

## AASHTO's New Uniform Audit and Accounting Guide: New Rules on Allowable and Reasonable Compensation

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The revised edition of American Association of State Highway and Transportation Officials' (AASHTO) Uniform Audit and Accounting Guide, approved in October 2009, provides specific guidance for determining allowable and reasonable executive compensation.

Consultants must determine the reasonableness of executive compensation using an approach compliant with the criteria established in Federal Acquisition Regulations (FAR) 31.205-6 and two major Armed Services Board of Contract Appeals decisions dealing with compensation. The revised audit guide recommends consultants prepare a compensation analysis and disallow costs in excess of the amount deemed reasonable.

Section 7.5.C of the revised audit guide provides a nine-step process for conducting a compensation analysis. The analysis should include the following steps:

Step 1 - Examine all elements of compensation and eliminate elements defined as unallowable under FAR 31.205-6 or

other applicable FAR cost principles.

Step 2 - Prepare a schedule listing all allowable elements of compensation and the amount paid for the individual executives or classes of employees to be examined. Compensation includes wages, salary, bonuses, incentive compensation, deferred compensation, employer contributions to defined contribution pension plans, etc.

Step 3 - Obtain nationally-published compensation surveys matching the consultant in terms of revenue, industry, geographic location, and other relevant factors. Consultants should make certain that survey data used to support reasonableness determinations is based on reliable and unbiased surveys and are representative of the consultant's relevant market or industry.

The use of one survey is not sufficient to determine the market rate of pay for all positions. The guide recommends the use of a primary survey with secondary surveys used to corroborate the results of the primary survey. The consultant must match the job description and duties of each of its executives to the survey data. The guide warns against matching positions based solely on job titles as it may result in an inaccurate analysis.

*Continued on next page*

## ACEC Indiana's voice in 2010 General Assembly

The 2010 General Assembly is scheduled to reconvene on January 5th. Since it will be a "short" session, it will conclude by March 14.

Your ACEC Indiana Government Affairs Committee, staff and lobbyists are already reviewing legislation that may impact the professional consulting engineering community since the General Assembly sprung into action right after its Organization Day in November by introducing bills on a variety of issues. So far, these issues include: ethics reform to limit campaign contributions made by businesses that receive state contracts; local government reform which may change the structure of local officials; Indiana worker "preference" goals on state contracts; a mandate to use QBS on state and locally-funded projects; and of course, a constitutional limit on property taxes. There still may be other important issues introduced in this short session.

It is evident that we need your firm to help in the legislative arena this year. How can you help? Become part of the ACEC Indiana Grass Roots Network. Tell us who you know in the legislature by completing a very simple form and send it to the ACEC Indiana office.

There is strength in numbers and we need more members to be willing to call or e-mail their state representatives and senators about important issues. The form is attached. To find out who your legislators are, go to <http://www.in.gov/apps/sos/legislator/search/> Don't delay!

## Register for the Legislative Luncheon

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**Thursday Jan. 21, 11:15 a.m. to 1 p.m.**

**Sen. Brandt Hershman (R-Monticello) and Rep. Ed DeLaney (D- Indianapolis) will discuss issues facing the 2010 Indiana General Assembly.**

**Thursday, Jan. 21**

11:15	Registration	Hilton Garden Inn
11:45	Lunch	10 E. Market Street
12:20	Program	Indianapolis, IN 46204
1:00	Conclusion	\$45/ ACEC Indiana member
		\$100/ nonmember

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*\*checks can be made out to ACEC PAC.*

Thanks for your support!

Step 4 - From the surveys, develop an estimated reasonable compensation amount for each executive position.

Step 5 - Apply an appropriate escalation factor to adjust survey data to a common date of July 1 of the same year or the midpoint of the consultant's fiscal year. The escalation factor used should be supported by survey data on trends in compensation for the years examined.

Step 6 - Develop a composite median amount by averaging the median total compensation amounts, after application of any necessary escalation factors.

Step 7 - Next, increase the composite median by 10 percent (allowing for a 10 percent range of reasonableness to be applied in developing estimated reasonable compensation).

Step 8 - Compare total actual compensation for each executive to the estimated

reasonable compensation developed for that position.

Step 9 - In cases where total compensation exceeds the estimated reasonable amount, FAR allowable compensation for that executive should be limited to the estimated reasonable compensation.

Consultants can propose amounts of more than 110 percent of reasonable compensation, but must justify superior performance by financial performance that significantly exceeds the industry's average. Section 7.6 of the revised audit guide explains the criteria needed to demonstrate superior performance.

In situations where consultants do not perform a compensation analysis, they may use the National Compensation Matrix (NCM). The AASHTO task force responsible for the revised audit guide recommended that the NCM be prepared ini-

tially and updated annually by the Federal Highway Administration (FHWA). Currently, the NCM does not exist, which makes it difficult to fully implement the guidance on determining allowable compensation for overhead purposes.

Until the NCM is complete, INDOT will continue its policy of adjusting the maximum hourly rate and annual compensation on an annual basis, with the next adjustment effective July 1, 2010. INDOT's 2009 annual compensation cap is \$167,031 (unchanged from 2008). INDOT's current hourly rate cap is \$59.65 for contracts signed after 7/1/2009 (unchanged from 2008).

*For additional information or questions, contact Chris Mayfield, Somerset CPAs, P.C.*



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