

ARIZONA DEPARTMENT OF TRANSPORTATION BUSINESS  
OPERATIONS DIVISION  
**OFFICE OF AUDIT & ANALYSIS**



**CONSULTANT AUDIT GUIDE**

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## 1. Purpose

Provide guidance with respect to review/audit requirements and processes for consultants contracting with the Arizona Department of Transportation (ADOT) through the Engineering Consultants Section (ECS).

## 2. Background

ECS is ADOT's contracting office responsible for prescribing and administering professional services contracts related to the design and construction of Arizona roads and highways. According to Title 2 of the Code of Federal Regulations (CFR) Part 200.323, *Contract Cost and Price*, as a non-Federal entity, ADOT is required to perform a cost or price analysis during the procurement process. As the contracting office, ECS has elected to conduct what are referred to as "pre-award reviews", which they have delegated to the ADOT Office of Audit and Analysis (Audit and Analysis) for completion and recommendation. Pre-award reviews are conducted during the negotiation stage of the contracting process and are divided into two types: Unit Rate Reviews and Indirect Cost ("overhead") Rate Reviews.

To initiate a review, ECS communicates (via email) to Audit and Analysis that a Prime Consultant and its Sub-Consultants (Consultants) have been selected for a specific contract. Audit and Analysis maintains a queue of requested reviews and conducts them in chronological order, unless otherwise directed by ECS. At any given point there could be over 50 requests in the queue. Each review typically takes between 8-60 auditor hours to be completed depending on the type and nature of the review. A list of all pending reviews in the queue is distributed to ECS staff every Monday.

In addition to Unit Rate Review and Indirect Cost Reviews, ECS has delegated oversight and/or completion of Incurred Cost Audits. Incurred Cost Audits ("final audits") involve the review of costs incurred and expended during the course of a contract. This involves auditing a selected Consultant's indirect cost rate and reconciling it against payments made to the consultant to determine the actual costs incurred by the Consultant.

An annual risk assessment is developed to determine which Consultants and contracts will be included in the annual audit plan. Risk factors that determine ranking may include, but are not limited to: accumulated amount of expenditures, last audit date, prior findings and type of contract. Incurred Cost Audits may take between 100-200 auditor hours to complete, based on various risk factors.

## 3. Auditing Standards

Incurred Cost Audit engagements are performed in accordance with the Financial Audit Standards referenced in the Generally Accepted Government Auditing Standards (GAGAS) issued by the United States Government Accountability Office. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Unit Rate Reviews and Indirect Cost Rate Reviews are a non-audit service and the work performed does not constitute an audit in accordance with GAGAS. Reviews are limited in scope and, although not required, some elements found in GAGAS are applied.

## 4. Recommendations Made by the Auditor

Audit and Analysis provides an objective recommendation to ECS based on the best available information obtained from the Consultant during an engagement. Recommendations made by Audit and Analysis should not be interpreted as an approval or denial of proposed rates. Final approved rates are the responsibility of the appropriate contracting official.

## 5. Supporting Documentation

Selected Consultants will be required to provide supporting documentation as described in Sections 8(b) and 9(b). Additional information and supporting documentation may be requested during the engagement to further support questioned items. Failure to comply with this requirement within the established timeframe may substantially delay contract execution and may be considered failed negotiations.

Consultants are given an appropriate and reasonable amount of time to respond and provide requested documentation. After which, a report is issued to ECS providing a recommendation based on the best information available or a report stating no opinion, if applicable. It is recommended that Consultants prepare supporting documentation (i.e., client invoices (non-ADOT), fee schedules, calculation breakdowns, etc.) ahead of time, when possible, to ensure an efficient review process.

## 6. Record Retention

All Consultants and their CPA firms involved in ADOT projects is required to retain and maintain all books, papers, accounting records and all other contract related documentation for 5 years after ADOT indicates that work on the contract has been completed to the satisfaction of the State. The date the ADOT Project Manager indicates to ECS that all the project work is complete (ADOT Project Manager submits the final Contract Status Form) will represent the start date of the 5-year retention period.

If the Consultant has failed to retain records in accordance with ADOT and Federal Highway Administration record retention policies, unsupported costs will be deemed unallowable in accordance with Title 48 CFR Part 31.201-2(d), *Determining Allowability*, and must be reimbursed to the State.

## 7. Direct Expenses

Direct expenses related to a project are allowable to the extent they are reasonable and have not already been include as part of a consultants unit rate or indirect cost rate.

- a. Externally generated direct expenses will generally be recommended at cost, pending reasonableness.
- b. Travel, lodging and meal will always be recommended in accordance with ADOT travel policies.
- c. Mileage for use of personal vehicles on project related activities is reimbursed at the State of Arizona rate of \$0.445 per mile.
- d. Company owned vehicle mileage may be reimbursed at a rate developed by the Consultant based on actual costs incurred. If the Consultant chooses to develop a company owned vehicle mileage rate they must be able to support the costs included in the development of the mileage rate and ensure that those costs have not already been included in the proposed unit rate or indirect cost rate. Otherwise, the State of Arizona rate of \$0.445 may be used for reimbursement.

