

ACCOUNTING SYSTEM REQUIREMENTS for PROFESSIONAL CONSULTANTS

The Office of Inspector General, Florida Department of Transportation, has prepared this “Primer” to illustrate and explain some required elements and capabilities of an acceptable Job Cost Accounting System. This Primer is primarily, but not exclusively, for the benefit of new Professional Services providers. In our illustrations we have given titles to the various forms and records; it is the information content of the records which is important, not the titles. Many Consultants utilize commercial accounting software packages to establish their accounting systems; all default titles are acceptable so long as the information requirements are met.

Background and Authority

Professional Consultants seeking to provide services to the Florida Department of Transportation must be prequalified annually in accordance with Florida Administrative Code (FAC), Chapter 14-75. Regardless of whether the Request for Qualification Package for Professional Consultants is the initial submission or an annual renewal, the package must include evidence the Consultant maintains an accounting system adequate to separate and accumulate direct and indirect costs and to support billings to the Department and other clients.

Most Consultants provide this assurance by submitting, as part of the qualification package, an audit prepared by an independent Certified Public Accountant containing certain specific and general statements and schedules (FAC 14-75.0022(c)1.). Consultants who do not have a current CPA audit, because they have not been in operation for a complete fiscal year or have recently reorganized, may submit estimates based on partial years or the best available unaudited information (FAC 14-75.0022(c)2.). The Department’s Office of Inspector General will either review the CPA’s statements or, absent an audit, will undertake a review of the Consultant’s accounting system.

All accounting systems must be capable of separating direct and indirect costs and segregating all costs associated with individual contracts entered with the Department. Unless the Consultant bills clients on a fee-for-service basis and maintains a published fee schedule, the association of costs with specific contracts requires the existence and operation of a “Job Cost Accounting System.” Professional Consultants billing clients based on labor-by-the-hour must maintain and operate a Job Cost Accounting System.

