



SERIES: Preparing for Public Projects w/The
Interstate Bridge

INDIRECT COST RATES & THE SAFE HARBOR PROGRAM



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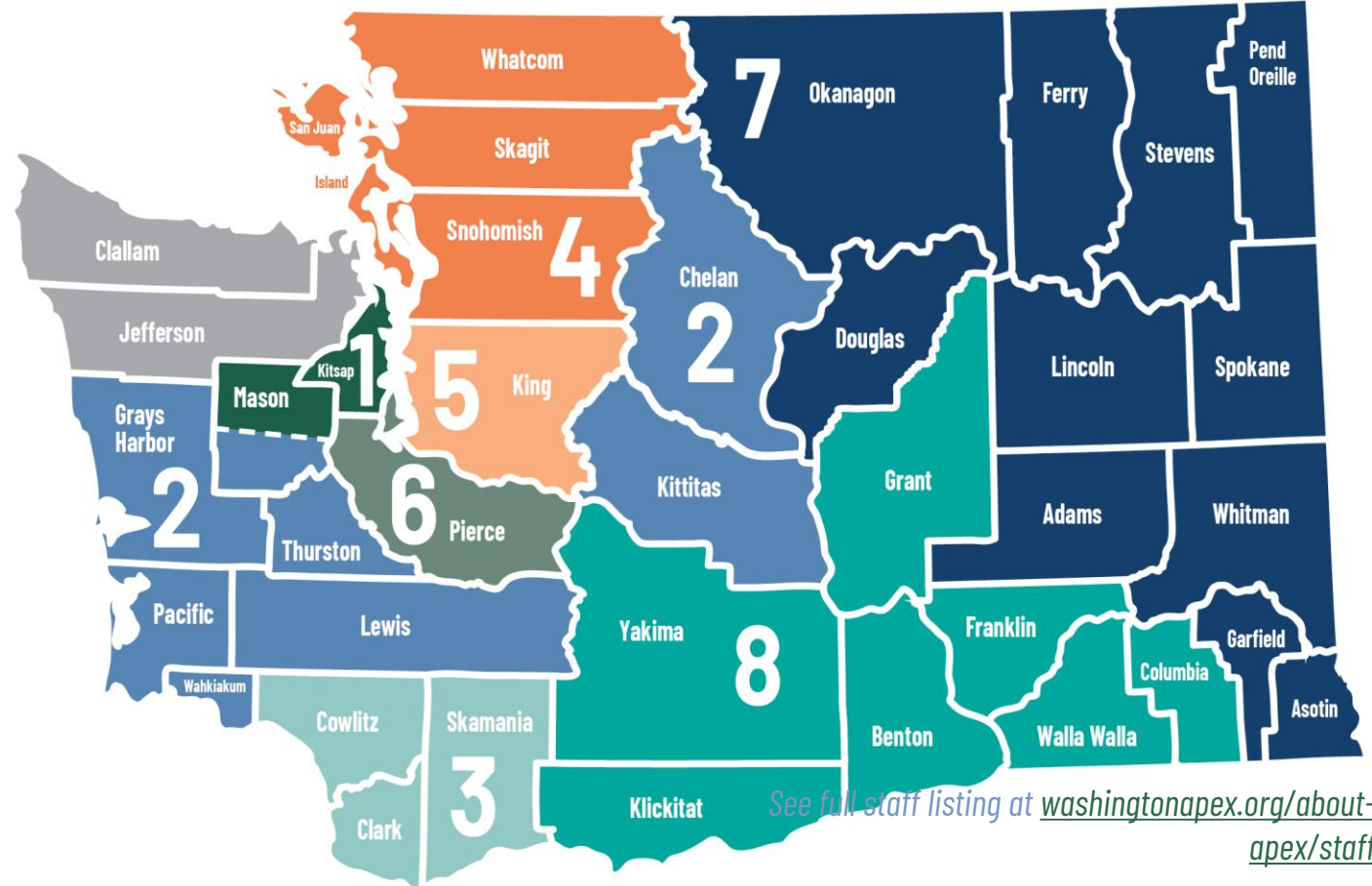
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FORMERLY GCAP

WSDOT Internal Audit

Indirect Cost Rate Reviews and The Safe Harbor Program

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Safe Harbor Program Manager



July 23, 2024

Internal Audit Office (IAO) Role

- The Internal Audit Office Mission

To enhance WSDOT's success by providing risk-based and objective assurance, and advice

- Internal Audit Office Services

- Internal audits and consulting engagements
- Internal investigations
- Audits of agreements and contracts with external service providers such as consultants
- Indirect Cost Rate (ICR) reviews
- Safe Harbor Program
- Others

- Your interaction with us will primarily consist of

- Getting your ICR Approved
- Joining the Safe Harbor Program, or
- Participating in an invoice review or audit

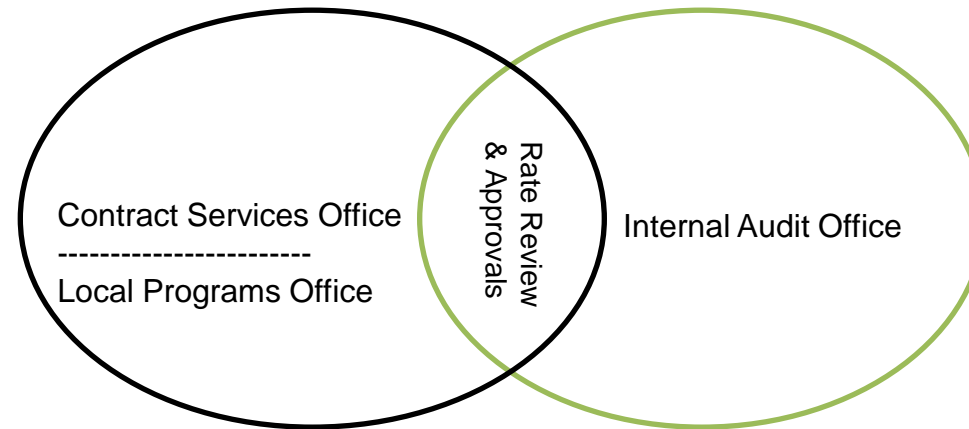
A/E Consultant Agreements

- A/E agreements through Qualifications Based Selection (QBS) under federal law (Brooks Act 1972)
- Under QBS price is not used as selection criterion
- A/E agreements require approved rates for prime and subconsultants
- Rates for A/E agreements are administered under Federal Acquisition Regulations (FAR ¹)

