CONSULTANT FINANCIAL REPORT (CFR) INSTRUCTIONS

Wisconsin Department of Transportation

DT1865-INST 6/2019

The Consultant Financial Report (CFR) Form DT1865, consists of the Management Representation and Certification
(Part 1A), the AASHTO Internal Control Questionnaire (ICQ), WisDOT’s CFR Questionnaire (Part 2B), the Proposed Indirect Cost Schedule (Part 3A) and several documents and support schedules. Instructions are listed below.

1.If your firm ***HAS*** a **FAR compliant indirect cost audit** submit the following items:

[ ]  Management Representation and Certification (Word Form [DT1865-1A](http://wisconsindot.gov/Documents/formdocs/dt1865-1a.doc))

[ ]  Audit Report inclusive of all opinions, schedules, and notes for Home Office, and Field or Project Offices,
if applicable. *(Consultant Supplied)*

[ ]  General Purpose Financial Statements *(Consultant Supplied)*

[ ]  If a cognizant review/audit has been performed, provide a copy of Cognizant Acceptance letter *(Consultant Supplied)*

[ ]  [AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers](http://wisconsindot.gov/Documents/formdocs/dt1865-aashtoicq.doc) *(AASHTO Form)*

[ ]  WisDOT’s Consultant Financial Report Questionnaire (Word Form [DT1865-2B](http://wisconsindot.gov/Documents/formdocs/dt1865-2b.doc))

[ ]  Compensation Analysis for Executives in accordance with Chapter 7—Compensation
of the current AASHTO Uniform Audit & Accounting Guide.

[ ]  Direct Cost Summary (Word Form [DT1865-3C](http://wisconsindot.gov/Documents/formdocs/dt1865-3c.doc))

[ ]  If your firm is required to follow [**Cost Accounting Standards (CAS)**](http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=/ecfrbrowse/Title48/48cfr9903_main_02.tpl) per 48 CFR Part 9903.201-1,
a copy of the most recent Disclosure Statement submitted to your firm’s federal cognizant agency
and any approvals received back. *(Consultant Supplied)*

2.If your firm ***DOES NOT HAVE*** a **FAR compliant indirect cost audit** submit the following items:

[ ]  Management Representation and Certification (Word Form [DT1865-1A](http://wisconsindot.gov/Documents/formdocs/dt1865-1a.doc))

[ ]  [AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers](http://wisconsindot.gov/Documents/formdocs/dt1865-aashtoicq.doc) *(AASHTO Form)*

[ ]  WisDOT’s Consultant Financial Report Questionnaire (Word Form [DT1865-2B](http://wisconsindot.gov/Documents/formdocs/dt1865-2b.doc))

[ ]  Proposed Indirect Cost Rate Schedule (Excel Form [DT1865-3A](http://wisconsindot.gov/Documents/formdocs/dt1865-3a.xls))

[ ]  General Purpose Financial Statements *(Consultant Supplied)*

[ ]  Reconciliation of Indirect Cost Schedule to Financial Statements *(Consultant Supplied)*

[ ]  Labor Base Summary and Total Labor Reconciliation (Excel Form [DT1865-3B](http://wisconsindot.gov/Documents/formdocs/dt1865-3b.xlsx))

[ ]  Compensation Analysis for Executives in accordance with Chapter 7—Compensation
of the current AASHTO Uniform Audit & Accounting Guide.

[ ]  Direct Cost Summary (Word Form [DT1865-3C](http://wisconsindot.gov/Documents/formdocs/dt1865-3c.doc))

[ ]  Facilities Capital Cost of Money (FCCM) Calculation, if proposed (Excel Form [DT1865-3D](http://wisconsindot.gov/Documents/formdocs/dt1865-3d.xlsx))

[ ]  Related Party Rent Calculation (Excel Form [DT1865-3E](http://wisconsindot.gov/Documents/formdocs/dt1865-3e.xlsx))

[ ]  If your firm is required to follow [**Cost Accounting Standards (CAS)**](http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&tpl=/ecfrbrowse/Title48/48cfr9903_main_02.tpl) per 48 CFR Part 9903.201-1,
a copy of the most recent Disclosure Statement submitted to your firm’s federal cognizant agency
and any approvals received back. *(Consultant Supplied)*

***Note:*** *Please* ensure all required schedules and information is submitted to prevent delays
in approvals of CFR and provisional rates.

