



# 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 2018-05** August 4, 2017

### Direction for Overhead Rate True-Up Adjustment

It is the responsibility of the engineering consulting firm to submit invoices in compliance with the terms of the contract agreed to by both parties.

Language from the standard Cost Plus Fixed Fee contract states:

“Upon receipt of a newly approved overhead rate from INDOT’s External Audit Section the CONSULTANT shall incorporate into the following invoice an adjustment for the previous year’s billings to the actual rate applicable at the time of work and also proceed with use of the new rate as the provisional rate.”

Nearly all firms do change to the new rate as the provisional billing rate, however few, if any, do the billing adjustment required for the work billed in the previous year (the stated year covered by the approved overhead rate). This adjustment may be either an increase or a decrease in allowable cost. When you receive an audit report for a Cost Plus Fixed Fee contract stating that INDOT owes you additional payment, it is very likely due to you not doing the overhead true-up adjustments, and the additional payment should have been billed several years in the past.

External Audit has traditionally recalculated overhead billing using the correct overhead rate for the period as part of the contract audit. This is very time consuming work when dealing with hundreds of audits. External Audit will no longer do these recalculations, but instead will notify the firm when adjustment is found to be necessary. The firm will be allowed 30 days to submit an invoice, along with adjustment details and calculation. When the revised billing is not received within 30 days of notification, External Audit may pass on further audit work and issue our report.