



# Department of Transportation

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Dear Consultant:

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

As you are aware, the Department of Transportation is in the process of implementing our new consultant management process. In order to ensure the transition is as efficient and transparent as possible, information will be made available to assist you with questions regarding requirements that may pertain to you. Information is provided below to assist you with questions you may have regarding accounting systems, internal control and consultant business questionnaires, overhead rates, and other direct costs.

### **Accounting Systems**

Many of you may have questions regarding how the adequacy of your accounting system could impact your eligibility on future contracts with the Department. The Department will not award future contracts to consultants who do not have an adequate accounting system. This applies to all consultants whether you are a prime or sub-consultant. You will not lose your prequalification status due to an inadequate accounting system; however, you will not be eligible for future contracts until your accounting system is deemed adequate for contracting purposes by the Department.

The Department does not use a standard checklist to determine if your accounting system is adequate or inadequate. However, the following information should assist you in determining if you may have issues with the adequacy of your accounting system:

- Your accounting records must be in compliance with Generally Accepted Accounting Principles (GAAP).
- Your accounting system must be on an accrual basis; cash basis accounting is not in accordance with GAAP.
- You must segregate direct and indirect expenses; there should be no direct expenses in your overhead pool.
- Miscellaneous credit recovery accounts are not allowable in the overhead pool.

- Your accounting system must have a job costing component; direct costs must be identified and accumulated by contract.
- Your accounting system should be integrated with your other accounting components.
- Your method of allocating indirect costs to cost objectives should be logical and consistent.
- Accumulation of costs should be under general ledger control.
- Your timekeeping system should identify employee labor by cost objectives and your labor distribution system should charge direct and indirect labor to appropriate cost objectives.
- You should produce interim reports, at least monthly, from your accounting system that provide the results of charges to contracts.
- Costs must be accumulated and reported in accordance with the Federal Acquisition Regulations (FAR).
- You should have written accounting and internal control policies and procedures specific to your organization's practices.
- You should maintain separate accounts for expressly unallowable expenses.

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

If your accounting system is deemed inadequate, the Office of Audits will provide a report notifying you of the issues with your accounting system. You should take the necessary actions to correct your accounting system issues if you wish to continue doing business with the Department. The Office of Audits will perform a follow-up review of your 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 your accounting system. If your system is deemed adequate upon completion of the follow-up review, a revised report will be issued.

### **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 your accounting system. It is very important that you provide complete and accurate responses on the ICQ. It is also very important that you update your ICQ if there are any changes in the information previously submitted to avoid potential issues that may arise during final audits due to changes.

Providing honest and truthful answers to the questions on the ICQ is imperative. 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**

As previously communicated to you by the former Chief Engineer, Paul Mullins, all Georgia based consultants with \$250,000 or more in contracts with the Department will be required to obtain an audited overhead rate by a Certified Public Accountant (CPA) for each year the consultant has contracts with the Department, beginning with the consultant's 2005 accounting year-end close.

Your CPA should be 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 “Uniform Audit & Accounting Guide (AASHTO) with Georgia Department of Transportation – Supplement – (Audit Prices and Cost Principles), Revised 01/02”. The AASHTO guide is available on-line at <http://www.dot.state.ga.us/dot/audits/documents/pdg/auditguide.pdf>.
- 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 your CPA’s audit report and workpapers 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.

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.

If your 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 your CPA to ensure they are qualified to perform GAGAS audits and are familiar with the Federal Acquisition Regulations.

### **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. The audited 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 overhead rate has been reviewed and accepted by the Office of Audits, the audited rate will be applied to that year’s billings and the following year’s proposals for estimating purposes. A CPA audited overhead rate must be obtained by the consultant for each year the consultant has contracts with the Department.

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 Direct Costs**

Consultants who intend 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.

**Other Requirements and Information**

- 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 you updates. These changes and new procedures are not intended to create undue hardship on your organization. If you have questions on these procedures, you may contact Janice Akins at 404-463-7269 or Brenda Banks at 404-657-4270 in the Office of Audits.

Sincerely,



David Studstill, Jr., P.E.  
Chief Engineer



Earl Mahfuz,  
Treasurer

cc: GDOT Executive Management