



Succeeding in State Department of Transportation Audits

Since 2009, AASHTO, the FHWA, the ACEC, State Departments of Transportation (DOT), and public accounting firms have worked together to revise the AASHTO Uniform Audit and Accounting Guide (Audit Guide) which assists engineering companies and public accounting firms in interpreting the Federal Acquisition Regulation (FAR). These revisions have been one of the most significant changes in the industry and have put more responsibility on engineering firms to ensure that their external auditors are qualified to perform audits of their Statements of Direct Labor, Fringe Benefits, and General Overhead (Overhead Statement).

The Audit Guide requires engineering firms to ensure that their auditors are knowledgeable and experienced with the architecture and engineering industry, Generally Accepted Government Audit Standards (GAGAS), the Cost Principles of FAR Part 31, Cost Accounting Standards, related laws and regulations, and the Audit Guide itself.

State DOTs normally base their selections for audits of engineering firms on a risk analysis of the firm. One of the key elements in their decision-making process is the qualifications and experience of the auditor providing assurance over the firm's Overhead Statement. The allowability of costs often comes down to the documentation management has prepared, and the CPA has audited, to substantiate costs. From developing adequate policies and procedures to ensuring that daily expenses have proper documentation to justify the business rationale, documentation can have a significant impact on your overhead rate. Having an experienced, competent auditor standing by you, who understands the requirements of the Audit Guide, can mean the

difference between profitability and significant portions of costs being deemed unallowable. It can also impact your future ability to perform work for State DOTs.

Indiana Department of Transportation (INDOT)

INDOT recently stated that before accepting a FAR audit report or examination-level attestation report, the home State DOT or other reviewing State DOT must determine whether the auditor has adequately complied with the minimum audit testing procedures discussed in the Audit Guide. Their intention is to review 100% of the overhead audits they received in 2011 for the engineering firm's 2010 operating year and have found in a high proportion of the audit work papers reviewed to date that the CPA is not performing the minimum testing as recommended in the Audit Guide. INDOT has notified their consulting engineering partners that if the deficiencies in the audit are not corrected with the 2011 operating year audits, INDOT may be forced to limit the amount and/or types of contracts in which the consulting engineering firm can enter into with INDOT.

If your firm has experienced costs being deemed unallowable by State DOTs, or CPA work papers not meeting the minimum testing requirements of the Audit Guide, now is the time to find external auditors that can assist you in increasing profitability, getting the overhead rate your firm deserves, and ensuring your future ability to perform work for State DOTs.

Dean Dorton has decades of experience in performing overhead audits and communicating with State DOTs. In past State DOT audits, we have been extremely successful in helping to provide positive outcomes for our clients.



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