¹ 48 CFR Part 31

Billing Rate Approval

- 3 separate rate types approved for A/E agreements
 - Direct labor rates (reviewed by Contract Services Office)
 - Indirect Cost Rate (ICR) (reviewed by IAO)
 - Fixed Fee (approved by CSO)



Billing Rate Calculation



Example:	Raw Labor Rate	ICR OH Rate (120%)	Fee (30%)	=	Billing Rate
	\$45.00	\$54.00	\$13.50		\$112.50

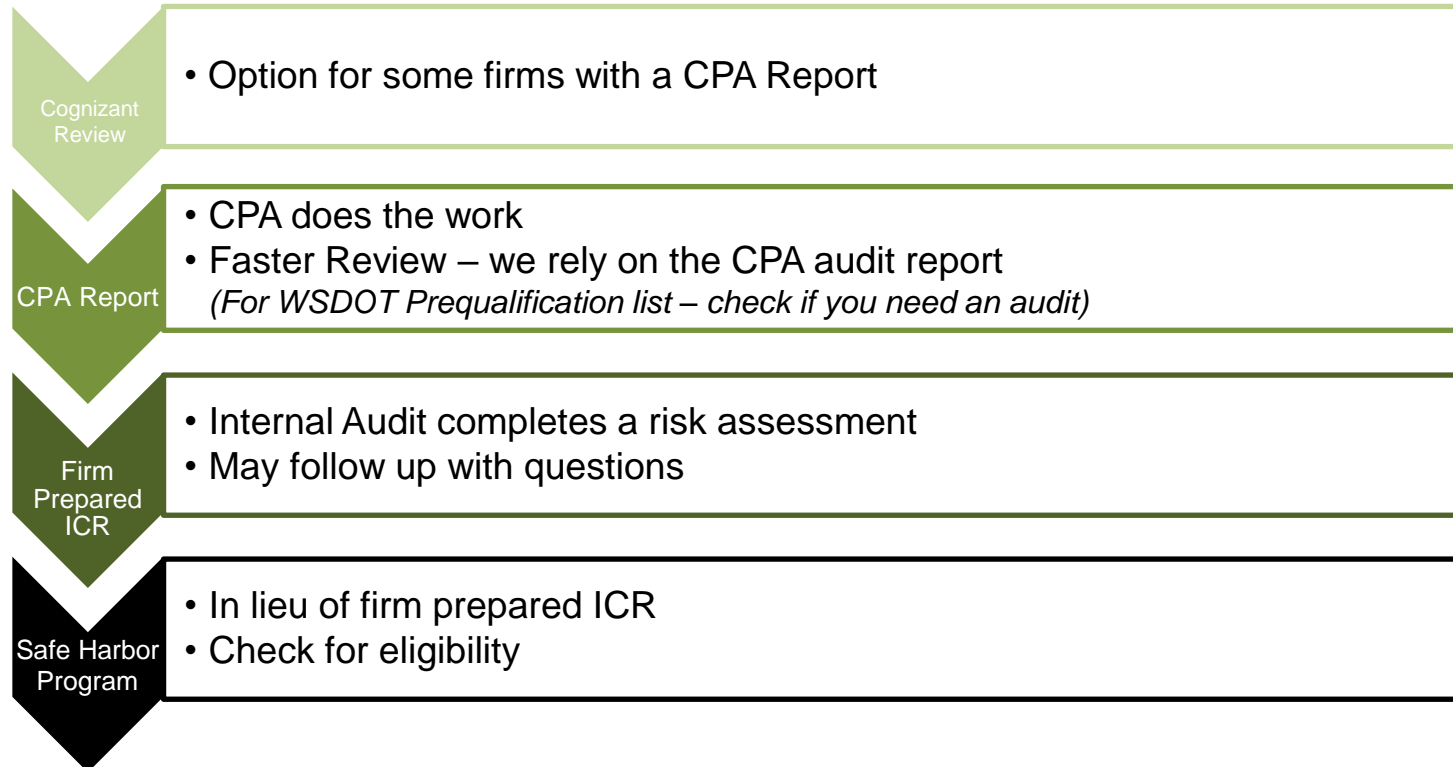
Raw Labor Rate – the rate is supported by payroll records or owner draws in some instances. For small/new firms who do not have an established payroll this may be negotiated during contracting.

Overhead Rate (Indirect Cost Rate) – This is calculated by multiplying the raw labor rate by 120%.

Fee (profit) – This is negotiable; it is part of contract negotiations. The amount is calculated by multiplying the raw labor rate by the fee percentage.

Billing Rate – This is the hourly rate billed on the invoice. This is Calculated by adding the raw labor rate, overhead rate (ICR) and fee.

