail Survey Packet to Consultant
- Send Internal Controls Questionnaire
- Verify Expense Accounts/Timesheets
- Analyze Consultant's Accounting System
- Verify Executive Compensation Schedule
- Prepare Audit Report & Send to Project Mgr.
- Project Manager Negotiates Contract



National Overhead Rates

2012 AVERAGE

161.6%

NDOT Consultants = 110%-185%
Average = 159%

	2012	2011
Top Quarter	185.4%	193.0%
Average	161.6%	172.5%
Bottom Quarter	137.2%	141.5%

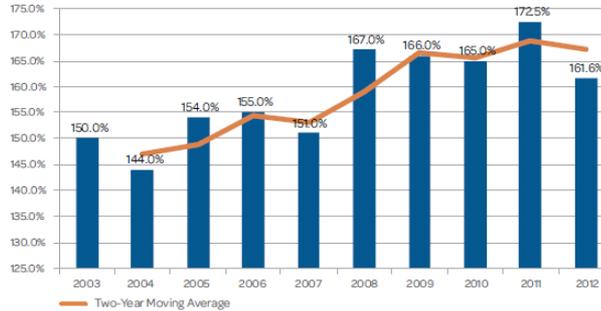
Analysis

The Overhead Rate (excluding bonuses) shows the relationship of a firm's non-chargeable costs—including non-billable professional time, facility costs and corporate expenses—to Direct Labor.

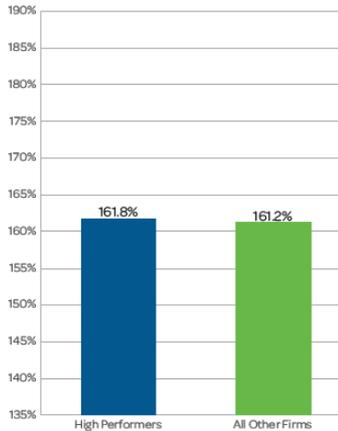
Overhead Rates dropped by more than 10 percentage points last year from their peak in 2011. Overhead is now at the lowest rate since the recession began. The key drivers here are rising Utilization, which decreases labor charged to Overhead, and a continued focus on cost control. Based on historical trends, there is room for the Overhead Rate to decline even further, primarily through improved utilization as the economy improves. Small firms and Engineering and E/A firms did the best at keeping Overhead Rates low.

$\frac{\text{Total Overhead (before distributions)}}{\text{Direct Labor Expense}} \times 100$
 The Overhead Rate is calculated by dividing Total Overhead (before distributions) by Total Direct Labor Expense, times 100.

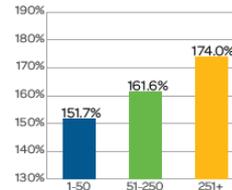
Ten-Year Trend



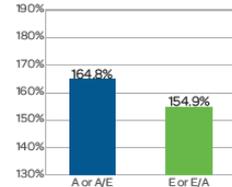
2012 High Performers vs. Other Firms



2012 by Firm Size



2012 by Firm Type



University O.H. Rates
Nat'l Ave. = 152%

UNR & UNLV = 123%





Key Takeaways

Follow National Federal Rules & Guidance Docs

Participate in National Peer Reviews

Tremendous Consistency Among State DOTs

NDOT's Rates Compare Favorably with National Rates



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