

Summary of Changes to AASHTO Audit Guide (2016 Edition Versus 2012 Edition)

Reports and Appendices Removed from Guide and Posted Separately to Internet. To allow for a timelier and less cumbersome update process, the following items were posted as separate documents on the Internet rather than being included in the Guide:

- Sample FAR Part 31 indirect cost rate audit report.
- Appendix A: CPA Workpaper Review Program.
- Appendix B: Internal Control Questionnaire.

Condensed and updated front matter.

- Removed contact information for Audit Task Force members. (To be maintained/updated on AASHTO website instead, as the information changes frequently.)
- Preface updated to reflect current edition.

Chapter 1

- Another layer of indentation (clause level) added to documentation organization. Necessary to facilitate certain updates in Chapter 5.
- General terms updated - Clarification regarding definition of FAR-Compliant Audit.
- Clarified certain FAR language: *generally accepted accounting principles* (lowercase, verbatim from FAR Part 31). Same change made in several other sections of the Guide, too (e.g., Section 4.1).

Chapter 4

- 4.2 – State and Local Cost Principles.
- Added discussion regarding certain State or local contracting practices that may apply to contracts that are **not** Federally funded. E.g.,
 - State DOTs may impose limitations more restrictive than FAR Part 31.
 - State DOTs may require use of a corporate-level rate, even if the company generally uses a Home/Field Office dual-rate structure.

Chapter 5

- 5.4.F.2. Uncompensated Overtime.
 - Added language to emphasize requirement for consistency in the allocation process, job costing, estimation process, and invoicing.
 - Updates to methods of accounting for uncompensated overtime: *effective rate* versus *salary variance* methods (2.1 and 2.2).
 - Added section on issues arising from inconsistent methods of labor distribution under the effective rate method.
 - Added section to discuss situations in which clients require different cost accounting methods for labor.

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- 5.4.F.3. Overtime Premium. Clarifications regarding methods for allocating indirect costs to overtime premium.
- 5.6 – Field Office Rates.
 - Added language to clarify approaches for computing and applying field office indirect cost rates.
 - Additional discussion regarding the definitions of, and differences between, field office rates based on actual labor tracking/allocation and project-specific rates that may be negotiated for application to a limited number of contracts.
 - Expanded discussion regarding the need for consistency and requirement for all project costs to be properly allocated to projects, regardless of contract terms.
- **Tables 5-5 and 5-6.** Sample Statements of Direct Labor, Fringe Benefits, and General Overhead (Indirect Cost Rate Schedules) updated/corrected to reflect more realistic/more common situations.

Chapter 6, Section 6.3: Minor revisions for clarity.

Chapter 7

- 7.2 and 7.3.
 - Clarified that compensation must be evaluated for reasonableness in total, not for reasonableness of individual elements of compensation.
 - Individual elements of compensation must be reviewed for allowability.
 - All expressly unallowable individual elements of compensation must be removed before any review for total compensation reasonableness may occur.
- 7.4. Updated language to reflect changes in statutory limit on executive compensation.
- 7.11. Clarifications regarding best practices and expectations for documentation and other support for bonus, incentive, and profit-distribution plans.

Chapter 8

- 8.1. Added to description of directly-associated costs.
- 8.3. Updated language to conform to guidance in Chapter 7: compensation must be evaluated for reasonableness in total. Individual elements of compensation must be evaluated for allowability.
- 8.8.
 - Minor edits for clarification.
 - Removed duplicative language.
- 8.17 and 8.21. Minor edits for clarification.
- 8.23.B and C. Common control and cost of ownership. Updates for clarity.

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- 8.24.
 - Added direct selling costs to list of cost categories for review.
 - Other minor edits for clarity.
- 8.26. Travel Costs.
 - Clarifications regarding travel as a direct project cost.
 - Added discussion regarding non-travel business meals. (Meals not associated with travel are allowable if properly supported, have valid business purposes, and are reasonable in amount. FAR per diem rate limitations apply only in connection with travel meals.)
 - Various updates to aircraft and vehicle cost language.
- 8.27. Legal Costs.
 - Significant updates to 8.27, including three flowcharts for use in determining allowability of costs.
 - Added discussion of *qui tam* lawsuits, and legal proceedings brought by, or asserted against, a private party.
 - Added discussion regarding costs associated with multi-year legal proceedings.

Chapter 10, Section 10.3:

- Duty of engineering consultants to consistently monitor recording of direct and indirect costs to ensure accuracy.
- CPA auditor should perform analytical procedures to determine potential risk areas regarding cost allocation.
- Other minor edits for clarity.

Chapter 11

- Clarified language regarding CPA (or State DOT) auditors' responsibilities to perform audit (not merely examination) procedures in accordance with appropriate auditing standards.
- Sample indirect cost rate audit report and related report on internal controls removed from Guide. Posted electronically on AASHTO website instead, to allow for more timely updates as audit standards change.
- Recommended minimum disclosures. Added:
 - Disclosure of any State- and/or Local-specific policies that may differ from an engineer consultant's general, FAR-compliant policies or practices.
 - Disclosure regarding the engineering consultant's cost-estimation process.

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Chapter 12. Updates regarding:

- What qualifies as a cognizant agency?
- How cognizant rates are established and how are the rates to be treated by State DOTs.
- Transfer of cognizance from the Home State to another DOT.
- How to handle disputes between the engineering consultant and the cognizant agency.
- Clarification that cognizant reviewer should use GAGAS as the standards/requirements for the CPA/FAR auditor; cognizant reviewers should not impose any additional, or more stringent, standards.
- Custom ICQs development by individual DOTs:
 - Only should be use to gather supplemental data needed specifically by the individual DOT.
 - Customized ICQs should not duplicate data already gathered on the AASHTO ICQ and should not be used in lieu of the AASHTO ICQ.
- Link provided to AASHTO Risk Management Framework for use by State DOTs in assessing risk when performing reviews of A/E consultants' cost submittals and financial systems.
- FHWA Q&As removed from Guide. Q&As are maintained and updated on the Internet by the FHWA.
- Updates to example *Cognizant Letter of Concurrence for CPA Workpaper Review*.
- Added example *Cognizant Letter of Concurrence for CPA Workpaper Review When Cognizance is Transferred to Another State DOT*.