

July 11, 2012

**MEMORANDUM**

**To:** Ms. Jane Doe, District/Division Administrator  
**Attn:** Mr. Jim Buck

**From:** Judson D. Brown, CPA, Director  
External & Construction Audit  
**By:** Auditor-In-Charge

**Subject:** **Pre-Award Evaluation – Project Number & Description**

**Consultant:** XYZ Company – Prime Consultant

A pre-award evaluation was performed on the above referenced consultant. The evaluation revealed that the fees are determined by calculating average hourly rates per classification, plus overheads, net fee, cost of facilities capital, and non-salary direct costs. Our specific comments on the cost components are as follows.

**XYZ Company – Prime Consultant**

**Direct Labor & Escalation**

The consultant proposed average hourly rates per classification that are/are not supported by payrolls. It is the contracting officer's responsibility to negotiate fair and reasonable hourly rates for each proposed classification of labor. Escalation rates of one half percent (0.50%) for the first year/term and one percent (1%) for all subsequent years/terms is acceptable.

**Overheads & Cost Of Facilities Capital**

The consultant proposed an overhead rate and a cost of facilities capital rate that are supported by an audit and are acceptable. When the overhead rate is not supported by an audit the following language will be included: It is the contracting officer's responsibility to ensure that the proposed overhead rate is supported by proper documentation. A cost of facilities capital rate will not be allowed if it is not audited.

Ms. Jane Doe

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**Net Fee**

The consultant proposed a net fee rate of xxx.xx%. This rate is/is not acceptable. A net fee rate of greater than 10% is not acceptable without written justification supporting a higher net fee rate.

**Non-Salary Direct Costs**

The consultant should not bill directly for non-salary costs that are normally included in the overheads. Travel related and other non-salary direct costs should be within the VDOT Travel and Procurement Manual policies. All other non-salary direct costs, other than CADD/PC which have maximum allowable *audited* rate of \$6/hour, should be reasonable, billed based on actual costs, and are subject to adjustment at final audit.

**Contingency**

The consultant proposed a contingency rate of xx%. This rate is/is not acceptable. A contingency rate of greater than 5% is not acceptable without written justification supporting a higher contingency rate.

**Conclusion**

Based on our evaluation, once you have determined that the estimated hours are representative of those required to perform the proposed work, and have resolved the differences noted above, the cost proposal/fixed billable rates will be acceptable to External & Construction Audit.

If we can be of any further assistance, please call the auditor-in-charge at xxx-xxxx or me at 225-3597.