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TO: Prequalified Consultants
FROM: Office of Audits
DATE: Effective April 28, 2010
RE: Audit Update

You may be aware that the Department of Transportation took steps in 2005 to streamline our consultant management processes. Our goal in that effort was to create an efficient and transparent process that was standardized across all of our offices. The effort resulted in the Department requiring that Georgia based consultants with \$250,000 or more in contracts with the Department obtain an audited overhead or indirect cost rate by a Certified Public Accountant (CPA).

New Guidance

In August 2007, a task force composed of five state DOTs, six A&E firms, AASHTO, ACEC and FHWA began rewriting the Uniform Audit & Accounting Guide of Architectural & Engineering Consulting Firms. This task force solicited information from: task force members, the AASHTO Subcommittee members, ACEC, A&E member firms, public accounting firms, AASHTO, FHWA and the AICPA. The Guide is a tool for state DOT auditors, A&E firms and Certified Public Accountant (CPA) firms to use.

The AASHTO Standing Committee on Finance & Administration voted to approve the revised Guide on October 21, 2009 and the guide was published February 2010. Most of the information in this guide provides additional clarification and guidance in regard to federal regulations and auditing standards that are already in place and effective. Therefore, those regulations and standards should already be followed.

One new item in the Guide is the National Compensation Matrix (NCM). The NCM is a recommendation from the Audit Guide Task Force to the Federal Highway Administration and, as such, it does not currently exist. The guide was revised due partly to a February 2009 USDOT OIG audit report entitled Oversight of Design and Engineering Firms' Indirect Costs Claimed on Federal-Aid Grants. The report contained several recommendations such as revisions to 23 CFR 172, including having A&E firms certify their submission is accurate and in compliance with 48 CFR 31 (FAR).

GDOT Approach

The Georgia Department of Transportation currently has over 450 prequalified A&E firms. Of those, over 150 are Georgia based firms for which Georgia is the cognizant state. The concept of cognizance was developed to assign primary responsibility for an audit to a single entity (the "cognizant agency") to avoid the duplication of audit work performed in accordance with Government Auditing Standards to obtain reasonable assurance that claimed costs are in accordance with the FAR Subpart 31 .2 cost principles. Such audit work may be performed by home-state auditors, a Federal audit agency, a CPA firm, or a non-home state auditor designated by the home-state auditor.

GDOT will continue the policy of requiring that Georgia based consultants with \$250,000 or more in contracts with the Department obtain an audited overhead or indirect cost rate by a CPA. The audit must also be performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) and the audit Guide. More specifically, any Georgia based consultant who has or reaches a total of \$250,000 or more in contracts will be required to obtain an audited overhead or indirect cost rate by a CPA for each

year the consultant has contracts with the Department. The CPA overhead audit shall be received by the Office of Audits within the 180 day period following the consultant's fiscal year end close. If the CPA overhead audit will not be available by the deadline, the Office of Audits shall be notified of the delay and an anticipated receipt date. Once received, our office will perform a review of the CPA's audit report and related workpapers and issue a cognizant letter of concurrence with the audit report. For those consultants which Georgia is not the cognizant state, a cognizant audit should be submitted if the consultant has or reaches a total amount of \$250,000 or more in contracts. The audited overhead rate, once it is accepted by the Department, will be used for that year's billings and as the provisional overhead rate for estimating and contract negotiation purposes during the one-year period following acceptance of the rate.

Before we accept an indirect cost rate from a CPA firm, we will determine if the auditor or other reviewing state adequately complied with the procedures described in chapter 9 of the Uniform Audit & Accounting Guide of Architectural & Engineering Consulting Firms and performed adequate testing in compliance with the recommended minimum audit testing procedures discussed in the guide. We will use the CPA Quality Control Review Program located in Appendix A of the guide. If your CPA does not perform the overhead audit in accordance with GAGAS, 48 CFR Part 31, and the AASHTO Guide, it will be rejected by the Department. If an audit is rejected, the firm may be required to perform additional audit work or obtain a new overhead audit report from a different CPA firm. A & E firms can not include the cost of a rejected CPA firm audit in its overhead.

Due to budget constraints, it will not be feasible to perform comprehensive CPA workpaper reviews for all engineering firms that perform work and are located in the state of Georgia. Accordingly, we will perform a risk analysis to determine which firms we will perform a comprehensive workpaper review for each year. We will base this on risk such as dollar volume of contracts with Georgia, past experience, past history/reputation of firm, date of last "FAR compliant" audit, type and complexity of firm's accounting system, CPA firm experience, ICQ response, change in firm's organizational structure, etc. Firms doing business in more than one state and seeking cognizant approval of their CPA audited rate must have a comprehensive workpaper review performed.

Firms not meeting the \$250,000 threshold will not be required to obtain a CPA overhead audit. However, the onus remains on GDOT to obtain reasonable assurance that the rates submitted by engineering consultants are FAR compliant. The Office of Audits will provide this audit service to those consultants for which Georgia is the cognizant state. Based on risk analysis and at the sole discretion of the Office of Audits, a firm's overhead rate will be determined through an audit, attestation engagement, or a desk review.

A provisional home office overhead rate of 125% and provisional field overhead rate of 115% of direct labor will be used by the Department for estimating purposes for new (start-up) companies with no audited rate. A CPA audited overhead rate must be obtained after the first full year of business. The audited overhead rate must be received by the Department within the 6-month period following the consultant's accounting year-end close.

After the consultant's audited overhead rate is accepted by the Office of Audits, the audited rate will be applied to that year's billings and the following year's proposals for estimating purposes. A CPA audited overhead rate must be obtained by the consultant for each year the consultant has contracts with the Department. **The provisional rates cannot be used for a firm that has been in business for more than a calendar year.**

Each prequalified consulting firm should send the AASHTO Internal Control Questionnaire for Consulting Engineers (ICQ) to our office by November 30 of each year. The ICQ can be found in appendix B of the Guide and on GDOTs webpage. The ICQ is a very important tool used by the Department when assessing risk and the adequacy of a firm's accounting system. Providing honest and truthful answers to the questions on the ICQ is imperative. As defined in the FAR, "falsification or destruction of records or making false statements" is cause for debarment, suspension and/or ineligibility. If the Department determines that a consultant falsified records or made false statements on the ICQ or any other documents provided to the Department, the consultant may be subject to debarment, suspension or may become ineligible for future contracts with the Department.

We look forward to working with you and your firm. If you have questions or concerns, please contact the GDOT Office of Audits at IndirectCostRates@dot.ga.gov.