**SEND COMPLETED REPORTS TO:**

All schedules must be mailed to the *Wisconsin Department of Transportation* at either of the following addresses.
Do not submit Instructions. **Electronic copies are not accepted.**

|  |  |
| --- | --- |
| **via U.S. Post Office:** | **via UPS, Federal or other express mail services:** |
| Audit Supervisor, Audit & Contract AdministrationWisconsin Department of TransportationP.O. Box 7913Madison, WI 53707-7913 | Audit Supervisor, Audit & Contract AdministrationWisconsin Department of Transportation4822 Madison Yards Way, 6th Floor SouthMadison, WI 53705 |

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# PART 1A – Management Representation and Certification – Form [DT1865-1A](http://wisconsindot.gov/Documents/formdocs/dt1865-1a.doc)

This certification statement is to be signed by the consultant’s management official. Consultant official shall be an individual executive or financial officer of the consultant’s organization at a level no lower than a Vice President or Chief Financial Officer, or equivalent, who has the authority to represent the financial information utilized to establish the indirect cost rate proposal submitted for acceptance. The data on the Microsoft Word document may be completed electronically but the **signature must be handwritten**. The original signed document must be submitted; **electronic signatures will not be accepted**. Part 1A should be the first page of the submittal.

**PART 2A – AASHTO’s Internal Control Questionnaire ICQ**
The [AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers](http://wisconsindot.gov/Documents/formdocs/dt1865-aashtoicq.doc) must be completed and submitted with your
CFR packet. Complete, print and attach. *(AASHTO Form)*

**PART 2B – Consultant Financial Report Questionnaire – Form** [**DT1865-2B**](http://wisconsindot.gov/Documents/formdocs/dt1865-2b.doc)

In addition to the questions in the AASHTO Internal Control Questionnaire (ICQ), additional questions must be answered
in the Consultant Financial Report Questionnaire. Complete, print and attach.

# PART 3A – Proposed Indirect Cost Rate Schedule – Form [DT1865-3A](http://wisconsindot.gov/Documents/formdocs/dt1865-3a.xls)

Complete the documents electronically, print and attach.

The Schedule of Proposed Indirect Costs should be prepared by the firm and be based on actual expenses reported in the financial statements and/or Trial Balance. The schedule should clearly show amounts excluded for Direct Cost items and for Unallowable Costs as per the Federal Acquisition Regulations Part 31 and the WisDOT Facilities Development Manual. The schedule must also show the amount of Direct Labor (included in the Direct Labor Base) and the amount of Facilities Capital Cost of Money if your firm chooses to propose FCCM.

In certain cases multiple rates will be proposed to reflect more than one cost objective (e.g. engineering and drilling rates). The expense breakdowns and resultant overhead rates should be clearly shown on the schedule. If Field rates are used for any of the firm’s projects they must be disclosed on the Schedule of Indirect Costs. For more coverage on field rates, refer to Chapter 5.6 in the **“AASHTO Uniform Audit and Accounting Guide.”** To obtain a Schedule of Indirect Costs template with field rate allocation or to discuss specific field rate questions, contact the audit section.

In certain cases, indirect costs may be allocated using multiple cost pools and/or allocation bases different than direct labor costs (e.g. general & administrative costs may be allocated over “total cost input” or “total value input”). In those cases, the allocation methods and bases should be clearly explained.

A helpful tool that may be used when preparing the Indirect Cost Schedule is the current **“AASHTO Uniform Audit & Accounting Guide – For Audits of Architectural and Engineering (A/E) Consulting Firms’ Indirect Cost Rates.”** Chapter 5 of the Guide includes sample indirect cost schedules for both home office rate and field office rate calculations. Table 8-1 Listing of Common Unallowable Costs is good tool to help you determine what costs are typically unallowable per FAR Part 31.

