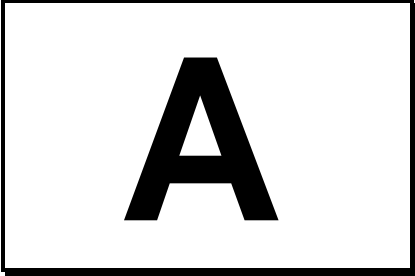


Appendix



A

**Review Program for CPA Audits
of Consulting Engineers'
Indirect Cost Rates**

Name of Consultant (A/E Firm):

Name of CPA Firm/ Auditor:

Name of DOT Reviewer:

Date(s) of DOT Review:

Background and Objectives

Independent CPAs perform audits of engineering consultants' Statements of Direct Labor, Fringe Benefits, and General Overhead (indirect cost rate schedules) to ensure compliance with Generally Accepted Accounting Principles (GAAP), Part 31 of the Federal Acquisition Regulation (FAR), and, to the extent applicable, the Cost Accounting Standards (CAS) of 48 CFR subpart 9900. In turn, State DOT auditors review the CPAs' work to determine whether the indirect cost rates and Facilities Capital Cost of Money (FCCM) rates certified by the CPAs should be accepted by DOTs for purposes of cost reimbursement and project cost estimates.

This Review Program was designed to provide State Department of Transportation (State DOT) auditors with a framework to provide consistency in—

- Evaluating the CPA's familiarity and compliance with the Government Auditing Standards (GAGAS), Generally Accepted Auditing Standards (GAAS), GAAP, 23 U.S.C. 112(b)(2), 23 CFR 172, FAR Part 31, and interpretive guidance such as the DCAA Contract Audit Manual (CAM) and the AASHTO Uniform Audit and Accounting Guide (*AASHTO Guide*).
- Determining whether the CPA's workpapers support the opinions stated in the Audit Report regarding the engineering consultant's—
 - job-cost accounting and estimating systems;
 - indirect cost rate schedule;
 - internal control structure;
 - compliance with the applicable laws, regulations, and guidance; and
 - identification and segregation of field office costs.
- Verifying the adequacy of the sampling procedures used by the CPA.
- Ensuring the CPA presented the audit findings and the Audit Report to the engineering consultant.
- Ensuring that the CPA's audit adjustments agree to the adjustments listed on the final, audited indirect cost rate schedule submitted to State DOTs.

Note 1: Although this Program was developed primarily for use by State DOT auditors, independent CPAs are encouraged to use the Program as an outline, or checklist, to ensure that sufficient evidence is gathered and maintained in the audit workpapers to support audit conclusions.

Note 2: The foregoing list of objectives was designed to determine whether the CPA's workpapers support various elements of the engineering consultant's financial systems, such as the job-cost accounting and estimating systems. However, it should be noted that the CPA only is required to provide an opinion on the indirect cost rate schedule and to issue a report on internal controls over financial reporting and compliance as required by GAGAS.

State DOT reviewers should complete this Review Program as completely as possible; accordingly, workpaper references and supplemental explanations/narratives should be included in all areas, as appropriate, to support the conclusions reached. This is especially important when the Review Program is used in conjunction with a State DOT's cognizant review of a CPA's FAR audit report.

When completing the electronic version of this document, a Keyword Index may be accessed with a Click in all places where the following link appears: [\[KEYWORD INDEX\]](#). Links to the index are also embedded in each of the section headings and subheadings (e.g., I., I.A, I.B, etc.).

Name of Consultant: _____
 Audit Period: _____
 CPA Firm/Auditor: _____

DOT Reviewer: _____
 Review Date: _____

II. GAGAS GENERAL STANDARDS.		Attribute Met? [KEYWORD INDEX]	CPA Workpaper Reference (or Comment)
II. A.	<p>PEER REVIEW REPORT. Review the CPA’s most recent Peer Review Report. Did the CPA receive a Peer Review Rating of Pass (GAGAS 3.101)? If not, document the comments of the peer reviewer(s), obtain a copy of the corrective action plan, and note any possible impairment(s) to the audit work performed.</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
II.B	<p>CPE. Did the CPA meet the minimum Yellow Book requirements for CPE credit per GAGAS 3.76? Review the earned CPE hours and course listing for each individual CPA who worked on the assignment:</p> <ul style="list-style-type: none"> • 80 hours CPE over 2 years • 24 hours in government auditing or government environment 	<input type="checkbox"/> Yes <input type="checkbox"/> No	
II. C.	<p>INDEPENDENCE. Did it appear that the CPA was free from personal, external, and organizational impairments to independence, and did the CPA avoid the appearance of such impairments to independence (GAGAS 3.02 through 3.59)?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
II. D.	<p>PEER REVIEW REPORT. (Answer “yes” or “no,” based on overall conclusion.) Did the staff assigned to conduct the audit collectively possess adequate professional competence for the tasks required (GAGAS 3.69 through 3.75)? Determine the sufficiency of CPA firm’s knowledge of applicable audit criteria, such as the following:</p> <ul style="list-style-type: none"> • Were staff members assigned to the audit proficient with the FAR? • Were assigned staff members knowledgeable of the <i>AASHTO Guide</i> and other relevant guidance (e.g., the DCAA CAM and/or supplemental materials issued by State DOTs)? • Have assigned staff members received specific training in relevant subjects? • Has the firm had recent experience in conducting FAR audits? • Have any State DOTs already reviewed any of the CPA’s audits of other consulting firms? If “yes,” the DOT reviewer should contact those states to see if they identified any problems with the CPA’s work. 	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Name of Consultant: _____
 Audit Period: _____
 CPA Firm/Auditor: _____

DOT Reviewer: _____
 Review Date: _____

III. GAGAS FIELD WORK STANDARDS.		Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
III.A	<p>PLANNING. (Answer “yes” or “no,” based on overall conclusion.) Is there evidence that the audit work was properly planned to:</p> <ul style="list-style-type: none"> • Determine the nature timing and extent of auditing procedures; • Consider fraud and illegal acts; • Consider materiality; • Evaluate previous audits; and • Assess risk? 	<input type="checkbox"/> Yes <input type="checkbox"/> No	
III.B.	<p>ENGAGEMENT LETTER. Did the audit contract, engagement letter, or agreement include the following? (Answer “yes” or “no,” based on overall conclusion.)</p> <ul style="list-style-type: none"> • The period to be covered, • The cost pools to be audited, • The reports to be prepared, • That representatives of State agencies and other applicable Government audit staff shall have access to the audit documentation upon request and in a timely manner (GAGAS 4.16), • That working papers be maintained for at least three years after the date of the report, • Any restrictions or special conditions, and • Citations to the Audit Guide and other relevant standards and/or regulations to be followed (e.g., GAGAS, GAAS, and FAR Part 31)? 	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	
III.C	<p>PRIOR FINDINGS. Did the CPA follow up on known material findings and recommendations from prior audits (GAGAS 4.05)?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	

Name of Consultant: _____
 Audit Period: _____
 CPA Firm/Auditor: _____

DOT Reviewer: _____
 Review Date: _____

III. GAGAS FIELD WORK STANDARDS.		Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
III.D	<p>QUALITY OF AUDIT DOCUMENTATION. Did the audit documentation (GAGAS 4.15 and 5.16) provide adequate evidence of the following?</p> <ul style="list-style-type: none"> • Overall, there was sufficient detail to provide a clear understanding of the CPA’s work (additional detail, supplementary, or oral explanations should not be necessary); • The audit evidence obtained included its source, descriptions of transactions and records examined, and the conclusions reached; • The documentation provided sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand— <ul style="list-style-type: none"> – the nature, timing, and extent of auditing procedures performed to comply with Yellow Book and other applicable standards and requirements; – the results of the audit procedures performed and the audit evidence obtained; – the conclusions reached on significant matters; and – the accounting records agree or reconcile with the audited financial statements or other audited information. • The documentation provided evidence of supervisory review of the work performed (GAGAS 4.15). 	<p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No</p>	

IV. FORMAT AND CONTENTS OF AUDIT REPORT.		Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
IV.A.	<p>AUDIT OPINION. Did the report contain an opinion stating that the audited indirect cost rate schedule was fairly presented in accordance with applicable Federal laws and regulations?</p>	<p><input type="checkbox"/>Yes <input type="checkbox"/>No</p>	
IV.B.	<p>SCOPE. Did the report contain a scope paragraph stating that the audit was performed in accordance with Yellow Book standards?</p>	<p><input type="checkbox"/>Yes <input type="checkbox"/>No</p>	
IV. FORMAT AND CONTENTS OF AUDIT REPORT.		Attribute Met? [KEYWORD INDEX]	Workpaper Reference

Name of Consultant: _____
 Audit Period: _____
 CPA Firm/Auditor: _____

DOT Reviewer: _____
 Review Date: _____

			(or Comment)
IV.C.	<p><u>BASIS FOR DETERMINING ELIGIBLE/ALLOWABLE COSTS.</u> Did the scope paragraph state that the CPA used FAR Part 31 as the primary basis for determining costs eligible for reimbursement under Government contracts?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	
IV.D.	<p><u>REPORT ON INTERNAL CONTROLS.</u> Did the CPA issue a report on the Internal Control and Compliance with Laws, Regulations, and Provisions of Contracts or Grant Agreements as required by Government Auditing Standards?</p> <p>– If “yes,” were all significant deficiencies and material weaknesses in the internal control that were found by the auditor disclosed in the auditor’s report? (GAGAS 4.16 and 5.17)</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	
IV.E.	<p><u>COMMUNICATION OF RESULTS OF AUDIT.</u> Review the procedures used by the CPA to communicate the results of the audit and deficiencies in internal controls to the engineering consultant (GAGAS 4.16 and 5.17). Were the procedures adequate?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Name of Consultant: _____
 Audit Period: _____
 CPA Firm/Auditor: _____

DOT Reviewer: _____
 Review Date: _____

IV. FORMAT AND CONTENTS OF AUDIT REPORT.		Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
IV.F.	<p>DISCLOSURE NOTES. (Answer “yes” or “no,” based on overall conclusion.) Were the Disclosure Notes to the Report Adequate? (See <i>AASHTO Guide</i>, Chapter 11, which discusses Audit Reports and Minimum Disclosures.)</p> <p>At a minimum, the following should have been disclosed (if applicable):</p> <ul style="list-style-type: none"> • Description of the Company (11.4.A) • Basis of Accounting (11.4.B) • Description of Accounting Policies, including Cost Allocation Policies (11.4.C). • Description of Overhead Rate Structure (11.4.D). <ul style="list-style-type: none"> - Reporting unit; - Single base or multiple bases, and how the base(s) is (are) applied. • Description of Labor Related Costs (11.4.E). Such as: <ul style="list-style-type: none"> - Policies regarding the allocation of project labor (e.g., actual vs. standard hourly rates and, if applicable, how and when are variances computed and recorded); - Contract/Purchased Labor; - Paid Time Off; - Paid Overtime and Uncompensated Overtime (e.g., how is overtime premium treated, and how does the company account of uncompensated overtime), Executive Compensation Analysis, Pension/Deferred Compensation, and Employee Stock Option Plans. • Description of Depreciation and Leasing Policies (11.4.F) • Description of Related-Party Transactions (11.4.G) • Facilities Capital Cost of Money (FCCM) (11.4.H) • List of Direct Cost Accounts (11.4.I). <ul style="list-style-type: none"> - Were direct costs consistently allocated to cost objectives/projects? - Were individual charge-rates (if applicable) listed, along with along with a general description of the audit procedures used to verify the accuracy of the rates? • Management’s Evaluation of Subsequent Events (11.4.J). Was a statement included noting that the company has adequately considered the effect of subsequent events up to the date the indirect cost rate schedule was issued? 	<input type="checkbox"/> Yes <input type="checkbox"/> No	
IV.G	<p>ELEMENTS OF AUDIT REPORT. Did the CPA’s Audit Report contain a list of costs submitted by the engineering consultant, adjustments and allowed costs per audit, explanations of the adjustments, and FAR references for the adjustments made?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Name of Consultant: _____
 Audit Period: _____
 CPA Firm/Auditor: _____

DOT Reviewer: _____
 Review Date: _____

V. REVIEW OF CPA's AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))		Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
V.A.1.	<p>GENERAL LEDGER. (Answer “yes” or “no,” based on overall conclusion.)</p> <p>Did the CPA review the accounting system to determine if the system was adequate to segregate and accumulate reasonable, allocable, and allowable costs?</p> <ul style="list-style-type: none"> • Evaluate the testing used by the CPA to verify the accuracy of costs in the general ledger, associated subsidiary ledgers, and related documents or systems. (Assess if testing was sufficient to support the CPA’s conclusions—consider additional sample testing, if necessary). • Was there evidence that costs in the general ledger were properly classified? • Did the general ledger contain separate accounts for segregating FAR-unallowable costs? • If not, were unallowable costs otherwise identified or estimated? Review, evaluate, and document how the unallowable costs were determined. Review the CPA’s documentation of tests and conclusions. 	<input type="checkbox"/> Yes <input type="checkbox"/> No	
V.A.2.	<p>GENERAL LEDGER (continued). (Answer “yes” or “no,” based on overall conclusion.)</p> <p>If the engineering consultant used statistical sampling as a basis to estimate unallowable costs, was a proper statistical sampling method used as required by FAR 31.201-6(c)(2)? Specifically:</p> <ul style="list-style-type: none"> • The sampling method must result in an unbiased sample that is a reasonable representation of the sampling universe; • Any large dollar value or high risk transaction must be separately reviewed for unallowable costs and must be excluded from the sampling process; and • The sampling method must permit audit verification. • Did the engineering consultant enter into an appropriate advance agreement with its cognizant State DOT to allow for such sampling and estimation as discussed in FAR 31.201-6(c)(4)? 	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	

Name of Consultant: _____
Audit Period: _____
CPA Firm/Auditor: _____

DOT Reviewer: _____
Review Date: _____

V. REVIEW OF CPA's AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))	Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
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V.B. LABOR ACCOUNTING SYSTEM. (See *AASHTO Guide*, Chapters 6 and 10.)

