TxDOT RESOURCE LIBRARY

TxDOT Indirect Cost Rate Readiness Checklist

A readiness organizer for engineering, architectural, surveying, and other professional service firms developing, self-certifying, or obtaining a CPA audit of an indirect cost rate.

This is a readiness tool—not a qualification determination
TxDOT administrative qualification may involve a CPA-audited rate, self-certification, a cognizant approval, or another permitted path. Confirm the applicable path and submission format with TxDOT PEPS before beginning.

Provider legal name ________________________________	**Fiscal year-end** ________________________________
Qualification path ________________________________	**Target submission date** ________________________________

1. Establish the qualification calendar

- [ ] Confirm the legal entity seeking administrative qualification and the fiscal year on which the rate will be based.
- [ ] Confirm whether the submission will use a CPA audit, self-certification, cognizant approval, or another permitted method.
- [ ] Download TxDOT's current submission format and review process guidance.
- [ ] Build a calendar for year-end close, rate preparation, CPA fieldwork if applicable, management certifications, and submission.
- [ ] Identify the executive responsible for signing the Certification of Final Indirect Costs and other required certifications.
- [ ] Plan for annual submission and track the approved rate's effective and expiration periods.

2. Close and reconcile the accounting records

- [ ] Finalize the general ledger and trial balance for the fiscal year; control later changes.
- [ ] Reconcile all cash, receivables, payables, payroll, debt, fixed assets, leases, and equity accounts.
- [ ] Reconcile total labor to payroll records, Forms W-2, tax filings, and the general ledger.
- [ ] Reconcile direct project costs and labor to the job-cost or project-accounting system.
- [ ] Prepare a complete chart of accounts and account mapping to direct, indirect, and unallowable classifications.
- [ ] Document significant journal entries, year-end accruals, estimates, allocations, and related-party transactions.

3. Validate direct and indirect cost classifications

- [ ] Document the firm's written policy for distinguishing direct project costs from indirect costs.
- [ ] Confirm that like costs incurred for the same purpose are treated consistently in similar circumstances.
- [ ] Review project labor, overtime, uncompensated overtime, paid time off, bonuses, and owner or executive labor.
- [ ] Identify direct expenses charged to contracts and confirm they are excluded from indirect cost pools.
- [ ] Review overhead and general-and-administrative pools and document the selected allocation base.
- [ ] Test branch, home-office, service-center, and shared-cost allocations for consistency and support.
- [ ] Separate field or construction-related rates when facts require distinct pools or bases.

4. Screen for unallowable and limited costs

Use the companion FAR Part 31 worksheet for account-level review.

- [ ] Review every general-ledger account—not only accounts with obvious names—for expressly unallowable costs.
- [ ] Identify directly associated costs that arise solely because of an unallowable activity.
- [ ] Evaluate compensation, bonuses, pensions, benefits, and executive compensation for allowability and reasonableness.
- [ ] Separate lobbying, political activity, entertainment, alcohol, bad debts, fines, penalties, and organization costs.
- [ ] Evaluate legal, professional, travel, relocation, recruitment, public relations, advertising, and selling costs.
- [ ] Document partial exclusions, allocation methods, judgmental conclusions, and source support.

5. Build and reconcile the rate schedule

- [ ] Reconcile the schedule's total costs to the final trial balance and financial statements.
- [ ] Show adjustments and exclusions clearly enough for a reviewer to trace each amount to the ledger.
- [ ] Reconcile the direct-labor allocation base to payroll and project records.
- [ ] Recalculate the indirect cost rate and cross-foot all pool, base, and rate amounts.
- [ ] Prepare a bridge from book expense to allowable indirect cost and retain supporting detail.
- [ ] Compare the current rate and cost components with prior years; investigate significant changes.

6. Assemble audit or submission support

- [ ] Indirect cost rate schedule in TxDOT's current required format.
- [ ] General ledger, trial balance, financial statements, chart of accounts, and account mapping.
- [ ] Labor distribution reports, payroll reconciliations, timesheets, and project-cost detail.
- [ ] Written accounting, timekeeping, cost-classification, and allocation policies.
- [ ] Selected transaction support for travel, legal, dues, vehicles, leases, bonuses, and other judgmental accounts.
- [ ] Executive compensation analysis and supporting market or survey information.
- [ ] Organization chart, ownership and affiliate information, related-party transactions, and shared-cost agreements.
- [ ] Signed Certification of Final Indirect Costs and any required internal-controls or officer certifications.
- [ ] Corrective-action support for prior findings, review comments, or questioned costs.

CPA independence
If JConner will audit the rate, management remains responsible for the accounting records, cost classifications, rate schedule, internal controls, and certifications. Readiness or nonattest assistance must be evaluated and structured to preserve auditor independence.

Official sources to verify

TxDOT CPA Audit Requirements
TxDOT Self-Certification Requirements
FAR Part 31

Need help developing or auditing an indirect cost rate?
JConner provides rate development, audit readiness, and independent CPA audit services. Visit jconnerpc.com to learn more or schedule a consultation.

Educational-use disclaimer. This checklist is general educational information and is not legal advice, an allowability determination, a TxDOT approval, or a substitute for current FAR, GAGAS, AASHTO, and TxDOT requirements. Conclusions depend on the firm's facts and documentation.