

► For Audits of Architectural and Engineering (A/E) Consulting Firms



2016 Edition

# UNIFORM AUDIT & ACCOUNTING GUIDE

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## ACKNOWLEDGMENTS

Discussions among AASHTO members at the regional level and at annual AASHTO meetings led to the creation of the first edition of the *Uniform Audit & Accounting Guide*, as released in March of 2001. The guide was designed to assist engineering consultants, independent CPAs, and state DOT auditors with the preparation, and/or auditing, of Statements of Direct Labor, Fringe Benefits, and General Overhead (indirect cost rate schedules).

Over the years, many people have contributed to the guide by providing input, conducting research, attending working sessions, facilitating meetings, editing, proofreading, and providing other support. The participants included representatives from state Departments of Transportation, the FHWA, the American Council of Engineering Companies (ACEC), public accounting firms, and AASHTO. Their knowledge, time, travel funding, and supplies were instrumental in the nationwide team effort that led to this 2016 edition of the guide.

Scot P. Gormley, External Audit Manager with the Ohio Department of Transportation, served as the primary designer and editor of this 2016 Edition of the guide, with additional support and assistance provided by Dan Purvine of A/E Clarity Consulting and Training, LLC.



# Preface

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## ABOUT THIS GUIDE

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This *Uniform Audit and Accounting Guide* was developed by the American Association of State Highway and Transportation Officials (AASHTO) Audit Subcommittee with assistance from the American Association of State Highway and Transportation Officials (AASHTO), the Federal Highway Administration (FHWA), and the American Council of Engineering Companies (ACEC). The AASHTO Audit Subcommittee is comprised of the senior audit representative from each state’s transportation or highway department. This guide was developed over several years and initially was approved by AASHTO at the organization’s 2001 annual meeting.

During 2007, the members of the Audit Subcommittee approved the establishment of a Task Force to update the guide. The work of the Task Force resulted in a major update of the guide in 2010 (the 2010 Edition), which was further refined and updated in 2012 (the 2012 Edition). These revisions were necessary to ensure that the guide was consistent with current auditing standards and procedures, accounting principles, and Federal regulations. The 2010 and 2012 revisions also addressed questions and concerns expressed by various parties, including the FHWA, state DOT audit agencies, Architectural and Engineering design firms (hereinafter referred to as “A/E firms” or “engineering consultants”), and public accounting firms. These questions and concerns arose through current practice and, in part, through the findings and recommendations from an audit performed by the U.S. Department of Transportation’s Office of Inspector General (OIG).<sup>1</sup>

This 2016 Edition of the guide incorporates several updates, refinements, and clarifications necessary to reflect changes in the statutory and regulatory framework applicable to A/E contracts that have occurred since the publication of the 2012 Edition. This 2016 guide should be used as a tool by state DOT auditors, A/E firms, and public accounting firms that perform audits and attestations of A/E firms. The techniques presented herein primarily focus on examination, auditing, and reporting procedures to be applied to costs that are incurred by A/E firms for engineering and design-related services performed on various Federal, state, and local transportation projects.

The techniques discussed in this guide were designed to be applied to audit and attestation engagements performed in connection with engineering consultants’ *Statements of Direct Labor, Fringe Benefits, and General Overhead* (hereinafter referred to as “indirect cost rate schedules”), as well as the related accounting systems, job-costing systems, and labor-charging systems that serve as the basis for the indirect cost rate schedules. However, this guide is not intended to be a comprehensive auditing procedures manual but is instead a guide to assist users in understanding terminology, policies, procedures and audit techniques, and sources for applicable Federal Regulations. This guide provides only general guidance and is not meant to, and cannot, supersede either the Federal Acquisition Regulation (FAR) or any related laws or regulations.<sup>2</sup>

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<sup>1</sup> See “Oversight of Design and Engineering Firms’ Indirect Costs Claimed on Federal-Aid Grants” (Report Number: ZA-2009-033), issued February 5, 2009.