Did the CPA's workpapers contain evidence that the engineering consultant's labor-charging/timekeeping system was determined to be complete and sufficiently detailed to allow for a proper determination of the consultant's direct labor base and indirect labor costs, including the allowability of such costs? Specifically—

• Was there evidence that the consultant accounted for all hours worked by all employees, including salaried employees and principals? Yes No

• Was there evidence that indirect labor was recorded on timesheets in sufficient detail to allow for a determination of labor relating to FAR-governed costs, including marketing/promotional, direct selling, bid and proposal, training, reorganization, and other administrative tasks? Yes No

• Were the labor costs per the indirect cost rate schedule reconciled to total labor costs per payroll tax returns (941s), the general ledger/financial statement, and the labor distribution system/summary? Yes No

• Was there a labor distribution analysis—a review of hours and rates per the labor distribution reports and comparison to employee timesheets and payroll register or other payroll records? Yes No

• Was there a review of uncompensated overtime? (FAR 52.237-10 defines uncompensated overtime as “hours worked without additional compensation in excess of an average of 40 hours per week by direct charge employees who are exempt from the Fair Labor Standards Act. Compensated personal absences such as holidays, vacations, and sick leave must be included in the normal work week for purposes of computing uncompensated overtime hours.”) Yes No

LABOR ACCOUNTING SYSTEM (cont.)
(See *AASHTO Guide*, Chapters 6 and 10.)

[\[KEYWORD INDEX\]](#)

Yes No

• If the consultant used a standard costing system, was there evidence

<p>V.B. (cont.)</p>	<p>that the consultant properly accumulated and disposed of variances?</p> <ul style="list-style-type: none"> • Was there evidence that the consultant accounted for the premium portion of overtime on a consistent basis? • Was there evidence that the consultant consistently and properly accounted for project-related purchased/temporary labor? • Did the CPA's workpapers contain evidence that a minimum labor sample size of 26 timesheets⁴⁷ were chosen for testing across an appropriate mix of direct-charge employees, including supervisors and/or project managers? Alternatively, did the CPA's workpapers for labor testing document the size of the labor population and the conclusions drawn from the risk assessment to determine if a larger sample size was warranted beyond the minimum sample size? 	<p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No</p>	
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⁴⁷ Generally, the testing should include all the time transactions (each increment of time allocated to a direct or indirect project or cost pool) from the sampled timesheets.

V. REVIEW OF CPA'S AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))	Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
<p>V.C. PROJECT-COSTING/JOB-COSTING SYSTEM. Was there evidence that the project costing system accounted for all direct costs (direct labor and other costs that can be identified specifically with a project or final cost objective), on a proper, complete, and consistent basis?</p> <ul style="list-style-type: none"> • Did costs contained in the project costing system integrate with, or otherwise reconcile to, financial accounting system control accounts (general ledger accounts)? • Was there evidence that the consultant properly recorded all direct labor to projects, including non-billable labor identified with projects? • Was there evidence that the consultant recorded labor costs at properly developed labor rates for both salaried and non-salaried employees? For example, did the CPA pay specific attention to the accuracy of labor rates for salaried employees who incur overtime and work in both direct and indirect functions? • Was there evidence that the consultant recorded all Other Direct Costs, whether billable or not, to projects on a consistent basis? Were the components of such costs segregated from general overhead? • Did the workpapers address costs that the consultant treated as direct costs and billed, but also included in the indirect cost pool? If so: <ul style="list-style-type: none"> – Were recoveries associated with these costs credited to the indirect cost pool in accordance with FAR 31.201-5? – The netting of direct costs included in the indirect cost pool and billed amounts (on a basis other than cost) in this instance may yield an inaccurate representation of costs. Did the workpapers address the acceptability of this alternative methodology? 	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>	

V. REVIEW OF CPA'S AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))	Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
<p>V.D. <u>DIRECT COSTS/VERIFICATION OF COMPANY IN-HOUSE RATES AND DIRECT BILLINGS.</u> Did the CPA's workpapers include evidence of the following?</p> <p>The consultant submitted a list of direct cost accounts and amounts for the CPA's review.</p> <ul style="list-style-type: none"> • The CPA reviewed the consultant's direct cost accounts for consistency. • The CPA ensured that all direct costs were removed from the indirect cost pool. • The CPA reviewed the consultant's in-house billing rates to ensure: <ul style="list-style-type: none"> – Total usage (direct and indirect) was included in the denominator? – If expenses associated with the development of the rate(s) were accumulated in the indirect cost pool, the indirect cost pool was reduced by the amount of direct usage? – If the expenses were accumulated in separate clearing account(s), the indirect cost pool included only indirect usage? • Did the CPA audit the in-house billing rates, compare the audited in-house rates to the billing rates, and revise as necessary (e.g., CADD and in-house reproductions)? • Did the CPA verify billings on other projects on a sample basis? (If a State project was tested, note project number and amount for information.) Did the CPA performed reconciliations of: <ul style="list-style-type: none"> – Hours charged on billings to timesheets, – Hourly rates billed to actual rates, and – Hourly rates billed to contract maximums? 	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

V. REVIEW OF CPA'S AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))	Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
<p>V.E. <u>COST POOLING AND ALLOCATION METHODOLOGIES.</u> (Answer "yes" or "no," based on overall conclusion.)</p> <p>Did the CPA's workpapers include evidence that costs were properly and consistently pooled and allocated to intermediate and final cost objectives?</p> <ul style="list-style-type: none"> • Was there evidence that the CPA addressed the propriety of the methodology used by the engineering consultant in allocating costs contained in intermediate cost pools (e.g., corporate expenses, fringe benefits, general and administrative, and service specific overheads) to the final indirect cost rate(s)? • Specifically, did the CPA firm evaluate the homogeneity of the cost pools and the relationship to the allocators used? Did the CPA conclude that the methodology resulted in an allocation of costs in relation to the benefits accrued by the cost objectives? • If the consultant developed indirect costs rates for more than one region, reporting unit, or engineering discipline, did the CPA address the propriety of the cost pooling and cost allocation methodologies used? • For Other Direct Costs that were internally-generated, did the CPA determine that related costs were properly segregated from the general cost pool and were allocated to projects on a consistent • For Other Direct Costs that were internally-generated, accumulated in separate cost pools, and allocated based on individual charge rates, did the CPA determine that the consultant properly adjusted for/resolved material year-end variances resulting from the over- or under-allocation of actual costs? • For internally-generated costs such as company-owned vehicles, were such costs accumulated in separate cost pools when such costs were material in amount and had a material impact on the firm's indirect cost rates (specifically when the firm has more than one overhead rate involving differentials in the amounts of service-specific vehicle usage)? 	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

V. REVIEW OF CPA's AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))		Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)
V.F.	<p><u>AUDIT TESTING, GENERALLY.</u></p> <ul style="list-style-type: none"> • Did the workpapers include evidence that the CPA determined that costs contained in the indirect cost rate schedule were supported by the underlying books and records, as summarized by financial statements, trial balances, tax returns (IRS Form 941s), and related schedules? • Did the workpapers document the identification of <i>large-dollar or sensitive</i> (LDS) transactions that were removed/stratified for complete examination, including verification (vouching) to source documents? (<i>AASHTO Guide</i> Chapter 10). • Did the workpapers document the sampling parameters used by the CPA if additional testing beyond the LDS items was warranted? (<i>AASHTO Guide</i> Chapter 10). 	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>	

	<ul style="list-style-type: none"> • Did the CPA: <ul style="list-style-type: none"> – Verify that the Consultant properly compared executive compensation amounts to the benchmarks discussed previously in Item 8? – Verify that the Consultant either: <ul style="list-style-type: none"> (a) used nationally-published salary survey data to prepare the analysis? Check here, if applicable: <input type="checkbox"/> <li style="text-align: center;">or (b) applied the applicable amount from the NCM? Check here, if applicable: <input type="checkbox"/> – Review the Consultant’s bonus/incentive compensation plan to ensure that objective, performance-based criteria were established, communicated to staff, and used in determining bonus amounts? – Review the Consultant’s bonus/incentive compensation plan to determine if any portion of the bonus paid was a constructive dividend or other distribution of profits? 	<p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No <input type="checkbox"/>N/A</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No <input type="checkbox"/>N/A</p>	
<p>V.G.2.</p>	<p><u>SUPERIOR PERFORMANCE.</u> (Answer “yes” or “no,” based on overall conclusion.) If the Consultant claimed superior performance, did the CPA verify that the Consultant’s performance analysis complied with the procedures established in Chapter 7 of the <i>AASHTO Guide</i>?</p> <p>For example:</p> <ul style="list-style-type: none"> • Did the consultant apply three (or more) financial performance measures as detailed in Chapter 7 of the <i>AASHTO Guide</i>? • Did the consultant consistently use the same criteria from a prior year (if superior performance was claimed in the prior year)? • Did the consultant use proxy data available from valid sources using the prescribed criteria in Chapter 7 of the <i>AASHTO Guide</i>? • Did the consultant limit superior performance so as not to exceed the 75th percentile or the Benchmark Compensation Amount (BCA)? 	<p><input type="checkbox"/>Yes <input type="checkbox"/>No <input type="checkbox"/>N/A</p>	
<p>V.G.3.</p>	<p><u>INDIRECT COST ACCOUNTS.</u> (See <i>AASHTO Guide</i>, Chapters 4, 5, 8,</p>	<p><u>[KEYWORD INDEX]</u></p>	

	<p>and 10.)</p> <p>(1) Did the CPA’s workpapers include the following?</p> <ul style="list-style-type: none"> • A risk assessment, including a list of accounts the CPA deemed immaterial and therefore did not review. • A listing of accounts reviewed with analytical procedures (e.g., ratio analysis, and year-over-year comparisons to measure recorded amounts against the auditor’s expectations/predictions). • A listing of accounts selected for detailed testing, using the large dollar or sensitive (LDS) criteria discussed in Chapter 10.2 of the <i>AASHTO Guide</i>. <p>(2) Did the CPA’s workpapers adequately address the <i>allowability</i> (including <i>reasonableness</i>) of indirect costs in accordance with the FAR 31.2 Cost Principles? Specifically, did the CPA perform the procedures to ensure that⁴⁸:</p> <ul style="list-style-type: none"> • Payroll taxes reconciled to applicable tax returns. • The auditor adequately reviewed accounts with a high risk of potential misstatement. (*) <i>(The following 14 accounts/line items are excerpted from Section 10.4.B of the AASHTO Guide; however, the items tested by the CPA may vary, depending on the CPA’s risk assessment and application of professional judgment. If the CPA excluded any of these items from detailed testing, comment on the justification (if any) provided in the CPA’s workpapers for the deviation from the list of potential high-risk accounts.)</i> <p>Note 1: <i>In accordance with Section 10.4 of the AASHTO Guide, all LDS items should be selected for detailed testing, and, in situations where the auditor determines that additional testing beyond the LDS items is required, an additional random sample of 2 to 20 items also should be tested in each high-risk account.)</i></p> <p>(*) In some cases, rather than commenting on the individual components of the CPA’s high-risk account testing below in 1 - 15, it may be more practical for the State DOT reviewer to prepare a summary narrative to describe the CPA’s indirect cost testing. In such cases, the review should mark “Yes” or “No” above (V.G.3(2), bullet 3), based on the reviewer’s overall conclusion, and the summary narrative should be attached to this Review Program as a separate workpaper.</p> <ol style="list-style-type: none"> 1. PRINTING/REPRODUCTION. All direct costs were consistently allocated to cost objectives/projects and properly removed from the indirect cost pool. 2. DUES AND SUBSCRIPTIONS. Costs removed for country club dues, Political Action Committee (PAC) contributions and other lobbying costs, scholarship donations, and non-business purchases. 3. TRAVEL. <ul style="list-style-type: none"> – All entertainment costs, alcoholic beverages, and personal charges were removed from the indirect cost pools (FAR 31.205-14 and -51). – Costs for personal usage of company cars were removed from the indirect cost pool (FAR 31.205-6(m)(2)). (This is required regardless of whether the costs were reported as taxable income to the employees.) – Travel costs complied with the limits set by 41 CFR Chapters 300 – 304, the Federal Travel Regulation (as incorporated in FAR 31.205-46). 	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes(*) <input type="checkbox"/> No(*)</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><u>KEYWORD INDEX</u></p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	<p>(*)</p>
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⁴⁸ Although the following cost items will not necessarily constitute high-risk areas in all engagements, the auditor should consider the following factors in deciding which accounts to examine in detail. The auditor should expand or reduce the list, as appropriate for each engagement. The State DOT reviewer should review the auditor’s risk assessment general testing approach to ensure the following factors were adequately considered.

