

ARIZONA DEPARTMENT OF TRANSPORTATION  
ENGINEERING CONSULTANTS SECTION

**PRE-AWARD AND INCURRED COST AUDIT  
ESCALATION GUIDELINE**

August 12, 2010

**Introduction and Basic Assumption**

The Arizona Department of Transportation (ADOT), Office of Audit & Analysis (A&A) is responsible for conducting the Pre-Award and Incurred Cost Audits (ICAs) on behalf of the Engineering Consultants Section (ECS). The Federal Acquisition Regulation (FAR) requires the Consultant<sup>1</sup> to support the allowability (FAR 31-201-2), allocability (FAR 31-201-4) and reasonableness (FAR 31-201-3) of submitted or billed costs. Insufficiently documented costs may be disallowed according to FAR 31.201-2(d). The burden of proof is on the Consultant to justify costs that are questioned.

In cases where the Consultant may not agree with A&A's Pre-Award recommended rates or incurred cost audits (ICAs), the Consultant shall follow this escalation guideline to resolve the disagreement.

**Appeal Process - Step 1**

**a. Pre-Award Audit prior to NTP**  
Audit & Analysis

The Consultant may register any disagreements during the draft phase of the Pre-Award audit to A&A. Supporting documentation must be submitted to A&A within **14 days** after the issuance of the draft Pre-Award. 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 after the 14-day timeframe shall be regarded by ADOT as the Consultant's acceptance of the findings of the draft Pre-Award and the final Pre-Award report will be issued and sent to ECS.

If resolution is not achieved, A&A will notify ECS and provide ECS with a range within which to negotiate a rate with the Consultant.

**b. Pre-Award Audit after NTP**  
ECS Contract Compliance Officer

The Consultant has **14 calendar days** from the date that ECS sends the Pre-Award Audit to agree or disagree with the recommended rates. However, under extenuating circumstances, a time extension is allowed, if requested in writing, by the appropriate parties. If there is no communication or non-response from the Consultant after the 14-day timeframe, ECS shall regard the Pre-Award recommendation as final.

**c. Incurred Cost Audit (ICA)**  
CPA Firm and Audit & Analysis

The Consultant may register any disagreements during the draft phase of the audit with the CPA firm conducting the audit. Supporting documentation must be submitted to the CPA firm within **14 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 after the 14-day timeframe shall be regarded by the CPA firm and ADOT as the Consultant's acceptance of the findings in the draft report

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<sup>1</sup> "Consultant" refers to Prime and Subconsultant

and the final audit report will be issued. Once the final audit report is issued, the Consultant has **14 days** from the date of the ICA letter to concur with the result of the ICA.

If the CCO modifies the Pre-Award Audit or ICA, the rationale for the change shall be documented in the contract file. If a resolution is not achieved, the CCO sends a letter to the Consultant advising them that the CCO’s decision may be appealed to the next level, ECS Director.

**Appeal Process - Step 2**

ECS Director

The Consultant notifies the ECS Director, in writing, within **10 business days** from the CCO’s decision indicating that it does not agree with the CCO’s decision. The Consultant has additional **10 business days** to present, in writing, its justification for disagreement. The Consultant letter shall include a justification of the desired indirect cost (overhead) rate(s). If a meeting is requested by the Consultant to present its argument, the meeting may be attended by its company Accountant /Financial Advisor, representatives from A&A, ECS Director, appropriate ECS Contract Manager and CCO.

The ECS Director weighs the information provided by the Consultant and consults with the appropriate ECS Contract Manager, among others, to decide if the indirect cost (overhead) rate(s) or results of ICAs under dispute should be modified or stands as is. The ECS Director shall notify the Consultant, in writing, of the decision made within **20 business days** of receiving the Consultant information or after a requested meeting has been held. The letter shall include a statement that if the Consultant disagrees with the ECS Director’s decision, the decision may be appealed to the next level; the appropriate Deputy State Engineer.

If the ECS Director modifies CCO’s decision, the rationale for the change shall be documented in the contract file.

**Appeal Process - Step 3**

Deputy State Engineer

The Consultant shall notify the appropriate Deputy State Engineer, in writing, within **10 business days** from the ECS Director’s decision, that it is appealing the ECS Director’s decision. The letter should outline the Consultant’s position and include any supporting documentation. If a meeting is requested by the Consultant to present its position, the meeting may be attended by its company Accountant/Financial Advisor, representatives from A&A, ECS Director, assigned Resident Engineer and/or appropriate ADOT Program Manager.

The Deputy State Engineer weighs the information provided by the various parties to render a decision. The Deputy State Engineer issues a final decision and notifies the Consultant, in writing, of the decision made within **30 business days** of receiving the Consultant information or after a requested meeting has been held. If the Deputy State Engineer modifies any previous decisions, the rationale for the change shall be documented in the contract file. The Deputy State Engineer’s decision shall be final.

**Final Resolution**

If the final resolution of the disagreement results in the Consultant owing ADOT money, the matter will be forwarded to ADOT Accounts Receivables and the Consultant shall have **30 days** to remit payment to ADOT. If payment is not received within 30 days, the matter shall be forwarded to the Arizona Attorney General’s Office for further action. If ADOT owes the Consultant, a payment report shall be processed within 30 days to remit payment to the Consultant.

APPROVED: \_\_\_\_\_  
Floyd Roehrich, Jr.  
State Engineer

DATE: \_\_\_\_\_