


INFORMATION BULLETIN NO. 25-01

DATE: April 29, 2025

TO: Consultant Engineering Firms  
ADOT Project Managers  
Resident Engineers

FROM: Adam Bieniek <sup>DS</sup>  
Group Manager  
Engineering Consultants Section (ECS)

SUBJECT: Risk-Based Indirect Cost Review

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As of January 13, 2022, the Department elected to utilize a risk-based oversight process on professional services contracts, as detailed in the following pages, to provide assurance that indirect cost rates are allowable in accordance with Federal Cost Principles.



U.S. Department  
of Transportation  
**Federal Highway  
Administration**

Arizona Division  
January 31, 2022

4000 N. Central Ave, Suite 1500  
Phoenix, Arizona 85012-3500  
(602) 379-3646  
(602) 382-8998 (FAX)  
<http://www.fhwa.dot.gov/azdiv>

In Reply Refer to:  
ENGI 08 – ECS  
Consultant Contract Manual Amendment  
Risk-Based Indirect Cost Review

John S. Halikowski  
Director  
Arizona Department of Transportation  
206 South 17<sup>th</sup> Avenue  
Phoenix, AZ 85007

Attention: Greg Wristen

Dear Mr. Halikowski:

We have reviewed the letter dated January 13, 2022, requesting approval of an amendment to the current Consultant Contract Manual. The proposed amendment will allow ADOT to utilize a risk-based oversight process to evaluate consultant and subconsultant indirect cost rates for application to Federal-aid Highway Program (FAHP) funded contracts administered by ADOT. Use of this process will provide reasonable assurance of the compliance of consultants with Federal cost principles.

We have determined that the proposed amendment satisfies the requirements outlined in 23 CFR 172. Based on this evaluation, we approve the incorporation of the proposed amendment into the ADOT Consultant Services Manual.

If you have any questions, please contact Susan Webber, Area Engineer, at 602-382-8972.

Sincerely,

Karla S. Petty  
Division Administrator

# Proposed Consultant Contract Manual Section:

## 3.02(f) Audit & Analysis A/E Consultant Risk Based Indirect Cost Review

### INDIRECT COST RATE GUIDANCE

This section contains the Indirect Cost Rate guidance for use on ADOT contracts administered by ECS. To ensure consistency, this guidance applies to prime consultants, subconsultants and any tier-subconsultants.

The procedures contained herein were developed to ensure compliance with Federal Regulations (23 CFR 172). ADOT has elected to utilize a Risk-based oversight process to provide assurance that indirect cost rates are allowable in accordance with Federal cost principles. This process is most beneficial to ADOT, consultants, and all tiers of subconsultants; provides more flexibility while ensuring compliance with federal reimbursement requirements, and distributes risk to all parties.

### Risk Matrix for Pre-Award Indirect Cost Rate Reviews

All requests made by ECS to the Office of Audit and Analysis to review consultant proposed indirect cost rates will be assessed using a Risk Matrix. The results of the Risk Matrix will determine the level of risk and level of review or audit necessary for audit staff to recommend an indirect cost rate.

The Risk Matrix will consider the following factors outlined in 23 CFR 172.11(c)(2) as they relate to each consultant:

- Consultant’s contract volume with the State
- Number of States in which the consultant operates
- Experience of consultant with FAHP contracts
- History and professional reputation of consultant
- Audit history of consultant
- Type and complexity of consultant accounting system
- Size (number of employees or annual revenues) of consultant
- Relevant experience of certified public accountant performing audit of consultant
- Assessment of consultant’s internal controls
- Changes in consultant organizational structure
- Other factors as appropriate

### General Guidance and Application

- Establishment of the rate must follow the parameters established in the most current version of the AASHTO Audit Guide
- One Risk Assessment is needed for each consultant each fiscal year.
- The dollar thresholds stated in the following table refer to the total annual contract value of all ECS administered contracts for the consultant.
- The rate must be based on the firm’s most current audited, or unaudited, fiscal year’s costs as identified in the following table.

Total Annual (ECS) Contract Value	Prime Consultants, and Subconsultants (including any tiers)
≤ \$300,000	Risk Assessment not required
> \$300,000, ≤ \$1,000,000	Risk Assessment, audited or unaudited Indirect Cost Rate Schedule, Report of Internal Controls (if available)
> \$1,000,000	Risk Assessment, GAGAS audited Indirect Cost Rate Schedule, Report of Internal Controls (if available)
Exceptions	-If a firm has a current rate accepted by ADOT or has a cognizant audit rate, it must be used and does not require a Risk Assessment

	<ul style="list-style-type: none"><li>-Risk Assessment may result in the requirement that an GAGAS audited rate be submitted in place of an unaudited rate</li><li>-Subconsultant vendor-type services do not require an indirect cost rate</li></ul>
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**Note:** ADOT's Office of Audit and Analysis will conduct a pre-award review and/or Incurred Cost audit, regardless of the risk assessment results, at the request of ECS Management.