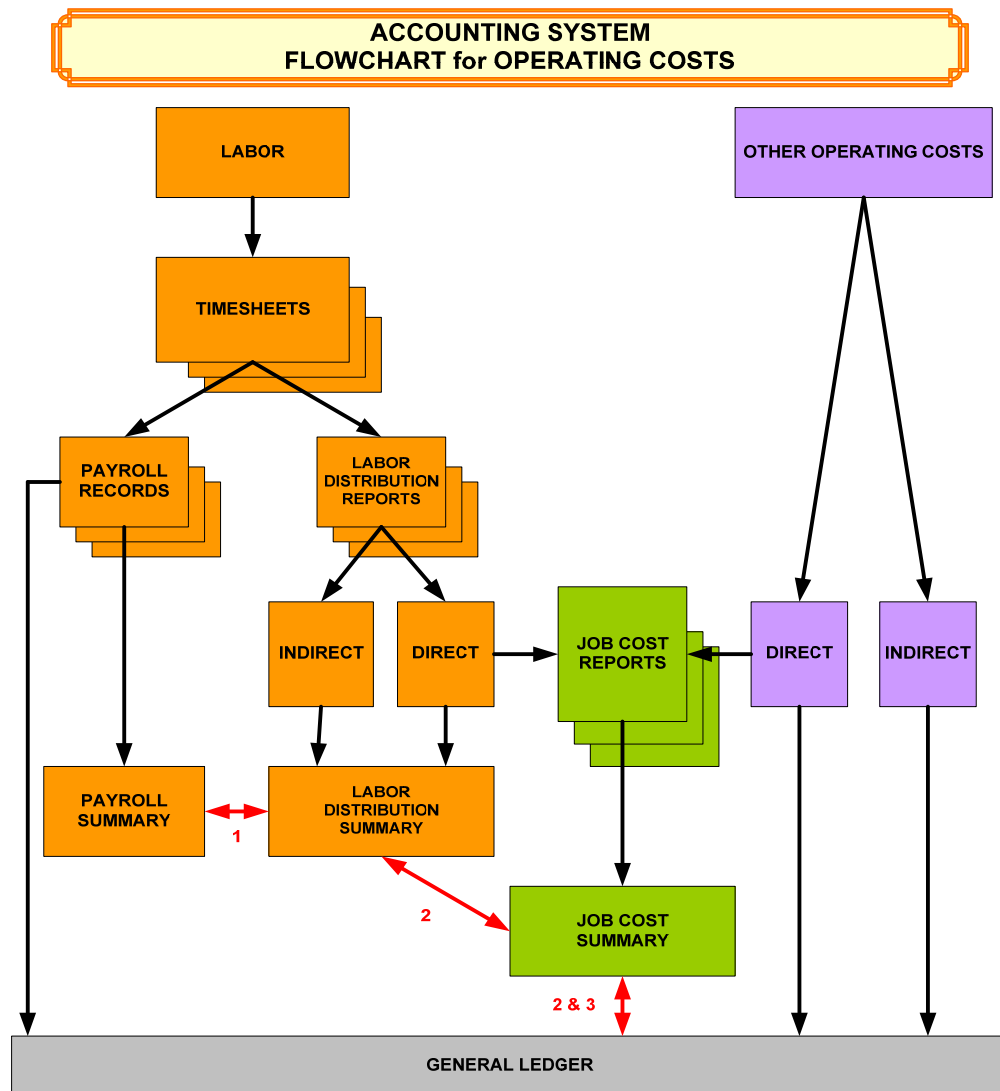
References

All Consultants and Certified Public Accountants preparing statements to be used by the Department should be familiar with FAC 14-75.0022 and the Department’s *Reimbursement Rate Audit Guidelines, 2005*, which are incorporated by reference into the Rule. Section 1 of the *Reimbursement Rate Audit Guidelines* contains specific Departmental requirements in addition to the general guidelines contained in the

American Association of State Highway and Transportation Officials (AASHTO), Uniform Audit and Accounting Guide, which is reprinted as Section 3 of the *Guidelines*.

Section 1 of the *Guidelines* includes Parts relating to “Accounting Systems and Procedures,” a separate Part discussing “New Consultants / Provisional Rates,” a Part explaining audit requirements, including the Department’s “Direct Expense Rate” and a Part discussing “Minor Projects / Self-Certifications.” This Primer will explain many of these requirements but cannot substitute for a direct familiarity with the materials in the *Reimbursement Rate Audit Guidelines, 2005*.

The following flowchart illustrates the flow of information and the records which must be maintained for the operating costs normally incurred by a professional services provider.



ESSENTIAL!! RECONCILIATION PROCEDURES:

1. Labor Distribution Summary Total equals Payroll Summary Total for labor
2. Direct labor on Labor Distribution Summary Report equals labor on Job Cost Summary Report which equals direct labor in General Ledger
3. Expenses on Job Cost Summary equals direct expense balances in the General Ledger

Time and Labor

The largest single cost element for a professional services provider will normally be labor. Tracking time, converting time charged to labor costs, and accounting for these costs are, therefore, major areas of concern for the Department. Establishment and maintenance of acceptable timesheets is required documentation for your accounting system. The following example incorporates the essential elements:

TIMESHEET

SMITH CONSTRUCTION, INC.

EMPLOYEE NAME: Bobby Baker

WEEK ENDING: 8/1/2002

| COST CENTER | PROJECT NUMBER | SAT. | SUN. | MON | TUE | WED | THU | FRI | TOTAL HOURS |
|---------------|----------------|----------|----------|----------|----------|----------|----------|----------|-------------|
| 01 | 10111 | 0 | 0 | 2 | 2 | 3 | 6 | 2 | 15 |
| 01 | 10112 | 0 | 1 | 3 | 3 | 0 | 2 | 3 | 12 |
| 01 | 99005 | 4 | 0 | 3 | 0 | 0 | 0 | 3 | 10 |
| 01 | 99015 | 0 | 0 | 0 | 3 | 5 | 0 | 0 | 8 |
| | | | | | | | | | 0 |
| | | | | | | | | | 0 |
| HOURS: | | 4 | 1 | 8 | 8 | 8 | 8 | 8 | 45 |

Employee Signature: _____

Date: _____

Supervisors Signature: _____

Date: _____

The illustration reflects a weekly pay period; the timesheets adopted for use in your business should correspond to the pay period you use. Timesheets must provide for the reporting of time worked directly on each individual project or contract and time not chargeable to any specific project or job. The “Project Number” column of this sample timesheet shows Bobby Baker, a “Home Office” employee (Cost Center 01), charged time to two direct jobs and two indirect “projects” for the pay period. This capability of separating direct costs from indirect costs is critical to the establishment and functioning of the required Job Cost Accounting System. Totals are shown by day and for each project, with a cross-checking grand total for the pay period. Finally, the sample timesheet provides for the dated signature of both the employee and the approving supervisor. Please note that although the timesheet shows 45 hours of labor were provided, the timesheet itself makes no effort to identify which hours or functions were responsible for the 5 hours of overtime; assignment or allocation of overtime hours will be discussed in later sections of this Primer.

Every pay period the timesheet for each individual must be posted to the accounting system. The costs associated with the hours posted must be retrievable and displayed in two separate reports: a Payroll Distribution Report, which, in our illustrations, provides the direct and indirect labor split to the General Ledger, and a Labor Distribution Report, which provides labor charges for individual projects or jobs needed to build Job Cost Reports.

