

**STATE OF CONNECTICUT
DEPARTMENT OF TRANSPORTATION**

2800 BERLIN TURNPIKE, P.O. BOX 317546
NEWINGTON, CONNECTICUT 06131-7546

Phone: 860-594-2181

Fax: 860-594-2182

Subject: Consultant Audit Guide
Audit of Indirect Costs

Enclosed for your information is the most current Consultant Audit Guide for use by your Independent Certified Public Accountant in performing the annual audit of your firm's indirect costs.

This updated package is organized as follows:

Section I The Uniform Audit & Accounting Guide issued through AASHTO (American Association of State Highway Transportation Officials). This can be found in the Word file attached.

Section II The State of Connecticut Department of Transportation "Home Page" which provides additional guidance and information relative to the computation of the Indirect Cost rates for compliance with Connecticut Department of Transportation procedures

Section III A complete listing of the FAR's can be found on the Internet at: www.arnet.gov/far/.

The audit report must contain at a minimum, all of the elements detailed in the example shown in the Section I Uniform Audit & Accounting Guide. In addition, the Notes to the Schedule of Indirect Costs must indicate in-house costs (such as printing, reproductions) directly billed to clients and their actual/audited rates plus the Principals' Compensation worksheet.

Please contact me at (860) 594-2186 or e-mail me at gerald.dobek@po.state.ct.us if I can be of any further assistance.

Very truly yours,

Gerald F. Dobek
Office of External Audits
Bureau of Finance and Administration

CONSULTANT AUDIT GUIDE
INDIRECT COST RATES



OFFICE OF EXTERNAL AUDITS

January 2004

Section I

Uniform Audit & Accounting Guide

Section II

Home Page

Connecticut Department of Transportation

This section includes the following:

- State of Connecticut Office of Policy and Management
General Letter No. 97-1
- Principals' Compensation Worksheet (To be included with
audit report)
- ConnDOT Audit Program for Consultant Indirect Cost Rate
Audits
- DCAA FAR Cost Principle Assessment

**CONNECTICUT DEPARTMENT
OF
TRANSPORTATION
OFFICE OF EXTERNAL AUDITS**

**WORK PROGRAM
FOR
CONSULTING ENGINEER'S
INDIRECT COST RATES**

CONSULTANT'S NAME: _____

FOR THE FISCAL YEAR ENDED: _____

CONTACT PERSON AT COMPANY: _____

TELEPHONE NUMBER: _____

All deviations from the standard audit program have been discussed with, reviewed by and approved by:

NAME: _____

TITLE: _____

DATE: _____

January 2004



State of Connecticut
Department of Transportation
Office of External Audits
Work Program

Prepared By: _____
Date: _____
Reviewed By: _____
Date: _____

NOTE TO THE AUDITOR

The following audit program is not all-inclusive but is presented as a guide for the auditor to use in performing an audit of a Consulting Engineer's Indirect Cost Rates. The auditor, based upon their experience and the situations as they arise, may have to amend the audit procedures in order to meet the requirements of the audit.

If additional audit procedures are required, they should be added to the appropriate section(s) of the work program. Any printed audit work program procedures that are not performed must be explained in the work program as to why they were not performed.

COMPLIANCE CRITERIA

The regulations applicable to the audit of a consulting engineer's indirect cost rates are:

- Government Auditing Standards promulgated by the Comptroller General of the U.S.
- The Code of Federal Regulations, Title 48, Federal Acquisition Regulations (FAR) Part 31.0, 31.1 and 31.2
- State of Connecticut Office of Policy and Management General Letter No. 97-1.

ERRORS, IRREGULARITIES AND ILLEGAL ACTS

The Field Work Standards of the Government Auditing Standards require that audit steps and procedures be designed to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material impact. The audit steps contained herein are intended to provide this reasonable assurance.

Additional audit steps and procedures are to be devised if the auditor has reason to believe that fraud, abuse or improper or illegal acts may exist.

