



REVISED AASHTO UNIFORM AUDIT AND ACCOUNTING GUIDE

The American Association of State Highway Transportation Officials (AASHTO) has revised the Uniform Audit and Accounting Guide (Audit Guide) for Audits of Architecture and Engineering (A & E) Consulting Firms. This Audit Guide applies to all firms contracting with the Department as a prime or sub-contractor for engineering and engineering related services. The purpose of this letter is to provide clarification and additional information related to the Audit Guide. The Audit Guide was originally published in December 2001, updated in September 2005; a major revision occurred with the most recent update which will be published in January 2010. ITD has replaced its publication: Overhead Guidelines for Consultants with the AASHTO Audit Guide.

The current revision resulted from USDOT Office of Inspector General's (OIG) Audit on Oversight of A & E consulting firm's indirect cost claimed on federal-aid grants.

Among the OIG's audit findings were:

- CPA's did not perform sufficient transaction testing.
- Unallowable costs and unallowable executive compensation included in A & E firms' overhead.
- Audit services not effectively acquired.
- CPA's did not have relevant training.
- Oversight of CPA's audits is not effective.

The OIG's audit recommended:

- Revision of FHWA 23 CFR 172 to:
 1. Require A & E firms to certify cost allowability.
 2. Provide states penalty assessment authority.
 3. Assign responsibility and accountability for overseeing CPA audits of A & E firms.
- Issue guidance for A & E firm procurement of CPA's.
- Establish a process for monitoring and ensuring state implementation of NHS 307.

As a result of OIG's audit and recommendations, AASHTO formed a task force made up of representatives from fourteen state DOT audit agencies and FHWA to revise the Audit Guide. Input for the Audit Guide was solicited and provided by ACEC, public accounting firms, A & E consulting firms, AICPA, and AASHTO's audit subcommittee members.

The purpose of the update is to ensure audits are conducted in accordance with the Federal Acquisition Regulations (FAR) and other applicable laws and regulations, improve audit consistency and quality, promote the recognition of a single cognizant audit, and improve government oversight and overall guidance.

The Audit Guide is designed to be used as a tool by A & E firms, in addition to CPA's and State DOT auditors that perform audits and attestations engagements of A & E firms. The new Audit Guide is a more comprehensive and effective tool that focuses on auditing and reporting procedures. The techniques discussed in this Audit Guide were designed to be applied to audits performed in connection with A & E Consultants' Statement of Direct Labor, Fringe Benefits and General Overhead, as well as the related accounting systems, job-costing systems, and labor-charging systems that serve as the basis for the overhead schedule(s).

The Audit Guide is anticipated to be published in January 2010. With the exception of the National Compensation Matrix (NCM), which FHWA is developing, all the information and procedures in the Audit Guide are based on current regulations, thus there really is no effective date of the Audit Guide. It is in effect now. FHWA intends to have this Audit Guide made part of federal regulation, by reference, once the federal rule making process is completed.

Some of the key points and clarifications regarding the Audit Guide are:

- The Audit Guide includes improved guidance in the determination of reasonable compensation costs. It provides a process for demonstrating reasonableness that A & E firms should follow to prepare their own independent compensation analysis. This process is outlined in Chapter 7 of the Audit Guide. It is the firm's responsibility to prepare an analysis to support the reasonableness of claimed compensation costs in accordance with FAR 31.205-6. Typically, this analysis focuses on executive positions because those positions comprise the highest compensation levels and are a significant area of audit risk. In the case where an A & E firm does not do their own independent compensation analysis, a National Compensation Matrix (NCM) is being developed by FHWA to set parameters for reasonableness of executive compensation.
- The Audit Guide discusses A & E Management and CPA's roles and responsibilities. Management of the A & E firm is responsible for representation of the firm's accounting records, including identifying, segregating, and removing unallowable cost from all billings to government contracts. The selection of a CPA for an overhead audit is also discussed.
- AASHTO's approval of the Audit Guide solidifies the agreement between states to follow the Guide's common interpretations of a "FAR compliant" audit, thus eliminating state specific overhead policies, except in cases where state specific rules are supported by statute or state law.
- Other highlights of the Audit Guide include a definition and guidance on what a cognizant audit is, minimum audit requirements to be considered for a "FAR compliant" audit, a CPA work paper review program, cost accounting and field rate development, detailed discussion on select areas of costs, a standardized internal control questionnaire (for all DOT's to use), detailed guidance and tools to assist in determining allowable or unallowable costs, and audit reports and minimum disclosure requirements.

Benefits of the new guide:

- The new Audit Guide is more comprehensive and a more effective tool for DOT's, A & E Firms, and CPA's to use.
- The new Audit Guide provides clarifying guidance on complex or confusing areas of the FAR to promote a consistent interpretation in producing a FAR compliant audit.
- The new Audit Guide allows cognizance to move forward by providing guidance and clarity. Firms should be able to produce one single audit using a FAR based audit approach and receive a cognizant letter that will be accepted by all states.

FHWA is developing a training program on the FAR and the Audit Guide. This training is expected to be available during the spring / summer of 2010. ACEC is conducting presentations via webinars centered on the Audit Guide and compensation.

The ITD Office of Internal Review will comply fully with the interpretation and guidance included in the updated Audit Guide. It is our intent to work closely with all A & E consulting firms and CPA's as the Audit Guide is implemented. Please feel free to contact Mike Cram, Principal Auditor in our Office of Internal Review, with any questions or concerns you may have regarding the information in the Audit Guide. He can be reached at (208) 334-8829.

Thank you for cooperation in working with the ITD as the Audit Guide is implemented.

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