The Personnel Register illustrated below contains a listing of employees together with their wage rates and withholding information.

| PERSONNEL REGISTER | | | | | |
|---------------------------|--------------------|------------------|-------------------|---------------------|---------------------|
| EMPLOYEE | COST CENTER | WAGE TYPE | LABOR RATE | PREMIUM RATE | W - 4 EXEMPT |
| Baker, Bobby | 01 | Hourly | \$ 10.00 | \$ 5.00 | 2 |
| Campos, Van | 01 | Hourly | \$ 11.00 | \$ 5.50 | 2 |
| Thrasher, John | 01 | Salary | \$ 500.00 | | 2 |
| Whigham, Wynn | 01 | Hourly | \$ 10.00 | \$ 5.00 | 2 |

Most firms use a Personnel Register which contains each employee’s service dates, insurance coverages, and other information relating to their status as an employee, in addition to their name, rate of pay, exemptions from the W-4, and status as an hourly or salaried employee. Firms using this type of Personnel Register, combine the information with information from the timesheet to produce a separate Payroll Distribution Report that shows hours, pay rate, gross wages, net pay, withholdings for all employees for the pay period, and the firm’s employment tax consequences associated with the employee’s labor. Some firms use a simplified Payroll Register which combines the Personnel Register and the Payroll Distribution Report. In the flowchart on page 2, we characterize all types of such records as “Payroll Records.”

The Personnel Register above shows four employees and their applicable wage rates. Information from timesheets for each employee, such as the timesheet for Bobby Baker shown on page 3, is combined with the Personnel Register information to produce the pay period Payroll Distribution Report shown on the next page. The Payroll Distribution Report shows the cost consequences of a single payroll cycle. Immediately below the pay period report is a cumulative Payroll Summary for the year.

For purposes of illustration, the Payroll Distribution Report shown categorizes the timesheet information into direct labor and indirect labor and shows different General Ledger account numbers for these accounts. The account numbering shown in our illustrations reflect conventional numbering designations: 1000 accounts for assets, 2000 accounts for liabilities, 3000 accounts for capital, 4000 accounts for revenue, 5000 accounts for direct costs or “Cost of Goods Sold,” and 6000 accounts for indirect expenses. Use of this or any other numbering plan is not required but can be very helpful in organizing the cost and financial information of a business entity.

The Payroll Distribution Report is the first opportunity to observe that Overtime Premium pay is a compensation account but it is NOT a labor account. Overtime Premium pay can be accumulated as direct or indirect operating costs (5010 or 6010). Each firm must decide how their accounting system will accumulate overtime premium costs; several options are discussed on page 9, later in this Primer.

| PAYROLL DISTRIBUTION REPORT | | | | | | | | | | | | | | | | |
|---------------------------------|---------------------------------|-------------|----------|------------|------------|----------|------------|---------------|----------|------------|--------------|----------|------------|-------------------|------|------------|
| Smith Construction, Inc. | | | | | | | | | | | | | | | | |
| Pay Period Ended August 1, 2002 | | | | | | | | | | | | | | | | |
| ACCT. | DESCRIPTION | Bobby Baker | | | Van Campos | | | John Thrasher | | | Wynn Whigham | | | TOTALS - 8/1/2002 | | |
| | | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD |
| 5001 | Direct Labor | 27 | \$ 10.00 | \$ 270.00 | 40 | \$ 11.00 | \$ 440.00 | 27 | \$ 11.63 | \$ 313.95 | 21 | \$ 10.00 | \$ 210.00 | 115 | \$ | 1,233.95 |
| 6001 | Indirect Labor | 18 | \$ 10.00 | \$ 180.00 | 0 | \$ 11.00 | \$ - | 16 | \$ 11.63 | \$ 186.05 | 13 | \$ 10.00 | \$ 130.00 | 47 | \$ | 496.05 |
| | Total Labor | 45 | \$ 10.00 | \$ 450.00 | 40 | \$ 11.00 | \$ 440.00 | 43 | \$ 11.63 | \$ 500.00 | 34 | \$ 10.00 | \$ 340.00 | 162 | \$ | 1,730.00 |
| 5010 | OT Premium Pay-Direct | | \$ | 15.00 | | \$ | - | | \$ | - | | \$ | - | | \$ | 15.00 |
| 6010 | OT Premium Pay-Indirect | | \$ | 10.00 | | \$ | - | | \$ | - | | \$ | - | | \$ | 10.00 |
| | GROSS PAY | | \$ | 475.00 | | \$ | 440.00 | | \$ | 500.00 | | \$ | 340.00 | | \$ | 1,745.00 |
| | Withholdings: | | | | | | | | | | | | | | | |
| 2201 | Federal Tax | | \$ | 68.16 | | \$ | 63.14 | | \$ | 71.75 | | \$ | 48.79 | | \$ | 251.84 |
| 2202 | Medicare | | \$ | 6.89 | | \$ | 6.38 | | \$ | 7.25 | | \$ | 4.93 | | \$ | 25.45 |
| 2203 | Social Security | | \$ | 29.45 | | \$ | 27.28 | | \$ | 31.00 | | \$ | 21.08 | | \$ | 108.81 |
| | TAXES WITHHELD | | \$ | 104.50 | | \$ | 96.80 | | \$ | 110.00 | | \$ | 74.80 | | \$ | 386.10 |
| | NET PAY | | \$ | 370.50 | | \$ | 343.20 | | \$ | 390.00 | | \$ | 265.20 | | \$ | 1,358.90 |
| | Employer Taxes & Contributions: | | | | | | | | | | | | | | | |
| 6202 | Medicare | | \$ | 6.89 | | \$ | 6.38 | | \$ | 7.25 | | \$ | 4.93 | | \$ | 25.45 |
| 6203 | Social Security | | \$ | 29.45 | | \$ | 27.28 | | \$ | 31.00 | | \$ | 21.08 | | \$ | 108.81 |
| 6204 | Federal Unemployment | | \$ | 3.80 | | \$ | 3.52 | | \$ | 4.00 | | \$ | 2.72 | | \$ | 14.04 |
| 6205 | FL - Unemployment | | \$ | 12.83 | | \$ | 11.88 | | \$ | 13.50 | | \$ | 9.18 | | \$ | 47.39 |
| | TOTAL EMPLOYER TAXES | | \$ | 52.96 | | \$ | 49.06 | | \$ | 55.75 | | \$ | 37.91 | | \$ | 195.68 |

