CONSULTANT AUDIT GUIDE

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PREFACE

Over the last several years, there has been an increased use of consultant firms contracting with State Department of Transportation (SDOT's) to perform engineering and other related services. Correspondingly, there has been a workload increase for SDOT auditors providing financial information to management on the consultant firms. Auditors not only provide an audit function for the SDOT's, but also provide management with financial information on the firm's ability to perform work. A consultant firm, particularly one that is new to the State/Federal contracting process, may not be aware of the Federal Acquisition Regulations and other financial information necessary to support eligible costs.

Even though there is more outsourcing of work by SDOT's, there has not been a corresponding increase in the amount of SDOT personnel to review or audit consultant proposals and contracts. SDOT auditors are asked to evaluate consultant agreements, accounting systems and claims often without adequate and effective guidance. Written procedures and processes may be SDOT specific and lack the uniformity to be used in more than one state.

Recognizing the above situations, Southeastern State DOT auditors formed a Quality Financial Management Improvement (QFMI) team. The QFMI team developed a uniform guide intended to bring consistency to the consultant audit process. The purpose of the Guide is to provide consultants, independent audit firms and new SDOT auditors a basic understanding and a uniform reference guide for auditing and developing overhead costs.

Listed in the back of this guide may be additional information and/or requirements provided by a respective SDOT. This is referred to as the "Home Page." The respective SDOT is responsible for the maintenance and content of the "Home Page" information.

Although there was a QFMI team developing the guide, there were contributions from SDOT auditors throughout the nation. Many of the contributors to the manual are listed in the Acknowledgments section at the back of the guide.

The specifics in the guide are what the team believes are the BEST PRACTICES for the auditing of consultant firms. The Guide does not constitute a standard, specification, or regulation.

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I. INTRODUCTION

This Guide is presented to assist Consultants, Subconsultants, and all audit communities in determining the allowability of costs to be included in the preparation of Cost Proposals, and record-keeping, for State Department of Transportations (SDOT) throughout the United States.

These guidelines and policies will also be utilized by the SDOT's Audit & Contract Offices in the performance of pre-award reviews, overhead rate audits, interim reviews/audits, final audits and post audits.

Incorporated into these guidelines and policies are the following:

> The Code of Federal Regulations, Title 48, Chapter 1 - Federal Acquisition Regulations ("FAR"), Part 31--Contract Cost Principles and Procedures,
>
> Schedules of Overhead Costs reconciled to the financial statements, adjusted by regulations contained in FAR Subpart 31.2--Contracts with Commercial Organizations

The guidelines and policies set forth in the following pages summarize the Code of Federal Regulations, Title 48, Chapter 1 - Federal Acquisition Regulations, Subpart 31.2--Contracts with Commercial Organizations, and FAR Subpart 9900--Cost Accounting Standards.

The attached guidelines and policies are intended as a summary only, and are not to be considered a complete statement of cost principles. Many of the quotations that follow, which were extracted directly from Subpart 31.2, include references to other sections of the FAR. The reader will need to refer to Subpart 31.2 for the complete text. **In addition, the FAR is constantly being updated. It is important that revisions be reviewed on a regular basis as such revisions will be implemented as they are made available to the public**.

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FOR ENGINEERING AND OTHER FIRMS DOING WORK FOR DOT'S, AS CONTRACTORS (CONSULTANTS) OR SUBCONTRACTORS (SUBCONSULTANTS):

DOT's rely on the Federal Acquisition Regulations (FAR), Title 48, Chapter 1, Part 31--Contract Cost Principles and Procedures when negotiating costs and reviewing the proposals.

In addition, DOT's rely 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. It should be noted that overheads prepared on a basis of accounting practices prescribed by Part 31 of the FAR's are not intended to be a presentation in conformity with GAAP.

Overhead audits are conducted in accordance with GAGAS (Generally Accepted Government Auditing Standards), and generally accepted auditing standards.

Individuals or firms who prepare schedules of indirect or overhead costs should 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 48 CFR Part 31, as well as specific DOT guidelines, state regulations, and policies.

Consultants or Subconsultants needing advice on these matters should contact professionals familiar with the above.

A complete listing of the FAR's can be found on the Internet at www.arnet.gov/far/

II. DEFINITIONS

The following terms are used throughout this document.

Accounting System
A set of records (journals, ledger, work sheets, trial balances, and reports) and the procedures and policies regularly used to process business transactions. An effective accounting system should provide for efficient processing of data, ensure a high degree of accuracy, provide for internal controls, and provide for the growth of a business.

Accounting System Review
An evaluation of an entity's accounting system to determine if the accounting system is capable of properly segregating direct and indirect costs as well as its ability to properly classify job costs.

Actual Cost Agreement
An agreement between the consultant and the DOT, which specifies that the costs actually incurred by the consultant, during the performance of the project, will be reimbursed, as limited by any contract provisions and state or federal regulations.

Actual Costs
Amounts determined on the basis of costs incurred and supported by original source documentation, as distinguished from forecasted costs.

Advance Agreement
An understanding included in an agreement by the contracting officer and the consultant as to the treatment of special or unusual costs not already included in the FAR's. The agreement must be in writing and executed by both the contracting parties. An advance agreement will contain a statement of its applicability and duration.

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Agreement
A contract. A binding, legal, document which identifies the deliverable goods and services being provided, under what conditions, and the method of payment for such services. The document may include federal criteria and state requirements which will have to be adhered to by the state and the consultant. The document will usually indicate start and finish dates, record retention requirements, and other pertinent information relative to the actual work to be performed.

Allocable
A cost that benefits both the contract and other work of the firm, and it can be distributed in reasonable proportion to the benefits of incurring that cost.

Allowable (Cost)
An item of cost which can be billed directly as a project cost or indirectly as an overhead cost by the consultant and meets the requirements of the applicable FAR's.

Audit
An examination of accounting and related records, including verification of records, certification of correctness of balances, reviewing the system, assessing risk, testing internal controls, and testing evidence. The objectives of an audit are to express an opinion as to the fair presentation of the schedules being audited, and report on compliance with laws and regulations, and internal controls.

Audit Program
Outline of the audit procedures the auditor plans to use to gather evidence needed to achieve his objective of expressing an opinion, as to the fair presentation of the schedule/statements being audited.

Audit Resolution Process
The process DOT management and the auditee go through in resolving audit findings and questioned costs.

Audit Trail
The auditable record left by a transaction in a firm's accounting records from original source documents into subsidiary ledgers through the general ledger and into financial statements.

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Billing Rate
The hourly rate being charged for work on an agreement.