<p>V.G.3. (cont.)</p>	<ul style="list-style-type: none"> - The consultant treated direct travel costs consistently, regardless of contract type or customer, and these costs were not duplicated in any indirect cost pool (FAR 31.202(a) and 31.203(b)). <p>4. <u>SEMINARS AND CONVENTIONS.</u> Costs removed for sponsorships, golf fees, door prize donations, entertainment, and booth rental costs.</p> <p>5. <u>INSURANCE.</u></p> <ul style="list-style-type: none"> - Premiums were allocable to period covered by the indirect cost rate schedule being audited. - Group insurance was reviewed in accordance with FAR 31.205-19. - Self-insurance was reviewed for compliance with FAR 31.205-19. - Life insurance for key personnel (e.g., owners/principals and related parties) reviewed for compliance with FAR 31.205-19 (allowable only to the extent the premiums represent additional compensation; costs unallowable if the company is the beneficiary). - Review to ensure professional liability insurance expense does not include settlement costs, costs to correct defects in design, etc. <p>6. <u>PROFESSIONAL AND CONSULTANT SERVICE COSTS.</u></p> <ul style="list-style-type: none"> - Organization and reorganization costs (FAR 31.205-27), bad debt collections (FAR 31.205-3), and costs associated with other unallowable, related activities were properly disallowed. - Costs for services provided were accompanied by adequate billing detail. - Retainer fees (FAR 31.205-33) reviewed to ensure services provided were necessary and customary, sufficient detail was provided by service provider, and unallowable activities were identified and disallowed. <p>7. <u>RENT.</u></p> <ul style="list-style-type: none"> - Facilities/real estate and personal property costs were reviewed for common control, and the Consultant properly limited expenses for controlled assets to the allowable cost of ownership as discussed in FAR 31.205-36. - Leases reviewed to ensure that only costs for business-use assets were claimed on the indirect cost rate schedule. - Costs associated with sublet, idle, or otherwise unallocable space were identified and disallowed (FAR 31.205-17). <p>8. <u>DEPRECIATION.</u></p> <ul style="list-style-type: none"> - The amount on the indirect cost rate schedule was properly limited to the amount used for financial reporting purposes (no section 179 write-offs or special tax depreciation are permitted). - The depreciation amount was net of personal-use (nonbusiness) assets and assets that are not allocable to the consultant's A/E business. - Costs for luxury vehicles should be reviewed for reasonableness (FAR 31.205-3). - Depreciation should be computed consistently from year to year across all departments and business segments (FAR 31.205-11). 	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
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<p>V.G.3. (cont.)</p>	<p>9. EMPLOYEE MORALE AND RELATED COSTS. Reviewed for unallowable entertainment costs per FAR 31.205-14 (e.g., parties, picnics, outings, and sporting events); unallowable gifts; and other allowable costs per FAR 31.205-13. See also DCAA CAM Sections 7-2103(e)(3) and (4).</p> <p>10. ACCOUNTS TITLED "MISCELLANEOUS EXPENSE," "OTHER INDIRECT COSTS," "GENERAL OFFICE," OR SIMILAR TITLES. Reviewed for allocability, reasonableness, business purpose, direct costs, etc.</p> <p>11. SUBCONTRACTORS/OUTSIDE CONSULTANTS. Reviewed for proper segregation between direct and indirect, business purpose and allowability of activities performed, and reasonableness.</p> <p>12. OTHER/MISCELLANEOUS INCOME. Reviewed for any amounts that should be credited to an indirect cost account.</p> <p>13. GAINS ON SALE OF ASSETS. Reviewed for proper credit on gains on sale of assets originally presented as part of the depreciation expense cost.</p> <p>14. LOSSES ON SALE OF ASSETS. Reviewed to ensure reporting within the year the transaction occurred, appropriate calculation, appropriate application of credit or charge to the cost grouping(s) in which the depreciation or amortization was originally posted, and appropriate posting of cash awards.</p> <p>15. OTHER ACCOUNTS REVIEWED. List any other accounts or lines items the CPA tested in detail. Describe the procedures performed and the CPA's conclusions.</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p>[KEYWORD INDEX]</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>	
<p>V. REVIEW OF CPA'S AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))</p>		<p>Attribute Met? [KEYWORD INDEX]</p>	<p>Workpaper Reference (or Comment)</p>

	<ul style="list-style-type: none"> - Did the CPA evaluate the adequacy of the controls over the accounting system (e.g., Payroll, Other Direct Costs, and posting)? - Did the CPA evaluate the adequacy of the controls over the computer systems (e.g. Information Technology System policies around: hardware/software, security protocol, activation/deactivation of employees; completion of risk assessment; electronic data retention)? - Did the CPA evaluate the following: <ol style="list-style-type: none"> 1. Control Environment (management attitude), 2. Control Methods (policies and procedures), 3. Communications, and 4. Monitoring? • Did the CPA, in conformance with GAGAS and SAS 99, adequately consider factors related to fraud? 	<p style="text-align: center;"><input type="checkbox"/>Yes <input type="checkbox"/>No</p>	
V. REVIEW OF CPA's AUDIT TESTING (Application of GAGAS, FAR Part 31, and relevant Cost Accounting Standards (48 CFR Chapter 99))	Attribute Met? [KEYWORD INDEX]	Workpaper Reference (or Comment)	

VI.A .	<p><u>EXIT CONFERENCE.</u></p> <p>Discuss the results of the audit/review with the Consultant and the CPA. Obtain their concurrence and/or identify areas of disagreement. Ensure that the Consultant understands the results are preliminary and are subject to review. Document the exit conference thoroughly.</p> <p>State DOT Workpaper Reference: _____</p> <p>Comments: _____</p>
VI.B .	<p><u>REVIEWER'S CONCLUSION STATEMENT.</u></p> <p>Based upon the application and performance of the steps within this work program:</p> <p>(1) The CPA's work demonstrated an: <input type="checkbox"/> Acceptable level of compliance with FAR Part 31 and the <i>AASHTO Audit Guide</i>. <input type="checkbox"/> Unacceptable</p> <p>(2) Should follow-up audit work be recommended? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If "yes," then describe any issues that warrant additional audit work:</p> <p>_____</p>
VI.C .	<p><u>REVIEW MEMORANDUM.</u> Issue review memorandum to Consultant incorporating above conclusion statement, observations, and recommendations.</p> <p>State DOT Workpaper Reference: _____</p>
VI.D .	<p><u>CONTACT INFORMATION.</u> This CPA workpaper review program was completed and approved by—</p> <p>State DOT Reviewer and Title: _____</p> <p>Signature: _____</p> <p>Date: _____</p> <p>State DOT Supervisor and Title: _____</p> <p>Signature: _____</p> <p>Date: _____</p>

VII. Additional Notes

[\[KEYWORD INDEX\]](#)

VII.A

This section may be used to document additional details regarding the CPA's labor testing, indirect cost testing, and/or to compile notes for discussion with the CPA.

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Appendix

B

Internal Control Questionnaire

Internal Control Questionnaire (ICQ) for Consulting Engineers

Name of Engineering Consultant (“the Company”): _____

TIN (Taxpayer Identification Number): _____

Headquarters Address: _____

Company Website: _____

Fiscal Year End: _____

This ICQ was prepared for (DOT/agency name): _____

Time Period Covered: _____

Location of Accounting Records: _____

- Please include the following items as **attachments** to this ICQ:

- FAR Part 31 Overhead Audit Report for most recent fiscal year, including audited Statement of Direct Labor, Fringe Benefits, and General Overhead (hereinafter “Indirect Cost Rate Schedule”) and related reconciliation to the financial statements.
- Cognizant audit report or cognizant letter of concurrence from the cognizant Government agency.
Check here if not applicable:
- Post-closing trial balance and financial statements (balance sheet, income statement, and statement of cash flows) for the most recent fiscal year. (Note: If the indirect cost rate schedule does not directly tie to the trial balance, then please provide a supplemental reconciliation schedule.)
- Current chart of accounts that ties to financial statements and indirect cost rate schedule.
- Independent Auditor’s Report on financial statements and accompanying management letter.
Check here if not applicable:
- Sample timesheet.
- The Company’s policies for vacation and sick leave.
- The Company’s bonus policy.
- Other written policies, as requested throughout this ICQ.

Note: Throughout this ICQ, all references to “AASHTO Guide” pertain to the 2012 Edition of the *AASHTO Uniform Audit & Accounting Guide*.

- Please identify the Company’s primary contact for accounting questions:

Name: _____

Title: _____

Phone Number: _____

E-mail Address: _____

Mailing address (if different than headquarters address listed above): _____

A. Background Information

A.1. Year Established. When was the Company formed? _____

A.2. Business Form. What form of business entity is the Company?

- Sole Proprietorship Partnership C Corporation S Corporation
 Other _____

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

A.3. Parent/Subsidiary. Is the Company a subsidiary of any other company?

- Yes If “yes,” please explain: _____
- No

A.4. Common Ownership. Does the Company own or control any other company or legal entity (e.g., trust or foundation) through common ownership? (See *AASHTO Guide* Section 8.23.B for details.)

- Yes If “yes,” please explain: _____
- No

A.5. Ownership. Please list the stockholders, partners, or other owners with greater than five percent ownership of the Company and their respective percentages of ownership.

Table 1: Company Ownership

Name	Title	Ownership Percentage
		%
		%
		%
		%
		%
		%
		%
		%
		%
		%
		%
		%
		%
		%
		%

A.6. Services Provided. What types of services does the Company provide? (e.g., consultant–Architectural and Engineering Design)

- a. _____
- b. _____
- c. _____
- d. _____

A.7. Locations. How many offices does the Company operate, and where are these offices located?

- a. Number: _____
- b. Locations: _____

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

A.8. Number of Employees. How many employees (including managers and principals) does the Company currently employ?

a. Full time: _____ b. Part time: _____

- Has this number changed in the past one-year period?

No Yes. If “yes,” please explain: _____

A.9. Revenue Sources.

1. For most recent fiscal year, what percentage of the Company’s revenue was generated from each of the following?

a. State government: _____% c. Local government: _____%
 b. Federal government: _____% d. Commercial/private: _____%

2. Please specify all revenues earned as either a prime consultant or subconsultant:

a. Revenues from Government Projects: \$ _____
 b. Revenues Other Customers: \$ _____
Total Company Gross Revenue: \$ _____

A.10. Contract Mix. What percentage of the Company’s revenue was generated from each of the following contract types?

a. Lump sum: _____% c. Cost plus (time and materials): _____%
 b. Cost plus fixed fee: _____% d. Other: _____% Please explain “Other.” _____

B. Accounting: General Background

B.1. Fiscal Period. Has the Company used the same fiscal reporting period for the past two years?

Yes No

B.2. Accounting Method/Basis. What basis of accounting does the Company use to prepare general purpose financial statements?

Cash Accrual Hybrid. Please explain “Hybrid.” _____

- Was the same basis of accounting also used to prepare the firm’s indirect cost rate schedule?

Yes No. Please explain: _____

B.3. Accounting Policies. Does the Company have written accounting policies that address the following topics?

(If “yes,” please provide a copy.)	Yes	No
a. Accounting system	<input type="checkbox"/>	<input type="checkbox"/>
b. Billing	<input type="checkbox"/>	<input type="checkbox"/>
c. Cost estimating/allowability.	<input type="checkbox"/>	<input type="checkbox"/>
d. Recording time worked/timesheet preparation	<input type="checkbox"/>	<input type="checkbox"/>
e. Fringe benefits/leave time	<input type="checkbox"/>	<input type="checkbox"/>
f. Recording overtime	<input type="checkbox"/>	<input type="checkbox"/>
g. Compliance with FAR Part 31 ^(†) and applicable CAS	<input type="checkbox"/>	<input type="checkbox"/>
h. Recording direct and indirect costs	<input type="checkbox"/>	<input type="checkbox"/>
i. Overhead/indirect cost rate development	<input type="checkbox"/>	<input type="checkbox"/>
j. Billing rate development	<input type="checkbox"/>	<input type="checkbox"/>

^(†) FAR Part 31 is codified at 48 CFR Part 31, which is available at <https://www.acquisition.gov/far/html/FARTOCP31.html>.

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

B.4. Preparing the Indirect Cost Schedule. How frequently does the Company prepare an indirect cost rate schedule to determine costs eligible for reimbursement per FAR Part 31?

Annually Other (please specify): _____

- Was the most recent schedule prepared by the Company or by another entity instead (e.g., CPA firm)?

Prepared by: Internal staff External party (specify): _____

- Period covered by most recent indirect cost schedule:

One-year period ended December 31, 20____

Other (please specify): _____

B.5. Fraud, Abuse, and Contract Violations. Is the Company's management aware of any material instances of fraud, illegal acts, abuse, or violations of contracts provisions or grant agreements?