| PAYROLL SUMMARY | | | | | | | | | | | | | | | | |
|--------------------------|---------------------------------|-------------|----------|--------------|------------|----------|--------------|---------------|----------|--------------|--------------|----------|-------------|-------------------|------|------------|
| Smith Construction, Inc. | | | | | | | | | | | | | | | | |
| 2002 YTD - 8/1/2002 | | | | | | | | | | | | | | | | |
| ACCT. | DESCRIPTION | Bobby Baker | | | Van Campos | | | John Thrasher | | | Wynn Whigham | | | TOTALS - 8/1/2002 | | |
| | | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD | HRS | RATE | PAY PERIOD |
| 5001 | Direct Labor | 908 | \$ 10.00 | \$ 9,080.00 | 1040 | \$ 11.00 | \$ 11,440.00 | 960 | \$ 12.17 | \$ 11,678.83 | 650 | \$ 10.00 | \$ 6,500.00 | 3558 | \$ | 38,698.83 |
| 6001 | Indirect Labor | 332 | \$ 10.00 | \$ 3,320.00 | 220 | \$ 11.00 | \$ 2,420.00 | 273 | \$ 12.17 | \$ 3,321.17 | 318 | \$ 10.00 | \$ 3,180.00 | 1143 | \$ | 12,241.17 |
| | Total Labor | 1240 | \$ 10.00 | \$ 12,400.00 | 1260 | \$ 11.00 | \$ 13,860.00 | 1233 | \$ 12.17 | \$ 15,000.00 | 968 | \$ 10.00 | \$ 9,680.00 | 4701 | \$ | 50,940.00 |
| 5010 | OT Premium Pay-Direct | | \$ | 276.00 | | \$ | 427.00 | | \$ | - | | \$ | 40.00 | | \$ | 743.00 |
| 6010 | OT Premium Pay-Indirect | | \$ | 200.00 | | \$ | 330.00 | | \$ | - | | \$ | - | | \$ | 530.00 |
| | GROSS PAY | | \$ | 12,876.00 | | \$ | 14,617.00 | | \$ | 15,000.00 | | \$ | 9,720.00 | | \$ | 52,213.00 |
| | Withholdings: | | | | | | | | | | | | | | | |
| 2201 | Federal Tax | | \$ | 1,847.71 | | \$ | 2,097.54 | | \$ | 2,152.50 | | \$ | 1,394.82 | | \$ | 7,492.57 |
| 2202 | Medicare | | \$ | 186.70 | | \$ | 211.95 | | \$ | 217.50 | | \$ | 140.94 | | \$ | 757.09 |
| 2203 | Social Security | | \$ | 798.31 | | \$ | 906.25 | | \$ | 930.00 | | \$ | 602.64 | | \$ | 3,237.21 |
| | TAXES WITHHELD | | \$ | 2,832.72 | | \$ | 3,215.74 | | \$ | 3,300.00 | | \$ | 2,138.40 | | \$ | 11,486.86 |
| | NET PAY | | \$ | 10,043.28 | | \$ | 11,401.26 | | \$ | 11,700.00 | | \$ | 7,581.60 | | \$ | 40,726.14 |
| | Employer Taxes & Contributions: | | | | | | | | | | | | | | | |
| 6202 | Medicare | | \$ | 186.70 | | \$ | 211.95 | | \$ | 217.50 | | \$ | 140.94 | | \$ | 757.09 |
| 6203 | Social Security | | \$ | 798.31 | | \$ | 906.25 | | \$ | 930.00 | | \$ | 602.64 | | \$ | 3,237.21 |
| 6204 | Federal Unemployment | | \$ | 103.01 | | \$ | 116.94 | | \$ | 120.00 | | \$ | 77.76 | | \$ | 417.70 |
| 6205 | FL - Unemployment | | \$ | 347.65 | | \$ | 394.66 | | \$ | 405.00 | | \$ | 262.44 | | \$ | 1,409.75 |
| | TOTAL EMPLOYER TAXES | | \$ | 1,435.67 | | \$ | 1,629.80 | | \$ | 1,672.50 | | \$ | 1,083.78 | | \$ | 5,821.75 |

