



INDIANA DEPARTMENT OF TRANSPORTATION

100 North Senate Avenue
Room N749
Indianapolis, Indiana 46204

Eric Holcomb, Governor
Joe McGuinness, Commissioner

DIVISION OF EXTERNAL AUDITS **Contract Audit Circular 2018-03** August 4, 2017

Direction for Billing by Classification under Negotiated Hourly Rate Contracts

Contract rates for Negotiated Hourly Rate contracts are determined based on the average hourly rate for all employees in that classification from the firm's most recent Certified Hourly Labor Rate schedule on file with External Audit. The submitted classification average rate is then increased by factors for the firm's most recent approved overhead rate, Facilities Capital Cost of Money (FCCM) rate, and the allowable profit rate for the project. No employee can be billed at a higher rate classification than the highest classification for which that employee was included in the calculated rate. It is acceptable for firms to submit an updated Certified Hourly Labor Rate schedule as part of each contract cost proposal.

When it is possible that an employee will be called on to fill multiple roles on the project, that employee may be included in multiple work classifications. For example, an employee who is primarily employed as a Senior Engineer may also be qualified to work as a Project Manager. The Senior Engineer may be called upon, at times, to work as a Project Manager. If this change in responsibility applies for a given project, the firm must include the Senior Engineer's wage in the labor pool for establishing the Project Manager contract rate. If not, the employee will be allowable for billing exclusively at the lower Senior Engineer contract rate, regardless of the role filled.

Rules tied to FHWA funding allow use of average pay rates for work classifications, but prohibit payment of higher than a 15.0% rate of profit. If firms were allowed such latitude in billing, INDOT would be in violation of Federal law and would be at risk of loss of all FHWA funding.