No Yes. If "yes," please explain: _____

B.6. Knowledge of FAR Part 31. Are appropriate personnel within the Company familiar with FAR Part 31?

Yes No. If "no," please explain: _____

B.7. Audits/Examinations. Within the past three years, has a CPA or governmental agency performed an independent audit, review, attestation, or compilation of the Company's financial data or any phase of the Company's operations?

No Yes. If "yes," please complete the following (if applicable):

a. **Financial Statements:** Audit Review Compilation Other (please specify): _____

Name of CPA or Agency: _____

Contact: _____

Period Covered: _____

b. **Overhead Rate:** Audit Review Compilation Other (please specify): _____

- Was the overhead rate calculated in accordance with FAR Part 31? Yes No

Name of CPA or Agency: _____

Contact: _____

Period Covered: _____

c. **Project Audits:** Audit Review Compilation Other (please specify): _____

Name of CPA or Agency: _____

Contact: _____

Period Covered: _____

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

C. Accounting System(s)

C.1. Accounting Software. What type of accounting software does the Company use?

- Internally-developed system. Commercial system. Name of vendor: _____
 Hybrid system. Please explain: _____

- Please describe any significant manual procedures used outside of the automated accounting system to record transactions:

C.2. Job Costing. Does the Company have a job-cost accounting system? Yes No

If “no,” please explain what type of system is used to determine project costs: _____

C.3. Integration. Does the accounting general ledger interface with the job-cost ledger?

- Yes No N/A (no job-cost ledger used)

a. Are billings prepared from, or reconciled to, reports generated from the Company’s job-cost system?

- Yes No. Please explain: _____

b. Describe any manual procedures that occur outside of the automated accounting system to prepare billing packages. _____

C.4. Accounting Records. Which of the following types of records does the Company maintain to support financial transactions?

	<u>Yes</u>	<u>No</u>
a. General ledger	<input type="checkbox"/>	<input type="checkbox"/>
b. Cash disbursements journal	<input type="checkbox"/>	<input type="checkbox"/>
c. Cash receipts journal	<input type="checkbox"/>	<input type="checkbox"/>
d. Job/Project-cost ledger	<input type="checkbox"/>	<input type="checkbox"/>
e. Labor distribution reports	<input type="checkbox"/>	<input type="checkbox"/>
f. Employee expense reports	<input type="checkbox"/>	<input type="checkbox"/>
g. Payroll registers	<input type="checkbox"/>	<input type="checkbox"/>

C.5. Direct and Indirect Expenses. Does the general ledger contain separate direct and indirect accounts for the following?

- a. Labor costs Yes No
b. Non-labor expenses Yes No

If “no,” please explain: _____

C.6. Exclusion of Unallowable Costs. Does the Company have a system in place to identify and remove from the indirect cost pools all unallowable costs, in accordance with per FAR Part 31 and applicable Cost Accounting Standards? (See *AASHTO Guide*, Sections 2.2, 4.4, 5.2, 5.5, and 6.3.)

- No. Please explain: _____
 Yes. If “yes,” please answer a through c, below.

a. Please provide details about the system. _____

b. How are appropriate personnel trained to distinguish between allowable and unallowable costs?

c. When does the primary review for allowability occur—at time the transaction is recorded, or later?

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

C.7. Divisions/Cost Centers. Does the Company have more than one division/cost center?

No Yes

- If "yes," are separate ledgers maintained for each? Yes No

Comment: _____

C.8. Reconciliations.

a. Does the Company reconcile the financial accounting system to the job-cost system?

N/A (no job-cost ledger used).

No. Please explain: _____

Check here if systems are integrated:

Yes. If "yes," how often? (Check all that apply.) Monthly Quarterly Semi-annually Annually

Comment: _____

b. How frequently are bank statements reconciled? Who performs this process?

C.9. Budgeting. Does the Company use a budgeting system for project planning and oversight?

Yes No

Comment: _____

- If "yes," does the Company prepare variance reports to compare budgeted amounts to actual amounts on projects, and are the reports distributed to appropriate management personnel?

Yes No. If "no," please explain: _____

C.10. Cost Allocation. Does the Company use cost allocation methods consistently for all contracts, including commercial contracts as well as for State and Federal government contracts?
(See *AASHTO Guide*, Sections 5.3 and 10.5.)

Yes No. If "no," please explain: _____

C.11. Allocation Base(s). When computing indirect cost rates, the Company uses—

a single base for cost allocation. Description of base: _____

multiple bases for cost allocation. Description of bases: _____

(See *AASHTO Guide* Section 4.7 for a discussion of common allocation bases for indirect costs.)

C.12. Field Offices. Does the Company have field offices? (See *AASHTO Guide* Section 5.6.)

No

Yes. If "yes,"

a. Are separate indirect cost rates used for the home office and field offices?

Yes No

Please explain: _____

b. If home office and field office indirect cost rates are computed, are they presented consistently to all State DOTs?

Yes No. If "no," please explain: _____

Please check here if not applicable:

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C.13. Project-Specific Indirect Cost Rate(s). Does the Company have any special, project-specific indirect cost rates negotiated with a State DOT?

No Yes. If “yes,” please explain, and list the States that use these rates: _____

D. Information Technology (IT) Systems

D.1. IT Policies. Does the firm have written IT system policies concerning the following topics?
(If “yes,” please provide a copy.)

	<u>Yes</u>	<u>No</u>
a. Hardware/Software		
• Purchasing	<input type="checkbox"/>	<input type="checkbox"/>
• Inventory	<input type="checkbox"/>	<input type="checkbox"/>
• Maintenance	<input type="checkbox"/>	<input type="checkbox"/>
• Access	<input type="checkbox"/>	<input type="checkbox"/>
• Use of In-house and off-site	<input type="checkbox"/>	<input type="checkbox"/>
• Addition and removal/retirement/disposition of	<input type="checkbox"/>	<input type="checkbox"/>
b. Business Continuation Plan	<input type="checkbox"/>	<input type="checkbox"/>
c. Security Protocol	<input type="checkbox"/>	<input type="checkbox"/>
d. Activation and deactivation of employees upon hiring or termination.	<input type="checkbox"/>	<input type="checkbox"/>

D.2. IT Risk Assessment. Has the Company’s management conducted an IT system risk assessment within the past three years?

Yes No

D.3. IT Security Review. Are system security and application access logs enabled and reviewed periodically?

Yes No

Comment: _____

D.4. IT Electronic Data Safeguards. If documents are retained in electronic format, are they stored in a format that cannot easily be modified, removed, or replaced, and does a mechanism/audit trail exist to track all such events?

Yes No

Comment: _____

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E. Accounting – Payroll and Timekeeping

E.1. Payroll Service. Does the Company use an external payroll service?

No Yes. If “yes,” please specify: _____

E.2. Pay Cycle. What is the Company’s standard pay cycle?

Bi-weekly Monthly 1st and 15th Other (please specify): _____

If the Company uses more than one pay cycle, please explain: _____

E.3. Payroll Register. Does the payroll register include the following data?

	Yes	No
a. Employee Name	<input type="checkbox"/>	<input type="checkbox"/>
b. Employee ID number	<input type="checkbox"/>	<input type="checkbox"/>
c. Gross pay	<input type="checkbox"/>	<input type="checkbox"/>
d. Payroll deductions	<input type="checkbox"/>	<input type="checkbox"/>
e. Net pay	<input type="checkbox"/>	<input type="checkbox"/>
f. Check amount	<input type="checkbox"/>	<input type="checkbox"/>
g. Hourly rate	<input type="checkbox"/>	<input type="checkbox"/>
h. Pay period	<input type="checkbox"/>	<input type="checkbox"/>
i. Normal hours for pay period	<input type="checkbox"/>	<input type="checkbox"/>
j. Overtime hours for pay period	<input type="checkbox"/>	<input type="checkbox"/>

Comments: _____

E.4. Timekeeping System.

a. Does the Company use an electronic timekeeping system?

Yes No

- If “yes,” please provide an explanation of its operation, or provide system documentation:

b. Are all employees, including managers and owners/principals, responsible for signing their own timesheets?

Yes No

If “no,” please explain: _____

c. Are all employee timesheets approved by supervisors?

Yes No

If “no,” please explain: _____

d. Is there a certification and approval process required for all time worked by owners and principals?

Yes No

If “no,” then how is time accounted for and billed to projects? _____

e. How are timesheet coding errors detected and corrected?

f. How do timesheets identify work performed outside an agreement’s original scope of services?

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

F. Labor Cost Accumulation

F.1. Direct & Indirect Labor. Do the Company's timesheets include reporting codes for both direct and indirect hours? (See *AASHTO Guide*, Chapter 6.)

Yes No

- If "yes," do all employees, including managers and principals, record direct and indirect time on their timesheets?

- If "no," then please explain the method used to segregate direct and indirect labor hours. _____

F.2. Work Week. Please list the Company's normal hours of business operation (normal work week):

F.3. Uncompensated Overtime (see *AASHTO Guide*, Section 5.4). Does the Company record all hours worked by all employees, including managers and principals, regardless of whether the employees are exempt from overtime pay or whether all direct labor hours are billed to specific contracts?

No. If "no," please explain: _____

Yes. If "yes," which of the following methods does the Company use to account for *uncompensated overtime*—the hours worked without additional compensation in excess of an average of 40 hours per week by direct-charge employees who are exempt from the Fair Labor Standards Act?

Effective Rate Method. Please explain: _____

Salary Variance Method. Please explain. (E.g., What was the total dollar amount of the salary/payroll variance for the year?): \$ _____

Other. Please explain: _____

F.4. Contract Modifications/Time Tracking. How does the Company segregate work performed under a basic agreement/contract from work performed for contract changes/modifications? _____

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

G. Labor Billings and Project Costing

G.1. Billing Rates. Please describe how billing rates are determined, or attach the Company's billing-rate policy.

- Description: _____
- Billing-rate policy attached.

G.2. Premium Overtime. Does the Company pay overtime at a premium to any employees? Yes No

- If "yes,"

a. What premium rate is paid, and what categories of employees are eligible for this rate?

- Time-and-a-half for all non-exempt employees.
- Other. Please explain: _____

b. How is the overtime premium accounted for and billed?

- As part of direct labor, and overhead is applied.
- As an Other Direct Cost (no overhead applied).
- As an indirect labor cost (included in the indirect cost rate).
- Other. Please explain: _____

G.3. Allocation of Overtime Costs. Are overtime costs allocated to contracts consistently, regardless of the type of contract (lump sum versus actual cost) or customer (government versus commercial)?

- Yes No. If "no," please explain: _____

G.4. Cost Allocation versus Billing. If the Company pays a principal or an employee at a rate in excess of a contract's maximum hourly labor rate, where will the excess cost be allocated/charged? _____

G.5. Contract/Purchased Labor. Does the Company invoice/bill contract labor directly to any customers?

- Yes No N/A

- If "yes," please complete the following: Contract labor is billed—

- As part of direct labor, and overhead is applied.
- As an Other Direct Cost (no overhead applied).
- Other. Please explain: _____

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

H. Expense Accumulation and Billing

H.1. Nonsalary Direct Costs (Other Direct Costs). Besides labor, what type of costs does the Company normally bill/invoice as direct expenses?

H.2. Credits Associated with Direct Costs. Is the indirect cost pool relieved/reduced for credits/reimbursements received for direct costs?

Yes No. If “no,” please explain: _____

H.3. Design/Build Stipends. Has the Company received a stipend from any State DOT in connection with design/build efforts?

Yes No

- If “yes,” please explain how the Company accounted for the stipend in the accounting system: _____

H.4. Classification of Cost Items. How are the following cost items accounted for and billed?

(Check both “D” and “I,” if applicable.)

(D = Direct; I = Indirect; N/A = not applicable)

	<u>D</u>	<u>I</u>	<u>N/A</u>
a. Vehicles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Computer Assisted Design and Drafting (CADD)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Computer (non-CADD)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Telephone	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Printing / Reproduction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Postage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Lab	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Drilling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Travel and Subsistence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. GPS and/or Nuclear Density Meters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Other (list if significant)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

H.5. Nonbillable Costs. Describe the accounting treatment for direct costs not billable to clients. (Where/how are these costs recorded?) _____

H.6. Authorization. How does the Company ensure that costs are not billed to Government projects prior to proper authorization?

H.7. Vehicle Expenses. Does the Company provide vehicles to employees for business purposes?

Yes No

a. If “yes,” are the vehicles leased or owned?

Leased Owned

b. Identify the total number of vehicles owned or leased by the company.

_____ Leased _____ Owned

c. Are mileage logs maintained for all vehicles? If “no,” please explain below.

Yes No

Explanation: _____

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

- d. Is mileage separated by direct and indirect classifications, and is mileage incurred in connection with unallowable activities tracked? Yes No
Explanation: _____
- e. What recovery/billing rate is used for Company vehicle mileage reimbursement?
\$ _____ per mile.
Explanation: _____
- f. How was the rate developed? _____

H.8. Computer Expenses. Are the Company's computer expenses incurred as a result of (select one):

- a. Outside Services? Company ownership? Both?
- b. Does the Company compute a charge rate for computers? Yes No
- If "yes," what is the rate? _____
- How was the rate developed? _____
- c. Is computer usage segregated by direct and indirect classifications? Yes No
- d. Are computer usage logs maintained and coded by job/project? Yes No

H.9. Printing and Reproduction Costs. How are printing and reproduction expenses treated?