PRESENTATION OF AUDIT ADJUSTMENTS ON SCHEDULE OF INDIRECT COSTS

When preparing the Schedule of Indirect Costs, the audit adjustments must be segregated into FAR adjustments and State of Connecticut policies adjustments with appropriate explanatory notes. This presentation format will benefit the Consultant by allowing the audited FAR rate to be used on projects with other States.



State of Connecticut
 Department of Transportation
 Office of External Audits
 Work Program

Prepared By: _____
 Date: _____
 Reviewed By: _____
 Date: _____

TABLE OF CONTENTS

	Page
I. Planning Phase	8
II. Review and Evaluation of Internal Controls	9
III. Field Audit - General	10
IV. Field Audit - Analysis of Schedule of Indirect Costs	10
A. Analysis of Labor	10
1. Reconciliation of Labor	10
2. Analysis of Labor Distribution	11
3. Analysis of Executive Compensation	12
4. Analysis of Principals' Compensation	12
5. Bonuses	14
6. Verification of Billings	14
B. Analysis of Indirect Cost Accounts	14
1. General Considerations	14
2. Analysis of Accounts	15
3. Subcontractors/Outside Consultants	20
4. Other/Miscellaneous Income	20
5. Gain on Sale of Assets	20
6. Review of Cancelled Checks	21
C. Analysis of Direct Costs	21
1. Summary of Direct Cost Accounts	21
2. Consistency	21
3. In-House Billing Rates	21
D. Adequacy of Accounting System	22
E. Consistency – Proposals and Billings	22
V. Final Procedures	22
VI. Audit Report	22
VII. Computation of a Field Rate (Construction Inspection Projects)	23



I. PLANNING PHASE

- A. Review prior year(s) audit report and working papers for any pertinent information and any audit areas requiring special attention.
- B. Perform fluctuation analysis comparing current year's indirect cost schedule with last year's schedule. For areas of material variance, obtain and document reasons for these variances from company officials.
- C. Follow up on any known material findings and recommendations from prior audit.
- D. Compare list of Principals provided by the Company with prior year's list and note any changes. Discuss these changes with the Company and document explanations during the field audit.
- E. Review Uniform Audit and Accounting Guide prepared by AASHTO Audit Subcommittee which was developed as a guide to assist in the auditing of indirect cost rates of consultants.

Auditors should consider the needs of their users when auditing an entity that receives government assistance. Materiality levels may need to be set lower than in audits of private entities because of the public accountability of the auditee, the various legal and regulatory requirements and the visibility and sensitivity of government programs.



II. REVIEW AND EVALUATION OF INTERNAL CONTROLS

BACKGROUND

Government Auditing Standards require that we obtain a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed.

The unique elements of internal controls that must be considered include but are not limited to:

- Compliance with applicable governmental regulations
- Consistency among estimating/proposal preparation and billing processes
- Cost Accounting Systems
- Labor is tracked and properly allocated
- Non-labor direct costs are properly allocated
- Unallowable costs are segregated and Cost allocations are in conformance with CAS/GAAP
- Billing procedures and controls
- Miscellaneous Revenues/Credits
- Related party and inter-organizational transactions.

The auditor should:

1. Review the Consultant's audited Financial Statement if one is issued, for information related to the internal control structure.

The extent of your testing will be determined by the adequacy of the internal controls.

2. Document your understanding of the internal control structure through appropriate questionnaires, flow charts, and/or narrative information. The preliminary evaluation must be summarized including your conclusions as to the expected reliability of the internal control structure.
3. Correlate your reliance/non-reliance on the internal control structure to your level of testing.