Indirect Cost Rate (ICR) Review Options



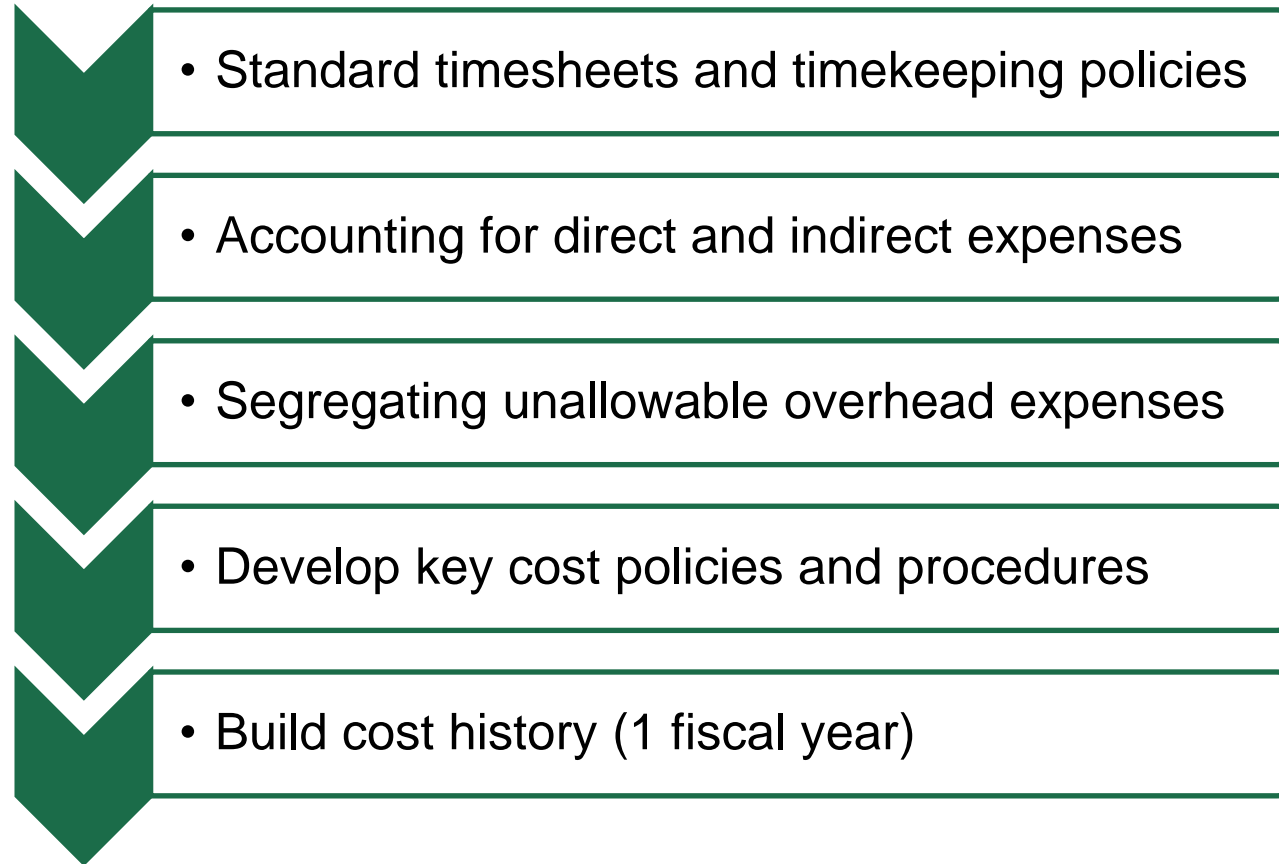
FAR Compliant??? What's That?

- Federal Acquisition Regulation (FAR) compliance, means your firm has:
 - Proper determination of direct and indirect costs
 - The capacity to track costs by project
 - An accounting system that tracks allowable and unallowable costs
 - A labor charging/ time keeping system
- The *Safe Harbor* Program can help

Safe Harbor Program

- Approved by FHWA's Washington Division for WSDOT to use indefinitely.
- Useful for:
 - Firms new to contracting with the government
 - Firms who have never had a FAR-compliant rate on a government contract
 - Firms wanting to develop an indirect cost rate
- Provides two default Indirect Cost Rates, a Home Rate of 120% and Field Rate of 90%.
- The Safe Harbor Rates are not subject to audit; however, your billed labor and other expenses on invoices are subject to audit.
- Allows a firm time to develop an indirect cost rate in accordance with the FAR.

Pathway to Indirect Cost Rate



XYZ, Inc.						
Indirect Cost Rate Schedule						
For the Year Ended December 31, 2018						
Description	Financial Statement Amount	XYZ Adj.	WSDOT Adj.	Ref.	Accepted Amount	%
Direct Labor	\$1,935,460				\$1,935,460	100.00%
Indirect Costs:						
Fringe Benefits						
PTO	\$261,686				\$261,686	13.52%
Incentive Bonus	34,000	(\$5,000)		M	29,000	1.50%
Payroll Taxes	268,901	(655,049)		N	(386,148)	-19.95%
Health Insurance	311,230				311,230	16.08%
Workers' Comp. Insurance	65,987				65,987	3.41%
Profit Sharing (401-K)	117,850				117,850	6.09%
Total Fringe Benefits	\$1,059,654	(\$660,049)	\$0		\$399,605	20.65%
General Overhead						
Administrative Labor	\$677,411	(\$225,450)		A	\$451,961	23.35%
Bid & Proposal Labor	290,319				290,319	15.00%
Direct Selling Labor	96,773				96,773	5.00%
Labor Variance (Uncomp OT)	(93,625)				(93,625)	-4.84%
PR and Advertising Labor	65,454	(65,454)		I	0	0.00%
Bank Service Charges	1,269				1,269	0.07%
Business Insurance	97,664				97,664	5.05%
Business Taxes	202,559	(3,259)		B	199,300	10.30%
Charitable Contributions	3,326	(3,326)		C	0	0.00%
Interest Expense	42,473	(42,473)		D	0	0.00%
Business Licenses and Permits	3,940				3,940	0.20%
Membership & Dues	15,803	(252)		E	15,551	0.80%
Equipment Lease	14,752				14,752	0.76%
Rent Expense	444,326	(24,612)		F	419,714	21.69%
Subscriptions& Publications	781				781	0.04%
Telephone & DSL	24,711				24,711	1.28%
Computer Expenses	156,108				156,108	8.07%
Professional Fees (non-market)	243,308	(8,993)		J	234,315	12.11%
Marketing - General	178,425	(178,425)		L	0	0.00%
Office Supplies	27,395				27,395	1.42%
Total General Overhead	\$2,521,290	(\$571,816)	\$0		\$1,949,474	100.72%
Total Indirect Costs & Overhead	\$3,580,944	(\$1,231,865)	\$0		\$2,349,079	121.37%
Indirect Cost Rate	185.02%	121.37%			121.37%	

Indirect Cost Rate (ICR) Schedule

After completing the Pathway to an Indirect Cost Rate, your accounting system will provide the information to calculate an indirect cost rate based on actual costs.