Common Control
Exists in related party transactions when business is conducted between businesses and/or persons that have a family or business relationship. The possession, direct or indirect, of the power to direct or cause the direction of the management and policies of an enterprise through ownership, by contract, or otherwise. To have significant influence over business matters.

Corporation
A business structure where stock is made available for purchase. The firm may have a president, vice president, treasurer, and secretary. In theory, the liabilities of the individual stock owners are limited in this type of business structure.

Cost Center
Collection of cost data in an organized manner, such as through a system of accounts.

Cost Objective
A function, organizational subdivision, contract or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

Cost Principles
The underlying basis for determining how costs should be recorded when they are allowable or unallowable, and the specific basis for treating various costs as either allowable or unallowable. The applicable cost principles for architectural and engineering contracts are 48 CFR Chapter 1 Subpart 31, as well as DOT's guidelines and policies.

Direct Cost
Any cost that can be identified specifically with a particular final cost objective, i.e., a project related cost. Direct costs would include labor, materials, and reimbursables incurred specifically for an agreement.

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Entrance Conference
A meeting between the auditor and the auditee, at which time the purpose and scope of the audit are discussed.

Exit Conference
A meeting held after the auditor completes field work. Topics of discussion are preliminary findings of the audit, which are subject to change and revision during the supervisory work paper review process, and/or a formal request for the auditee's response.

Field Office
Any office which the consultant or contractor specifically establishes or has furnished to them at or near the project site to be used exclusively for project purposes. The office may be a trailer, building, room or series of rooms established for consultant personnel. Neither the number of personnel nor their mix by work classifications will have any bearing on this definition.

General and Administrative Expenses
Any management, financial, and other expense which is incurred by or allocated to a business unit, and which is for the general management and administration of the business as a whole. Typically, these costs are presented as overhead components.

Indirect Cost
Any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective. Consultants recover their indirect costs in their overhead rate.

Ineligible Costs
A firm's expenditures for labor, materials, equipment, equipment rental rates, or any other cost found to be unallowable for overhead or direct costing purposes.

Interim Audit
An audit, which may be of limited scope, during the life of an agreement, and before the completion of the project. The purpose is to determine the actual allowable costs to date. This audit follows a standard audit plan.

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Internal Control
A process effected by an agency's management and other personnel, designed to provide reasonable assurance that the objectives of the agency are being achieved in the following categories:
- Effectiveness and efficiency of operations including the use of entities resources.
- Reliability of financial reporting, financial statements, and other reports for internal and external use.
- Compliance with applicable laws and regulations.

Lump Sum Agreement
An agreement where the method of payment for delivery of goods and services is one set amount that includes salaries, overhead, profit and direct expenses with no adjustments (unless there is a change in the scope of work). The states vary on this definition: see "Home Page" for a specific state for the components of a lump sum agreement.

Negotiated Hourly Rate
For a few sole proprietors and partnerships, it may be difficult to determine an actual hourly payroll rate for principals due to fluctuations in draws and profits. It may be in the best interest of the contracting parties to negotiate an hourly rate based upon the consultant's actual work assignment and reasonableness, rather than based on historical cost data.

Overhead Expenses
Allowable general administrative expenses and all other indirect costs including fringe benefits (sometimes called payroll additives).

Overhead Rate
A computed rate developed by adding all of a firm's general and administrative costs, and all other indirect costs, then dividing by a base value, usually direct labor dollars to get a percentage. This rate is normally compiled based on the consultant's applicable fiscal year.

Overhead Rate Audit
A verification of the allowableness of overhead expenses. May be performed prior to pre-award review, during contract progress, or after contract completion.

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Partnership

A business with two or more co-owners, who may or may not have established salaries. The liabilities of the firm are their responsibility. Owners may be treated the same as sole proprietors by the Department regarding the establishment of a salary rate.

Post/Final Audit

An audit performed after the completion of all work by a consultant. The scope may include all billed costs by the prime consultant and/or any subconsultants providing services. This audit follows a standard audit plan.

Pre-award Review

A review conducted on behalf of DOT management for the purpose of validating financial information supplied by a consultant in a cost proposal. It includes a preliminary assessment of the adequacy of the consultant's internal control policies and accounting procedures for supporting costs, direct or indirect, billed under cost reimbursement types of contracts. Pre-award procedures can be done in-house through "desk reviews" or through actual field audits or "pre-award audits."

Reasonable Cost

A cost, if in its nature and amount, does not exceed that which would be incurred by a prudent person in the conduct of competitive business.

Review

A review is substantially less in scope than an audit and does not contemplate an evaluation of internal accounting control, tests of original accounting records, tests of submitted records traced to the original source, verification of responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data.

Sole Proprietorship

An unincorporated business with one owner. From an audit standpoint, this person may or may not have an established salary, but instead may rely on draws from the profits of the firm to obtain their payment for services. The liabilities of the firm are the owner's responsibility.

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Source Documentation

Original documents, including but not limited to time sheets, invoices, payroll records, rental slips, gasoline tickets, canceled checks, tax returns, insurance policies, minutes of corporate meetings, etc., which support the costs recorded in the firm's accounting ledgers and which may be used for billing purposes to the government or for income tax purposes.

Unallowable (Cost)

An item of cost which cannot be billed directly or indirectly by a consultant. These type of costs will be deducted from the costs billed directly, or from those billed indirectly via an overhead rate or cost center. When an unallowable cost is incurred, its directly associated costs are also unallowable.

III. Role of the State External Auditor in Accepting Overhead Audits Performed by Others

The overhead audit will be performed by an independent Certified Public Accountant, an agency of the Federal government, a state transportation agency or similar independent audit organization. Auditors must meet the Yellow Book's (Government Auditing Standards) requirement of 24 hours of continuing professional education in governmental subjects every two years.

The SDOT auditors have the right to review the CPA work papers before an overhead audit report is accepted. The auditor may perform a review of the CPA work papers as part of Quality Assurance Review in accepting the CPA Overhead Audit.

As a minimum, SDOT auditors should review overhead audit reports. An example of a checklist to review audit reports follows this section.

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Example of Overhead Audit Report Checklist

Overhead Audit Report Checklist

Consultant: ______________________
Date Reviewed: ___________________
Auditors Initials: __________________

Circle each number which is not in compliance.

1. The report indicates what Governmental Agency or CPA issued the report.

2. The consultant submitted an audit or if a newly organized company a projected Revenue and Expense for their first fiscal Year.