III. FIELD AUDIT - GENERAL

- A. Prepare a working paper that reconciles amounts in Schedule of Indirect Costs prepared by the company to the audited financial statements or adjusted trial balance. Document reason(s) for variances.
- B. Review audited financial statements for leasing policies, common control and other specific information.
- C. Obtain a chart of accounts from the company and discuss with company personnel the types of indirect and direct cost accounts and what type of expenses are included in the accounts.
- D. Determine basis of accounting (cash or accrual) from financial statements.
- E. Obtain the Company's most recent Cost Accounting Disclosure Statement, if the firm is required to submit one, and include in working papers.
- F. Inquire of the Company whether there are employees classified as Non-Permanent or Temporary. If yes, prepare a working paper which will include the following:
 - 1. Obtain a listing of the names of the individuals
 - 2. What fringe benefits do these individuals receive? [vacation, holiday, sick, health insurance, etc.]
 - 3. Obtain the amount of direct labor hours applicable to these individuals.

IV. FIELD AUDIT - ANALYSIS OF SCHEDULE OF INDIRECT COSTS

A. Analysis of Labor

1. Reconciliation of Labor

Purpose: To determine if labor presented in the Schedule of Indirect Costs is properly stated.

Scope: Summarize total labor per payroll tax returns (941's). Reconcile to total labor per the General Ledger. Review CPA's adjusting entries as necessary. Compare to amounts presented in the Schedule.



Reconcile labor amounts (direct labor, paid leaves, indirect labor, bonuses, etc.) presented to the:

- a. Labor distribution system/summary
- b. Financial Statement/General Ledger
- c. Payroll Tax Returns

Investigate and document reason(s) for any variances.

2. Analysis of Labor Distribution

Purpose: To determine if the distribution of labor into direct, indirect and paid leave categories is proper.

Scope: Based upon the firm's labor distribution analysis, select a representative sample from the labor distribution records and perform the following procedures:

- a. Trace hours from labor distribution back to employee timesheets which should indicate project or activity
- b. Verify hourly rates to payroll register. If no payroll register is maintained, verify to personnel records, payroll cards or other cost records of the company.
- c. Ensure that the premium portion of overtime applicable to direct labor is removed from the direct labor base.
- d. **If employees work in excess of 40 hours per week, determine if they are paid for the additional hours and if hourly rates and direct labor base are properly stated based on the total hours per the employees' timesheets.**
- e. **A working paper listing salaried employees not receiving overtime should be included giving total yearly salary, total actual hours and salary hourly rate.**

Note: The premium portion of overtime is billed as a direct cost item (see FAR #31.202) on CONNDOT projects, and should not be included in the direct labor base or in the general overhead unless it pertains to employees performing only indirect labor functions.



- f. Direct Labor Base for Field (Const. Inspection) Projects
 - 1. If direct labor is not segregated in company records, request firm to compute amount of direct labor on construction inspection projects.
 - 2. In lieu of 1 above, use an alternate method of estimating direct field labor (i.e. dollar value of ConnDOT field projects or number of field contracts in relation to total contracts, etc.)

3. Executive Compensation Analysis

Note: The executive compensation limits, under FARs, in addition to those listed in Chapter 5 of the Uniform Audit and Accounting Guide are as follows:

January 1, 2002 \$387,783

January 1, 2003 \$405,273

January 1, 2004 \$XXX,XXX

Purpose: To determine that the Executive Compensation limit per the FARs are not exceeded.

Scope: Review FAR 31.205-6 and determine that the amounts included in the indirect cost schedule comply with the limitation.

4. Analysis of Principals Compensation

Note: This analysis is for those individuals meeting the following definition of principal. The adjustment would be in addition to any FAR Executive Compensation limitation adjustment made in the previous step.

ConnDOT Definition of Principal:

A principal in a corporate entity is considered to be a Corporate Officer administratively responsible to the Corporation for the contract. This includes a Corporate Officer who is responsible to a Board of Directors for an aspect of the overall operation of the corporation (such as the officers registered with the Secretary of the State or per the corporate tax return) or the members of the management team running the day to day operations of the company for the parent corporation.

Regarding a partnership or sole proprietorship, a principal would be the partners or sole proprietor.



Purpose: To determine that total compensation of each principal does not exceed the State maximum (OPM General Letter No. 97-1) rate of \$35.00 per hour.