Example available on our website.

Documents Required for Indirect Cost Rate Reviews

- Firm Prepared Schedules (unaudited)
 - Consultant Information Sheet¹
 - Indirect Cost Rate Schedule (in Excel)
 - Financial Statements (Profit & Loss and Balance Sheet)
 - Payroll Summary
 - Labor Distribution Report (aka Staff Utilization Report)²
 - Labor Reconciliation²
 - Signed Certification of Final Indirect Costs
- Not Required but helpful
 - Cost Disclosure Questionnaire¹

¹ Available on our website.

² Example available on our website.

Frequent Questions

- Who is eligible for Safe Harbor?
 - Firms who have not certified to having a FAR compliant indirect cost rate.
- If I sign up for Safe Harbor, do I have to wait 3 years to submit for my own rate?
 - No, a firm can submit for a rate based on actual expenses as soon as they have an indirect cost rate schedule that is FAR compliant, and they can produce the supporting documents.
- Is an audit required to graduate from the Safe Harbor program?
 - No. A CPA Audit for an ICR is only required as part of the Prequalification process (not for every WSDOT A/E agreement), and the threshold is driven by prior year authorizations. To obtain a Master Pricing Agreement, firms must meet the following audit requirement:
 - Firms with total authorizations from WSDOT agreements (as prime and/or sub-consultant) of \$1 million or more in the previous calendar year must have an audited indirect cost rate schedule.

Frequent Questions

- What is the difference between an Indirect Cost Rate review and Indirect Cost Rate audit?
 - ICR reviews are an independent and objective service that we provide to assist WSDOT Management in the negotiation process. This is not an audit. Our risk assessment process determines the depth of each review. The ICR review is an interactive process, and we rely on data and information provided by the consultant to determine if the costs are reasonable and allowable.
 - An audit of your ICR is typically conducted by a CPA firm. An Audit is a formal examination, in accordance with professional standards, of accounting systems, incurred cost records, and other cost presentations to verify their reasonableness, allowability, and allocability for negotiating agreement fees and for determining allowable costs to be charged to government contracts.

Frequent Questions

- How to prepare for an indirect cost rate review?
 - Plan ahead – the indirect cost rate is based on the most recently closed fiscal year. Identifying the information required and setting up the accounting system to easily provide that information will make the review a much easier process.
 - Review the FAR and identify expenses that need to be removed from the reimbursable costs in the indirect cost rate schedule. Tracking the expenses that are not allowed for reimbursement per FAR at the point of entry will make it easier to identify them at the end of the year when you prepare the ICR schedule.
 - Labor reconciliations – we recommend firms reconcile labor monthly. Any variances are easier to detect and correct after a month rather than a year.
 - Consult our website for training and guidance.

Guidance available on WSDOT Internal Audit Webpage

<https://wsdot.wa.gov/business-wsdot/audit>

Interpretive Guidance Documents

- Airfare
- Auto
- Bonus
- Labor
- Meals
- Selling Labor

Training Videos

- Components of an ICR Schedule
- Process to create an ICR schedule
- Labor components of the ICR
- Numbers on the ICR Schedule
- Labor reconciliation
- Common adjustments

Forms, Templates, and Examples

- Timesheet Example
- Labor Transfer Form Example
- Balance Sheet Example
- P&L Example
- Facilities Capital Cost of Money Worksheet
- Vehicle Cost Template
- Common Control Worksheet
- Indirect Cost Rate Schedule Example
- Labor Distribution Report Example
- Uncompensated Overtime Worksheet
- Consultant Information Sheet
- Cost Disclosure Questionnaire
- Certification of Final Indirect Costs

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Indirect Cost Rate Workshop:

Preparing for Public Projects w/The Interstate Bridge

PRESENTED FOR APEX ACCELERATOR JULY 23, 2024

BY DIANA STRASSMAIER, CPA, CCIFP®

About Your Presenter



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Partner

Architecture + Engineering Services

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I joined Aldrich CPAs + Advisors in 2018 with almost two decades of experience serving members of various industries, including construction, engineering and architecture, manufacturing and distribution, and government contracting. As a certified teacher for the National Highway Institute, I teach FAR compliance and overhead auditing across the country. As an expert on conducting overhead audits, I work closely with government contracting industry clients to offer clarity on how overhead rates work and help them understand compensation. I provide financial statement audits, reviews, and compilations, perform staff training on compliance with the FAR, assist with tax planning for businesses and individuals, and offer advice on management techniques and accounting systems.

Agenda as Learning Objectives

1

Understand

what an indirect cost rate is and how it is used

2

Learn

what it means to graduate from the safe harbor program

3

Learn

the steps to determine your indirect cost rate

4

Gain

comfort with ANTE tables

1

WHAT IS AN INDIRECT COST RATE

+ HOW IS IT USED?

