

ARIZONA DEPARTMENT OF TRANSPORTATION
ADMINISTRATIVE SERVICES DIVISION
OFFICE OF AUDIT & ANALYSIS



CONSULTANT AUDIT GUIDELINES

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Background:

(Replaces ECS Information Bulletins 98-03, 98-05, 98-08, 98-12, 98-16, 98-20, and 09-04, and A&A's Publication of Recommended Disclosures and Information, ADOT Advanced Agreement Guideline, and ADOT Cost Allowability Guidelines)

Purpose:

The following guidelines outline audit requirements for Consultants doing business with ADOT through the Engineering Consultants Section.

I. Pre-Award Reviews

The selected Consultant and its Subconsultants negotiating contracts through ECS are required to submit documentation to A&A within two weeks of receiving a notice of selection. Failure to comply with this requirement within the established timeframe may substantially delay contract execution and may be considered failed negotiations.

All Prime Consultants and its Subconsultants that propose on an overhead basis shall annually submit their Schedule of Indirect Costs and Financial Statements to A&A for review within six months of the completion of the Consultant's preceding fiscal year-end (FYE). Non-compliance with this requirement may be considered a breach of contract and may result in termination of all active contracts held by the firm with the State.

The items outlined below represent information needed to begin the review process. Additional information and supporting documentation may be requested.

A. Unit Prices of Work (UPOW):

- Firms performing less than \$200,000 of work through ECS on an annual basis (including those firms on an overhead rate basis) have the option of proposing Unit Prices of Work. The threshold applies to the total dollar value of work performed on all contracts through ECS annually, rather than a single contract.
- The Consultant's proposed prices will be reviewed for fairness and reasonableness, and invoice support of the proposed prices will be required. Failure to provide this information may result in A&A being unable to provide a recommendation to ECS regarding the fairness and reasonableness of the proposed rates.
- Prices proposed as Lump Sum amounts are unable to be evaluated for fairness and reasonableness without additional information supporting how the lump sum was derived. Avoid the use of lump sums if possible.
- Internally-generated Other Direct Costs (ODCs) are expected to be included in the proposed Unit Prices of Work. Externally-generated ODC's are considered allowable at cost, subject to reasonableness.
- Once a firm has exceeded the \$200,000 threshold for Unit Rates, the Consultant shall be required to propose on an overhead basis for the following fiscal year. All requirements identified within Section I, part C of this document would be mandated at that point.

B. Commercial Item Prices (CIP):

- All Subconsultants providing services that generate more than 50% of their revenue from the commercial marketplace will be required to submit commercial item pricing.
- ADOT will not pay any amount in excess of the Consultant's most favored customer price, or the price of other suppliers for like quantities of the same or substantially the same items, whichever is lower.
- Both a commercial item price list and invoice support of the proposed rates will be required. In certain instances A&A may schedule a site visit to review customer invoices.
- Prices proposed as Lump Sum amounts are unable to be evaluated for fairness and reasonableness without additional information supporting how the lump sum was derived. Avoid the use of lump sums if possible.

C. Overhead:

Firms on an overhead rate basis shall be required to have a compliant accounting system which records, measures, and allocates financial information both accurately and completely in accordance with the Generally Accepted Accounting Principles (GAAP), Federal Acquisition Regulation (FAR) Part 31, applicable Cost Accounting Standards (CAS), and the AASHTO Uniform Audit & Accounting Guide (hereinafter referred to as the "Guide"). Consultants can find these documents on A&A's website and should refer to them for questions regarding the allowability, allocability, and reasonableness of costs.

Firms on an overhead rate basis must provide the following documentation during a pre-award review at the onset of a contract or a yearly overhead rate determination:

- Submission of a Cognizant letter (as defined in the Guide) from another state DOT or Federal agency for the Consultant's most recent year end; or
- A CPA or internally-prepared (in accordance with GAAP) Overhead Schedule, and
- Completed AASHTO Internal Control Questionnaire (ICQ), which can be found in Appendix B of the Guide, and all supporting attachments listed on page 1, and
- Executive Compensation Analysis (as described in Section 7.5 of the Guide, including all employees at the Vice President (Other Principal) level and higher, if available).

