INSTRUCTIONS FOR COMPENSATION ANALYSIS

Consulting firms must demonstrate the application of and compliance with a compensation analysis prepared in accordance with the criteria set forth in the Federal Acquisition Regulations (FAR) 31.205-6, Techplan and Information Systems. To accomplish this, firms should prepare a schedule in accordance with the criteria discussed in Section 7.5 of the AASHTO Uniform Audit and Accounting Guide. The schedule must be submitted each year to the firm's home state DOT and the firm's CPA along with an updated overhead schedule. If the schedule has already been submitted and accepted by the firm's home state, department auditors will contact the firm's home state and verify acceptance. If the schedule had not been submitted to the firm's home state but has been provided to the firm's CPA, the firm must provide an acknowledgement from the CPA that the schedule has been reviewed for compliance with the AASHTO Uniform Audit and Accounting Guide. If the firm has not prepared any compensation analysis, it will be contacted by the department's auditors who will request necessary information.

Chapter 7 of the AASHTO Uniform Audit and Accounting Guide (link to guide) provides extensive guidance in the preparation of compensation analyses. The FAR requires that compensation, to be allowable, must be reasonable for the work performed. In determining reasonableness, only allowable individual elements of compensation can be considered. Factors that may be considered to determine reasonableness include the size of the firm, the industry in which the firm operates, the geographical location and the type of work performed.

The consulting firm is responsible for developing an analysis to support the reasonableness of claimed compensation costs in accordance with FAR 31.205-6. This analysis focuses on executive positions that comprise the highest compensation levels at the firm. The firm must ensure and document that the compensation for each employee or job class under consideration is reasonable for the work performed.

FAR 31.205-6(p) establishes a maximum compensation amount for senior executives referred to as the Benchmark compensation amount (BCA). Although the BCA is a statutory maximum, it cannot be construed as an entitlement or guaranteed amount. Compensation is subject to the reasonableness provisions discussed above.

To develop an acceptable compensation analysis, the consulting firm should follow these steps:

1) Examine all elements of compensation and eliminate any element which are defined as unallowable in the FAR cost principles;
2) Prepare a schedule listing all eligible executives or classes of employees to be examined, wages, salary, bonuses, incentive compensation, deferred compensation and employer contributions to defined contribution pension plans;
3) Obtain nationally published compensation surveys to match the engineering firm in terms of revenues, industry, geographic location and other relevant factors. The survey data used to support reasonableness determinations must be based on reliable and unbiased surveys that are representative of the firm's relevant market or industry. The firm must match the job description and duties of each of its executives to the survey data.
4) Develop an estimated reasonable compensation amount for each executive position based on the survey data. Apply appropriate escalation factors, if necessary, to adjust survey data to a common date. The estimated reasonable compensation amount could also be adjusted if the firm can clearly demonstrate superior performance.
5) Compare actual compensation for each position to the estimated reasonable compensation developed in step 4.
6) In cases where the actual compensation exceeds the estimated reasonable amount, adjust the overhead schedule for the difference.

The compensation analysis must clearly document the executive positions considered, compensation, compensation survey information used in the analysis, all assumptions made in the determination of the estimated reasonable compensation amount, criteria used to evaluate survey information, and escalation factors, if any. If the firm claims superior performance, it must document the financial performance measures used and the data collected to demonstrate superior performance. The analysis must also provide the compensation that exceeds the maximum amounts established by the reasonableness estimates for each individual or class of employees. The following information must be disclosed separately for each applicable position

1) Employee/owner/first and last name or employee identification number
2) Position title
3) Total wages/salaries paid including taxable fringe benefits
4) Total bonuses paid
5) Total employer contributions to defined contribution pension plans
6) The applicable reasonableness compensation amount from the analysis
7) The excess compensation required to be disallowed.