Regardless of the payroll system used, the job cost accounting system absolutely must accumulate and report each employee's time and labor costs by individual project or job. The sample Labor Distribution Report on the next page demonstrates this requirement. Where the Payroll Distribution Report and the Payroll Summary differentiate direct and indirect labor, the Labor Distribution Report shows hours of labor, and labor costs, incurred for each individual job or project.

LABOR DISTRIBUTION REPORT

Smith Construction, Inc.

| EMPLOYEE | COST CENTER | JOB | HOURS CHARGED | LABOR RATE | LABOR COST |
|---------------------|-------------|--------------|---------------|------------|------------|
| Baker, Bobby | 01 | 10111 | 15 | \$ 10.00 | \$ 150.00 |
| | | 10112 | 12 | \$ 10.00 | \$ 120.00 |
| | | 99005 | 10 | \$ 10.00 | \$ 100.00 |
| | | 99015 | 8 | \$ 10.00 | \$ 80.00 |
| | | | 45 | | \$ 450.00 |
| Campos, Van | 01 | 10111 | 15 | \$ 11.00 | \$ 165.00 |
| | | 10112 | 9 | \$ 11.00 | \$ 99.00 |
| | | 10116 | 16 | \$ 11.00 | \$ 176.00 |
| | | | | | 40 |
| Thrasher, John | 01 | 10111 | 15 | \$500/wk | \$ 174.42 |
| | | 10115 | 12 | \$500/wk | \$ 139.53 |
| | | 90064 | 16 | \$500/wk | \$ 186.05 |
| | | | | | 43 |
| Whigham, Wynn | 01 | 10111 | 10 | \$ 10.00 | \$ 100.00 |
| | | 10116 | 11 | \$ 10.00 | \$ 110.00 |
| | | 99005 | 13 | \$ 10.00 | \$ 130.00 |
| | | | | | 34 |

The time shown on the individual's timesheet and the associated labor costs charged to each project or job become line items on the Labor Distribution Report. Line item and total pay period hours should trace to the signed timesheet and the total labor costs should trace to Total Labor on the Payroll Distribution Report, for both direct and indirect labor. In our illustrations, records for Bobby Baker are highlighted in yellow and records for Project 10111 are highlighted in blue to facilitate tracing the data through the system.

It is important that the Labor Distribution Report show both time and dollar cost since each line item is a building block needed to construct the direct labor component of the Job Cost Reports. Separate line item reports for each employee are included in the Labor Distribution Report. Total time and labor costs charged to each project or job during the pay period are shown in the Labor Distribution Summary Report on page 7. The sample Labor Distribution Report and Labor Distribution Summary Report show that all four employees charged time to Job 10111, and their combined time charged to this project totaled 55 hours at a combined labor cost of \$589.42.

LABOR DISTRIBUTION SUMMARY REPORT

Smith Construction, Inc.

| COST CENTER | JOB | TOTAL HOURS | TOTAL LABOR |
|----------------------------------|--------------|-------------|------------------|
| 01 | 10111 | 55 | \$ 589.42 |
| 01 | 10112 | 21 | \$ 219.00 |
| 01 | 10113 | 0 | \$ - |
| 01 | 10114 | 0 | \$ - |
| 01 | 10115 | 12 | \$ 139.53 |
| 01 | 10116 | 27 | \$ 286.00 |
| Total Direct Labor: | | 115 | \$ 1,233.95 |
| 01 | 99005 | 23 | \$ 230.00 |
| 01 | 99015 | 8 | \$ 80.00 |
| 01 | 90064 | 16 | \$ 186.05 |
| Total Indirect Labor: | | 47 | \$ 496.05 |
| Total Labor (Pay Period): | | 160 | \$ 1,730.00 |

The time and cost information reported in the Labor Distribution Report also appears as current period labor cost information in the Job Cost Report, illustrated below. However, the Job Cost Report additionally shows the cost of Overtime Premium compensation and other direct expense costs. In addition, the Job Cost Report shows “Project to Date” totals as well as the information for the current pay period. Again, the system must be capable of reporting both accumulated hours and accumulated cost in dollars. The sample Job Cost Report shows that since Project 10111’s inception, 1,291 hours of direct labor have been charged at an associated cost of \$13,615.91. Also note this amount includes only the direct labor component of total job costs.

JOB COST REPORT

Smith Construction, Inc.

