March 5, 1997

Engineering Consultants Section

INFORMATION BULLETIN 97-01

TO: Consultants

FROM: Engineering Consultants Section

SUBJECT: Contract Cost Allowability Guidelines and Policies

You have recently received the Cost Allowability Guidelines (CCAGP) and Advance Agreement Checklist (AACCL). These documents were sent as a result of the National Highway System Act of 1995, Quality Through Competition. It states that indirect cost for engineering and design contracts can no longer be capped. This provision of the law went into effect on November 28, 1996. Without overhead caps, it became necessary to establish a method of determining allowable overhead costs. An ADOT business improvement team with representatives from Audit and Analysis, Engineering Consultants Section, Valley Project Management, and the State Engineers Office was created for this purpose. The documents you received were the result of this effort.

These documents will provide guidance to both ADOT and the Consultants in the development of overhead rates. The CCAGP are based on the Federal Acquisition Regulations (FAR) and will be used to determine the allowability of costs to be included in cost proposals submitted for ADOT contracts. The AACCL identifies specific items that have been problems in the past and must be resolved when negotiating a contract.

In addition to following the new guidelines, new contracts are now audited prior to Notice to Proceed. The purpose of the renegotiation audit is to reach agreement on overhead costs when negotiating the contract. This allows the determination of an accurate overall contract cost and minimizes disputes at contract close-out. In order to achieve this goal, Consultants must submit their renegotiation information to Engineering Consultants Services in a timely manner.

If you have any questions, please contact John Klein, Office of Audit and Analysis at 255-7734 or Ron Thomas, Engineering Consultant Section at 255-7525.
FOR ENGINEERING FIRMS DOING WORK FOR ADOT, AS CONTRACTORS (CONSULTANTS) OR SUBCONTRACTORS (SUBCONSULTANTS):

ADOT relies on the Federal Acquisition Regulations (FAR), Title 48, Chapter 1, Part 31--Contract Cost Principles and Procedures when reviewing and negotiating Derivation of Cost Proposals.

In addition, ADOT relies on financial statements prepared in accordance with GAAP (Generally Accepted Accounting Principles, including full-disclosure notes) and reconciled schedules of overhead costs adjusted by regulations contained in Subpart 31.2--Contracts with Commercial Organizations in assessing a Consultant or Subconsultant's financial capability and the allowability of Indirect or Overhead Cost Rates.

Individuals or firms who prepare full disclosure financial statements in accordance with GAAP need to be familiar with and use the following:

- The latest Accounting Standards approved by the Financial Accounting Standards Board,
- The latest edition of the American Institute of Certified Public Accountants: Audit and Accounting Guide--CONSTRUCTION CONTRACTORS, and
- Audit and Accounting Guide--AUDITS of FEDERAL GOVERNMENT CONTRACTORS

Individuals or firms who prepare schedules of indirect or overhead costs need to use full disclosure financial statements, prepared in accordance with GAAP, as a basis for such schedules; these schedules will need to be adjusted for unallowable costs as specified in the most current FAR Part 31, as well as ADOT guidelines and policies.

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Consultants or Subconsultants needing advice on these matters should contact professionals familiar with the above. Should there be a need, the Arizona Society of Certified Public Accountants has a referral service for CPAs acknowledging expertise in the construction industry. The referral service may be reached by phone (602) 273-0100; then press extension 200, or by fax (602) 275-2752.

Professionals who may be selected to perform the above services should be provided with a copy of this statement. Clarification of information contained herein can be obtained from Robert J. Gillespie or John A. Klein at ADOT's Office of Audit and Analysis--(602) 255-7734.