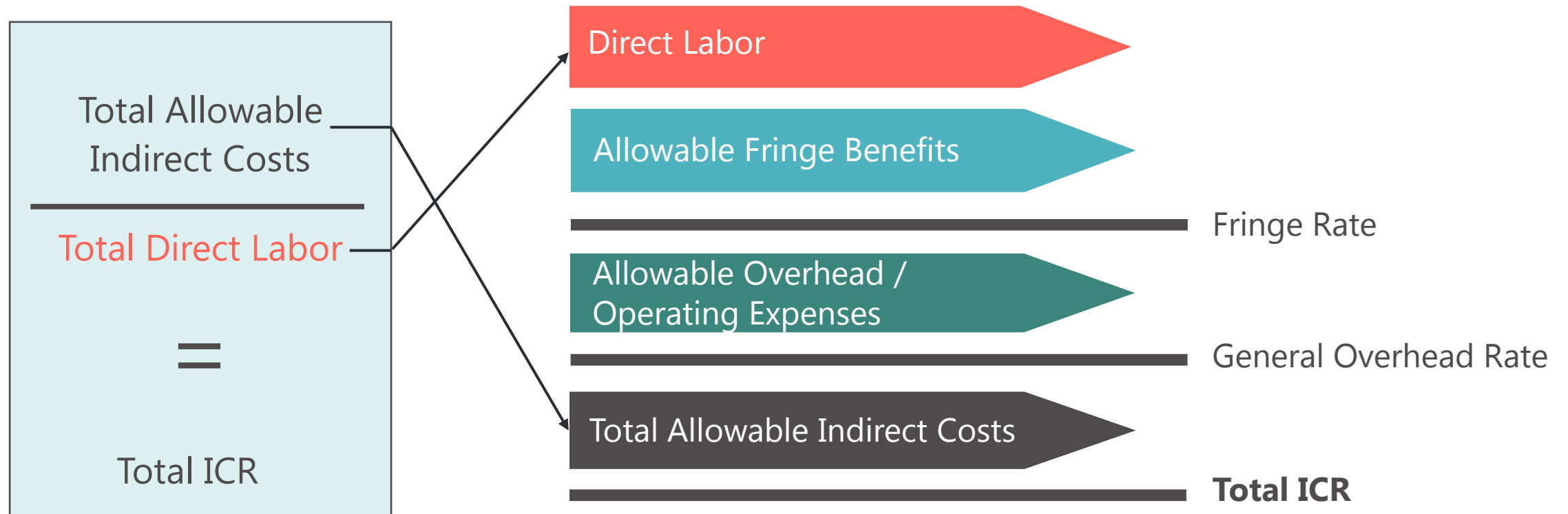
Indirect Cost Rate (ICR) Components

Subset of Profit and Loss Statement

- Numerator = Total Allowable Indirect Costs
- Denominator = Total Direct Labor

Presented as a percentage (generally to nearest hundredth)

State/Local ICR Calculation vs. Schedule Breakdown



Sample State/Local ICR Schedule

Any Company Engineering, Inc.
12/31/20XX

	Total	Unallowable Amount	Allowable Total
Direct Labor	\$ 1,100,000		\$ 1,100,000
Fringe Benefits:			
Bonuses	200,000	70,000	130,000
Health Insurance	100,000		100,000
Paid Time Off	150,000		150,000
Payroll Taxes	170,000		170,000
Retirement Plan Contribution	50,000		50,000
Training and Education	-		-
Workers' Compensation Insurance	30,000		30,000
Other Fringes	25,000	15,000	10,000
Total Fringe Benefits	\$ 725,000	\$ 85,000	\$ 640,000
Fringe Rate			58.18%
General Overhead:			
Indirect Labor	439,000		439,000
Advertising (unallowable)	5,000	5,000	-
Bad Debt Expense (unallowable)	15,000	15,000	-
Bid and Proposal Costs	30,000		30,000
Business Insurance	10,000		10,000
Depreciation	36,000		36,000
Direct Selling	40,000		40,000
Dues and Subscriptions	5,000	2,000	3,000
Entertainment and Meals (unallowable)	25,000	25,000	-
Federal and Deferred Income Tax Provision (unallowable)	5,000	5,000	-
Field Expenses	10,000		10,000
Interest Expense (unallowable)	15,000	15,000	-
Licenses	5,000		5,000
Meals - Allowable	12,000		12,000
Office Expenses	100,000		100,000
Professional Fees	50,000		50,000
Rent	200,000		200,000
Other Allowable Expenses	75,000		75,000
Other Unallowable Expenses	75,000	75,000	-
Total General Overhead	\$ 1,152,000	\$ 142,000	\$ 1,010,000
General Overhead Rate			91.82%
Total Indirect Costs	\$ 1,877,000	\$ 227,000	\$ 1,650,000
Total Overhead Rate (Indirect Cost Rate)			150.00%

FCCM

How is the Indirect Cost Rate Used?



PURPOSE: TO COVER
ALLOWABLE COSTS INCURRED
ALLOCATED EQUITABLY AMONG
ALL DIRECT LABOR



ESTIMATING USE: TO
DETERMINE BUDGET/ESTIMATE



BILLING USE: TO INVOICE AND
BE REIMBURSED FOR ALL
ALLOWABLE COSTS



RECOVERY USE: TO EVALUATE
ACTUAL MULTIPLIER BILLED VS.
EFFECTIVE MULTIPLIER

Estimate Use Example

Sample Estimate:			
Employee	Pay Rate	hours	dollars
Engineer 1	\$ 30.00	2000	\$ 60,000.00
Engineer 2	\$ 35.00	4000	140,000.00
Engineer 3	\$ 45.00	3000	135,000.00
Project Manager	\$ 100.00	500	50,000.00
Total Labor			\$ 385,000.00 A
	Overhead Rate	146.45%	563,832.50
	Total Cost		948,832.50
	Profit	10.00%	94,883.25
Other Direct Cost			
Travel			5,000.00 B
	Total Estimate		\$ 1,048,715.75 C

Actual Multiplier

2.71 (C-B)/A

Sample invoice:

Employee	Pay Rate	hours	dollars
Suzi Smith	\$ 100.00	50	\$ 5,000.00
	Overhead Rate	146.45%	7,322.50
		total	12,322.50
	Profit	10.00%	1,232.25
	Total Invoice		<u>13,554.75</u>

Billing
Use
Example

2

**GRADUATING FROM THE
SAFE HARBOR PROGRAM LIKE**



After Graduating ... 2 Options

1. Self Submitted ICR

- Your business calculates and submits your ICR without an external audit
- Best for smaller businesses or those with less complexity
- Optimal if allowed (under audit threshold)
- **Pros:** cost-effective, timely, simplified process
- **Cons:** increased risk

2. Externally Audited ICR

- Your business calculates your ICR, and an external auditor audits your ICR
- Best for larger businesses or those with more complexity
- May be required if over audit threshold
- **Pros:** more credibility, reduced risk, 3rd party oversight
- **Cons:** higher cost, time-consuming