Period Ending: 8/1/2002

Job Number: 10111

Job Description: I-14 Overpass

| LABOR COSTS | ACCOUNT | CURRENT PERIOD | | PROJECT TO DATE | |
|-------------------------------|---------|----------------|-----------|-----------------|--------------|
| | | HOURS | COSTS | HOURS | COSTS |
| Baker, Bobby | 5001 | 15 | \$ 150.00 | 265 | \$ 2,650.00 |
| Campos, Van | 5001 | 15 | \$ 165.00 | 198 | \$ 2,178.00 |
| Thrasher, John | 5001 | 15 | \$ 174.42 | 312 | \$ 3,627.91 |
| Whigham, Wynn | 5001 | 10 | \$ 100.00 | 516 | \$ 5,160.00 |
| Total Direct Labor: | | 55 | \$ 589.42 | 1291 | \$ 13,615.91 |
| DIRECT EXPENSES | ACCOUNT | CURRENT | | PROJECT TO DATE | |
| Overtime Premium | 5010 | | \$ 8.33 | | \$ 186.14 |
| Travel | 5101 | | \$ 125.00 | | \$ 1,525.00 |
| Supplies | 5111 | | \$ 75.00 | | \$ 312.50 |
| Reproduction | 5121 | | \$ 35.00 | | \$ 120.00 |
| Total Direct Expenses: | | | \$ 243.33 | | \$ 2,143.64 |
| TOTAL JOB COST: | | | \$ 832.75 | | \$ 15,759.55 |

Direct Expenses

The sample Job Cost Report also shows that “Travel” expenses, “Supplies,” and “Reproduction” costs have been charged directly to Project 10111, as well as the overtime premium compensation paid to Bobby Baker and the others. Expenses incurred which are attributable to a specific project are direct expenses. As illustrated in the flowchart on page 2, information for the Job Cost Report must come from both the payroll cycle and other expenditures in order to include both direct labor and direct expenses and to fully include all project specific costs. The Department expects work completed under our contracts will be reflected as a project, over time perhaps many different projects, within your Job Cost Accounting System.

The purpose of an Accounting System Review is to confirm that the job cost accounting system is able to segregate direct and indirect costs and is able to produce reports, similar to the sample Job Cost Report, for each or any of the contracts. This is what the Department means when we require that the accounting system be capable of “supporting billings to the Department and other clients.” All charges shown in Job Cost Reports must be traceable both to source documentation, such as timesheets for labor costs or evidence of receipt, billing, and payment for direct expenses, and to General Ledger accounts. Consultants engaged in a contract with the Department are subject to an audit of the costs associated with that contract; therefore, the job cost accounting system must be capable of generating a Job Cost Report showing total hours and all associated direct costs for any specific contract.

The Job Cost Summary Report below is similar to an Income Statement or a Profit and Loss Statement covering all jobs and indirect operations for the firm. To satisfy the Department’s requirements, it is only necessary for the system to generate a report of total operating costs with totals for both the current period and the project to date. This summary report must include, at a minimum, all direct jobs and costs charged.