3. Is there a overhead for the latest fiscal year?

4. Is there an opinion given on the burden, fringe, and overhead costs?

5. Is there a detailed analysis of fringe benefits?

6. Does the overhead report appear to have the FAR's applied to the account balances in accordance with the Department's requirements?

7. Is the field office overhead rate computed in accordance with Department guidelines?

8. Does the overhead audit report include a statement by the auditor that the audit was conducted in accordance with applicable Generally Accepted Government Auditing Standards for financial and compliance audits, applicable requirements of Subpart 9900 and 31 of the FAR's, and other procedures required by the Department?

9. Does the report contain a statement on the existence of a job cost system for recording and accumulating costs incurred under its contracts, that is reconciled to the general ledger?

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10. Does the audit include a statement explaining the Consultant's estimating system and whether estimates are prepared in accordance with the accounting system?

11. Does the report include a list of expenses the Consultant normally bills directly to projects?

12. Is the overhead calculated on a direct labor basis?

13. Does the submittal include a report or statement on internal accounting controls and equired?

IV. CONTRACT TYPES AND AUDIT EMPHASIS

Following are the primary types of contracts that are mainly entered into by the DOT's and consultants, and the area where emphasis is placed during the audit.

A. **Lump Sum (Fixed Price)**- A lump sum contract has one set amount for reimbursement, which includes all salaries, overhead, profit, and other direct expenses. Once the lump sum amount is agreed upon, the goods or services must be provided regardless of the actual cost for the consultant. The audit emphasis is placed on the proposal, during the pre-award stage. Because the amount cannot be changed once the contract is signed, unless there is a change in the scope of work, whereby a supplemental agreement may be executed, the auditors must verify that the rates included in the proposal are reasonable and supported by historical records. As such, the auditors will perform a thorough review of all proposed costs, including salary rates, overhead, and other direct expense amounts, and the auditors will review the accounting system, to verify that it segregates direct and indirect costs.

B. **Cost Plus Fixed Fee**- A cost plus fixed fee contract is based on the actual costs incurred by the consultant, including salaries, overhead, and other direct expenses, with a fixed amount of fee to be paid upon completion of the project. The costs are reimbursed based on supported records and limited to any contract provisions and state or federal regulations. The audit emphasis is placed more at the end of the project, although a pre-award review is performed to verify the reasonableness of the proposed costs, which the contract is based upon. In addition, the accounting system of the consultant is reviewed to determine if it can adequately segregate and accumulate direct and indirect expenses, and if it has job costing capabilities. A final audit/review performed on the project would verify the actual hours and rates for personnel on the project. Overhead may be adjusted to the actual supported overhead rate for each year of the contract life. Direct expenses would be verified to actual support documentation, including invoices, travel expense forms, receipts, etc.

C. **Unit Price (Negotiated Hourly Rate)**- A unit price contract consists of a set rate to be charged on the project for each hour worked on the job. The negotiated rate typically consists of an hourly rate, overhead, and a profit. There may be different rates for each type of job classification that would be charging on the project. The audit emphasis is placed on the proposal, during the pre-award stage, so that the negotiated hourly rate will be based on a fair and reasonable rate. A final audit/review performed on the project would verify the actual hours worked, but would apply the negotiated hourly rate to each hour billed on the project. Any direct expenses would also be verified to support documentation.

V. Overhead Rate Development and Audit Report Presentation

A. Audit Standards and Allowable Cost Guidelines

The audit will be performed in accordance with Generally Accepted Government Auditing Standards (1994 Revision) and will include such tests of the accounting records and such other auditing procedures as considered necessary to determine allowability of costs in accordance with:

i. Federal Acquisition Regulations, Subpart 9900 Cost Accounting Standards.

ii. Applicable contract cost principles and procedures as set forth in the Federal Acquisition Regulations (FAR), Title 48, Part 31.

iii. State Department Guidelines, and information on the "Home Page" (The "Home Page" is the State specific requirements located at the back of this Guide).

B. Contents of the Report

i. Overhead Rates

Normally, fringe benefits and general overhead rates are determined on an annual basis. Subpart of the FAR's 9904.406-50 f (1) (2) recognizes cases where the consultant has undergone such extensive reorganization that the overhead rate for the most recently completed year does not reflect a current valid overhead rate, the consultant has only recently established an acceptable accounting system or a change in fiscal years has occurred.

The fringe benefits and general overhead rates will be determined by removing those costs considered not allowable in accordance with the criteria listed above from the fringe benefits and general overhead pools and dividing the remainder by the direct labor dollars. If the consultant's normal accounting practice provides rates on a basis other than direct labor or includes other overhead rates (i.e., general and administrative), the overhead audit should provide a conversion to a direct labor dollar basis. The conversion to direct labor basis is necessary to assure consistency. A copy of a sample audit report is included in the guide for informational purposes.

ii. Evaluation of Accounting System

The overhead audit must include an evaluation as to the adequacy of the consultant's accounting system.

iii. Estimating System

The auditor must provide a statement in the audit report regarding the consultant's method of estimating costs for pricing purposes. The statement must indicate whether or not the consultant's method of estimating costs is consistent with the accumulation and reporting of costs under its accounting system.

iv. Direct Costs Billing Rates

The overhead audit report must include billing rates and the methodology used for establishing such rates for Computer Aided Drafting and Design (CADD), computers, plotters or other similar costs which the consultant charges to clients on a direct basis. If the consultant consistently charges printing, copying or other in-house produced services to clients on the basis of an established schedule, a copy of the schedule, with assurance from the auditor that the fees are consistently charged to all clients, must be attached to the audit report. These costs must be accounted for this way in the accounting system. The audit report must provide assurance that such costs are not also included in the overhead pools. Such costs will not be allowed as direct charges in subsequent negotiations unless the billing rates are a pass through expense and may not include profit or interest.

v. Facilities Capital Cost of Money

In addition to a consultant's overhead rate, DOT can reimburse firms for Facilities Capital Cost of Money (FCCM). The audit report must include a statement on how the rate was calculated.

VI. Consultant Field Offices

A. General:

The Department generally allows its consultants to perform contracted services from their established home or branch offices. However, on certain projects such as construction engineering and inspection (CEI), the consultant will be required to establish a field office at or near the job site. The establishment of the field office, its staffing and its operational costs will be determined by project needs and negotiated with the consultant. In most cases, the field office operations and staffing will be held to a minimum and the consultant's home or branch office will be expected to provide essential support services.

B. Allowable Costs:

The allowability of costs will be determined in accordance with criteria contained in the Code of Federal Regulations, Title 48, and other applicable Federal and State regulations.

