

Consultant Advisory

2016-2

March 15, 2016

Mandatory Changes for the Submittal of Financial Prequalification/General Information Beginning Fiscal Year End 2015

Issue

In an effort to close inactive projects in a timely manner, MDOT implemented a Risk Based Approach (RBA), which was developed to address risks at the front end of the consultant contracting process, while reducing post audit adjustments. Prior to implementation of the RBA, consultants were paid a provisional overhead rate, which required an adjustment to an actual overhead rate at time of contract completion. With the RBA, the requirement of an MDOT accepted/FAR compliant overhead rate was implemented, based on a consultant's previous fiscal year costs. MDOT would pay consultants the accepted overhead rate for a 12 month effective period.

In year two of the RBA, MDOT identified 'gaps' in many firm's overhead rates. These gaps were due to either a consultant requesting an extension to their overhead rate due date, or incomplete/incorrect documentation being submitted by the consultant, requiring MDOT to request and wait for the complete/correct information. With the rollout of the RBA, overhead rates were due three (3) months after a consultants fiscal year end for those consultants submitting an FAR compliant overhead rate compilation, or five (5) months after a consultants fiscal year end, for those consultants submitting a FAR compliant overhead rate audit.

Gaps in overhead rates result in:

- The need for overhead rate adjustments, and the corresponding increase in time to close out projects/job numbers, which is counterintuitive to the philosophy behind the RBA.
- Inaccurate payments made to those consultants who continue to bill during the gap period with a different overhead rate than the overhead rate subsequently approved.

As an example: Fiscal Year End: 12/31. Current overhead rate accepted by MDOT for the period 7/1 – 6/30. Following year documentation due to MDOT 5/31. Consultant requests a 60 day extension request. Information arrives on 7/31, and accepted by MDOT 8/31, resulting in an accepted period of 9/1– 6/30. Overhead rate gap for the period 7/1 - 8/31.

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Solution

The following has been implemented, beginning with a **consultant's fiscal year 2015 financial information submittals**:

1. **Annual Financial Prequalification Requirements:**

- The due date for the submittal of all required documents, for the Safe Harbor and Overhead Rate Compilations will be no later than **four (4) months** following a consultant's fiscal year end.
- The due date for the submittal of a CPA FAR Compliant Overhead Rate audit or a Cognizant Review Letter will be no later than **six (6) months** following a consultant's fiscal year end.
- Overhead effective dates will begin **seven (7) months** following a consultant's fiscal year end, and will be in effect for a 12 month period.

2. **Annual General Prequalification Requirements**

- The due date for the submittal of all required prequalification requirements will follow the deadlines stated above, and be submitted with the financial prequalification documents.
3. A consultant's most recently accepted overhead rate will be extended an additional month, for a total of 13 months, to allow the new timeline to be implemented. ***This additional month is for your most recently accepted overhead rate only. All future years overhead rates will have an effective period of 12 months.***
 4. Time extensions will no longer be permitted.
 5. If documents are not submitted by a consultant by the renewal date, prequalification will be suspended, and a consultant will no longer be able to submit project proposals for projects requiring prequalification. The award of pending contracts will be up to the discretion of MDOT.
 6. If a consultant's overhead rate has expired, and a new one has not yet been accepted, and a consultant performs services during the time period that an overhead rate is not in place, a consultant will not be paid for services performed during that period, and will not be paid until such time that documentation has been submitted, and the overhead rate has been accepted by MDOT.
 - In the event that the above becomes applicable for a prime consultant, the prime consultant must continue to submit invoices to MDOT for its subconsultant(s) in a timely manner.
 - Once an overhead rate has been accepted, the rate will be retroactive, and the effective date will be the consecutive calendar date following the expiration date of the previously accepted overhead rate, and will be in effect for a period of 12 months.
 7. It is acknowledged that there may be some instances where acceptance of an overhead rate is due to delay on MDOT's part. This will be evaluated and a determination will be made on a case by case basis, however, a consultant will not be penalized if the delay is the responsibility of MDOT.
 8. We have also noticed consultants, particularly subconsultants, billing an incorrect overhead rate, resulting in rejection of an invoice. To remedy this, **all subconsultants must submit their MDOT current overhead acceptance rate letter with their first invoice to the prime consultant, as verification of overhead rate billed, and again when billing with a newly accepted overhead rate.** The prime consultant must review the subconsultants billed overhead rate and verify that it matches the MDOT accepted rate, prior to submitting the invoice.
 9. Those consultants submitting a cognizant agency review letter, must submit the required financial and general prequalification information, including the CPA Overhead Rate Audit, to MDOT by the due date, with the cognizant letter following, if not received by the consultant by the applicable due date.
 10. All MDOT approved extension requests prior to this date will be honored by MDOT.