Scope: Summarize principals' wages per payroll records. Add principals' fringe benefits (i.e. bonuses, health and life insurance premiums, pension, profit sharing, etc.) paid by the Company, to wages in order to determine total compensation. Divide total compensation by total actual hours to compute actual hourly rate.

- a. If principals' salary rate, exclusive of fringe benefits, exceed \$35.00 per hour:
 - i. decrease the Direct Labor Base by direct labor hours times salary rate in excess of the \$35.00 per hour and,
 - ii. decrease Indirect Labor by indirect labor hours times salary rate in excess of the \$35.00 per hour and,
 - iii. decrease fringe benefits/general overhead by the other compensation of the principal.
- b. If principals' salary rate exclusive of fringe benefits, is less than \$35.00 per hour:
 - i. compute the difference between the salary rate used to distribute labor and the lower of \$35.00 per hour or the actual hourly rate previously computed.
 - ii. multiply this difference by direct labor hours,
 - iii. increase the Direct Labor Base and decrease Fringe Benefits by the amount computed in b. ii.,
 - iv. decrease Fringe Benefits by the difference between the principals' total compensation and total hours times the lower of the \$35.00 per hour or actual hourly rate.

See the Sample Principals' Compensation Worksheet contained in the Excel Spreadsheet.



5. **Bonuses**

Purpose: To determine whether the company bonuses to employees other than principals are in accordance with the FAR's.

Scope: Review FAR #31.205-6 regarding bonuses, any written company policy and or employee agreement(s) and determine whether the amounts presented for bonuses are allowable in accordance with the FAR's. Bonuses in excess of 15% of an individuals' salary (exclusive of bonus) are deemed unreasonable and therefore are not allowable.

6. **Verification of Billings - Labor**

Purpose: To determine if labor costs billed are proper and supported by appropriate records.

Scope: Sample cost plus billing to ConnDOT and other clients. Verify hours billed to employee timesheets Verify hourly rates billed to actual rates Compare hourly rates billed to contract maximums.

B. **Analysis of Indirect Cost Accounts**

1. **General Considerations**

- a. Verify monthly cash disbursements totals to general ledger
- b. Review CPA's adjusting entries; test any unusual or significant entries, as necessary.
- c. Determine if original invoices identify direct costs by project number or name.
- d. The working papers detailing the analysis of the indirect cost overhead accounts MUST INCLUDE A DETAILED DESCRIPTION OF THE EXPENSE ITEM.
- e. When an unallowable cost is incurred, its directly associated costs (any cost which would not have been incurred had the unallowable cost not been incurred) are also unallowable.
- f. Depending on the number of transactions within accounts tested, consideration should be given to obtaining sample sizes by methods, which will allow projection of the audit findings. Approach to audit sampling should be thoroughly documented.



2. Analysis of Accounts

a. Payroll Taxes

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: Summarize taxes per the quarterly payroll tax returns and compare to the amount presented. Reconcile any material variances.

b. Group Insurance

Purpose: To determine if the amount presented is proper and in accordance with the FAR's. Also, to determine the amount applicable to principals which will be used in determining total principals' compensation in Work Program step IV A 4.

Scope: Take a representative sample of transactions and trace to vendors' invoices. Determine the amount applicable to principals to be used in step IV A 4 above.

c. Printing

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: Take a representative sample of transactions and trace to vendors' invoices. If printing is to be billed directly to ConnDOT, determine if the firm properly segregates costs identifiable with ALL direct projects whether or not the client is billed directly for these costs. All direct project related printing must be removed from the indirect cost pool overhead in order for printing to be an allowable direct cost.

d. Travel

Purpose: To determine if the amount presented is proper and in accordance with the FAR's and OPM General Letter No. 97-1.

Scope: Take a representative sample of transactions and trace to vendors' invoices, employee expense reports or other source documents. Invoices from American Express, Diners Club, etc., should be carefully examined since they often include entertainment (unallowable per FAR #31.205-14) or personal charges (unallowable per FAR #31.201-4).