The decision on whether a cost should be allowed as direct or indirect depends largely on the consultant's normal and customary practices for estimating and accounting. These practices should be outlined in the consultant's annual overhead audit and must be followed during contract pricing and negotiations.

C. Guidelines:

(1) **Direct Costs**

a. The scope of services required by the Department contract may vary from routine projects of short duration to complex projects which last for several years. The complexity of the project, its duration and location and the consultant's general accounting practices will be considered during the determination of which direct costs will be allowed on individual projects.

b. The Department will allow direct labor costs required for field office operations as well as home or branch office direct labor costs which are specifically identified and approved. The job classifications, man-hours, wage rates, etc., which are allowable will be determined during contract negotiations between the Department and the consultant. As a general rule, the home or branch office direct labor will be limited to those essential services which must be provided from the home or branch office and can be provided from there more effectively or economically.

c. As a general rule, the Department expects the consultant to provide the necessary equipment to handle projects which require a field office and operations associated with it. Should the consultant not own or have access to the required equipment items, whether the items should be leased, purchased, or allowed in some other manner as a direct cost or indirect cost, will be decided during contract negotiations. Consistency with the consultant's normal accounting practices and the Department's normal contracting practices will be considered. Other costs will also be evaluated during contact negotiations and their allowability as a direct or indirect cost will be established. On occasion, the Department's construction contractor may be required to provide the field office and its related equipment and operating costs. However, the CEI consultant will remain responsible for providing all other equipment, supplies, etc. necessary for the project.

d. Following is a sample of the direct costs normally associated with the operations of a field office. The list is not all inclusive, but it provides the general types of costs which are expected in a field office operation. Each state allows different items of costs in a field office -- please see the "Home Page" for specifics.

   1. Office Facility (rent/lease/purchase) - The direct cost of office space is allowable provided the office is established specifically for the DOT project and will be used solely for the project.

   2. Office Equipment (rent/lease/purchase) - Costs necessary to equip the office facility to DOT standards are allowable.

3. Operational Costs (utilities, water, electricity, maintenance, repairs, janitorial, etc.) - Costs are allowable.

4. Insurance - The cost is allowable if project specific.

5. Office operations (supplies, reproduction, printing, postage, telephone, etc.) - Costs are allowable.

6. Autos, Trucks, Other Vehicles (rent/lease/purchase) - Costs are allowable if the items were specifically acquired for the project. Only those costs which are directly related to project use are allowable.

7. Vehicle Operating Costs (gas, oil, repairs, maintenance, insurance, etc.) - Costs which are directly related to project use are allowable.

8. Field/Testing Equipment and Supplies (survey instruments, nuclear density equipment, binoculars, hammers, ladders, diving equipment, protective clothing, hard hats, boots, etc.) - Field/Testing equipment and supply costs which are considered necessary by the project manager are allowable.

9. Communication Equipment (radios, beepers, etc.) - The costs of specifically required items are allowable.

10. Computers - Direct cost may be allowable on an hourly rate basis, provided the consultant can support the basis for the hourly rate and such cost is routinely charged as direct cost in the consultant's accounting system. The purchase or lease of computer equipment as a direct cost will not be allowed unless specifically required by the project and approved by the Department.

11. Travel/Relocation - Project related costs, not exceeding the limitations will be allowed.

12. Subconsultants/subcontractors (including Surveyors, Outside

Geotechnical, etc.) - Costs are allowable if project related and specifically approved.

e. Approved costs which are directly identified with the project and consistently treated as direct costs in the consultant's accounting records will be allowed as direct project costs. If a cost is not specifically incurred for a project and identified with that project, it may not be claimed as a direct cost. However, it may be allowed as part of the indirect costs which are allocated to the field office indirect cost pool.

f. As a general rule, the method of acquisition for any capital asset (item costing $500 or more and having a life expectancy of 1 year or more) will be determined through a lease versus purchase analysis. The type of asset, its value, life expectancy, time of use on the project, residual value, etc. will be considered in the determination of whether to lease, purchase, pay use charges, or use other methods of compensation for capital assets. Should the acquisition of capital assets as a direct cost be required for a particular project, the ownership and disposition of the assets will be determined during contract negotiations. The Department will not normally take ownership of acquired assets, but will require either the consultant to provide a residual value for the unused life of the asset, or the consultant will be provided with specific instructions regarding disposition of the asset. In either case, the Department requires that an equitable credit be obtained from the consultant.

PROFESSIONAL LIABILITY INSURANCE WILL NOT BE ALLOWED AS A DIRECT COST ON DEPARTMENT PROJECTS UNLESS THE INSURANCE IS PURCHASED SPECIFICALLY FOR THE DEPARTMENT PROJECT.

(2) **Indirect Costs**

a. As a general rule, the Department does not require extensive staffing of its consultants' field offices. Most administrative and management functions will be performed in the home or branch office. Therefore, an equitable portion of these office's indirect costs should be allocated to the field office. The costs which are allocated and the basis for the allocation depends largely on the results of the contract negotiations as well as the consultants customary accounting practices.

b. Fringe Benefits - The fringe benefits applicable to the field office direct labor costs should be allocated to the field office overhead pool. If the consultant's accounting records do not maintain separate identity for field office fringe benefits, the fringe benefits may be allocated on a direct labor basis (e.g., field office direct labor divided by total direct labor).

c. Indirect Labor - Indirect salaries (accounting, legal, purchasing, personnel, management, etc.) will be allocated to the field office overhead pool on a direct labor basis (field office direct labor divided by total direct labor).

d. Indirect Expenses - As a general rule, home or branch office indirect expenses will be allocated to the field office overhead pool on a percentage basis which is determined by dividing the allocated indirect labor by the total home or branch labor (direct and indirect). Certain indirect expenses such as depreciation, repairs and maintenance and field supplies which directly benefit only the field offices and which can be specifically identified may be allocated entirely to the field office overhead pool.

e. When allocating indirect costs, it must be understood that the title of a particular cost account is not reason enough to determine whether the costs contained therein are allowable and allocable. A review of internal controls, compliance requirements and an independent audit of the overhead is necessary to make that determination.

f. An example of a field office allocation in accordance with this guideline follows this page, although each state will have its own recommended allocation method. See each state's "Home Page" for the specific method recommended.