Additional Considerations:

- Firms with more than one engineering discipline or specialty must provide and be able to substantiate separate unique indirect cost rates (i.e. design/home office, field/construction administration, survey, testing, etc...).
- Firms with large federal contracts are subject to and should be aware of Cost Accounting Standards (CAS) and should confirm that they are in compliance with either full or modified CAS regulations. (See 48 CFR, CH. 1, Part 30 and CH. 99).
- Facilities Capital Cost of Money (FCCM) – If a firm chooses to propose FCCM, it should be a separate line item on its cost proposal and not included in its indirect cost schedule (See Section 8.6 of the Guide).

D. Preaward Review Findings (Notification Process)

- Overhead: If A&A's review resulted in overhead adjustments, a formal Notification of Preaward Review Findings is sent to the consultant. The notification includes a cover letter which details the proposed adjustments, and a copy of the draft report. The Consultant has five (5) business days to provide additional information for consideration by A&A. Any additional information received by A&A is reviewed for sufficiency and will result in a revision of the draft and re-submission to the firm for review, additional correspondence with the firm, or issuance of the final report. If no response is received within the allotted time, it is considered acceptance of the findings by the firm, and the draft report is issued as final. ECS will provide the final report to the firm at their request.
- UPOW and CIP: If A&A's review resulted in price adjustments, the consultant will be notified of the recommended prices by either telephone or email, and will usually have 5 business days in which to provide additional information to A&A for consideration. Any additional information received by A&A is reviewed for sufficiency and will result in a revision of the recommendations and communication to the firm, additional correspondence with the firm, or issuance of the final report. If no response is received within the allotted time, it is considered acceptance of the recommendations by the firm, and the final report will be issued. ECS will provide the final report to the firm at their request.

II. Incurred Cost Audits (Final Audits)

- A. All Cost-Plus Fixed Fee (CPFF) and Cost-Plus Fixed Fee by Task Order (CPFFTO) contracts are subject to a final incurred cost audit. Additionally, Lump Sum (LS) and Lump Sum by Task Order (LSTO) contracts with negotiated-provisional rates are subject to audit. In general, Lump Sum (LS) and Lump Sum by Task Order (LSTO) contracts with negotiated overhead rates are not subject to audit. However, with the State Engineer's concurrence, A&A has been performing selected cost studies of these contracts to determine the effectiveness of ADOT's negotiation process. No true-ups or adjustments will be made as part of this process for lump sum and lump sum contracts.
- B. A CPA prepared overhead schedule or a Cognizant letter from another state DOT or Federal agency that meets GAAP, FAR, CAS, and AASHTO Audit Guide requirements is an acceptable starting point for Incurred Cost/Final Audits. A&A may determine a review of the CPA's work papers per AASHTO Audit Subcommittee procedures is necessary.

In the absence of a CPA prepared overhead schedule or a Cognizant letter, A&A will audit the overhead based on the submitted ICQ and related documentation. A review of Appendix A to the AASHTO Guide will give Consultants an understanding of the procedures CPA firms follow when performing an incurred cost audit. These procedures are mandated by the FHWA as part of all states' oversight of federal funding requirements.

- C. Consultants will be final audited on a three-year rotating cycle. Audits will cover all open contracts, both active and pending closeout.
- D. CPA firms have been instructed to make the consultants aware of any potential findings during the course of their work in an effort to reduce potential surprises during the exit conference

(draft phase). Supporting documentation must be submitted to the CPA firm within 5 business days after the issuance of the draft report. An extension may be granted (at the discretion of ADOT) if extenuating circumstances exist, and the request is made in writing.

If no response has been received from the consultant prior to the issuance of the final report, the CPA and ADOT will regard this as acceptance of the findings in the draft report. If there are still disagreements after the final report has been issued, the consultant can follow the ADOT Protest Policy identified in Section 1.14 of the ECS Rules. Note: Any issues not previously discussed with the CPA firm during the draft phase are not eligible for inclusion in this process.

III. Record Retention

The Consultant, its Subconsultants, and all CPA firms involved shall retain and maintain all books, papers, accounting records and all other contract related documentation for five (5) years after ADOT indicates that work on the contract has been completed to the satisfaction of the State. The date the ADOT Project Manager indicates to ECS that all the project work is complete (i.e., ADOT PM completes and submits the Contract Status Form) will represent the start date of the 5-year retention period (ECS Pending Closeout Date).

If the Consultant has failed to retain records in accordance with these rules and contract provisions, it shall be presumed that the documents would not have supported the Consultant's invoiced costs. Unsupported costs are expressly unallowable per FAR 31.201-2(d) and must be reimbursed to the State.