

PennDOT Executive Compensation (PEC)

Using Economic Research Institute Survey Median Annual Total Compensation Plus 10%

As a result of the Department's decision to not "opt out" of Section 307 of the National Highway System Designation Act of 1995, the Department is responsible for ensuring that all costs included in a consultant's overhead rate calculations are reasonable and within the guidelines mandated in the Federal Acquisition Regulations (FAR). In this regard, the Department has studied and adopted the Economics Research Institute (ERI) Survey as a tool for evaluating executive's compensation, which sets forth detailed reports on competitive total compensation for top management position titles within the industry.

Executive Compensation will be analyzed for all firms as part of the determination of the firm's overhead rate. For the purpose of evaluation, the Department will evaluate executives with total compensation greater than \$120,000. Executives are defined in the FAR and in accordance with the ERI definitions. There will be no allowance for averaging or summing of executive compensations. The Department will accept an overhead rate from a cognizant agency audit if the audit is performed in accordance with FAR and such rates are not currently under dispute.

Title Conformance

For the purposes of this evaluation process, all firms shall submit a Title Conformance that establishes an equivalent title based on actual duties performed as defined by ERI. Title Conformance will be used for the purposes of evaluation, and serve as the basis for agreement between the Department and the consultant. The types and number of titles selected by a firm must be within typical corporate structure, and are always subject to Department review. The Executive Compensation Worksheet and Position Descriptions from ERI are attached for use in preparation of this information.

Reasonable Consultant Executive Compensation (RCEC)

Total compensation is defined in accordance with FAR 31.205-6(a). Total compensation includes, but is not limited to salaries, direct labor wages and bonuses.

For evaluation of the firm's overhead rate, a reasonable compensation level for each job title is estimated based on the firm's type, size and location. For each executive, the ERI Survey Median Annual Total Compensation plus 10% of the Median (ERI Compensation Level) is determined. The ERI Compensation Level is prorated accordingly for direct labor wages and corporate contributions to retirement plans.

Per the FAR, the maximum total compensation (FAR Cap) is the FAR benchmark compensation amount determined applicable for the contractor fiscal year by the Administrator, Office of Federal Procurement Policy.

The Reasonable Consultant Executive Compensation (RCEC) level is the lesser of the prorated ERI Compensation Level or the FAR Cap. Total compensation in excess of RCEC level is excluded from the overhead schedule.

Challenge of Reasonableness

Per FAR 31.201-3, "No presumption of reasonableness shall be attached to the incurrence of costs by a contractor." It should be noted that based on an initial review of the facts, contracting officers may challenge the reasonableness of any individual element. The Department reserves the right to review all costs on an individual basis regardless of the procedures outlined above. The Consultant retains the right to challenge the Department's evaluation, but is responsible for providing justification.

Implementation

The PEC methodology is effective for all firms for all overhead rate submissions received by the Consultant Agreement Section on or after May 1, 2008.

In June 2002 the Department committed to evaluate its Executive Compensation methodology. Processing of overhead rates after June 2002 has been done on a provisional basis. The Department and ACEC/PA jointly agreed that the effective date of any revisions to the Executive Compensation methodology would be retroactively effective to Fiscal Years after June 2002. All firms that had an Executive Compensation adjustment to the firm's overhead rate for fiscal years beginning after June 2002 may request a reevaluation using PEC by submitting a written request to the Consultant Agreement Section. The request must be received by the Consultant Agreement Section by May 1, 2008. If a request is received, all fiscal years after June 2002 that had been adjusted will be reevaluated. Overhead rates can increase or decrease as a result of this reevaluation.

Appeal of RCEC

A firm may appeal the results of their overhead audit or RCEC level by submitting written notification to the Consultant Agreement Section. The appeal must be received by the Consultant Agreement Section within 60 days after the date of the overhead rate approval or rejection. The firm is responsible for providing justification while asserting and proving the legitimacy of the appeal. The Department's Executive Compensation Review Board will evaluate the appeal. The Department will use the firm's overall financial performance as one of the factor's in computing a revised RCEC level if found to be necessary. This new RCEC level may be higher or lower than the original RCEC audit's level. This methodology is similar to methodology used by Defense Contract Audit Agency (DCAA) compensation auditors.