

INDIANA DEPARTMENT OF TRANSPORTATION

100 North Senate Avenue, Room N725
Indianapolis, Indiana 46204-2249

January 1994

Contract Audit Circular: 93-12-01

SUBJECT: Applicable federal regulations used in determining overhead rate.
--

DEFINITION ISSUE: During an overhead survey the determination must be made that indirect costs proposed by the consultant are allowable in order to be included in the indirect cost pool in the development of the overhead rate.

ALLOWABILITY: The allowability of costs included in the indirect cost pool for the development of an audited overhead rate is established by the Federal Acquisition Regulations (FAR). The applicable FAR is codified as Title 48 of the Code of Federal Regulations, Part 31, Subpart 31.2. It is noted, these federal regulations establish minimum requirements that must be met for a cost to be allowed in the overhead pool. INDOT still has the authority to establish more strict or additional requirements. These State requirements if different than the FAR will be discussed in subsequent circulars.

APPLICATION: The consultant must maintain accounting records in a manner that will facilitate the proper segregation, allocation, and accumulation of costs as required by the aforementioned FAR. Allowable and unallowable costs must be maintained in separate accounts and be readily auditable.

ACTION: The consultant must prepare and submit a proposed overhead rate in accordance with all applicable federal regulations and state policies. The auditor will then test the proposed cost to determine compliance therewith. Any costs not allowed by applicable rules will not be allowed in the development of the overhead cost pool. In the event that allowable and unallowable costs are commingled in an account, the auditor will arrive at a percentage of the account to be disallowed based upon a test a sample of the account. This alternate procedure will only be performed in the first overhead audit of the Consultant. If the same commingling exists in a subsequent year, the entire account will be disallowed unless a readily auditable breakdown as to allowable and/or unallowable costs is presented to the auditor by the consultant.

SOURCE: Code of Federal Regulations Title 23 & Title 48
State Policy Letters.