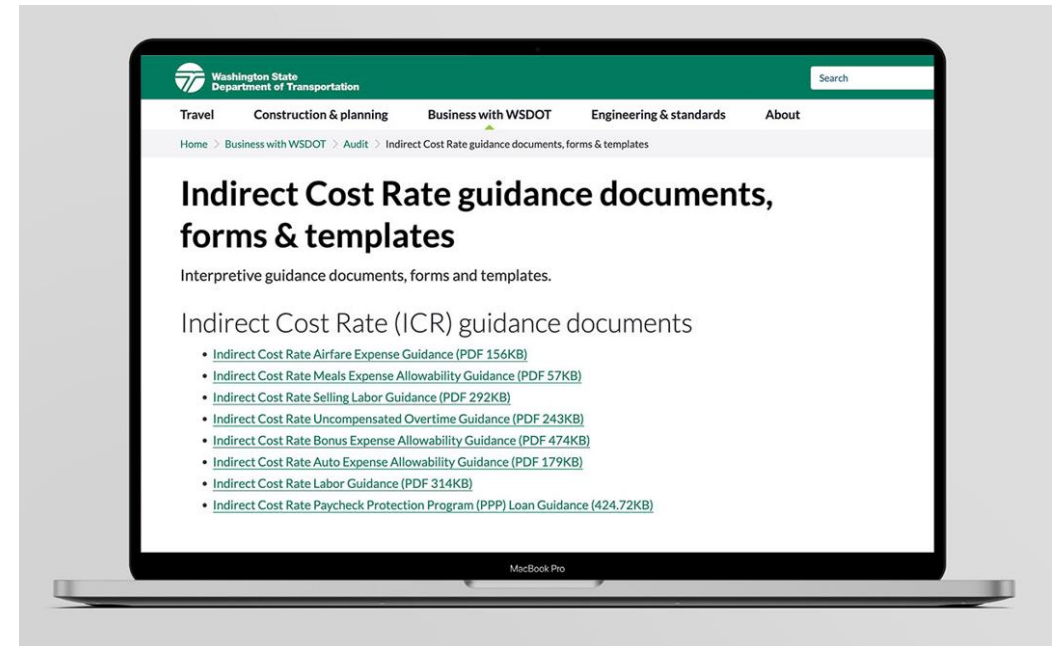
1. ICR Submission Process: Self Submitted (WSDOT)

- **Prepare** ICR in Excel
- **Provide** Financial Statements (e.g., Balance Sheet, Income Statement/Profit and Loss Statements)
- **Provide** Payroll Reports (941s and year-end payroll register by employee)
- **Provide** Labor Distribution Detail Report
- Make sure reports reconcile to the financial statements or provide reconciling schedules where they do not tie
- **Provide** Certificate of Indirect Cost
- **Provide** Information Sheet



1. Self Submitted, Continued

- Additional information may be requested
- Find samples and forms at <https://wsdot.wa.gov/business-wsdot/audit/indirect-cost-rate-guidance-documents-forms-templates>
- Submit to: ConsultantRates@WSDOT.WA.GOV if new, or to your Agreement Compliance Audit Services Manager for annual updates.
- May need to provide CDQ or ICQ
- May need to provide compensation analysis
- <https://wsdot.wa.gov/business-wsdot/audit/indirect-cost-rate-review-process>



1. Preparing for Self Submission to WSDOT

- Ensure no arithmetic errors on schedule
- Have written policies for expenses, receipt requirements, approval processes, billing, unallowable costs, etc.
- Have supporting documentation for expenses (e.g., receipts/invoices, approval, business purpose identified)
- Confirm all items on schedule are reconciled to books and records
- Understand items on schedule and what is allowable vs. unallowable to remove unallowable costs before they are questioned
- If unsure of allowability, consult with an expert, view WSDOT training videos, ask WSDOT audit team, and/or read Part 31 of the Federal Acquisition Regulation (FAR)

What Does an Audit Provide and Who is Responsible for the ICR with an Audit?

- Audit provides **reasonable** assurance ICR is not materially misstated
- NOT ABSOLUTE ASSURANCE
- Management bears responsibility for ICR

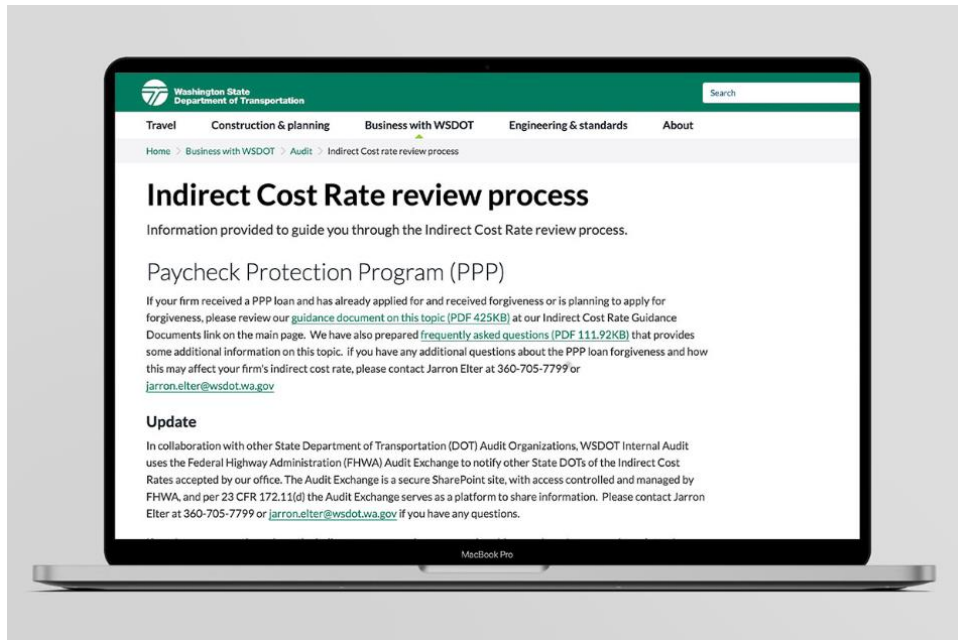
2. ICR Submission Process: Audited Rate (WSDOT)