| JOB COST SUMMARY REPORT | | | | | | | | | | |
|---------------------------------|--------------|----------------------|--------------------|-----------------|----------------------------|--------------------|---------------------|--------------------|---------------------|----------------------|
| <i>Smith Construction, Inc.</i> | | | | | | | | | | |
| <i>Period Ending: 8/1/2002</i> | | | | | | | | | | |
| COST CTR | JOB | DESCRIPTION | CURRENT PERIOD | | | | PROJECT TO DATE | | | |
| | | | LABOR COSTS 5001 | OT PREMIUM 5010 | EXPENSES | TOTAL COSTS | LABOR COSTS | OT PREMIUM | EXPENSES | TOTAL COSTS |
| 01 | 10111 | I-14 Overpass | \$ 589.42 | \$ 8.33 | \$ 235.00 | \$ 832.75 | \$ 13,615.91 | \$ 186.14 | \$ 1,957.50 | \$ 15,759.55 |
| 01 | 10112 | Centerview Drive | \$ 219.00 | \$ 6.67 | \$ 116.00 | \$ 358.00 | \$ 4,786.23 | \$ 56.87 | \$ 914.00 | \$ 5,757.10 |
| 01 | 10113 | US 60, Winchester | \$ - | \$ - | \$ - | \$ - | \$ 27,564.49 | \$ 462.36 | \$ 3,641.25 | \$ 31,668.10 |
| 01 | 10114 | Iron Works Pike | \$ - | \$ - | \$ - | \$ - | \$ 785.71 | \$ - | \$ 37.50 | \$ 823.21 |
| 01 | 10115 | US 68, Forbes Road | \$ 139.53 | \$ - | \$ 87.00 | \$ 226.53 | \$ 139.53 | \$ - | \$ 87.00 | \$ 226.53 |
| 01 | 10116 | West High Street | \$ 286.00 | \$ - | \$ 54.26 | \$ 340.26 | \$ 1,254.63 | \$ 6.14 | \$ 343.68 | \$ 1,598.31 |
| Total Direct Costs | | | \$ 1,233.95 | \$ 15.00 | \$ 492.26 | \$ 1,757.54 | \$ 48,146.50 | \$ 711.51 | \$ 6,980.93 | \$ 55,832.80 |
| | | | 6001 | 6010 | YEAR TO DATE - 2002 | | | | | |
| 01 | 99005 | General Admin | \$ 230.00 | \$ 5.56 | \$ 192.84 | \$ 428.40 | \$ 9,571.60 | \$ 789.54 | \$ 19,187.38 | \$ 29,548.52 |
| 01 | 99010 | Training | \$ - | \$ - | \$ - | \$ - | \$ 960.00 | \$ - | \$ 1,287.50 | \$ 2,247.50 |
| 01 | 99015 | Bid & Proposal | \$ 80.00 | \$ 4.44 | \$ 87.50 | \$ 171.94 | \$ 3,785.12 | \$ 326.40 | \$ 4,673.94 | \$ 8,785.46 |
| 01 | 99060 | Holiday | \$ - | \$ - | \$ - | \$ - | \$ 920.00 | \$ - | \$ - | \$ 920.00 |
| 01 | 99062 | Sick | \$ - | \$ - | \$ - | \$ - | \$ 2,076.00 | \$ - | \$ - | \$ 2,076.00 |
| 01 | 99064 | Vacation | \$ 186.05 | \$ - | \$ - | \$ 186.05 | \$ 4,683.81 | \$ - | \$ - | \$ 4,683.81 |
| Total Indirect Costs | | | \$ 496.05 | \$ 10.00 | \$ 280.34 | \$ 786.39 | \$ 21,996.53 | \$ 1,115.94 | \$ 25,148.82 | \$ 48,261.29 |
| TOTAL COSTS | | | \$ 1,730.00 | \$ 25.00 | \$ 772.60 | \$ 2,543.93 | \$ 70,143.03 | \$ 1,827.45 | \$ 32,129.75 | \$ 104,094.09 |

Accounting for Overtime

Please notice on the Personnel Register and the Labor Distribution Report that employee John Thrasher is shown to be a salaried, rather than an hourly, employee. When salaried employees like John work overtime, their rate of pay changes. In negotiating contracts with the Department the actual hourly rate for salaried employees must be presented as the actual “labor rate.” In John’s case, his rate of pay for a standard 40 hour workweek is \$12.50 per hour, for a total of \$500 per week. When John worked 43 hours he was still paid \$500 for the week. His actual rate of pay during the 43 hour week shown was $\$500 / 43 \text{ hours} = \11.63 per hour. A Consultant’s job cost accounting system is required to record and display the actual hourly rate, as shown in the sample Payroll Distribution Report on page 5. This treatment reflects use of the Effective Rate Method of accounting for uncompensated overtime. This method is one of two (2) options presented in Section 1, Part IV.C.4. of the *Reimbursement Rate Audit Guidelines, 2005*.

Hourly employees are commonly paid a premium rate for time worked in excess of 40 hours per week. When hourly employees work overtime the gross wages in excess of their base hourly rate must be charged to an “Overtime Premium” account. The amount of the “Overtime Premium” pay is equal to the “1/2” premium portion of “time-and-a-half” for overtime; the base labor hours, the “1,” are charged to jobs or projects the same as “regular” hours. Each professional services provider must establish a policy for the allocation of Overtime Premium costs to the appropriate projects or jobs. The method may be weighted average time charged for the pay period, which is the method used in our illustrations, average by number of jobs charged, or any other basis which assures reasonable distribution of these charges to all jobs worked during the pay period. Consultants may also elect to charge Overtime Premium costs as an indirect expense, included in the Overhead rate. A written policy is required to assure consistency in the accounting treatment of these costs.

As an example, the timesheet and Payroll Distribution Report for Bobby Baker show he worked 45 hours during the pay period. The Personnel Register and the Payroll Distribution Report show Bobby’s labor rate is \$10/hour and the time-and-a-half for overtime premium rate is \$5/hour. Although the gross wages are \$475, only \$450 can be charged as direct or indirect labor since Overtime Premium pay is not treated in the same way as the base rate for labor. The remaining \$25 (5 hours at the \$5.00 “premium rate”) must be charged as “Overtime Premium” in accord with the established policy.

In our illustration we have charged the premium costs in the ratio shown on the timesheet. That is, on the Payroll Distribution Report Bobby Baker is shown to have worked 27 hours of direct labor and 18 hours of indirect labor, therefore the \$25 is charged 60% to direct and 40% to indirect costs. The \$15 direct cost is divided between 10111 and 10112 based on ratios observed in the Labor Distribution Report, but actual “premium” charges only appear in the Job Cost Reports. The Job Cost Report for 10111 shows an overtime premium charge of \$8.33, representing 15/27 of the \$15 direct cost.

