

# EXTERNAL AUDIT CIRCULAR No. 3



## CONNECTICUT DEPARTMENT OF TRANSPORTATION

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SUBJECT: Professional and Consultant Service Fees

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*This Circular presents interpretative guidance regarding professional and consultant services fees and includes examples for use in determining the allowability of such costs. Please refer to Chapter 8 of the 2010 edition of the AASHTO Uniform Audit & Accounting Guide for additional guidance.*

### I. DEFINITIONS

As used in this Circular—

1. "Prime consultant" refers to a consulting firm that has contracted directly with ConnDOT to provide architectural, engineering, planning, or environmental-consulting services.
2. "Professional and consultant service fees" represent costs of services rendered by persons who are members of a particular profession or who possess special skills and who are not officers or employees of the prime consultant. Such costs include those of outside accountants, lawyers, actuaries, and marketing consultants.

### II. ISSUE

During an indirect cost rate audit, the auditor may encounter professional and consultant service (PCS) fees that are included in the prime consultant's indirect costs.

### III. ALLOWABILITY

To be an allowable indirect cost, PCS fees must be reasonable in amount and must be supported by billings that itemize amounts applicable to retainer agreements, fees for services not covered by a retainer, expenditures for investigative and other services, travel, and miscellaneous expenses. Fees for services rendered are allowable only when supported by evidence of the nature and scope of services furnished. Such evidence includes the following:

1. Details of all agreements (e.g., work requirements, rate of compensation, and nature and amount of other expenses, if any) and details of actual services performed;
2. Invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of the actual services provided; and
3. Work product and related documents, such as trip reports indicating persons visited and subjects discussed, minutes of meetings, and other relevant documents.

#### **IV. UNALLOWABLE PROFESSIONAL AND CONSULTANT SERVICE ACTIVITIES**

FAR 31.205-33(c) lists four expressly unallowable PCS activities:

1. Services to improperly obtain, distribute, or use information or data protected by law or regulation;
2. Services that are intended to improperly influence the contents of solicitations, the evaluation of proposals or quotations, or the selection of sources for contract award;
3. Any services obtained, performed or otherwise resulting in violation of any statute or regulation prohibiting improper business practices or conflicts of interest; and
4. Services performed which are not consistent with the purpose and scope of the services contracted for or agreed to.

In addition to the expressly unallowable costs listed above, PCS fees also may be unallowable under the provisions of other cost principles, including the following:

1. Costs contingent upon recovery from the Government;
2. Costs of planning or executing organization and reorganization;
3. Costs of resisting or planning to resist a reorganization;
4. Costs of raising capital;
5. Costs of financing and refinancing operations, preparation of prospectuses, and preparation and issuance of stock rights;
6. Costs related to bad debts;
7. Costs related to unallowable legal and other proceedings;
8. Costs that are unreasonable in amount; and
9. Costs that are not allocable to government contracts.

#### **V. EXAMPLES**

**Example 3-1.** When requested to support claimed professional and consultant service (PCS) fees, the prime consultant provided the auditor with a copy of the PCS agreements and related invoices. The invoices lacked detailed, itemized costs but generally indicated that the PCS services were performed in accordance with the agreements.

Analysis: This limited documentation generally will not suffice as evidence of the actual service provided; therefore, the costs will be questioned.

**Example 3-2.** The prime consultant entered into a contract with an external attorney. A written agreement existed specifying that the attorney would be paid a total of \$100,000 in equal monthly installments to perform "all pertinent legal research and analysis" during the audit period in question.

Analysis: In the absence of itemized billings or other documentary support, these costs will be disallowed.

**Example 3-3.** The prime consultant entered into a contract with a related party who was paid \$50,000 to perform miscellaneous types of consulting work. The related party submitted itemized billings for all work performed.

Analysis: Although the \$50,000 may be allowable, this type of agreement will be subject to special scrutiny because it involves related parties. See FAR 31.205-6(a)(6) for further guidance.

**Example 3-4.** The prime consultant paid \$12,000 to an external attorney for “general legal services.” The full amount of the payment was included in the consultant’s submitted indirect costs costs. Examination of detailed billing records revealed that 20 hours of the attorney’s time, billed at a rate of \$150 per hour, was spent in the collection of bad debts owed to the consultant.

Analysis: The consultant must remove \$3,000 from indirect costs. Costs associated with bad debts are expressly unallowable per FAR 31.205-3, and when an unallowable cost is incurred, its directly-associated costs also are unallowable.

## VI. REFERENCES

- FAR 31.205-33 (Professional and Consultant Service Costs).
- FAR 31.205-6(a)(6) (compensation costs for certain individuals give rise to the need for special consideration).
- FAR 31.205-27 (organization and reorganization costs).
- FAR 31.205-20 (costs of financing and refinancing operations).
- FAR 31.205-3 (bad debts).
- FAR 31.205-47 (legal and other proceedings).
- FAR 31.201-3 (reasonableness).
- FAR 31.201-4 (allocability).
- DCAA Contract Audit Manual § 7-2105 (interpretive guidance regarding the allowability of Professional and Consultant Service Costs).
- CTDOT External Audit Circular No. 1 (definitions, audit authority, and general guidance regarding the computation of indirect cost rates).
- AASHTO Uniform Audit & Accounting Guide [2010 Edition]