Provide:

- Complete audit report
- Certificate of Indirect Cost ([Forms and Templates](#))
- Rate approval from another State DOT (if applicable)
- Consultant information sheet ([Forms and Templates](#))
- AASHTO Internal Control Questionnaire (ICQ)
- Note: Additional information may be requested

2. Audited Rate, Continued



- Find samples and forms at <https://wsdot.wa.gov/business-wsdot/audit/indirect-cost-rate-guidance-documents-forms-templates>
- Submit to: ConsultantRates@WSDOT.WA.GOV if new; or to your Agreement Compliance Audit Services Manager for annual updates.
- <https://wsdot.wa.gov/business-wsdot/audit/indirect-cost-rate-review-process>

3



Establishing an Indirect Cost Rate

Accounting System to Properly Capture Costs

Timekeeping System to Capture Time

Job Costing System to Capture Costs by
Project and to Translate Labor Hours to Labor
Dollars

Payroll System to Pay Employees and Comply
with Laws

Steps to Determine Your Indirect Cost Rate



- Tie to Profit + Loss Statement

- Tie to Profit + Loss Statement

- Use FAR Part 31 to learn what is and is not allowable

- Subtract Unallowable Indirect Costs from Total Indirect Costs = "Allowable Indirect Costs"

- Divide Allowable Indirect Costs by Total Direct Labor Cost = Indirect Cost Rate

Visualizing the Steps

Any Company Engineering, Inc. Profit and Loss Statement Year Ended 12/31/20XX			
Revenues		\$ 3,031,000	
Cost of Revenues			
Direct Labor		1,100,000	
Other Direct Costs		50,000	
Total Cost of Revenues		<u>1,150,000</u>	
Gross Profit		<u>1,881,000</u>	
Operating Expenses			
Bonuses	200,000		
Health Insurance	100,000		
Paid Time Off	150,000		
Payroll Taxes	170,000		
Retirement Plan Contribution	50,000		
Workers' Compensation Insurance	30,000		
Other Fringes	25,000		
Indirect Labor	400,000		
Advertising (unallowable)	5,000		
Bad Debt Expense (unallowable)	15,000		
Bid and Proposal Costs	30,000		
Business Insurance	10,000		
Depreciation	36,000		
Direct Selling	40,000		
Dues and Subscriptions	5,000		
Entertainment and Meals (unallowable)	25,000		
Field Expenses	10,000		
Licenses	5,000		
Meals - Allowable	12,000		
Office Expenses	100,000		
Professional Fees	50,000		
Rent	200,000		
Other Allowable Expenses	75,000		
Other Unallowable Expenses	75,000		
Total Operating Expenses		<u>1,818,000</u>	
Total Operating Income		<u>63,000</u>	
Other Income (Expense)			
Interest Expense		(15,000)	
Interest Income		5,000	
Net Other Expense		<u>(10,000)</u>	
Net Income Before Taxes		53,000	
Provision for Income Taxes		<u>5,000</u>	
Net Income		<u>\$ 48,000</u>	

Direct Labor	<u>1,100,000</u>	A
Total Indirect Costs	1,838,000	
Unallowable Indirect Costs	<u>(227,000)</u>	
Total Allowable Indirect Costs	<u>1,611,000</u>	B
Total Indirect Cost Rate	146.45%	B/A

What Factors Affect the Indirect Cost Rate?

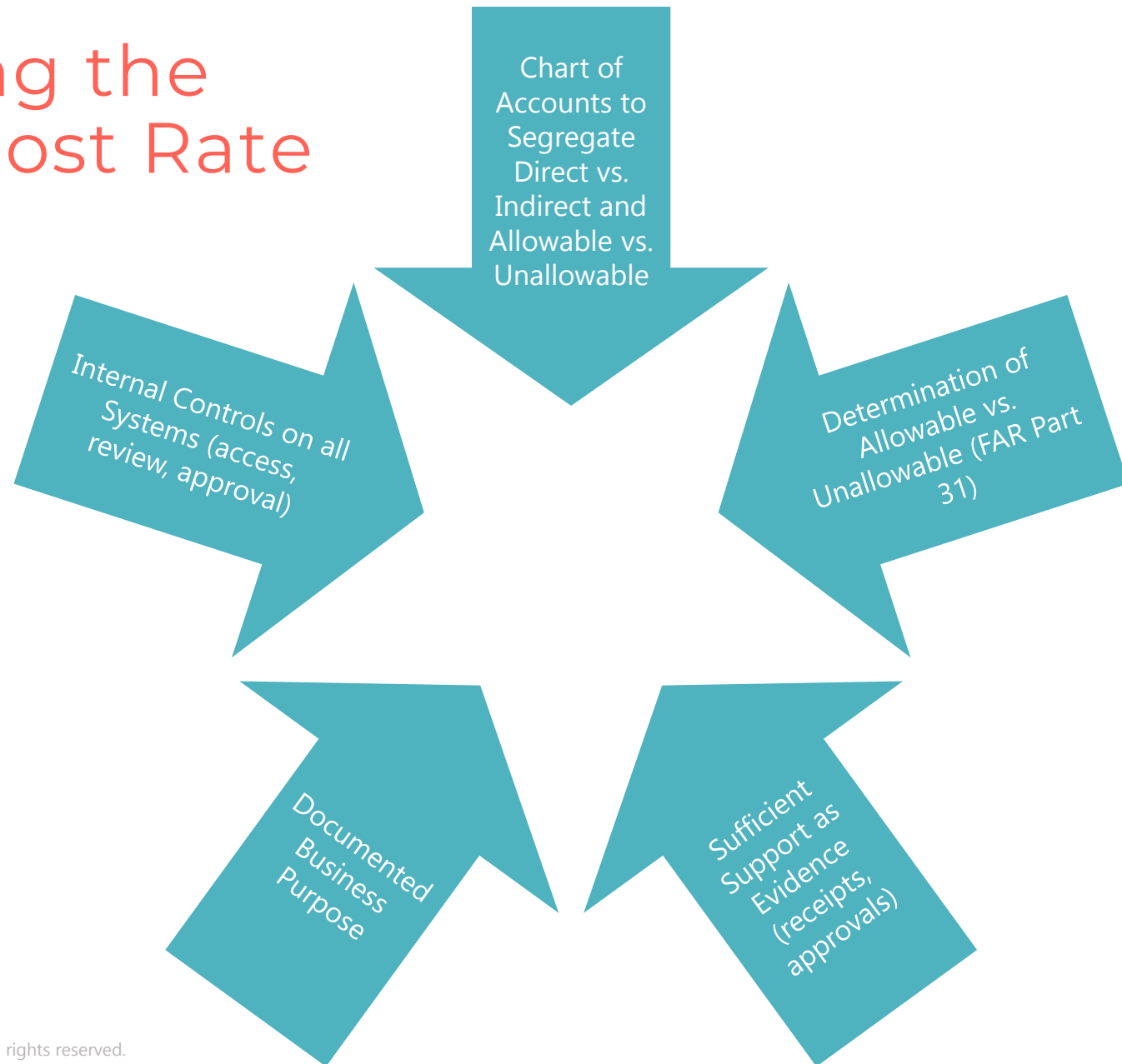
Utilization: Proportion of Direct Labor to Total Labor: Higher Direct Labor = Lower Indirect Cost Rate

