



Arizona Department of Transportation
Intermodal Transportation Division
206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Janice K. Brewer
Governor

John S. Halikowski
Director

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Floyd Roehrich, Jr.
State Engineer

INFORMATION BULLETIN NO.09-04

(Supersedes ECS Information Bulletin 01-06)

TO: Consultant Engineering Firms, ADOT Project Managers
& ADOT Office of Audit & Analysis

FROM: Engineering Consultants Section

SUBJECT: **ADOT CONSULTANT AUDIT GUIDELINE**

All Consultants and Subconsultants doing business with ECS are required to have a compliant accounting system. A compliant accounting system is one that 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 ADOT Cost Allowability Guidelines. **Failure to comply with these requirements within the established timeframes may be considered failed negotiations.**

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

I. Pre-Award

The selected Consultant and its Subconsultants negotiating contracts through ECS are required to: (1) comply with the Advance Agreement Checklist of the SOQ Package, and (2) submit documentation to ADOT Office of Audit & Analysis (A&A) within two weeks after receiving a notice of selection (Info Bulletin 09-01). The items outlined below represent information needed to begin the audit review process. Additional information and supporting documentation may be requested.

- A. 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 (less than \$200K) applies to the total dollar value of work performed on all contracts through ECS annually, rather than a single contract. No additional documentation is immediately required for firms qualifying for Unit Prices of Work.

B. Firms on an overhead rate basis and performing less than \$400,000 of work through ECS on an annual basis must provide the following documentation:

- GAAP-based Overhead Schedule (including footnotes)
- GAAP-based Income Statement and Balance Sheet (if available) and Adjusted Trial Balance with reconciliation to the Overhead Schedule
- Federal Tax Return
- Details of Executive Compensation (employees whose total compensation as defined in FAR 31.205-6(a) is greater than \$150,000)
- Details of Fringe Benefits; and
- Details of Related Party Transactions (See FAR 31.205-26(e) and 31.205-36(b))

C. Firms on an overhead rate basis and performing \$400,000 or more of work through ECS on an annual basis must provide information in accordance with one of the following three options:

- 1) Submit a Cognizant Report (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 year-end; **or**
- 2) Submit a Certified Public Accounting (CPA) Overhead Report meeting ACEC / AASHTO / FHWA Guidelines for the Consultant's most recent yearend (A&A may review the CPA's workpapers); **or**
- 3) Submit the Consultant Audit Questionnaire* and related documentation.

* If your firm's overhead for the previous fiscal year was reviewed and/or audited by A&A, you are asked 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 thru K
- Page 16 of 26: Items (a) thru (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 Consultant Audit Questionnaire is available at A&A's website (http://www.azdot.gov/highways/ECS/PDF/2010_Uniform_Audit_And_Accounting_Guide.pdf).

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

II. Incurred Cost Audit

The incurred cost (or final) audits (ICAs) will be treated as follows:

- A. General-Lump Sum (LS) and Lump Sum by Task Order contracts (LSTO) with Negotiated rates are not subject to audit except on a sample basis to determine the efficiency and effectiveness of the ADOT negotiation process or for suspected fraud

or abuse. LS and LSTO contracts with Negotiated Provisional rates are subject audit.

- B. Overhead – A CPA Report or a Cognizant Report from another state DOT that meets ACEC / AASHTO / FHWA / ADOT Cost Allowability Guidelines is acceptable for Incurred Cost/Final Audits. A&A may review the CPA workpapers per AASHTO Audit Subcommittee procedures. In the absence of a CPA Report or a Cognizant Report, A&A will audit the overhead based on submitted Consultant Audit Questionnaire and related documentation.
- C. Incurred Costs (other than Overhead) – Consultants will be audited on a three-year rotation cycle. Audits will cover all open contracts; Active and Pending Closeout.
- D. The Consultant must register any disagreements, if any, during the draft phase of the audit to 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 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 ADOT Escalation Guideline.

III. Record Retention

The Consultant and its Subconsultants shall retain and maintain all books, papers, records, accounting records, files, accounts, expenditure records, reports, cost proposals with backup data and all other such materials related to the contract and other related project(s), and shall make such materials available at any reasonable time and place during the term of work on the contract related project(s) and 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 for Consultant and Subconsultants (ECS Pending Closeout Date).

In case of an audit and the Consultant has failed to retain records in accordance with these rules and those of the contract provision, it shall be presumed that the documents would not have supported the Consultant's position. Therefore, failure to retain such records shall result in the Consultant being required to pay the Department a penalty of up to 10% of the contract value.

Upon completion and final closeout of contracts, physical/paper or electronic contract files and any supporting materials shall be maintained in accordance with ADOT and State Record Retention Center Records Retention/Destruction policy and schedules.

If you have any questions regarding this bulletin, please contact Engineering Consultants Section at (602) 712-7525.



Vivien Lattibeaudiere, Ph.D.
Director
Engineering Consultants Section