Use of company cars should be supported by mileage logs. If cars are taken home by employees and no logs are kept, disallow 2/7 of gas, oil, depreciation, insurance taxes, etc. for personal use of autos.

The cost of company furnished automobiles that relates to personal use (including transportation to and from work) is unallowable, regardless of whether the cost is reported as taxable income to the employee, per FAR #31.205-6 (m) (2) and #31.205-46.

In addition, travel costs must be reviewed for eligibility per FAR #31.205-46. Costs should not exceed Federal Travel Regulations, Joint Travel Regulations, 97-1, etc.

If the firm proposes to bill ConnDOT for direct travel costs, determine if the firm properly segregates costs identifiable with ALL direct projects, regardless of whether the client is billed directly for these costs.

e. Alcoholic Beverages

Purpose: To determine whether the costs of alcoholic beverages have been eliminated from the indirect cost pool.

Scope: Take a representative sample of transactions of travel, bid and proposal and other accounts as deemed necessary to ensure the costs of alcoholic beverages have not been included in the indirect cost pool per FAR #31.205-51.

f. Insurance

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: Review all material transactions amounts from cash disbursements, general ledger or journal entries, and trace to vendors' invoices, noting period of insurance coverage. If considered necessary, summarize policies, determine annual premiums and compare to amount presented. Analyze any significant variances. If the firm is on a cash basis and is to be awarded a lump sum contract, adjust insurance expense to the accrual basis if the amount presented materially exceeds the accrual basis amount.

Review FAR #31.205-19 for eligibility of costs if the company is self-insured or insurance is provided by a captive insurer (insurer owned or controlled by the Company).



g. Legal and Accounting (Professional Services)

Purpose: To determine if the amount presented is proper and in accordance with the FAR's (#31.201, 31.205-3, 27, 33, 47 and any others).

Scope: Sample 100% of legal fees to determine if any are for organization or reorganization costs, bad debts, defense of Government claims or appeals or the prosecution of claims or appeals against the Government, personal expenses or other unallowables per the FAR's. Take a representative sample of accounting fees. However, if organization or reorganization costs were noted during review of legal costs, the sample of accounting fees must be expanded to look for any related unallowables. Work performed on retainer must be supported by detailed evidence (names, dates, hours, etc) of the nature and scope of work performed in order for charges to be allowable.

h. 1. Rental Costs – Facilities

Per FAR #31.205-36(b)(3), charges in the nature of rent for property between any divisions, subsidiaries, or organizations under common control, to the extent that they do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, facilities capital cost of money and maintenance (excluding interest or other unallowable costs pursuant to Part 31) are allowable, provided that no part of such costs duplicate any other allowed cost.

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: From the cash disbursements journal, determine payee and amount of monthly rent expense. Review lease(s) for information regarding ownership of building and amount of rent. If common control is indicated, allow only the normal cost of ownership in accordance with FAR #31.205-36. Adjust to accrual basis, if necessary.

h. 2. Rental Costs - Other, including Personal Property

Per FAR #31.205-36(b)(3), rental cost of personal property leased from any division, subsidiary, or affiliate of the contractor under common control, that has an established practice of leasing the same or similar property to unaffiliated lessees shall be allowable in accordance with FAR #31.205-36 (b)(1).



Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: From the cash disbursements journal, determine payee and amount of monthly rent expense. Review lease(s) for information. If common control is indicated, allow costs in accordance with FAR #31.205-36. Adjust to accrual basis, if necessary.

i. Utilities

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: Sample transactions, by tracing to vendors' invoices; determine if charges are for the business address only. Also, if the firm intends to bill directly for long distance telephone, determine if the firm properly segregates costs identifiable with ALL direct projects, regardless of whether the client is billed directly for these costs. All direct project related long distance telephone must be removed from the overhead indirect cost pool in order for long distance telephone to be an allowable direct cost.

j. Depreciation

Purpose: To determine if the amount presented is proper and in accordance with the FAR's (#31.205-11, et al).