- In House: Direct cost Indirect cost Combination of direct and indirect
- Outside vendor: Direct cost Indirect cost Combination of direct and indirect
- If you marked "combination of both," please explain: _____*
- a. For in-house services, are usage logs maintained and coded by job/project?
 Yes No
- b. Is usage segregated by direct and indirect classifications?
 Yes No
- c. If these costs are incurred through the use of an outside vendor, are the invoices coded by job/project when received?
 Yes No

H.10. Telephone Costs. How is the expense for telephone service recorded and billed?

- Direct cost Indirect cost Combination of direct and indirect
- If you marked "combination of direct and indirect," please explain below:*

- Does the Company maintain a telephone log to record toll calls? Yes No
- Are the calls job-coded by direct and indirect classifications? Yes No

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

J. Related-Party Transactions

J.1. Related Employees. Please provide the following information for all **employees** who are related to the parties listed in the Ownership Table (Table 1) shown in A.5:

Table 3: Employees Related to Company Owners

	Name or ID:	Title/Position:	Wages/Salary:	Bonus:	Other Compensation:	Total Compensation:
			\$	\$	\$	\$
1	Total Hours Worked During Year:	Job Duties: Related to: How Related (e.g., spouse, parent, child, sibling, in law):				
			\$	\$	\$	\$
2	Total Hours Worked During Year:	Job Duties: Related to: How Related:				
			\$	\$	\$	\$
3	Total Hours Worked During Year:	Job Duties: Related to: How Related:				
			\$	\$	\$	\$
4	Total Hours Worked During Year:	Job Duties: Related to: How Related:				
			\$	\$	\$	\$
5	Total Hours Worked During Year:	Job Duties: Related to: How Related:				
			\$	\$	\$	\$
6	Total Hours Worked During Year:	Job Duties: Related to: How Related:				
			\$	\$	\$	\$
7	Total Hours Worked During Year:	Job Duties: Related to: How Related:				
			\$	\$	\$	\$
8	Total Hours Worked During Year:	Job Duties: Related to: How Related:				

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J.3. Property or Facilities Leased from Related Parties. Does the Company rent or lease property and/or facilities from another entity (organization or individual)?

Yes No

- If “yes,”

a. Are any of the Company’s owners/stockholders, or members of their immediate family, also owners/stockholders of the other entity?

Yes No

- If “yes,” please explain: _____

b. Have the rental/lease costs been adjusted to the property owner’s actual costs?

Yes No

- If “yes,” what basis was used to determine actual cost? (E.g., the property owner’s tax return less interest expense, plus cost of money).

Description: _____

J.4. Other Related-Party Transactions. Did the Company engage in any transactions with related parties other than those listed and described in J.1 through J.3?

No Yes. If “yes,” please complete Table 5:

Table 5: Other Related-Party Transactions

Name:	Contact Information:	How Related:	Products/Services Provided:	Total Payments During Year:
				\$
				\$
				\$
				\$
				\$
				\$
				\$
				\$
				\$
				\$
				\$
				\$
				\$

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K. Other Questions

K.1. Life Insurance. Does the Company pay life insurance for officers/principals?

Yes No

- If "yes,"

(a) Have any costs associated with this life insurance been included on the indirect cost rate schedule?

Yes – total amount: _____ No

(b) Please identify the beneficiary of the life insurance:

Company/surviving partners Officer/principal's family

Other (specify) _____

(c) Please identify the type(s) of the life insurance:

Term Whole life Universal life Endowments (annuities)

Accidental death Other (please specify): _____

K.2. Suspension or Debarment. Has the Company, its parent, subsidiary, or any owner, stockholder, officer, partner, or employee of the Company been suspended or debarred from doing business by any State or the Federal government?

Yes No

- If "yes," please provide complete details: _____

K.3. Updates for Changes to FAR Part 31. Does the Company have an existing process designed to provide timely updates to company policies and procedures to accommodate changes in the FAR Subpart 31.2 cost principles?

Yes No

- If "yes," please describe the process: _____

K.4. Risk Assessment. Does the Company have a process for assessing risks that may result from changes in cost accounting systems or processes?

Yes No

- If "yes," please describe the process. How are risks identified and addressed? _____

K.5. Communications of FHWA/DOT Requirements. How does information flow from the FHWA/State DOT to appropriate management personnel? (E.g., How are relevant updates to State DOT procedures or Federal Regulations disseminated to project managers and accounting personnel?)

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

I certify that to the best of my knowledge and belief this ICQ is a complete and accurate representation of the above-named Company's cost accounting and billing practices.

Typed or Printed Name

Signature

Title

Date Completed

Note: The representations on this ICQ were made by, and are the responsibility of, the Company's management.

AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers

Keyword Index

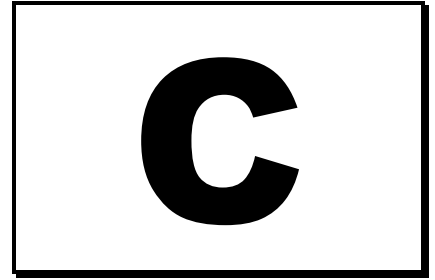
Keyword or Phrase	Section	Page
Accounting method/basis (cash, accrual, or hybrid)	B.2	B-4
Accounting policies (by category)	B.3	B-4
Accounting records (types of)	C.4	B-6
Accounting system (integration of)	C.3	B-6
Allocation base(s) used to compute indirect cost rate(s)	C.11	B-7
Allocation of cost versus billing	G.4	B-11
Attachments (list of required documents)	==	B-2
Audits/examinations (within the past three years)	B.7	B-5
Authorization (ensuring that costs are not billed prior to proper authorization)	H.6	B-12
Billing rates	G.1	B-11
Bonuses (bonuses paid or accrued, bonus plan, and eligibility)	I.1	B-14
Budgeting system (project planning and oversight)	C.9	B-7
Business form (sole proprietorship, partnership, corporation, etc.)	A.2	B-2
Classification of cost items (accounting and billing considerations)	H.4	B-12
Common ownership	A.4	B-3
Communication of FHWA/DOT requirements	K.5	B-18
Computer expenses (outsourced versus in-house, CADD charge rate, usage logs, etc.)	H.8	B-13
Contract mix (revenue generated by each type of contract)	A.10	B-4
Contract modifications (time tracking associated with work done on modifications)	F.4	B-10
Contract/purchased labor	G.5	B-11
Cost allocation (consistency of)	C.10	B-7
Credits associated with direct costs	H.2	B-12
Design/build stipends	H.3	B-12
Direct and indirect expenses (how recorded in accounting system)	C.5	B-6
Divisions/cost centers (list of)	C.7	B-7
Employees (number of)	A.8	B-4
FAR Part 31 (knowledge of)	B.6	B-5
Field offices/field overhead rates	C.12	B-7
Fiscal period (reporting period for financial purposes)	B.1	B-4
Fraud, abuse, and contract violations	B.5	B-5
Indirect cost schedule (when prepared, by whom, and period covered)	B.4	B-5
Information technology data safeguards	D.4	B-8
Information technology policies	D.1	B-8
Information technology risk assessment	D.2	B-8
Information technology security review	D.3	B-8
Job-cost system	C.2	B-6
Labor (direct and indirect - timesheet reporting codes)	F.1	B-10
Life insurance (costs, types, and beneficiaries)	K.1	B-18
Locations (number of offices and locations)	A.7	B-3
Nonbillable costs (accounting for)	H.5	B-12
Nonsalary direct costs (Other direct costs)	H.1	B-12
Overtime (allocation of)	G.3	B-11
Overtime (premium portion)	G.2	B-11
Overtime (uncompensated)	F.3	B-10
Ownership table (list of owners with >5% ownership)	A.5 (Table 1)	B-3
Parent/subsidiary relationships	A.3	B-3
Pay cycle (standard pay periods)	E.2	B-9
Payroll register (components of)	E.3	B-9
Payroll service (internal or external)	E.1	B-9
Printing and reproduction costs (outsourced versus in-house, tracking, usage logs, etc.)	H.9	B-13
Project-specific indirect cost rate(s)	C.13	B-8
Reasonableness of executive compensation (description of procedures performed to establish reasonableness)	I.2	B-14
Reconciliations (financial accounting system to job-cost system)	C.8	B-7
Related-party transactions (employees)	J.1 (Table 3)	B-15 to B-16
Related-party transactions (other)	J.4 (Table 5)	B-17
Related-party transactions (property or facilities leased from)	J.3	B-17
Related-party transactions (vendors)	J.2 (Table 4)	B-16
Revenue sources (Governmental vs. commercial; prime vs. subconsultant)	A.9	B-4
Risk Assessment (as related to changes to the cost accounting system or Company policy)	K.4	B-18
Services provided	A.6	B-3

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Keyword or Phrase	Section	Page
Software (general ledger/accounting system)	C.1	B-6
Suspension or debarment	K.2	B-18
Telephone Costs (billing, tracking, and coding)	H.10	B-13
Timekeeping system (timesheet coding, certification, approval, etc.)	E.4	B-9
Unallowable activities (types of activities ineligible for cost reimbursement)	H.11 (Table 2)	B-14
Unallowable costs (how determined and how excluded from indirect cost schedule)	C.6	B-6
Updates for changes to FAR Part 31 (frequency of updates to procedures/policies)	K.3	B-18
Vehicle expenses (number leased/owned, mileage logs, billing rate, etc.)	H.7	B-12 to B-13
Work week (normal operating hours)	F.2	B-10
Year established (year the Company was founded)	A.1	B-2

Appendix



**Keyword Index of 48 CFR Part 31
(Federal Acquisition Regulation, Part 31)**

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.205-6(d)(1)	Accrual of Compensation Expenses (allowable).	YES†
31.201-2(d)	Adequate Recordkeeping (requirement for, and Contracting Officer's authority to disallow unsupported costs).	--
31.109	Advance Agreements: defined and requirements of (in writing, executed by both parties, stated duration).	--
31.205-1(b)	Advertising defined (generally, allowability is limited to recruitment costs).	YES - help wanted
31.205-1(d)	Advertising (allowable types of).	YES
31.205-1(f)	Advertising (unallowable types of).	NO
31.205-38(b)(1)	Advertising as a part of selling costs.	NO
31.205-51	Alcoholic Beverages.	NO
31.205-46(b)	Airfare, generally.	YES
31.205-46(c)	Aircraft owned by consultants.	YES†
31.201-4	Allocability (allowability, reasonableness, and allocability).	--
31.201-2 & 31.204	Allowability (reasonable, allocable, CAS Compliant, meets terms of contract, & not otherwise unallowable).	--
31.205-52	Asset Valuations Resulting from Business Combinations.	--
31.201-6(a)	Associated Costs, defined (costs associated with unallowables). See also CAS 405.	NO
31.205-46(a)(1)	Automobile: Mileage Costs.	YES
31.205-6(m)(2)	Automobile: Personal Use of (see also 31.205-46(d)). Includes commuting and other personal costs.	NO
31.205-6(f)(1)	Awards for Employees (Performance-Based Awards--bonus and incentive compensation).	YES
31.205-18(c)	B&P: Bid and Proposal Costs (allowability of).	YES
31.205-6(h)	Back pay (generally unallowable).	NO
31.205-3	Bad Debts (and directly-associated costs).	NO
31.205-6(p)	BCA (Benchmark Compensation Amount) - statutory limit on executive compensation. (Not a safe harbor or guaranteed amount of cost recovery.)	--
31.205-4	Bonding Costs (e.g., bid, performance, payment, infringement, and fidelity).	YES
31.205-6(f)	Bonuses and Incentive Pay, generally. (See 31.205-6(f)(1)(ii) for required basis and support.)	YES†

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.205-1(f)(5)	Brochures and Promotional Materials.	NO
31.201-3(a)	Burden of Proof on Consultant (determining reasonableness).	--
31.205-52	Business Combinations (asset valuations resulting from).	LIMITED DEPR.
31.205-16(a)	Business Combinations (gains and losses related to).	NO
31.205-11(h)	Capital Leases (full payment not allowable - limited to depreciation of property capitalized under the lease).	LIMITED DEPR.
31.205-11(h)(2)	Capital Leases: Related Parties.	LIMITED DEPR.
31.205-43(a)	Chambers of Commerce, Dues (but disallow portion of dues attributable to lobbying).	YES†
31.103	Commercial Organizations (contracts with).	--
31.205-36(b)(3)	Common Control of Leased Properties (e.g., between sub. and parent: limited to normal costs of ownership).	YES†
31.205-6(p)	Compensation, generally.	YES†
31.205-44(f)	College Savings Plans for Dependents of Company Employees.	NO
31.105 & 31.201-7	Construction and Architect-Engineer Contracts.	--
31.205-33	Consultant Service Cost and Professional Fees (outside accountants, lawyers, actuaries, and marketing consultants). Also known as "Professional and Consultant Service Fees" (PCS costs). See Retainer fees at 31.205-33(e).	YES†
31.205-7	Contingencies.	NO
31.205-42	Contract-Termination Costs.	VARIABLES
31.205-8	Contributions or Donations. (All cash donations are unallowable).	NO
31.205-1(e)(3)	Contributions or Donations: Community Service Activities (cash contributions unallowable; donation of time/labor is allowable).	YES
31.205-10	Cost of Money also known as "Facilities Capital Cost of Money" (FCCM).	YES
31.205-14	Country-Club Memberships.	NO
31.201-5	Credits (costs must be presented net of all applicable credits.)	OFFSET
31.205-47	Defense of Fraud (False Claims Act, Anti-Kickback Act, etc.).	NO†
31.205-18(d)	Deferred IR&D Costs: Allowability.	NO†