PART 3B – Labor Base Summary and Total Labor Reconciliation – Form [DT1865-3B](http://wisconsindot.gov/Documents/formdocs/dt1865-3b.xlsx)

The purpose of this section is to demonstrate that the following labor amounts are in agreement and that they are based on actual costs incurred:

1. **Schedule of Indirect Costs** – direct labor, indirect labor and paid time off
2. **Project Cost System** – Labor recorded, provide if this function has been implemented
3. **General Ledger** – Labor recorded, provide if this function has been implemented
4. **Payroll Records** – Labor recorded, provide if this function has been implemented

While there may be minor reconciling items due to timing or other differences, the total amounts should substantially agree. If they do not, explanations must be provided.

Direct labor amounts may come from a variety of sources depending on the firm’s accounting system. In an integrated accounting system the direct labor amount is generally available in a report from the project cost system. In smaller firms, the labor distribution may be maintained in spreadsheets or other reports based on time records. Whatever the case, the amounts must be supported by detailed records, and an audit trail to the summary amounts must exist.

CONSULTANT FINANCIAL REPORT (CFR) *(continued)* INSTRUCTIONS

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# PART 3B – Labor Base Summary and Total Labor Reconciliation *(continued)*

Consultants may or may not pay overtime to salaried employees for hours worked in excess of 40 hours per week.
Any unpaid hours worked by salaried employees in excess of the normal 40 hours per week are commonly called “uncompensated overtime.” The consultant must have procedures covering the consistent recording and accounting
for hours worked, whether paid or unpaid, to ensure the proper distribution of labor costs. This is necessary because
labor rates and indirect costs can be affected by total hours worked, not just paid hours worked.

For consultants with material amounts of uncompensated overtime labor, it is necessary to apply an adjustment to minimize the risk that government projects will absorb disproportionate amounts of direct labor costs. This may be accomplished through either an Effective Rate Method or a Salary Variance Method. Both of these methods, with examples, are shown in Chapter 5 of the AASHTO Uniform Audit & Accounting Guide.

The Labor Base Summary and Total Labor Reconciliation must be prepared and submitted.

# PART 3C – Direct Cost Summary – Form [DT1865-3C](http://wisconsindot.gov/Documents/formdocs/dt1865-3c.doc)

This section provides a listing of expense items that are directly allocated to projects and therefore should be excluded from the Indirect Cost Rate Schedule. *Direct costs must be excluded from the overhead calculation by either removing the direct accounts or by including a credit to the indirect cost pool for the amounts charged to projects.* The direct cost summary should be marked to include all internal allocation and outside costs that are directly allocated to projects.

It should be noted that consultants must maintain adequate documentation (i.e. logs, accounting records, etc.) for direct cost items. Direct cost rates should be based on the actual cost of each direct cost item. Documentation to support how direct cost rates were determined should be maintained and available for review upon request. Current IRS rates are acceptable to use for company and employee vehicle mileage. Direct cost items must be allocated consistently for all projects amongst all clients.

The direct cost summary must be completed by all consultants. If a consultant has a direct cost item not specifically listed on the summary, they should try to fit them into one of the categories as listed and note it in the notes section of the template. When contract proposals are prepared, consultants may use their firm’s specific cost categories along with WisDOT’s standard category in brackets (eg. stakes, lathe, paint, flag – Survey Supplies).

**PART 3D – Facilities Capital Cost of Money (FCCM) Calculation** **– Form** [**DT1865-3D**](http://wisconsindot.gov/Documents/formdocs/dt1865-3d.xlsx)

This Section should only be completed by consultants wishing to propose FCCM. This section shows the amounts used in the calculation to determine the allowable FCCM, which is an allowable overhead expense item for WisDOT. The FCCM amount is displayed as a separate line item on the Schedule of Indirect Costs. Interest rates published by the US Treasury, can be obtained at the WisDOT web page at: <http://wisconsindot.gov/Pages/doing-bus/eng-consultants/cnslt-rgistr/money.aspx>.