Scope: Review depreciation schedules and compare amount of expense to the firm's tax return. Also, determine if use of any accelerated depreciation method results in an unreasonable amount of expense (such as computation of depreciation on buildings). Ensure depreciation is reasonable and allocable. Ensure policies and procedures for depreciation are reflected in the books and accounts and financial statements, and be used and acceptable for federal income tax purposes.



k. Employee Morale

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: Take a representative sample of transactions and trace to vendor invoices to ensure eligibility in accordance with the FAR 31.205-14 [Entertainment] since this FAR makes social activities including employee parties unallowable. FAR 31.205-13 covers other aspects of Employee Morale but costs made unallowable under 31.205-14 are not allowable under any other any other cost principle.

l. Facilities Capital Cost of Money [if applicable]

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: Review FAR 31.205-10 to determine whether the amount was properly computed. Ensure that the Facilities Capital Cost of Money Rates were obtained from the US Treasury (www.publicdebt.treas.gov) Prompt Payment Act Interest Rate page.

m. Other Indirect Cost Accounts

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.

Scope: Sample other indirect cost accounts of material amounts for eligibility in accordance with the FAR's.

n. Allocation of Corporate Costs

Purpose: To determine if the amount presented is proper and in accordance with the FAR's.



Scope: The aforementioned criteria and sampling techniques are to be used regarding corporate costs as previously described in this audit program. At a minimum, corporate officers compensation is to be adjusted in order that their compensation does not exceed the \$35.00 per hour State maximum per OPM General Letters No. 97-1, and corporate indirect expenses such as travel and legal and accounting (professional services) must be analyzed for unallowables in accordance with the FAR's. In addition, all known unallowables (interest, fines and penalties, bad debts, contributions, etc.) must be removed from the corporate allocation. Please note, that the amount of audit work required is in direct relation to the materiality of the corporate allocation to the Direct Labor Base of the Consultant (the more material the impact on the Indirect Cost rate, the more audit work required to be performed).

Determine that the basis used in allocating corporate expenses is reasonable. These expenses should be allocated on the basis of the beneficial or causal relationship between supporting and receiving activities (See Title 48 CFR 9904 for additional detail).

3. Subcontractors/Outside Consultants

Purpose: To determine if all items in this account are properly segregated between direct and indirect.

Scope: Select a sample of transactions and trace to vendors' invoices to ensure all charges related to specific projects (direct costs) are excluded from the indirect cost pool.

4. Other/Miscellaneous Income

Purpose: To determine if any other or miscellaneous revenue recorded in an Other Income account actually should be credited to an indirect BF&O cost account.

Scope: Review cash receipts and general ledger accounts for other income to be credited against indirect expenses in accordance with FAR #31.201-5.

5. Gains on Sale of Assets

Purpose: To ensure the indirect cost pool receives the proper credit on gains on sale of assets originally presented as part of the depreciation expense cost.

Scope: Review financial statements as necessary for gains on the sale of assets. Ensure that the indirect cost pool receives an appropriate credit computed in accordance with FAR# 31.205-16.



6. **Review of Cancelled Checks**

Purpose: To determine if items presented as expenses were actually paid.

Scope: Obtain bank statement and cancelled checks. On a sample basis compare check numbers and amounts per cash disbursements to cancelled checks and bank statements.

C. **Analysis of Direct Costs**

1. Summary of Direct Cost Accounts

Purpose: To determine the direct cost accounts of the company.

Scope: List general ledger balances of all direct cost account(s). If the company does not segregate direct costs into separate accounts, review transactions and list the different types of expenses.

2. **Consistency**

Purpose: To determine whether the company treats individual direct cost items consistently among their clients.

Scope: Visually review direct cost transactions noting project numbers. Determine the clients applicable to the project numbers ensuring that ConnDOT is not the only client being charged for the direct cost item.

In addition, sample transactions from each direct cost account and trace to vendor invoices.