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.001	Definitions of Terms used in FAR Part 31.	--
31.205-44(f)	Dependents: Employee-dependent education plans	NO
31.205-11	Depreciation, generally.	YES
31.205-11(c)	Depreciation: Expense in excess of amount used for financial accounting.	NO
31.202	Direct Costs.	YES
31.205-38(b)(5)	Direct Selling Costs.	YES
31.201-6(a) & CAS 405-40	Directly-Associated Costs, defined (costs associated with unallowables).	NO
31.205-28(f)	Directors' Meetings	YES
31.205-6(a)(6)(ii)(B)	Distribution of Profits to Owners (unallowable for closely-held companies).	NO
31.205-8	Donations	NO
31.205-13	Dormitory Costs and Credits.	YES
31.202(a) & 31.203(b)	Double-Counted Costs (unallowable).	NO
31.205-43	Dues and Subscriptions.	YES
31.205-12	Economic Planning Costs.	YES
31.205-44	Education Costs (vocational training, part-time college, full-time college)	YES
31.205-6(f)	Employee Performance Awards (bonuses and incentive).	YES
31.205-6(n)	Employee Rebate and Purchase-Discount Plans.	NO
31.205-6(q)	Employee Stock Ownership Plans (ESOPs).	YES
31.205-14	Entertainment Costs (overrides all other cost principles).	NO
31.205-6(q)	ESOPs.	YES
31.205-6(q)(2)(i)(B)	ESOP: Current Funding Requirement.	YES
31.205-41(b)(1)	Excess Profits Taxes.	NO
31.205-6(p)(1)	Executive Benchmark Compensation Amount (reference to). Note that these costs are further limited by reasonableness--see National Compensation Matrix (Audit Guide Section 6.4) for details.	YES†
31.205-41(b)(1)	Federal Income Taxes.	NO

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.205-15(a)	Fines, Penalties, and Mischarging Costs Related to Violation of Laws.	NO
31.205-15(b)	Fines, Penalties, and Mischarging Costs Related to Improper Charging or Recording of Costs.	NO
31.102	Fixed-Price Contracts.	--
31.205-13(d)	Food Service, and Dormitory Costs and Credits.	YES
31.205-47(b), (f)(4) & (g)	Fraud, Defense of (including requirement to segregate and account for these costs separately--see 31.205-47(g)).	SEGREGATE
31.205-6(m)	Fringe Benefits.	YES
31.205-16	Gains and Losses on Disposition or Impairment of Depreciable Property or Other Capital Assets.	YES†
31.201-1	Generally Accepted Methods for Measuring Costs (requirement to use).	--
31.205-1(d)(2)	Gifts (to clients and the public as part of trade shows).	NO
31.205-13(b)	Gifts (to employees).	NO
31.205-6(l)(2)	Golden Handcuff Payments.	NO
31.205-6(l)(1)	Golden Parachute Payments.	NO
31.205-49	Goodwill.	NO
31.205-44(d)	Grants, Scholarships, and Fellowships to Educational or Training Institutions.	NO
31.205-13	Health, Welfare, Food Service, and Dormitory Costs and Credits.	YES
31.205-34(a)(1) & (b)	Help-Wanted Advertising Costs--Recruitment.	YES
31.205-35(a)(2)	House-Hunting Trip Costs (for employees with a permanent change of work location).	YES
31.205-17(b)	Idle Facilities Costs.	NO†
31.205-17(c)	Idle Capacity Costs.	YES
31.205-6(e)(1)	Income Tax Differential Pay (foreign assignments).	YES
31.205-6(e)(2)	Income Tax Differential Pay (domestic assignments).	NO
31.205-41(b)(1)	Income Taxes, Federal.	NO
31.205-41(a)(1)	Income Taxes, State and Local.	YES

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.205-18	Independent Research and Development and Bid and Proposal Costs.	YES
31.110	Indirect Cost Rate Certification and Penalties on Unallowable Costs.	--
31.203	Indirect Costs.	--
31.205-19	Insurance and Indemnification.	YES
31.205-20	Interest and Other Financial Costs.	NO
31.205-18	IR&D and B&P: Independent Research and Development and Bid and Proposal Costs.	YES
31.205-21	Labor Relations Costs.	YES
31.205-19(e)(2)(v)	Key-Man Life Insurance (allowable to extent that costs is included in compensation of officers--not allowable when company is beneficiary of policy)	LIMITED†
31.205-36(b)(1)	Leases (operating leases for real property and personal property)	YES
31.205-47	Legal and Other Proceedings.	YES
31.205-19(e)(2)(v)	Life Insurance	YES
31.205-22	Lobbying and Political Activity Costs.	NO
31.205-46	Lodging, Meals, and Incidental Expenses.	YES†
31.205-35(c)(1)	Loss on Sale of Home (for employees with a permanent change of work location).	NO
31.205-23	Losses on Other Contracts.	NO
31.205-25	Manufacturing and Production Engineering Costs.	YES
31.205-1; 31.205-38	Marketing Costs. (Note: FAR Part 31 does not expressly use the term "marketing," but public relations, advertising costs, and selling costs are widely referred to as marketing by many individuals. Within the FAR, <i>selling costs</i> are the most analogous to marketing costs - see 31.205-38.)	NO
31.205-38(b)(4)	Market Planning.	YES
31.205-26	Material Costs (direct costs, primarily).	YES
31.205-46(a)(2)	Meals, Lodging, and Incidental Expenses.	YES
31.205-1(f)(7)	Memberships in Civic and Community Organizations.	NO
31.205-46(d)	Mileage Costs: Automobile.	YES

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.205-13	Morale, Health, Welfare, Food Service, and Dormitory Costs and Credits (subject to limitations in 31.205-13(b) through (e)).	YES†
31.205-35	Moving Costs Paid to Employees.	YES†
31.205-25	M&PE Costs (Manufacturing and Production Engineering Costs).	YES
31.205-19(e)(2)(v)	Officers' Life Insurance.	NO†
31.205-1(e)(4)	Open Houses (subject to limitations in 31.205-1(f)(5): costs unallowable for promotional materials, videos/films, handouts, magazines, etc.).	YES
31.205-36	Operating Leases (real property and personal property).	YES
31.205-27(a)	Organization/Reorganization Costs.	NO
31.205-28	Other Business Expenses, generally.	YES
31.205-30(c)	Patent Costs.	NO
31.205-15(a)	Penalties, Fines, and Mischarging Costs.	NO
31.205-6(j)	Pension Costs, generally.	YES
31.205-6(j)(1)(i)	Pension Costs: Current Funding Requirement.	YES
31.205-6(j)(4)	Pension Costs: Defined Contribution Plans.	YES
31.205-6(j)(4)(i)	Pension Costs: Contribution Limits.	YES†
31.205-6(f)	Performance Awards to Employees.	YES
31.205-6	Personal Services (compensation for).	YES
31.205-6(m)(2)	Personal Use of Automobiles.	NO
31.205-29	Plant Protection Costs.	YES
31.205-31	Plant Reconversion Costs.	NO
31.205-32	Precontract Costs (direct costs).	YES
31.205-43	Professional Activity Costs.	YES
31.205-33	Professional and Consultant Service Costs (e.g., external accountants, lawyers, actuaries, and marketing consultants).	YES
31.205-19	Professional Liability and General Insurance.	YES

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.205-6(a)(6)(ii)(B)	Profits to Owners, Distribution of (unallowable for closely-held companies).	NO
31.205-1	Public Relations and Advertising Costs.	NO†
31.205-6(n)	Purchase-Discount Plans for Employees.	NO
31.205-1(f)(5)	Promotional Materials.	NO
31.205-35(a)(3)	Real Estate Brokers' Fees and Commissions (for employees with a permanent change of work location).	YES
31.201-3	Reasonableness. (No presumption of reasonableness exists.)	--
31.205-31	Reconversion Costs.	NO
31.201-2(d)	Recordkeeping Requirements (engineering consultants' responsibility to maintain adequate records).	--
31.205-13(c)	Recreation for Employees.	NO†
31.205-34	Recruitment Costs.	YES
31.205-36(b)(3)	Common Control of Leased Properties (e.g., between sub. and parent).	YES†
31.201-6(a)	Related Costs (Costs Related to Unallowable Costs). See also CAS 405.	NO
31.205-36(b)(3)	Related Party Transactions: Rental Costs (common control).	YES†
31.205-35	Relocation Costs Paid to Employees.	YES
31.205-36	Rental Costs: Operating Leases.	YES
31.205-27	Reorganization Costs.	NO
31.205-48	Research and Development (R&D) Costs.	YES
31.205-37(a)	Royalties and Other Costs for Use of Patents (direct costs).	YES
31.205-11(h)(1)	Sale and Leaseback.	YES†
31.205-38	Selling Costs (marketing the engineering consultant's services).	LIMITED†
31.205-1(f)(3)	Seminars, Symposia, and Meetings (unallowable portion of these costs).	NO
31.205-39	Service and Warranty Costs (direct costs).	YES
31.205-42	Settlement Costs Associated with Contract Terminations.	VARIABLES

Key

† - See Exceptions. (*) - Requires advance agreement or verifiable methodology.

KEYWORD INDEX: 48 CFR Chapter 1, Part 31 (Federal Acquisition Regulation Part 31)

Citation	Key Words	Generally Allowable?
31.205-6(g)	Severance Pay, generally.	YES
31.205-14	Social and Dining Club Memberships (entertainment).	NO
31.205-40	Special Tooling and Special Test Equipment Costs (direct costs).	YES†
31.205-41(a)(1)	State Income Taxes.	YES
31.201-6(c)(2)	Statistical Sampling for Unallowable Costs.	ONLY IF(*)
31.205-28(a)	Stock Issue Costs.	YES
31.205-43(b)	Subscriptions and Dues (net of incidental lobbying costs).	YES
31.205-41	Taxes.	YES†
31.205-42	Termination Costs (direct costs).	VARIES
31.201-1(a)	Total Cost, defined.	--
31.205-43	Trade, Business, Technical and Professional Activity Costs.	YES
31.205-1(f)(2)	Trade Shows.	NO
31.205-44	Training and Education Costs (subject to limitations listed in 31.205-44(a) through (f)).	YES†
31.205-46	Travel Costs.	YES†
31.201-6	Unallowable Costs (and related costs).	--
31.205-13	Welfare, Food Service, and Dormitory Costs and Credits.	YES

Appendix

D

Appendix D—Listing of Resource Materials

This section provides a listing of resource materials commonly used by auditors who perform Government contract audits. The listing is not comprehensive; instead, it merely highlights the most frequently used materials. While paper copies are available, most of the publications also are available on the Internet.

Accounting Standards—Current Text

Published by:

Financial Accounting Standards Board

Format:

- Hard-copy 3 volume set
- Website address: <http://www.fasb.org>

Purpose:

The *Accounting Standards Current Text* is an integration of currently effective accounting and reporting standards. Material is drawn from AICPA Accounting Research Bulletins, APB Opinions, FASB Statements of Financial Accounting Standards, and FASB Interpretations. While its focus is primarily publicly-traded corporations, some of the material may be helpful for government auditors.

American Institute of Certified Public Accountants (AICPA) Publications

Published by:

The AICPA is the premier national professional association for CPAs in the United States. This organization produces numerous publications to assist accountants and auditors in following accounting principles and auditing standards.

Formats:

- AICPA publications generally are available in hard-copy form in a variety of formats, and include, among others, Audit and Accounting Guides, Audit Guides, Professional Standards Binders, Statements of Position, Newsletters, and Exposure Drafts.
- All of the AICPA's professional literature is available on CD-ROM with built in search capabilities.
- Many of the materials are available on the Internet at the AICPA website: <http://www.aicpa.org>.

Relevant Materials:

- AICPA Professional Standards (Two Volume Set)
- Audits of Federal Government Contractors - Audit and Accounting Guide
- Auditing Recipients of Federal Awards: Practical Guidance for Applying OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations
- Codification of Statements on Auditing Standards. See for example, *SAS 99: Consideration of Fraud in a Financial Statement Audit* (October 2002).
- Accounting Trends and Techniques -CD-ROM
- Audit Sampling - Auditing Practice Release
- Auditing in Common Computer Environments - Auditing Practice Release
- Codification of Statements on Standards for Attestation Engagements

Cost Accounting Standards (CAS)**Published by:**

Cost Accounting Standards Board (CASB), a section of the Office of Federal Procurement Policy within the U.S. Office of Management and Budget. The CASB has the exclusive authority to issue and amend cost accounting standards and interpretations designed to achieve uniformity and consistency in the cost accounting practices governing the measurement, assignment, and allocation of costs to contracts that involve Federal funds. The CAS are codified in 48 CFR Chapter 99.