## 8. Unit Rates Reviews

Consultants receiving less than \$200,000 in payments during the prior or the current year may opt to propose on a unit rate basis. Consultants proposing commercial items, or those who have not been in operation for at least one complete calendar year, may be required to propose on a unit rate basis.

Key information:

- e. The objective of a unit rate review is to provide a reasonable assurance that the

- Consultant's proposed unit rates comply with Title 48 of the Code of Federal Regulations (CFR) Part 15, *Contracting by Negotiation*, applicable ADOT policies.
- f. Supporting documentation may include: client invoices (non-ADOT), fee schedules, calculation breakdowns, and any other relevant information.
  - g. Derivation of Unit Rates
    - i. Labor unit rates are typically comprised of direct labor plus indirect costs with the applicable fixed fee all included in one rate.
    - ii. Specialty unit rates, including but not limited to utility locating or drilling, may be comprised of several different components, depending on the work.
- Note:** It is good practice to provide a breakdown of unit rates with multiple components along with the submitted cost proposal in order to expedite the review process.
- h. Once a firm has exceeded the \$200,000 threshold for Unit Rates, the Consultant shall be transitioned to an indirect cost rate basis for the following fiscal year. At which point, all requirements identified within Section 6 of this document would apply.

### 9. Indirect Cost Rate Reviews

Contractors receiving more than \$200,000 in payments during the prior or current year must submit an indirect cost rate for review. Contractors receiving less than \$200,000 in payments during the prior or current year may opt to submit an indirect cost rate.

Key information:

- i. The objective of an indirect cost rate review is to determine if the submitted indirect cost rate and supporting documentation comply with Title 48 CFR Part 31, *Contract Cost Principles and Procedures*, the American Association of Highway and Transportation Officials (AASHTO) *Uniform Audit and Accounting Guide* and applicable ADOT policies.
- j. Consultants will be required to complete the AASHTO *Internal Control Questionnaire (ICQ)* and provide all documents listed on Page 1 of the ICQ.
- k. Consultants that propose on an indirect cost rate basis shall annually prepare their Schedule of Indirect Costs and Financial Statements to Audit and Analysis for review no later than six months of the completion of the Consultant's preceding fiscal year-end (FYE). Non-compliance with this requirement may be considered a breach of contract and may result in termination of all active contracts held by the firm with the State.
- l. Firms on an indirect cost rate basis are required to have a compliant accounting system which records, measures, and allocates financial information both accurately and completely in accordance with the Generally Accepted Accounting Principles (GAAP), Federal Acquisition Regulation (FAR) Part 31, applicable Cost Accounting Standards (CAS), and the AASHTO Uniform Audit & Accounting Guide (AASHTO Guide).
- m. Firms with more than one engineering discipline or specialty must provide and be able to substantiate separate unique indirect cost rates (i.e., design/home office, field/construction administration, survey, testing, etc.).
- n. Facilities Capital Cost of Money (FCCM) – If a firm chooses to propose an FCCM rate, it should be a separate line item on its cost proposal and should not be included in its indirect cost rate.

### 10. Incurred Cost Audits

All Cost-Plus Fixed Fee (CPFF) and Cost-Plus Fixed Fee by Task Order (CPFFTO) contracts are subject to an incurred cost audit. Additionally, Lump Sum (LS) and Lump Sum by Task Order (LSTO) contracts with provisional rates are subject to audit.

Key information:

- o. The objective of an incurred cost audit is to determine if costs included in the indirect cost rate(s) utilized during performance of this specified contract(s) are in compliance with

- Title 48 CFR Part 31, the AASHTO Uniform Audit and Accounting Guide and applicable ADOT policies and expenses have been charge appropriately to the specified contract(s).
- p. The scope is broader than an Indirect Cost Rate Review, which may have been conducted during the negotiation stage of the contracting process.
  - q. May encompass several of a Consultants fiscal years and ADOT contracts, both active and pending closeout.
  - r. Audit and Analysis currently has incurred cost audits on a three year cycle. Meaning, Consultants will not be engaged to provide information for an incurred cost audit more frequently than every three years.
  - s. Conclusions of incurred cost audits may result in the Consultant owing money to ADOT or ADOT owing money to the Consultant to ensure that only actual costs incurred were reimbursed for each contract.
  - t. Incurred cost audits may be performed internally or outsourced to an external Certified Public Accountant for performance.

## 11. References

- ADOT Audit and Analysis  
<https://azdot.gov/about/AuditandAnalysis>
- ADOT Engineering Consultant Section  
<https://azdot.gov/business/engineering-consultants>
- United States Code of Federal Regulations  
<https://www.ecfr.gov/>
- AASHTO Committee on Internal and External Audits – ICQ and Uniform Audit and Accounting Guide  
<https://audit.transportation.org/>