The Facilities Capital Cost of Money calculation should include the net book value (cost minus accumulated depreciation) of tangible capital assets owned by the firm, excluding investment property. Intangible assets are not allowable in the calculation. Examples of intangible assets are: goodwill, brand recognition, patents, trademarks, etc.

**PART 3E – Related Party Rent Calculation** **– Form** [**DT1865-3E**](http://wisconsindot.gov/Documents/formdocs/dt1865-3e.xlsx)

This section should be completed only by consultants who lease facilities or other assets from a related party.
This calculation shows the amounts used in the calculation to determine the allowable Related Party Rent.

Related party rent expenses are limited to normal costs of ownership which would include for example: property tax, insurance, maintenance, current depreciation, and FCCM, provided that no part of such costs duplicate any other allowable overhead cost.

**Interest/mortgage expense are not eligible to be included in the calculation.**

CONSULTANT FINANCIAL REPORT (CFR) *(continued)* INSTRUCTIONS

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AASHTO / CONSULTANTS SUPPORTING DOCUMENTATION *(Consultant Supplied)*

*Prepare and attach the following.*

# General Purpose Financial Statements

This section requires the consultant to include financial statements (Profit and Loss Statement, Balance Sheet, and Statement of Cash Flows) with the reporting package. If a CPA financial audit has been performed, the audited statements should be submitted. Compiled financial statements should be submitted when a full audit has not been performed.
In some cases, the financial statements will simply be internally prepared documents.

In situations where the consultants are operating as subsidiaries or divisions of larger companies, and the proposed indirect cost schedule represents a subsidiary or division, additional schedules and/or reconciliations must be provided
to show the tie-in to the parent company audited financial statements

# Reconciliation of Schedule of Indirect Cost to Financial Statements

A reconciliation of expenses from the Schedule of Indirect Cost to the Financial Statement expense amounts ***must be prepared*** in order to show a clear audit trail for expense amounts. The reconciliation generally includes detailed expense amounts shown in the Trial Balance in order to ***show how sub-accounts are combined on the proposed schedule of indirect costs.***

# Compensation Analysis

***The compensation analysis must be submitted by ALL firms with the CFR packet.***

A compensation analysis for determining reasonableness for senior executive compensation FAR Part 31.205-6(p), and for other owners and executives in closely held organizations FAR Part 31.20-6 (b) must be prepared by the consultant in accordance with the AASHTO Audit Guide Chapter 7.5. The analysis should include an explanation of the method and surveys used in preparing.

* For Corporations, including Sub Chapter S Corporations and limited liability entities taxed as Sub Chapter S Corporations, executive compensation is limited to the amount of compensation recognized and recorded by the firm on their books and Financial Statements up to what is allowed and reasonable per the compensation analysis.
* For firms organized as Sole Proprietorships and Partnerships for tax purposes, the firm must disclose the compensation levels of their executives and how it was determined. This should be reported for the current CFR year and for the next fiscal year. Firms organized under both types of tax entities must also prepare a compensation analysis to demonstrate that the claimed executive compensation is reasonable. Sole proprietorships and partnerships must also prepare memorandum records to track and distribute proprietor’s labor between direct and indirect cost objectives. The Department will review for reasonableness of compensation similar to Corporations. The Department will no longer be approving advanced agreements.
* The compensation analysis must disclose and remove all unallowable compensation per FAR Part 31.205-6 such as profit distributions made to owners based on corporate bylaws or operating agreements, general marketing labor, and personal use of company vehicles. In addition, if material, all associated labor costs (payroll taxes) to unallowable labor should be removed.
* The compensation analysis should include a schedule listing all allowable components of compensation for each individual and the amount paid for each. Compensation includes wages, salary, taxable fringe benefits, bonuses, incentive compensation, deferred compensation, and employer contributions to defined contribution pension plans.
* If the compensation analysis limited compensation for executives and proprietors the consultant should disclose how the limits were applied on the schedule of indirect costs.
* If the National Compensation Matrix (NCM) is used to support reasonableness of compensation in the Consultant’s analysis, the NCM has a template that may be used. <https://audit.transportation.org/>
* If a consultant prepares their own compensation analysis, the surveys and methods used must be disclosed.