Format:

Available in hard copy, and on the Internet at: http://www.whitehouse.gov/omb/procurement_casb and <http://www.gpo.gov/fdsys/browse/collectionCfr.action?collectionCode=CFR>.

Purpose:

The standards are mandatory for use by all executive agencies and by contractors and subcontractors in estimating, accumulating, and reporting costs in connection with pricing and administration of, and settlement of disputes concerning, all negotiated prime contract and subcontract procurement with the United States in excess of \$700,000, provided that, at the time of award, the contractor or subcontractor is performing any CAS-covered contracts or subcontracts valued at \$7.5 million or greater.

DCAA Contract Audit Manual

Published by:

United States Department of Defense, Contract Audit Agency (DCAA).

Formats:

- Two-volume set of hard-copy manuals, published semiannually.
- Available on the Internet at: <http://www.dcaa.mil/cam.htm>.

Purpose:

As stated in the foreword:

The DCAA Contract Audit Manual (DCAA Manual 7640.1) is an official publication of the Defense Contract Audit Agency (DCAA). It prescribes auditing policies and procedures and furnishes guidance in auditing techniques for personnel engaged in the performance of the DCAA mission.

Federal Acquisition Regulation (FAR)

Published jointly by:

United States Department of Defense (DOD), General Services Administration (GSA), and National Aeronautics and Space Administration (NASA).

Format:

Available in hard copy, and on the Internet at: <https://www.acquisition.gov/FAR/>.

Contained in:

Code of Federal Regulations at 48 CFR Chapter 1.

Relevant Part:

Part 31 - Contract Cost Principles and Procedures.

Purpose:

Provides primary authoritative guidelines for acquisition of supplies and services by government agencies. Provides detailed explanations of specific rules for determining allowable and unallowable costs.

Federal Travel Regulation (FTR)

The FTR is the regulation contained in 41 Code of Federal Regulations (CFR), Chapters 300 through 304, which implements statutory requirements and Executive branch policies for travel by Federal civilian employees and others authorized to travel at Government expense. The FTR is available at: <http://www.gsa.gov/portal/content/104790>.

Government Auditing Standards—2011 Revision (“Yellow Book”)

Published by:

United States Government Accountability Office (GAO), by the Comptroller General

Format:

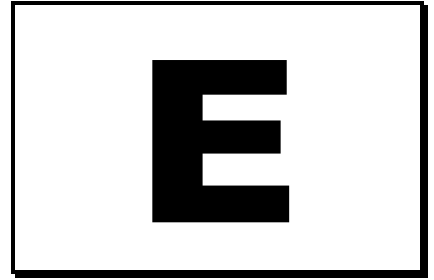
Available in hard copy, and on the Internet at <http://www.gao.gov/yellowbook>.

Purpose:

Quote from introduction (paragraph 1.04):

The professional standards and guidance contained in this document, commonly referred to as generally accepted government auditing standards (GAGAS), provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence. These standards are for use by auditors of government entities and entities that receive government awards and audit organizations performing GAGAS audits. Overall, GAGAS contains standards for audits, which are comprised of individual requirements that are identified by terminology as discussed in paragraphs 2.14 through 2.18. GAGAS contains requirements and guidance dealing with ethics, independence, auditors’ professional judgment and competence, quality control, performance of the audit, and reporting.

Appendix



Appendix E—Sample Management Representation Letters

[Company Letterhead]

Management Representation Letter—Contract Audit

[Insert Month Day, Year]

[AGENCY]
[ADDRESS]
[ADDRESS]
[ADDRESS]

We are providing this letter in connection with your examination of our job cost records for contract **[insert contract number]**. We confirm that we are responsible for the fair presentation of job cost records in conformity with: generally accepted accounting principles; contractual provisions; and Federal Acquisition Regulation, Subparts 9900, 31.105 and 31.2. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm to the best of our knowledge and belief, as of **[insert date]**, the following representations made to you during your examination.

1. The financial information referred to above are fairly presented in conformity with generally accepted accounting principles.
2. We have made available to you all the financial records requested and
 - A. These records were prepared from **[insert company name]** official records.
 - B. The job cost ledger provided for examination contains actual direct costs and quantities incurred for contract **[insert contract number]**.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly reported in the accounting records underlying the job cost accounting system.
5. There has been no:
 - A. Fraud involving management or employees who have significant roles in internal control.
 - B. Fraud involving others that could have a material effect on the financial statements.
6. The company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
7. The following have been properly recorded or disclosed in the financial job cost records:
 - A. Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
 - B. Guarantees, whether written or oral, under which the company is contingently liable.

8. There are no:
 - A. Violations or possible violations of laws or regulation whose effect should be considered for disclosure in the financial statements or as a basis for recording a contingency loss.
 - B. Unasserted claims or assessments that our legal staff has advised us are probable of assertion and must be disclosed in accordance with *Statement on Financial Accounting Standards No. 5*.
 - C. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *Statement of Financial Accounting Standards No. 5*.
9. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

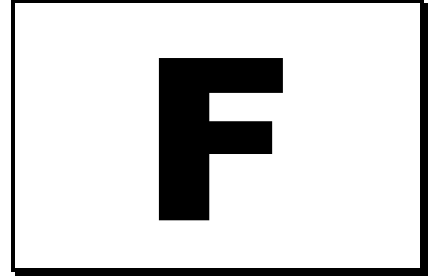
No events have occurred subsequent to the job cost ledger date and through the date of this letter that would require adjustment to our contract costs or require any further disclosure.

Printed or Typed Name: _____

Signature: _____

Title: _____

Appendix



Appendix F—FHWA Order 4470.1A (Cost Certification)

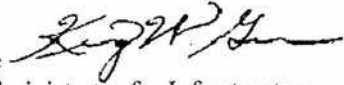


U.S. Department
of Transportation
Federal Highway
Administration

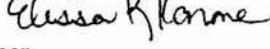
Memorandum

Subject: **ACTION:** FHWA Policy for Contractor
Certification of Costs in Accordance with Federal
Acquisition Regulations (FAR) to Establish Indirect
Cost Rates on Engineering and Design-related
Services Contracts

Date: October 27, 2010

From: King W. Gee 
Associate Administrator for Infrastructure

In Reply
Refer To: HIPA-20

Elissa K. Konove 
Chief Financial Officer

To: Division Administrators

This memorandum is to inform you of a new policy which has been issued as FHWA Order 4470.1A dated October 27, 2010, regarding contractor certification of the costs used to establish indirect cost rates for application to Federal-aid engineering and design-related services contracts (as defined in 23 U.S.C. §112(b)(2)(A), 23 CFR §172.3, and State/local laws and regulations). The Order is attached and is available on FHWA's Consultant Services web site at <http://www.fhwa.dot.gov/programadmin/consultant.cfm>.

The subject Order directs Federal-aid Division Offices to encourage contracting agencies to incorporate a certification of cost requirement for contractor indirect cost rate proposals submitted for agency acceptance, whereby an official of a contractor shall certify that the indirect cost rate submitted does not include any costs which are expressly unallowable and that the indirect cost rate was established only with allowable costs in accordance with the applicable cost principles contained in the Federal Acquisition Regulations (FAR) of 48 CFR part 31. Proposed indirect cost rates should not be accepted or approved by a contracting agency for use in contract estimation, negotiation, administration, reporting, or payment, unless the costs have been certified by an official of the contractor as being allowable in accordance with the applicable FAR cost principles. This policy is issued in support of existing audit and certification provisions specified in 23 U.S.C. §112(b)(2), 23 CFR §172.7, 49 CFR §18.22(b) and 48 CFR §31.110.



The policy for contractor cost certification reflects FHWA's commitment to improve the stewardship and oversight of the procurement, management, and administration of engineering and design-related Federal-aid consultant services contracts. The policy also addresses recommendations contained in the Office of Inspector General's Audit Report entitled, "Oversight of Design and Engineering Firms' Indirect Costs Claimed on Federal-aid Grants" (<http://www.oig.dot.gov/library-item/4710>).

Application of this policy is expected to:

- Increase audit quality and consistency;
- Increase compliance with FAR cost principles;
- Reduce risk of payment of unallowable costs and waste in the consultant services program; and
- Reinforce the responsibility and accountability of consultants/contractors to comply with Federal laws and regulations.

FHWA Order 4470.1A containing the policy for contractor cost certification became effective upon signature by the Administrator on October 27, 2010. January 1, 2011, is the date by which State DOTs and local public agencies are encouraged to have integrated the contractor cost certification into their policies, procedures, and consultant services contracting practices. Engineering and design-related consultant services contracts procured, awarded, or modified after January 1, 2011, should include a contractor certification of the allowability of costs used to establish the final indirect cost rate for the applicable term of the contract, or verification that this certification was previously submitted and accepted by the contracting agency.

As provided in the Order, Federal-aid Division Offices are directed to work with State DOTs and other contracting agencies, as appropriate, to integrate a contractor cost certification whereby:

- Indirect cost rate proposals submitted on an annual basis, or proposals to modify previously accepted rates, should include a contractor certification of the allowability of costs in accordance with the FAR cost principles as described in the Order, prior to contracting agency acceptance and/or agreement to finalize an indirect cost rate.
- Contract cost proposals to provide engineering and design-related services on specific Federal-aid projects should include a contractor certification of the allowability of costs in accordance with the FAR cost principles as described in the Order, or a verification indicating this certification was previously submitted and accepted by the contracting agency for the appropriate accounting period.

We appreciate your support with implementation of this policy and collaboration to incorporate a contractor cost certification requirement into the policies, procedures, and consultant services contracting practices of your State DOT and local public agencies to improve the effectiveness of Federal-aid funds expended on engineering and design-related consultant services.

If you have any questions regarding the policy for contractor cost certification, please contact Mr. Scott Wolf at scott.wolf@dot.gov or Mr. David Bruce at david.bruce@dot.gov.

Attachment



U.S. DEPARTMENT OF
TRANSPORTATION

**Federal Highway
Administration**

Order

Subject

**FHWA Policy for Contractor Certification of Costs in
Accordance with Federal Acquisition Regulations (FAR)
to Establish Indirect Cost Rates on Engineering and
Design-related Services Contracts**

Classification Code	Date	OPI
4470.1A	October 27, 2010	HIPAA-20 HCFM-10

Par.

1. What is the purpose of this directive?
 2. Does this directive cancel an existing directive?
 3. What is the background of this directive?
 4. What authorities govern this directive?
 5. What definitions are used in this directive?
 6. What is FHWA's policy for contractor certification of costs in accordance with FAR to establish indirect cost rates on engineering and design-related services contracts?
 7. Will a standard contractor cost certification form or language be required?
 8. What are the consequences if a contractor knowingly charges unallowable costs on Federal-aid funded contracts?
 9. What are FHWA's roles and responsibilities with implementing this directive?
 10. Where can I find additional information?
-
1. **What is the purpose of this directive?** This directive establishes the Federal Highway Administration's (FHWA) policy for contractor certification of the costs used to establish indirect cost rates in accordance with the applicable cost principles contained in the Federal Acquisition Regulations (FAR) for engineering and design-related service contracts funded with Federal-aid highway program (FAHP) funding and administered by State departments of transportation (State DOTs), local public agencies, and other grantees and subgrantees of FAHP funding (as specified under Section 112(b)(2) of title 23 of the United States Code (U.S.C.) (23 USC §112(b)(2)) and defined in Section 172.3 of title 23 of the Code of Federal Regulations (CFR) (23 CFR § 172.3).
 2. **Does this directive cancel an existing directive?** No, this is a new directive.

3. **What is the background of this directive?**

- a. Grantees and subgrantees of Federal grants are required to apply the FAR cost principles (48 CFR, part 31) to determine the allowable costs for contracts with commercial, for-profit organizations (as specified in 49 CFR §18.22(b)).
- b. The provisions of Section 307 of the National Highway Systems Designation Act (NHSDA), passed by Congress in 1995, require the use of the FAR cost principles (48 CFR, part 31) as the basis to determine the allowance of incurred costs when performing indirect cost rate audits of design and engineering contractors, eliminated duplicate audits of design and engineering contractors by multiple entities, and removed ceilings established by certain States for indirect cost rates, direct salaries, and bonuses. These changes in law, as well as other subsequent changes made by Section 174 of the Transportation, Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, and Independent Agencies Appropriations Act in 2006, were incorporated into 23 U.S.C. §112(b)(2). As such, grantee and subgrantee contracts funded with FAHP funds are required to use the indirect cost rate of a contractor established by a cognizant agency audit in accordance with the FAR cost principles.
- c. The FHWA's commitment to improve the stewardship and oversight of the procurement, management, and administration of engineering and design-related consultant service contracts prompted the need for development and implementation of guidance to improve the quality of consultant contracting procedures, increase audit quality, and enhance consistency in FAR cost principles interpretation and compliance.
- d. Although compliance with the cost principles of 48 CFR, part 31 is tested through performance of audits and other evaluation and analytical procedures, as appropriate, it is the responsibility of the design and engineering contractor to account for costs appropriately and maintain adequate records and supporting documentation to demonstrate costs claimed have been incurred, are allocable to a contract, and comply with applicable cost principles (as specified in 48 CFR §31.201-2(d)). Requesting certification by an executive or financial official of a contractor's organization regarding the allowability of costs used to establish indirect cost rates in accordance with the applicable FAR cost principles reinforces the responsibility and accountability of the contractor to comply with Federal laws and regulations.

