

ADOT CONSULTANT AUDIT GUIDELINE

(Updated from ECS Informational Bulletin 09-04)

I. The proposal/audit criteria for pre-award cost proposals include the following:

- All firms, both Prime Consultants and Sub-consultants, are subject to pre-award audits.
- Firms doing a total of less than \$200,000 per year work through ECS –
 - A. **may** propose on a Unit Price of Work basis.
 - B. if work is proposed on a Unit Price basis: the audit review will be limited in scope to a determination that the Consultant accounts for labor properly, has no "going concern" problems, and has proposed rates that are "fair and reasonable."
- Firms on an overhead rate basis must provide information within two weeks of receiving a selection notification in accordance with one of the following options:
 1. Submit a Cognizant Letter (as defined in the ACEC/AASHTO/FHWA Guidelines outlined in the Uniform Audit and Accounting Guide) from another State DOT for the Consultant's most recent fiscal year end; or
 2. Submit a Certified Public Accountant (CPA) prepared Overhead Schedule meeting ACEC/AASHTO/FHWA Guidelines for the Consultant's most recent fiscal year end (A&A may review the CPA's work papers), and submit the ADOT Consultant Audit Questionnaire* and related documentation.

*If the Consultant's overhead for the previous year was reviewed and/or audited by Audit & Analysis (A&A), the Consultant may choose to respond only to specific sections of the Consultant Audit Questionnaire as indicated below:

- Page 4 of 26: Parts A and B. (For Part B, provide Federal Tax Return information only)
- Page 5 of 26: Parts D, E, and F
- Page 10 of 26: Item #3 only
- Page 14 of 26: Parts A through K
- Page 16 of 26: Items (a) through (e)
- Page 21 of 26: Parts A and B
- Page 22 of 26: Part C
- Page 23 of 26: Part D
- Page 24 of 26: Part E
- Page 26 of 26: All items

The Uniform Audit and Accounting Guide and the ADOT Consultant Audit Questionnaire are available on A&A's website (www.azdot.gov/inside/adot/audit/publications.asp).

Contact ADOT Office of Audit and Analysis at (602) 712-7734 for any questions regarding the audit requirements or any other audit related information.

Note: Based on A&A's review recommendations, ECS will negotiate rates on Lump Sum (LS) and Lump Sum By Task Order (LSTO) contracts. For Cost Plus Fixed Fee (CPFF), A&A will recommend a provisional overhead rate to be used for billing purposes. That rate will be subject to final audit at the completion of the contract.

II. Incurred Cost/Final Audits for Firms doing over \$200,000 per year work through ECS will be treated as follows –

- General – Lump-sum and Lump Sum By Task Order contracts shall not be subject to final audit except on a sample basis to determine the efficiency of the ADOT negotiation process for its own internal control purposes, or for suspected fraud or abuse. The State Engineer will participate in the decision to audit any lump-sum contracts.
- Overhead – A verifiable Cognizant Letter from another state meeting ACEC/AASHTO/FHWA Guidelines is acceptable for establishing a final overhead rate for the year covered by the letter. A&A or its designee may review the CPA workpapers as provided for in the AASHTO Audit Subcommittee procedures. A CPA prepared audited overhead schedule may serve as the basis for any year's review. In the absence of either of these alternatives, A&A will audit the overhead based on submission of the Consultant Audit Questionnaire and related documentation.
- Consultants will be audited on a three-year rotation, unless ECS specifically requests an audit of a particular Consultant. The audits will cover all open contracts, both those that have been completed during the period and those which are still in progress. At the conclusion of the incurred Cost Audit, the provisional billing rate will be trued up to the audited overhead rate for each year of the contract in which the Consultant incurred direct labor costs.
- A Consultant must register any disagreement during the draft phase of the final audit with the CPA firm conducting the audit. Supporting documentation must be submitted to the CPA firm within 30 days after the issuance of the draft report. An extension, if requested in writing, may be granted at the request of the Consultant or ADOT. No communication or non-response from the Consultant prior to the issuance of the final report shall be regarded by the CPA firm and ADOT as the Consultant's acceptance of the findings in the draft

report. The final report shall stand unless a formal written protest is filed in accordance with the ECS Escalation Guideline.