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EXAMPLE OF ALLOCATING OVERHEAD TO A FIELD OFFICE

FIELD OFFICE OVERHEAD

DIRECT LABOR:	Home	$1,343,665
	Field	$948,220
		$2,291,885

	ALLOCABLE EXPENSES	UNALLOWABLE EXPENSES	ALLOWABLE EXPENSES	ALLOCATION FIELD OFFICE	ALLOCATION HOME OFFICE	ALLOCATED TO FIELD
FRINGE BENEFITS						
Insurance-Group	$111,354		$111,354	$46,067	$65,287	41.37%
Insurance-Life	$4,197	($670)	$3,527	$1,459	$2,068	41.37%
Payroll-Bonus	$164,650		$164,650	$68,116	$96,534	41.37%
Payroll-Jury Duty	$925		$925	$383	$542	41.37%
Payroll-Holiday	$83,722		$83,722	$34,636	$49,086	41.37%
Payroll-Sick	$22,343		$22,343	$9,243	$13,100	41.37%
Payroll-Vacation	$90,838		$90,838	$37,580	$53,258	41.37%
Payroll-Taxes	$240,003		$240,003	$99,289	$140,714	41.37%
	$718,032	($670)	$717,362	$296,773	$420,589	
GENERAL OVERHEAD						
Accounting & Legal	$9,357		$9,357	$1,224	$8,133	13.08%
Advertising & promotion	$3,362		$3,362	$440	$2,922	13.08%
Auto Expense	$60,665	($3,413)	$57,252	$7,489	$49,763	13.08%
Bank charges	$213		$213	$28	$185	13.08%
Computer Service	$6,288		$6,288	$822	$5,466	13.08%
Continuing Education	$7,407	($972)	$6,435	$842	$5,593	13.08%
Convention & Seminars	$5,144		$5,144	$673	$4,471	13.08%
Depreciation & Amortization	$138,625		$138,625	$18,132	$120,493	13.08%
Dues, memberships, licenses	$4,590	($320)	$4,270	$559	$3,711	13.08%
Employees welfare	$11,197		$11,197	$1,465	$9,732	13.08%
Equipment Rental	$23,481	($1,622)	$21,859	$2,859	$19,000	13.08%
Insurance - Auto & trucks	$29,683	($2,908)	$26,775	$3,502	$23,273	13.08%
Insurance-general	$204,035	($49,973)	$154,062	$20,151	$133,911	13.08%
Insurance-workers comp	$17,584	($5,455)	$12,129	$1,586	$10,543	13.08%
Miscellaneous expenses	$5,189		$5,189	$679	$4,510	13.08%
Office supplies & expenses	$79,429		$79,429	$10,389	$69,040	13.08%
Indirect labor	$621,191		$621,191	$256,987	$364,204	41.37%
Postage & delivery	$15,557		$15,557	$2,035	$13,522	13.08%
Professional Fees	$32,259		$32,259	$4,219	$28,040	13.08%
Rent-Building	$100,173		$100,173	$13,103	$87,070	13.08%
Repairs & Maintenance	$42,831		$42,831	$5,603	$37,228	13.08%
Subscriptions	$6,178		$6,178	$808	$5,370	13.08%
Survey Supplies	$24,318		$24,318	$3,181	$21,137	13.08%
Taxes	$11,923		$11,923	$1,559	$10,364	13.08%
Telephone	$38,299		$38,299	$5,010	$33,289	13.08%
Travel	$15,476	($65)	$15,411	$2,016	$13,395	13.08%
Travel-Meals	$2,344		$2,344	$307	$2,037	13.08%
Utilities	$20,732		$20,732	$2,712	$18,020	13.08%
State Income Tax	$9,400		$9,400	$1,230	$8,170	13.08%
Gain on Sale of assets	$0	$500	$500	($65)	$565	13.08%
Contributions	$698	($698)	$0	$0	$0	0.00%
Entertainment	$9,851	($9,851)	$0	$0	$0	0.00%
	$1,557,479	($74,777)	$1,482,702	$369,545	$1,113,157	

FRINGE BENEFITS	GENERAL OVERHEAD
Field 296,773/948,220 = 31.30%	Field 369,545/948,220 = 38.97%
Home 420,589/1,343,665 = 31.30%	Home 1,113,157/1,343,665 = 82.77%

Indirect salaries were allocated to field office on the basis of field office direct labor divided by total direct labor (948,220/2,291,885 = 41.37%)
Indirect expenses supporting field office were allocated to the field office on the basis of the allocated indirect salaries
divided by total home office salaries 256,987/ (1,343,665/621,191) = 13.08%

CONSULTANT AUDIT GUIDE

Sample of Overhead Audit Report

INDEPENDENT AUDITOR'S REPORT ON STATEMENT OF DIRECT LABOR, FRINGE BENEFITS AND GENERAL OVERHEAD

The Board of Directors
Consultants, Inc.

We have audited the Statement of Direct Labor, Fringe Benefits and General Overhead of Consultant's, Inc. (the Company) for the year ended ________, 19__. This statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the financial audit standards contained in the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement of Direct Labor, Fringe Benefits and General Overhead. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement was prepared on a basis of accounting practices prescribed in Part 31 of Federal Acquisition Regulations and certain other federal and state regulations as discussed in Note 2, and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the Statement of Direct Labor, Fringe Benefits and General Overhead for the year ended ________, 19__ presents fairly, in all material respects, the direct labor, fringe benefits and general overhead of the Company for the year ended _________, 19__ on the basis of accounting described in Note 2.

CONSULTANT AUDIT GUIDE

In accordance with the Government Auditing Standards, we have issued a report dated ________, 19__ on our consideration of the Company's internal control over financial reporting and its compliance with laws and regulations.

This report is intended solely for the use and information of the of Consultant, Inc. and Government Agencies or other customers related to contracts employing the cost principles of the Federal Acquisition Regulations and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

________, 19__

CONSULTANT AUDIT GUIDE

OVERHEAD EXAMPLE - CONSULTANTS, INC.
Statement of Direct Labor, Fringe Benefits and General Overhead
For the Fiscal Year Ended December 31, 1997