3. **In-House Billing Rates** (CADD, Computer, Printing, Reproductions, and any others)

NOTE: Effective with OPM General Letter No. 97-1, CADD will now be reimbursed through the indirect cost overhead rate ONLY on Connecticut DOT projects. This affects contracts that contain OPM General Letter No. 97-1 as allowable cost criteria.

Purpose: To audit the in-house billing rate(s) used by the company to ensure the rate(s) are based upon actual costs.

Scope: Obtain a detailed breakdown of the company's computation of the rate(s).



Ensure that the denominator used in computing the rate(s) is based upon TOTAL usage (direct and indirect).

If the expenses associated with the development of the rate(s) are accumulated in the indirect cost pool, ENSURE THAT THE INDIRECT COST POOL IS REDUCED BY THE AMOUNT OF DIRECT USAGE.

If the expenses are accumulated in separate clearing account(s), ensure the indirect cost pool is charged for indirect usage only.
Ensure that the company compares the actual rate(s) with the estimated rates and revises them as necessary.

D. Adequacy of Accounting System

Does the firms have a job order cost accounting system, which in consideration of the above testing, is adequate to segregate and accumulate reasonable, allocable and allowable costs?

E. Consistency – Proposals and Billings

Is the Company's method of estimating cost proposals consistent with their accumulation and reporting of costs under its job order costing system?

V. FINAL PROCEDURES

- A. Formulate audit adjustments and compute preliminary results (which are subject to supervisory review).
- B. Discuss preliminary results with company personnel. Document conference in working papers.

VI. AUDIT REPORT

- A. Independent Auditor's Report on Schedule of Indirect Costs
- B. Notes to Schedule of indirect Costs:
 - Description of Company
 - Basis of Accounting and Description of Accounting System
 - Field Office Allocation Methodology
 - Facilities Capital Cost of Money
 - Listing of Principals
 - Direct Cost Accounts and Value
 - Audited In-house Direct Cost Rates (reproductions, printing, etc)
 - Summary of Indirect Cost Rates



C. Independent Auditors Report on Compliance and Internal Controls

See Chapter 9 of the Uniform Audit and Accounting Guide prepared by AASHTO Audit Subcommittee for additional information including examples of Reportable Conditions, Material Weakness, Disclosure Notes.

Examples of common Reportable Conditions are:

Failure of the Company to identify and segregate direct expenses from indirect expenses.

Failure of the Company to ensure costs expressly unallowable under the cost principles were included in the Schedule of Indirect Costs.

VII. COMPUTATION OF A FIELD RATE (CONSTRUCTION INSPECTION PROJECTS)

CADD and other engineering related computer usage is related to home office design engineering activities. THEREFORE, ALL APPLICABLE REVENUES / EXPENSES ARE TO ENTIRELY BE ALLOCATED TO THE HOME OFFICE DESIGN COST POOL.

- 1. Computation of a Field Rate in accordance with the FAR's (this is required for ALL Pre-Award Indirect Cost Rate Audits and Annual Indirect Cost Rate Audits).

Allocate combined home office and field indirect costs to field, using the following allocation methods, as applicable:

Direct Field Labor / Total Direct Labor

This allocation does not have an effect on the field or home office indirect cost rates. If it was applied to all accounts, the field and home office rates would be the same.

This percentage should be applied to expenses common to both field and home office direct labor in equal proportions, i.e., Office Salaries, Payroll Taxes, Group Insurance, Paid Leaves, Bonuses, Legal and Accounting, etc.

Allocated Supportive Services * / Total Labor less Paid Leaves, Bonuses & Direct Field Labor

- 2. Allocated Supportive Services = (Indirect Salaries X % computed in 1 above) This rate allocates to the field the "space costs" associated with supportive service labor.

This rate should be applied to Rent, Supplies, Utilities, Travel, Depreciation etc.



Section III

Federal Acquisition Regulations

Part 31.0, 31.1 and 31.2

On the Internet at www.arnet.gov/far/