4. **What authorities govern this directive?**

- a. Title 23, CFR, Section 1.32 provides the following: "The Administrator shall promulgate and require the observance of policies and procedures, and may take other action as he deems appropriate or necessary for carrying out the provisions and purposes of Federal laws, the policies of the Federal Highway Administration, and the regulations of this part. The Administrator or his delegated representative, as appropriate, is authorized to issue (Orders). Orders are directives limited in volume and contain permanent or long lasting policy, instructions, and procedures."
- b. Title 23, U.S.C., Section 112(b)(2)(B) to (D) provides the following: "Any contract or subcontract (engineering and design related service contracts directly related to a construction project subject to 23 U.S.C §112(a)), whether funded in whole or in part with Federal-aid highway funds, shall be performed and audited in compliance with cost principles contained in the Federal Acquisition Regulations of part 31 of title 48, Code of Federal Regulations. Instead of performing its own audits, a recipient of funds under a contract or subcontract shall accept indirect cost rates established in accordance with the Federal Acquisition Regulations (48 CFR, part 31) for 1-year applicable accounting periods by a cognizant Federal or State government agency. Once a firm's indirect cost rates are accepted, the recipient of the funds shall apply such rates for the purposes of contract estimation, negotiation, administration, reporting, and contract payment and shall not be limited by administrative or de facto ceilings of any kind."
- c. Title 23, CFR, Section 172.7(b) provides the following: "Contracting agencies shall use the indirect cost rate established by a cognizant agency audit for the cost principles contained in 48 CFR part 31" for application to engineering and design related service contracts funded with Federal-aid highway program funds and directly related to a construction project subject to 23 U.S.C §112(a). "Contracting agencies shall apply these indirect cost rates for the purposes of contract estimation, negotiation, administration, reporting, and contract payment and the indirect cost rates shall not be limited by any administrative or de facto ceilings."
- d. Title 49, CFR, Section 18.22(b) provides the following: "Allowable costs will be determined in accordance with the cost principles applicable to the organization incurring the costs. For the costs of a for-profit organization, use the principles in 48 CFR part 31." This provision also specifies the applicable Federal cost principles for each kind of organization that receives payment under a Federal grant. Consultant engineering firms performing under a personal services contract are

considered commercial, for-profit organizations for determination of applicable cost principles.

- e. Title 48, CFR, Section 31.110 provides the following: "Certain contracts require certification of the indirect cost rates proposed for final payment purposes."

5. **What definitions are used in this directive?**

- a. **Allowability/allowable costs.** See FAR 48 CFR §31.2 for definition of allowable costs and cost principles for determination of allowability.
- b. **Certification.** A document attesting to the truth of a fact or statement.
- c. **Consultant/Contractor.** The individual or firm providing engineering and design-related services as a party to the contract (as defined at 23 CFR §172.3).
- d. **Contracting agency.** State DOTs, local public agencies, or other grantees and subgrantees that are responsible for the procurement, management, and administration of engineering and design related services (as defined at 23 CFR §172.3).
- e. **Engineering and design-related services.** Program management, construction management, feasibility studies, preliminary engineering, design, engineering, surveying, mapping, or architectural-related services with respect to a construction project subject to 23 U.S.C. §112(a) (as defined at 23 U.S.C. §112(b)(2)(A) and 23 CFR §172.3). Also, professional services of an architectural or engineering nature, as defined by State law, which are required to or may logically be performed or approved by a person licensed, registered, or certified to provide the services (as defined at 40 U.S.C. §1102(2)).
- f. **Indirect costs (rates and proposals).** See FAR 48 CFR §31.203 for definition of indirect costs.
- g. **Official (of the contractor).** An individual executive or financial officer of the contractor's organization at a level no lower than a Vice President or Chief Financial Officer, or equivalent, who has the authority to represent the financial information utilized to establish the indirect cost rate proposal submitted in conjunction with the contract.

6. **What is FHWA's policy for contractor certification of costs in accordance with FAR to establish indirect cost rates on engineering and design-related services contracts?** To ensure overall compliance with cost principles of the FAR (as specified in 23 U.S.C. §112(b)(2)(B)-(D), 23 CFR

§172.7(b), and 49 CFR §18.22(b)), it is FHWA's policy that an indirect cost rate proposal should not be accepted and no agreement should be made by a contracting agency to establish final indirect cost rates, unless the costs have been certified by an official of the contractor as being allowable in accordance with the applicable FAR cost principles of 48 CFR, part 31. This contractor certification of costs policy applies to:

- a. all indirect cost rate proposals submitted, whether on an annual basis, on a contract basis, or as an amendment to contracts or the contractor's approved indirect cost rate, for acceptance by a contracting agency;
- b. indirect cost rate proposals by the prime contractor and any sub-contractors; and
- c. all grantee and subgrantee contracts for engineering and design-related services (as defined in 23 U.S.C. §112(b)(2)(A), 23 CFR §172.3, and State/local laws and regulations) that are funded in whole or in part with FAHP funds, and directly related to an ultimate highway construction project (as specified in 23 U.S.C. §112(a)).

7. **Will a standard contractor cost certification form or language be required?** No. Federal-aid Division Offices are encouraged to work with contracting agencies to develop contractor cost certification language, forms, and implementation procedures to address the FHWA policy. Whether submitted on an annual basis, on a contract basis, or as an amendment to modify a previously accepted rate, indirect cost rate proposals should not be accepted for application to Federal-aid engineering and design-related services contracts, as defined in this Order, unless certified by the contractor as allowable in accordance with the FAR cost principles of 48 CFR, part 31. An example contractor cost certification is provided for reference in [Appendix A](#) of this Order.

8. **What are the consequences if a contractor knowingly charges unallowable costs on Federal-aid funded contracts?**

- a. A contractor found to have knowingly charged unallowable costs to a Federal-aid funded contract is subject to suspension and debarment actions by the FHWA (as specified in [FHWA Order 2000.2A](#), FHWA Nonprocurement Suspension and Debarment Process (Federal-Aid Program), dated June 19, 2000, and 2 CFR §180). Suspension and debarment actions protect the Federal Government by excluding certain firms or persons from participation in Federal programs government wide. This ensures that the Federal Government does not conduct business with a person or firm that has an unsatisfactory record of integrity. In addition, the FHWA will consult with the Department of Justice to pursue a potential cause of action under the False Claims Act

(as specified in 31 U.S.C. §§3729-3733) or prosecution for making a false statement (as specified in 18 U.S.C §1001).

- b. In addition to Federal suspension and debarment actions, the contractor cost certification will allow States and local public agencies to establish a framework, or strengthen an existing framework, to pursue a range of civil actions and penalties permitted under State and local laws, regulations, policies, and procedures when a contractor knowingly charges unallowable costs, contrary to the cost certification statement on State or other grantee or subgrantee awarded contracts funded with Federal-aid funds. In accordance with State and local laws, regulations, policies, and procedures, the range of actions and penalties a contracting agency may consider could include fines, cost recovery, contract termination, suspension, debarment, and criminal false statement actions.

9. **What are FHWA's roles and responsibilities with implementing this directive?** Federal-aid Division Offices are directed to work with the State DOTs and other contracting agencies, as appropriate, to encourage integration of a contractor cost certification requirement for engineering and design-related services contracts as follows:

- a. **Stewardship (cost certification):** Encourage/work with State DOTs and other contracting agencies, as appropriate, to incorporate a requirement for contractor certification of the allowability of costs with each indirect cost rate submitted for engineering and design-related services contracts whereby:
 - (1) an official of the contractor shall certify that, to the best of the certifying official's knowledge and belief, the indirect cost rate developed includes only allowable costs in accordance with the applicable cost principles contained in the FAR of 48 CFR, part 31, and that it does not include any costs which are expressly unallowable in accordance with the same part cost principles (an example contractor cost certification is provided for reference in Appendix A of this Order); and
 - (2) proposed indirect cost rates, whether submitted on an annual basis, on a contract basis, or as an amendment to modify a previously accepted rate, should not be accepted or approved by a contracting agency, unless the costs have been certified by an official of the contractor.
- b. **Stewardship (policies and procedures):** Encourage/work with State DOTs and other contracting agencies, as appropriate, to amend consultant procurement and audit (if applicable) policies, procedures,

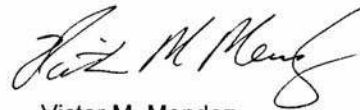
and practices to incorporate a contractor certification of the allowability of costs as follows:

- (1) **Policies and procedures:** Contracting agencies should amend written consultant procurement and audit (if applicable) policies and procedures to incorporate a contractor certification of the allowability of costs in accordance with FAR cost principles (48 CFR, part 31) prior to acceptance of a final indirect cost rate for application to engineering and design-related service contracts funded in whole or in part with FAHP funds (as specified in 23 CFR §172.9(a)). Depending on the organizational structure and currently approved processes and procedures, amendments to incorporate contractor certification of costs should consider/address the following:
 - (a) **Indirect cost rate proposals (annual basis):** Contractor certification of the allowability of costs used to establish indirect cost rates submitted for contracting agency acceptance on an annual basis (or shorter cycle in accordance with the fiscal accounting period of the contractor) or proposals to modify a previously accepted rate;
 - (b) **Indirect cost rates included in contract proposals:** Contractor certification of the allowability of costs used to establish a contractor's indirect cost rate, or a verification indicating this certification was previously submitted and accepted by the contracting agency, included in contract proposals submitted for contracting agency acceptance in conjunction with response to request for proposals (RFPs) to provide engineering and design related services on specific Federal-aid projects or contracts; and
 - (c) **Adequacy of contract documentation:** A copy of the contracting agency indirect cost rate approval letter (including cognizant agency approvals as appropriate) and contractor cost certification should be included within the documentation for each Federal-aid contract to substantiate the final indirect cost rate established for the term of the applicable accounting period of the contractor and applied to each contract and subsequent contract modification.
- (2) **Contractor notification:** Contracting agencies should notify contractors of the changes to be implemented regarding cost certification procedures through memorandums, amended policies

and procedures, amended instructions for contracting with the agency, RFP response instructions, and/or other appropriate methods of communication. Contracting agencies should incorporate notice of contractor cost certification requirements in RFPs for Federal-aid engineering and design-related services contracts. Contractors that do not already have an accepted, or cognizant approved, indirect cost rate and certification of the allowability of costs for the appropriate accounting period may be required to submit the applicable cost certification in conjunction with a response to the RFP or within a specified time following selection as the most highly qualified contractor. Instructions for contracting with the agency and/or for responding to RFPs should clearly indicate contractor requirements with respect to providing a certification of the costs used to establish indirect cost rates.

- c. **Oversight:** Incorporate the need for contractor cost certification into the Division Office's risk assessment of contracting agency procurement, management, and administration of consultant services. Inclusion within risk assessments and Standard Operating Procedures will support reviews of full-oversight projects, future program or process reviews of the State DOT's consultant services program, and the State DOT's stewardship and oversight of local public agency consultant services programs. It will also assist Division Offices in the review and approval of future updates to a State DOT's consultant services policies and procedures (as specified in 23 CFR §172.9(a)).

10. **Where can I find additional information?** Additional information about this policy and FHWA's consultant services program is available at <http://www.fhwa.dot.gov/programadmin/consultant.cfm>, or by contacting FHWA's Office of Infrastructure Pre-Construction Group (HIPA-20) or Office of the Chief Financial Officer Federal-aid Financial Management Team (HCFM-10).



Victor M. Mendez
Administrator



Appendix A. Example Contractor Cost Certification

Certification of Final Indirect Costs

Firm Name: _____

Indirect Cost Rate Proposal: _____

Date of Proposal Preparation (mm/dd/yyyy): _____

Fiscal Period Covered (mm/dd/yyyy to mm/dd/yyyy): _____

I, the undersigned, certify that I have reviewed the proposal to establish final indirect cost rates for the fiscal period as specified above and to the best of my knowledge and belief:

- 1.) All costs included in this proposal to establish final indirect cost rates are allowable in accordance with the cost principles of the Federal Acquisition Regulations (FAR) of title 48, Code of Federal Regulations (CFR), part 31.*
- 2.) This proposal does not include any costs which are expressly unallowable under the cost principles of the FAR of 48 CFR 31.*

All known material transactions or events that have occurred affecting the firm's ownership, organization and indirect cost rates have been disclosed.

Signature: _____

Name of Certifying Official (Print): _____

Title: _____

Date of Certification (mm/dd/yyyy): _____