Description	Total Cost Per General Ledger/Income Statement	DOT Adjustments	Notes	DOT Adjusted Balances	Percent of Account To Total Pool	Allowable Costs Allocated to Field Office	Allowable Costs Allocated to Home Office
Direct Labor	$11,542,664			$11,542,664		$154,094	$11,388,570
FRINGE BENEFITS							
Paid Leave	$718,660			$718,660	6.65%	9,594	709,066
Payroll Taxes	619,090			$619,090	5.72%	8,265	610,825
Group Insurance	538,337			$538,337	4.98%	7,187	531,150
Workman's Compensation	39,837			$39,837	0.37%	532	39,305
TOTAL FRINGE BENEFITS	$1,915,924			$1,915,924	17.72%	$25,578	$1,890,346
GENERAL OVERHEAD							
Indirect Labor	$4,340,250			$4,340,250	40.13%	$57,942	$4,282,308
Rental	481,540	($60,555)	1	$420,985	3.89%	1,551	419,434
Maintenance & Repairs	233,908			$233,908	2.16%	862	233,046
Travel	232,701	(6,592)	2	$226,109	2.09%	833	225,276
Insurance	434,700	(9,779)	3	$424,921	3.93%	1,565	423,356
Telephone	327,824	(3,612)	4	$324,212	3.00%	1,194	323,018
Printing	218,641			$218,641	2.02%	805	217,836
Utilities	302,054			$302,054	2.79%	1,113	300,941
Taxes	297,463	(51,392)	5	$246,071	2.28%	906	245,165
Depreciation	409,657	(86,565)	6	$323,092	2.99%	1,190	321,902
Dues & Subscriptions	154,713	(41,421)	7	$113,292	1.05%	417	112,875
Marketing	490,086	(96,438)	8	$393,648	3.64%	1,450	392,198
Employee Training, Recruitment	396,744	(29,099)	9	$367,645	3.40%	1,354	366,291
Professional Fees	221,771	(19,539)	10	$202,232	1.87%	745	201,487
Interest	872,145	(872,145)	11	$0	0.00%		
Bad Debt Expense	326,495	(326,495)	12	$0	0.00%		
Computer	358,873			$358,873	3.32%	1,322	357,551
Automotive Expense	189,280			$189,280	1.75%	697	188,583
Supplies & Miscellaneous	269,085	(55,567)	13	$213,518	1.97%	787	212,731
Totals	$10,557,930	($1,659,199)		$8,898,731	82.28%	$74,733	$8,823,998
OVERHEAD RATE				93.69%		65.10%	94.08%

Note References:

1 - Assets acquired by means of capital leases may not be expensed per FAR 31.205-36; additional costs were questioned as a result of common ownership per FAR 31.205-10.
2 - Travel costs attributable to the collection of bad debts are unallowable per FAR 31.205-3.
3 - Officer's life insurance premiums were questioned per FAR 31.205-19.
4 - Assets acquired by means of capital leases may not be expensed per FAR 31.205-36.
5 - Federal income taxes are unallowable per FAR 31.205-41.
6 - Depreciation expense attributable to the personal use of vehicles is unallowable per FAR 31.205-6.
7 - Unallowable dues were questioned per FAR 31.205-43
8 - Marketing costs were questioned per FAR 31.205-1(f).
9 - Unallowable entertainment costs were questioned per FAR 31.205-14.
10 - Corporate reorganizational costs are unallowable per FAR 31.205-27.
11 - Interest expense is unallowable per FAR 31.205-20.
12 - Bad debt expense is unallowable per FAR 31.205-3.
13 - Direct costs are unallowable per FAR 31.202.

CONSULTANT AUDIT GUIDE

CONSULTANT, INC.
Notes to Statement of Direct Labor, Fringe Benefits
and General Overhead, For the Year Ended ___________, 19__.

(1) The Company

Consultants, Inc. (the Company) is a professional design and engineering firm providing consultation in the area of planning, engineering and design. The Company's projects are diverse, including industrial and public facilities, transportation and infrastructure.

The Company was founded in 1962, and its clients include private sector businesses, public utilities, architect-engineers/contractors, and all level of government. Revenues are derived from billings for services, equipment and reimbursable expenses. The Company has approximately 50% governmental and 50% commercial contracts. Revenues are recognized on these contracts as costs are incurred.

(2) Basis of Accounting and Description of Accounting Systems

The Company's policy is to prepare its overhead schedules, which support the statement of direct labor, fringe benefits and general overhead, on the basis of accounting practices prescribed by Subparts 9900 and Part 31 of the Federal Acquisition Regulations (FAR). Accordingly, the above mentioned statement is not intended to present the results of operation of the Company in conformity with Generally Accepted Accounting Principles.

The Company maintains a job-order cost accounting system for recording and accumulating of costs incurred under its contracts. Each project is assigned a job number so that costs may be segregated and accumulated in the Company's job-order cost accounting system.

The Company's method of estimating costs for pricing purposes during the proposal process is consistent with the accumulation and reporting of costs under its job-order cost account system.

(3) Field Office

In calculating the field office pool, the allocation to indirect labor and fringe benefits is based upon the ratio of field office direct labor to total direct labor. The remaining field office pool allocation will be based upon the ratio of field indirect labor allocation to total home office labor. The direct labor dollars for the field office represent the 1996 wages of the individuals specifically identified by the Company as physically working at the field office site.

(4) CADD Machine Costs

Effective January 1, 1994 the Company began to account for CADD machine costs as direct reimbursable costs. Prior to that date, CADD machine costs were accounted for as overhead. This rate does not include any profit margin. The audited CADD rate for the year ended ____________, 19__ is $19.21 per hour.

Some states do not allow CADD to be billed directly; therefore, if a firm charges CADD directly, this paragraph must show the dollar amount of CADD expenses that would be added back to the overhead computation.

(5) Facilities Capital Cost of Money

The Company's audited facilities capital cost of money for the year ended _________, 19__ is 3.5674 %.

CONSULTANT AUDIT GUIDE

[1]*Computation of FCCM rate.*

CONSULTANTS, INC.
Facilities Capital Cost of Money
For the Fiscal Year Ended December 31, 1997

	Balance January 1, 1997	Balance December 31, 1997
Capital Assets	$ 6,125,310	$ 6,423,980
Average Net Book Value	$ 6,274,645	
Average US Treasury Rate	6.5625%	
Facilities Capital Cost (Average X Rate)	$ 411,774	
Direct Labor Base	$ 11,542,664	
Facilities Capital Cost of Money Factor (Cost/Direct Labor Base)	3.5674%	

(6) Allocation of Expenses

The Company consistently bills its clients for the following direct costs:
Travel, Graphics, outside reproduction, telephone, subconsultants

[1]Current Treasury rate may be obtained at:www.pulicdebt.treas.gov/opd/opdprmt2.htm

(7) Summary

The following tabulations summarize the allowable overhead rates incurred by the Company for the year ended _________, 19__:

Description	Home Office	Field Office
Fringe Benefit Rate	16.60 %	16.60 %
General Overhead Rate	77.48 %	48.50 %
Combined Rate	94.08 %	65.10 %

INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE AND INTERNAL CONTROLS

The Board of Directors
Consultants, Inc.