Fringes Offered: less = Lower Indirect Cost Rate

Fixed Expenses: less = Lower Indirect Cost Rate

Unallowable Expenses: more = Lower Indirect Cost Rate (and comes out of profit)

Supporting the Indirect Cost Rate



Why It's Important to Know Your Rate



MAKING BUSINESS
DECISIONS



COVER COSTS



ESTIMATING

4



(just kidding)

ANTE Tables 101



ANTE = "Actual Not To Exceed," often referred to as simply "ANTE"



Used for cost estimation and budgeting for transportation projects



Establishes the allowable billing rates for primes and for subs



Used with safe-harbor, internally prepared, or audited rates



<https://wsdot.wa.gov/sites/default/files/2023-04/ANTE-Information.pdf>

ANTE Table Components

1

Job Classification

2

Direct Labor Hourly Rate NTE (Not To Exceed)

3

ICR

4

Fixed Fee

1. Job Classification

- Project specific, based on budget and hours estimate
- Consistent for all WSDOT agreements
- Any changes (adding/deleting) during annual period considered on case-by-case basis
- Example:

Job Classification	Direct Labor Hourly Rate NTE (A)	ICR (120%, Safe Harbor %) (A) x 120% = (B)	Fixed Fee (30%) (A) x 30% = (C)	-All-Inclusive Hourly Billing Rate NTE (A) + (B) + (C)
Engineer 1	\$45	\$54	\$13.50	\$112.50

2. Direct Labor NTE

- Employee's actual labor rate = starting point for negotiating the billed labor rate, up to NTE for job classification used
- Proposals may estimate total labor using average wage rates, but actual services billed using employee's actual payroll rate

Job Classification	Direct Labor Hourly Rate NTE	ICR (120%, Safe Harbor %)	Fixed Fee (30%)	-All-Inclusive Hourly Billing Rate NTE
Engineer 1	\$45	\$54	\$13.50	\$112.50

3. ICR Establishment/Update

- Internal Audit Office (IAO) reviews and approves ICR schedule for compliance with the FAR
- Depending on payment provision of agreement, may update ICR annually
- Required to submit a yearly ICR package to Consultant Services Offices (CSO) for review and approval within 180 days of fiscal year end

Job Classification	Direct Labor Hourly Rate NTE	ICR (120%, Safe Harbor %)	Fixed Fee (30%)	-All-Inclusive Hourly Billing Rate NTE
Engineer 1	\$45	\$54	\$13.50	\$112.50

4. Fixed Fee

- Negotiated profit/fixed fee as a percentage of direct labor
- Generally set for the life of the agreement
- Fee percentage determined using weighted guideline
- See Appendix AA of the Consultant Services Manual for how fixed fee is established

Job Classification	Direct Labor Hourly Rate NTE	ICR (120%, Safe Harbor %)	Fixed Fee (30%)	-All-Inclusive Hourly Billing Rate NTE
Engineer 1	\$45	\$54	\$13.50	\$112.50

Table Updates

- If update ICR/ANTE Table, can also verify listed job classifications
- Adding classifications to your ANTE requires support
- Consultant Services Office (CSO), before agreeing to an NTE increase, can review various factors (e.g., prevailing market rates and wages, employee cost index, and historical cost information)

Job Classification	Direct Labor Hourly Rate NTE	ICR (120%, Safe Harbor %)	Fixed Fee (30%)	-All-Inclusive Hourly Billing Rate NTE
Engineer 1	\$45	\$54	\$13.50	\$112.50

Resources

- AASHTO Audit Guide and other AASHTO resources: <https://audit.transportation.org/>
- FAR Part 31: <https://www.acquisition.gov/far/part-31>
- Washington DOT Audits: <https://wsdot.wa.gov/business-wsdot/audit>
- Your Presenter – Diana Strassmaier: dstrassmaier@aldrichadvisors.com

Questions?



Thank you.

This has been a part of our workshop series: Preparing for Public Projects w/The Interstate Bridge

OVERVIEW OF THE SERIES

This workshop series “Preparing for Public Projects w/The Interstate Bridge” and will focus on all things you need to know about preparing for your business’ taxes specifically with government contracting.

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- [OMWBE Certifications: Why They’re Important and How to Obtain Them](#)
- [Accounting Principals: Preparing for Government Contracting](#)
- [Finance: Expanding for Bigger Projects](#)
- [Taxes: Government Contract Closeout Procedures](#)
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