<sup>2</sup> Although use of this guide is not required by Federal law or regulation, most state DOTs expect engineering consultants, external CPAs, and other involved parties to comply with the minimum procedures and techniques illustrated and discussed herein. As recommended by the FHWA, most state DOTs have adopted risk assessment procedures to help determine engineering consultants’ compliance with FAR Part 31 and related laws and regulations. Consistency with this guide may be a key factor in assessing risk, and departures from the procedures recommended herein, lacking adequate justification, may lead to additional scrutiny by a reviewing state DOT. Accordingly, engineering consultants are strongly encouraged to adopt the uniform reporting procedures illustrated herein, including, but not limited to, labor charging practices, cost accumulation and reporting processes, and the format and content of indirect cost schedules (including the recommended standard disclosures). Engineering consultants should contact their respective cognizant state DOTs for further details and clarifications regarding risk assessment and application of this guide.

Users should be aware that the FAR Cost Principles change frequently; accordingly, please review the applicable FAR version in conjunction with this Guide. Likewise, illustrations and sample reports either included or referenced herein were derived from various sources and information current at the time the Guide was published. Due to periodic changes in Generally Accepted Accounting Principles (GAAP), Generally Accepted Auditing Standards (GAAS), and Government Auditing Standards (GAGAS or the “Yellow Book”), users should refer to any applicable, more current guidance/standards and modify the sample reports accordingly.

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**Note:** Please see the AASHTO website for contact information for all state transportation departments.

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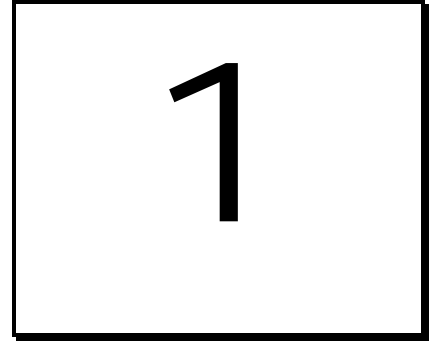
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### **APPENDICES**

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- APPENDIX B: Link to Internal Control Questionnaire for Consulting Engineers
- APPENDIX C: Keyword Index to *Federal Acquisition Regulation Part 31*
- APPENDIX D: Listing of Resource Materials
- APPENDIX E: Sample Management Representation Letters
- APPENDIX F: FHWA ORDER 4470.1A (Cost Certification)



## Chapter 1—Organization of this Guide and Defined Terms

### 1.1—ORGANIZATION OF THIS GUIDE

This Uniform Auditing and Accounting Guide is organized in chapters. Chapters are subdivided into sections, subsections, and paragraphs. For the sake of brevity, internal references to this Guide most commonly follow the “short reference” format as illustrated in the following examples:

Short Reference

Section 2.4

Section 3.2.D

Section 5.6.A.2

Section 5.4..a

Full Reference

Chapter 2, section 4

Chapter 3, section 2, subsection D

Chapter 5, section 6, subsection A, paragraph 2

Chapter 5, section 4, subsection F, paragraph 2, clause a

### 1.2—GENERAL TERMS

In this Guide, words not defined shall be given their plain meaning. The following defined words and terms are used throughout this guide—

- “AASHTO” refers to the American Association of State Highway and Transportation Officials.
- Unless designated more specifically in any particular Section of this Guide, the terms “A/E firm,” “engineering consultant,” “consultant,” “contractor,” or “firm” refer to architectural and engineering design companies that perform work on government contracts.
- “AICPA” refers to the American Institute of Certified Public Accountants, the national, professional organization for all Certified Public Accountants.
- The terms “the CPA auditor,” or “the CPA” refer to independent CPA firms that perform audits, reviews, or other types of attestation engagements for A/E firms.
- The “*Code of Federal Regulations*” (CFR) is the codification of the general and permanent rules published in the *Federal Register* by the executive departments and agencies of the Federal Government. The CFR is divided into 50 titles that represent broad areas subject to Federal regulation. 48 CFR Chapter 12 sets forth the general guidelines used by state DOTs.
- The “*Cost Accounting Standards*,” or “CAS,” are issued by the 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 at 48 CFR Chapter 99. Certain CAS provisions are incorporated into FAR Part 31 and therefore apply to most Federal-aid highway program (FAHP) projects, while other provisions apply only to large contracts.