We have audited the Statement of Direct Labor, Fringe Benefits and General Overhead of Consultants, Inc. (the Company) for the year ended ________, 19__ and have issued our report thereon dated _________, 19__. We conducted our audit in accordance with generally accepted auditing standards and the financial audit standards contained in the Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Consultants, Inc.'s schedule is free from material misstatement, we performed tests of the Company's compliance with certain provisions of laws, regulations and contracts, including the provisions of the applicable sections of Part 31 of the Federal Acquisition Regulation, noncompliance with which could have a direct and material effect on the determination of the schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Consultant's Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the schedule and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the use and information of the Consultant, Inc. and government agencies or other customers related to contracts employing the cost principles of the Federal Acquisition Regulation. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

NOTE: Please submit the letter that you sent to management when you have weaknesses in the internal control, but the weaknesses are not considered material enough to include in the report.

CONSULTANT AUDIT GUIDE

ACKNOWLEDGMENTS

The QFMI team:

Ms. Amy J. Stancil, CPA -- Georgia DOT, Manager, Office of Audits

Mr. Todd Jones -- North Carolina DOT, Manager, Consultant Audit Unit

Mr. John Greene, Florida DOT, Office of Inspector General, Supervisor, Contract Audit Branch

Mr. John P. Jeffers, FHWA, Eastern Finance Center -- Atlanta, Georgia, Financial Program Coordinator

Contributors:

Washington State Department of Transportation -- For the use of their Audit Guide

Florida Department of Transportation -- Office of Inspector General -- For the use of their Overhead Audit Guidelines

Defense Contract Audit Agency (DCAA) - For the use of their FAR checklist

A sincere thanks to the WAASHTO, the Midwestern States, the Northeast States, the Southeast States and all others who have provided comments and/or guidance in producing this publication.

FAR Cost Principle Assessment

Version 2.2
1 April 1998
Defense Contract Audit Agency
FAR Cost Principle Assessment

Directions: This FAR Part 31 cost principle assessment should be completed based on your knowledge of the contractor's practices and procedures (i) as documented in previous working paper files, (ii) as a result of inquiry of appropriate contractor management, supervisory, and staff personnel; or (iii) as a result of observing contractor operations.

The questions are designed so that a YES answer will generally require follow up. The questions relate to sensitive cost issues and do not replace the requirement that the auditor have detailed knowledge of the cost principles and perform any required audit procedures needed to determine compliance with all significant costs being audited at the contractor.

Those CAS standards that relate to the FAR cost principles are noted in parenthesis ( ). If the contractor is CAS covered, the responses to these risk assessment questions should consider the results of your CAS compliance testing.

Ask the contractor to explain their policies and procedures for identifying and segregating unallowable costs and directly associated costs (31.201-6 Accounting for Unallowable Costs). Document this discussion.

Working Paper Reference ____________.

Yes/No	Follow-Up Assn W/P REF

31.205-1 Public Relations and Advertising Costs

1.- Did the company advertise in newspapers, magazines, on radio, etc. for other than help wanted?

2.- Is the company involved in trade shows, exhibit booths, etc. relative to the products and/or services the company offers?

31.205-2 Reserved

31.205-3 Bad Debts

1.Is any person involved with the collection of bad debts so that the majority of their time relates to this function? If so, who?

	Follow-Up
Yes/No	Assn W/P REF

31.205-4 Bonding Costs
1.- Is the company required to be bonded?

31.205-5 Civil Defense Costs
1.- Does the company make contributions to local civil defense funds and projects?

31.205-6 Compensation for Personal Services
1.- Was any compensation for employees of the company not paid in full?
2.- Were any payments made for back pay which did not represent additional compensation for work performed?
3.- Are bonuses paid other than pursuant to a formal agreement between the company and the employees?
4.- Is any compensation calculated, or valued, based on changes in the price of corporate securities, such as stock options, stock appreciation rights, phantom stock, or junior stock conversions?
5.- Does the company have a leveraged Employee Stock Ownership Plan (ESOP)?
6.- Did the company terminate any pension, profit sharing, or bonus plans?
7.- Did the company fail to fund profit sharing, bonus, or retirement plans?
8.- If funded, were these plans funded less often than on a quarterly basis?
9.- Does the leave policy allow employees to carry over hours to a future year(s), e.g., banked vacation?
10.- Did the company make severance payments?

31.205-7 Contingencies
1.- Does the company include contingencies in historical costing?

31.205-8 Contributions or Donations
1.- Has the company claimed contributions or donations?

31.205-9 Reserved

Yes/No	Follow-Up Assn W/P REF

31.205-10 Cost of Money (414/417)
1.- Is the company proposing Facilities Capital Cost of Money?

31.205-11 Depreciation (404/409) (see also 31.205-16 and 31.205-52)
1.- Does the company use different depreciation methods for income tax and/or financial accounting purposes?
2.- Does the company use different depreciation methods for government and non government work?
3.- Are automobiles the company maintains more than the midsize variety? (31.201-3 Reasonableness)
4.- Does the company allow personal use of company vehicles (31.205-6(m)(2)) or other company assets? (31.201-4 Allocability)

31.205-12 Economic Planning Costs (See also 31.205-27)
1.- Did the company incur any economic planning costs?

31.205-13 Employee Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits
1.- Do the company's policies and procedures fail to clearly distinguish the difference between morale and entertainment costs?
2.- Does the company give awards and gifts for other than compensation or recognition of employee achievements pursuant to an established plan or policy?
3.- Did the company claim any recreation costs?
4.- Is a cafeteria maintained for employees? If yes, determine whether it operates at a profit or a loss.

31.205-14 Entertainment Costs
1.- Do vouchers for luncheons and trips fail to list the purpose for which the expense was incurred?
2.- Does the company provide memberships in social, dining or country clubs to its employees for personal or business related purposes?

	Yes/No	Follow-Up Assn W/P REF

3.- Does the company have parties, recreational trips, shows, picnics, or other such recreational or entertainment events?

31.205-15 Fines, Penalties and Mischarging Costs
1.- Was the company fined or penalized during the year (e.g., were any tax returns filed late)?

31.205-16 Gains Losses on Disposition of Depreciable Property or Other Capital Assets (See also 31.205-11)
1.Were any assets sold during the year?

31.206-17 Idle Facilities Idle Capacity Costs
1.- Have there been any reductions in force or sales which resulted in unoccupied space?
2.- Does the company have any idle facilities or capacity?

31.205-18 Ind Research Dev/Bid Proposal Costs (420)
1.- Did the company incur any IR&D and B&P costs? (When auditing these costs determine if the company is subject to the entire provisions of CAS 420 or if they are only subject to the provisions of CAS 420 except 420.50(e)(2) and (f)(2).)