The accounting system must be capable of maintaining a record both of hours worked and wages paid and must be capable of segregating and charging Overtime Premium amounts as direct or indirect costs in accord with the established policy. When the amounts of overtime premium costs a firm expects to incur are small, it is very common to charge all overtime premium costs to an indirect account and include the cost in the overhead reimbursement rate calculation.

General Ledger Accounts

The accounting system must be capable of producing Job Cost Reports reflecting all the direct costs incurred in performing each project or job, including expenses as well as direct labor. The system must have a mechanism for designating the cost center and the project or job number for all direct expenses associated with each specific project. However, in preparing financial statements and reimbursement rate audit reports, Certified Public Accountants commonly deal with General Ledger account balances rather than referring to the full series of Job Cost Reports. Subsidiary job cost records must, therefore, be regularly reconciled to direct charge General Ledger accounts.

If all charges to a particular cost account, such as Travel or Reproduction and Copies, are posted to a single General Ledger Account, it will be difficult to produce financial reports which segregate direct and indirect costs. If there is but one General Ledger account for "Supplies" the CPA will not be able to separately report the cost of indirect supplies consumed in operating an office from the \$312.50 in supplies which have been direct charged to Job Number 10111, as shown in the sample Job Cost Report. It is necessary that a 5000 series account have been established for direct "supplies" as well as a 6000 series account for indirect "Supplies Expense." Direct and indirect General Ledger accounts must be established for all cost elements which may be subject to both direct and indirect charges, including labor. The *Reimbursement Rate Audit Guidelines, 2005*, Section 1, Part II requires establishment of a General Ledger in which direct and indirect costs are separately accumulated.

Rates Used In Contract Negotiation

The annual CPA Rate Audit report you submit to renew qualification to provide services is used to establish reimbursement rates for Overhead, Facilities Capital Cost of Money, and Direct Expenses. After completing review of your accounting system and cost projections, the OIG will establish provisional rates which will be used until your first CPA audit is reviewed. The "Overhead" rate is computed comparing the indirect costs of operations against the direct labor base. These indirect costs include a combination of the costs of employee benefits and taxes, commonly referred to as "Fringe Benefits," and "General Overhead" costs which cannot be directly attributed to a particular project. If a professional services provider maintains both a Home Office and a Field Office, the Department has prescribed rules for the allocation of Overhead costs between the offices.

For illustration purposes, and ignoring the differences in the accumulation periods, if the costs reflected in the Job Cost Summary Report on page 8 represented the best available information for a single year of operation, the Home Office Combined Overhead Rate would be 100.24%. This rate is determined by comparing total indirect expenses of \$48,261.29 to the direct labor base of \$48,146.50. The illustration shows operation of a single Home Office; if the Consultant had also operated a Field Office, a separate rate would be required for both, each based on an allocation of the total indirect expenses and the amount of direct labor charged to the separate cost centers. If the overhead rate determined above were applied to an invoice for \$1,000 of direct labor in a contract with the Department, the reimbursement for direct labor and overhead would be \$2,002.40.

The Facilities Capital Cost of Money rate (FCCM) is determined from the “Average Net Book Value” of the Consultant’s capital assets and rates covering six month periods established and published by the U.S. Office of Management and Budget. There will be a single FCCM rate for the Professional Consultant as a whole, based on combined direct labor from all offices. Annual CPA reports submitted to the Department should include a statement of the Consultant’s average net book value of capital assets (capital assets minus accumulated depreciation) to facilitate establishment of the FCCM rate. The FCCM rate provides an estimate and reimbursement of “opportunity costs” foregone in investing capital in the business, rather than a reimbursement of interest.

The Direct Expenses rate is calculated comparing total qualifying direct costs charged and reported to specific jobs against the same direct labor base used for the Overhead rate. Again, if the information reflected in the Job Cost Summary Report above represented the annual report, the Consultant’s Direct Expenses rate would be 15.98%. This rate is determined by comparing total direct expenses and Overtime Premium of \$7,692.44 to the direct labor base of \$48,146.50.

For purposes of computing the Direct Expense rate to be applied by the Department in contract negotiations, qualified direct expenses DO NOT include the cost of payments made to subcontractors. In contracts with the Department the costs associated with subcontracts will continue to be negotiated and approved in advance, and subcontractor costs appearing in the Professional Consultant’s accounting records are deemed “pass through” costs, separately invoiced by and reimbursed to the Consultant. Direct expenses attributable to a Home Office or a Field Office are to be reported from the accounting system and may not be allocated between the offices. Please refer to the *Reimbursement Rate Audit Guidelines, 2005*, Section 1, Part IV.C 6. for more information on accounting for and reporting direct expenses.

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