



ARIZONA DEPARTMENT OF TRANSPORTATION

INTERMODAL TRANSPORTATION DIVISION
ENGINEERING CONSULTANTS SECTION
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Phoenix, Arizona 85007



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July 30, 1998


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Engineering Consultants Section

INFORMATION BULLETIN 98-16

TO: Consultants

FROM: Engineering Consultants Section 

SUBJECT: Financial Statements and Schedules of Indirect Cost (Supersedes Information Bulletin 96-16)

For Architectural and Engineering Contracts, the Arizona Department of Transportation requires Consultants to adhere to the following for the pricing of contracts, subcontracts, and modifications to contracts and subcontracts whenever cost analysis is performed, in the determination, negotiation, or allowance of costs:

- Current Federal Acquisition Regulations ("FAR"), Title 48 CFR, Chapter 1, Part 31 (Contract Cost Principles and Procedures),
- Current Cost Accounting Standards, if applicable, (Title 48 CFR, Chapter 1, Part 30 and Chapter 99),
- ADOT's "Contract Cost Allowability Guidelines and Policies for Qualification Base Selected Consultants and Subconsultants" ("ADOT Cost Guidelines"),
- ADOT's Advance Agreement Checklist, and
- Engineering Consultants Section INFORMATION BULLETIN 98-05, Accounting for Other Direct Costs.

At a minimum, all Consultants selected to negotiate a contract, and certain Subconsultant team members (see ECS INFORMATION BULLETIN 98-08 "Subconsultant(s) Costs Negotiation Guidelines") will be expected to provide:

- Financial statements prepared in accordance with GAAP (generally accepted accounting principles, including full-disclosure notes), and
- Schedules of indirect costs also prepared in accordance with GAAP and reconciled to the financial statements, with appropriate adjustments required by the criteria contained in the documents noted above.

See attachment.

Please ensure that your Chief Financial Officer is aware of this Information Bulletin.

If you have questions regarding this bulletin, please call (602) 255-7525.

Attachment

SUPPLEMENTAL INFORMATION PERTAINING TO FINANCIAL STATEMENTS AND SCHEDULES OF INDIRECT COSTS.

Consultants selected to negotiate engineering or related contracts with ADOT are selected on the basis of qualifications. Contract costs are negotiated.

The Code of Federal Regulations, (CFR), Title 23, Chapter 1 (Federal Highway Administration), Part 172.5(c) requires state agencies to assure that firms providing engineering and design services have acceptable accounting systems, adequate and proper justification for the rates charged in providing these services, and are aware of the cost eligibility and documentation requirements of CFR, Title 48, Chapter 1 Federal Acquisition Regulations (FAR), Part 31.

An understanding of generally accepted accounting principles (GAAP) and the contents included in the following documents is essential to ensure proper preparation of financial statements and schedules of indirect costs:

- The latest AICPA Audit and Accounting Guide, "CONSTRUCTION CONTRACTORS,"
- The latest AICPA Audit and Accounting Guide, "AUDITS OF FEDERAL GOVERNMENT CONTRACTORS,"
- Current 48 CFR, Chapter 1, Part 31, ("FAR"), including references therein,
- Current Cost Accounting Standards, if applicable, (48 CFR, Chapter 1, Part 30 and Chapter 99),
- ADOT's "Contract Cost Allowability Guidelines and Policies for Qualification Base Selected Consultants and Subconsultants" ("ADOT Cost Guidelines"),
- ADOT's Advance Agreement Checklist,
- Engineering Consultants Section INFORMATION BULLETIN 98-05, Accounting for Other Direct Costs, and
- Instructions for Preparation of Schedule(s) of Indirect Costs and Notes Thereto

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Attachment

Consultants or Subconsultants needing advice on these matters should contact professionals familiar with the above. One possible source is the Arizona Society of Certified Public Accountants (ASCPA). The ASCPA has a referral service for CPAs acknowledging expertise in the construction industry along with government contracting. 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 Information Bulletin.

Clarification of information contained herein can be obtained from Robert J. Gillespie at ADOT's Office of Audit and Analysis-- (602) 255-7330.

Schedules of Indirect Cost(s):

Since the Instructions for Preparation of Schedule(s) of Indirect Costs are relatively new and, in addition, outline significant departures from traditional "Schedules of Overhead Costs", a summary is presented hereafter:

FAR 31.203(b) identifies three distinct cost pools: (1) Manufacturing [Engineering/Field], (2) Selling, and (3) General & Administrative. Several firms have identified fringe benefits as a unique cost pool. In addition to the standard cost pools previously mentioned, we believe the establishment of a fringe benefits cost pool merits consideration.

Firms with more than one engineering discipline or specialty must provide and be able to substantiate separate unique indirect cost rates. Using the example of a firm providing both design and construction administration (field) services, the following cost pools should be separately identified:

- Engineering Indirect Cost Pool
- Field Indirect Cost Pool
- Selling/Marketing Cost Pool (this includes Bid & Proposal costs--see FAR 31.205-18(b))
- General & Administrative Cost Pool

For further clarification, see FAR 31.203(b) and the AICPA Audit and Accounting Guide for Construction Contractors—particularly Appendix A (Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*) paragraph 72.

Examples of format are available upon request.