31.205-19 Insurance and Indemnification (416)
1.- Does key man life insurance exist?
2.- Are there any instances where insurance coverage is in excess of the acquisition cost of insured assets?
3.If the company has business interruption or similar insurance does it include coverage of profit?
4.- Does the company have professional liability insurance?
5.- Did the company terminate any insurance plans?
6.- Is the company self-insured?

31.205-20 Interest and Other Financial Costs
1.- Has the company claimed interest expense or other financial costs?

Yes/No	Follow-Up Assn W/P REF

31.205-22 Lobbying And Political Activity Costs
1.- Does the company have any lobbying effort?
2.- Does the company maintain an office in the Washington, DC area?

31.205-26 Material Costs
1.- Does the company issue material from stores?
2.- If the company has flexibly priced government contracts, does it fail to physically segregate the material inventories for each contract?

31.205-27 Organization Costs
1.- Has the company reorganized, established a new division, or merged with another company?
2.- Has the company planned such activities?

31.205-28 Other Business Expenses
1.- Does the company issue or transfer securities, hold stockholders meetings, and so forth?

31.205-29 Plant Protection Costs (generally allowable)

31.205-30 Patent Costs
1.- Are patent costs charged direct against contracts? If yes, determine whether the patent is required by the contract.

31.205-31 Plant Reconversion Costs
1.- Has the company incurred reconversion costs?

31.205-32 Precontract Costs
1.- Does the company ever start working on a contract prior to its effective date? If yes, determine that approval was obtained from the contracting officer
.

31.205-33 Professional and Consultant Service Costs
1.- Does the company fail to maintain supporting evidence of the nature and scope for professional and consulting services rendered?
2.- Did the company incur retainer fees?

	Yes/No	Follow-Up Assn W/P REF

31.205-34 Recruitment Costs
1.- Were any new people hired who left the company within 12 months of starting?

31.205-35 Relocation Costs
1.- Does the company reimburse employees closing costs or continuing costs of ownership over 14% of the sale price of the old house?
2.- Does the company reimburse employees costs incidental to acquiring a home in a new location over 5% of the purchased price of the new house?
3.- Does the relocation policy allow for payment of income taxes?
4.- Does the company allow more than 30 days of TDY for relocation?
5.- Does the company's travel and relocation policy allow newly transferred employees to leave the company before 12 months and not have to reimburse the company for the relocation expenses?

31.205-36 Rental Costs
1.- Did the company enter into any new leases or renegotiate any existing leases during the year?
2.- Did the company fail to use FASB No. 13 to determine if the lease was a capital lease?
3.- Are there any rental payments for property leased from an owner, stockholder or an affiliate of the contractor?

31.205-37 Royalties and Other Costs for Use of Patents
1.- Did the company incur any royalties or other costs relating to patents?

31.205-38 Selling Costs
1.- If the company has selling costs, were salesmen's or agent's compensation, fees, commissions, retainer or brokerage fees paid to other than bona fide employees or established commercial or selling agencies maintained by the company for the purpose of securing business?
2.- Did the contractor segment incur more than $2,500,000 in foreign selling costs?

	Follow-Up
Yes/No	Assn W/P REF

31.205-39 Service and Warranty Costs
1.- If the company incurred service and warranty costs, were any such services or warranties not required by a contract?

31.205-40 Special Tooling and Special Test Equipment
1.- Does the company lack policies and procedures to differentiate between the costs of general purpose test equipment and special tooling and special test equipment?

31.205-41 Taxes
1.- Have more taxes (state income taxes mainly) been accrued than paid?

31.205-42 Termination Costs
1.- If any contracts were terminated during the year, were any indirect costs charged direct as part of the termination?

31.205-43 Trade, Business, Tech. Prof. Costs
1.- Does the company belong to any professional association?
2.- Are suggested voluntary contributions included in the billings for membership in professional organizations?
3.- Does the company fail to maintain a listing of technical information discussed at meetings?
4.- Are any management meetings held at sites other than the main offices?
5.- Did the company pay any costs for guests?

31.205-44 Training Educational Costs
1.- Were any grants, scholarships, fellowships, etc. provided to anyone?
2.- Did the company provide training and education to people other than employees?

31.205-46 Travel Costs

	Yes/No	Follow-Up Assn W/P REF

1.- Does company policy fail to require travel via "promotional" fares (reduced rates) wherever possible?
2.- Do total per diem rates paid exceed JTR/FAR limitations?
3.- Were any rebates, credits, discounts given to the company by airlines, car rental firms, motels, etc. based on such things as volume?

31.205-47 Cost of Legal and Other Proceedings
1.- Has the company incurred costs in connection with any litigation brought by the government?
2.- Has the company incurred costs in connection with any proceeding brought by a third party on behalf of the government, i.e., qui tam suits?
3.- Has the company incurred costs to defend against stockholder suits?
4.- Did the company require legal services for organizing, reorganizing, antitrust suits, claims against the Government or bad debts?
5.- Has the contractor received direct reimbursement of bid protest costs? If so, has the contractor made the appropriate credit to its incurred cost submission?

31.205-48 Deferred Research and Development Costs
1.- Does the company have any R&D costs incurred prior to the start of a contract or grant?

31.205-49 Goodwill
1.- Does the company have any costs for amortization, expensing, write-off or write-down of goodwill?
2.- Has the company included the cost of money resulting from including goodwill in the facilities capital employed base?

31.205-50 Reserved

31.205-51 Costs of Alcoholic Beverages

	Yes/No	Follow-Up Assn W/P REF

1.- Does the company fail to identify and exclude the costs of alcoholic beverages from its claimed costs?

31.205-52 Asset Valuations Resulting from Business Combinations
1.Does the contractor claim any cost resulting from stepped-up asset values?

31.201-3 Reasonableness
1.- Have any costs been accrued which have not been paid?

31.201-4 Allocability
1.- Are contracts performed at customer owned off-site locations. If so, determine whether separate off-site indirect expense pools applicable to the off-site locations are maintained?
2.- Does the company charge service center costs, such as computer and word processing, direct to cost objectives with the variance going to overhead? If the variance is significant, determine whether a change in allocation rates is required. If the costs are charged indirect, determine whether the allocations are equitable.
3.- Does the company fail to allocate indirect expenses to subcontract personnel engaged to work in-house?

31.201-5 Credits
1.- Does the company show miscellaneous income other than as a reduction to expenses, (e.g., rental income, xerox income, and vending machine income)?

31.203 Indirect Costs
1.- Did the company exclude unallowable costs from the allocation bases?