



## TRANSPORTATION CABINET

Frankfort, Kentucky 40622  
www.transportation.ky.gov/

**Steven L. Beshear**  
Governor

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Acting Secretary

TO: Prequalified Kentucky-based Consultants

FROM: Alice S. Wilson, CPA *Alice S. Wilson*  
Executive Director, Office of Audits

DATE: November 9, 2009

RE: Audit Update

I would like to introduce you to the KYTC Office of Audits, Division of Audit Services, External Audit Branch. Kenny Blackwell, CPA, CIA is the Director of the Division of Audit Services which includes the External Audit Branch. Mr. Blackwell retired from state government in 2004 after spending time with the Auditor of Public Accounts, Department of Treasury and Transportation Cabinet. In the interim he has worked with a public accounting firm prior to joining our staff on September 16, 2009. Mike Coffey is the Audit Manager and has over 18 years of experience performing FAR compliant indirect cost rate audits with the Kentucky Transportation Cabinet. He has a staff of four with a combined experience of 8 years performing indirect cost rate audits. I am the Executive Director of the Office of Audits, with 12 years of auditing experience with the Auditor of Public Accounts and over 3 years of audit experience with the Kentucky Transportation Cabinet.

### New Guidance

The AASHTO Standing Committee on Finance & Administration voted to approve the revised *Uniform Audit & Accounting Guide for Audits of Architectural & Engineering Consulting Firms* on October 21, 2009. Most of the information in this guide provides additional clarification and guidance in regard to federal regulations and auditing standards that are already in place and effective. Therefore, those regulations and standards should already be followed.

One new item in the Guide is the National Compensation Matrix (NCM). The NCM is a recommendation from the Audit Guide Task Force to the Federal Highway Administration and, as such, it does not currently exist. This guide was revised due partly to a February 2009 USDOT OIG audit report entitled *Oversight of Design and Engineering Firms' Indirect Costs Claimed on Federal-Aid Grants*. The report contained several recommendations such as revisions to 23 CFR 172, including having A&E firms certify their submission is accurate and in compliance with 48 CFR 31 (FAR).

In August 2007, a task force composed of 5 state DOTs, 6 A&E firms, AASHTO, ACEC and FHWA began rewriting the guide. This task force solicited information from: task force members, the AASHTO Subcommittee members, ACEC, A&E member firms, public accounting firms, AASHTO, FHWA and the AICPA. The Guide is a tool for state DOT auditors, A&E firms and CPA firms to use.

### KYTC Approach

The Kentucky Transportation Cabinet currently has 179 prequalified A&E firms. Of those, 86 are Kentucky based firms. Kentucky currently has open prime contracts with 34 of these firms and several of these firms have Kentucky based subconsultants. Our office will perform a risk analysis in December of each year to determine which firms we plan to audit for the following year. We will base this on risk, such as dollar volume of contracts with Kentucky, past experience, past history/reputation of firm, number of



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states in which the firm does business, date of last "FAR compliant" audit, type and complexity of firm's accounting system, CPA firm experience, ICQ response, change in firm's org structure, etc.

We will send the *AASHTO Internal Control Questionnaire for Consulting Engineers* to each prequalified consulting firm in September of each year and expect A&E firms to return those to us by November 30th of each year. However, for this year, due to timing, we are sending the ICQ today, Monday November 9th and ask that you return it by November 30, 2009.

We will post a bulletin on the Division of Professional Services website in January of each year with a list of A&E firms we plan to audit. Those firms that will not be audited by our office will be required to obtain an indirect cost rate audit from a CPA firm. If a firm would like for us to perform their audit instead of a CPA firm, the firm should submit their request to our office. We will evaluate the request and workload of our current schedule and determine if we can perform an audit timely. We highly encourage those firms selected for audit by our office to not obtain a CPA audit, since we will be performing the audit as well and could result in unnecessary expense of the A&E firm.

Before we accept an indirect cost rate audit from a CPA firm, we will determine if the auditor or other reviewing state adequately complied with the procedures described in chapter 9 of the *Uniform Audit & Accounting Guide for Audits of Architectural & Engineering Consulting Firms* and performed adequate testing in compliance with the recommended minimum audit testing procedures discussed in the guide. We will use the *CPA Quality Control Review Program* located in Appendix A of the guide. In addition, we will ask the A&E firm to provide additional information as noted in the *CPA Audits – Additional Information Form* posted on this webpage.

When an A&E firm employs a CPA firm to audit a proposed indirect cost rate, the A&E firm must inform the CPA that the:

- audit should comply with AASHTO's minimum recommended audit procedures as discussed in the Guide
- CPA should consider meeting or contacting representatives from the External Audit Branch to discuss the audit process
- federal and state DOT auditors must have full access to the CPA's workpapers
- audit must identify, segregate and remove unallowable costs from all billings to government contracts
- KYTC External Audit Branch can reject the audit or do additional work if we determine the CPA audit does not meet the standards of the Guide

Our auditors, as well as CPA auditors will be:

- obtaining management representation letters on indirect cost rate audits
- performing an audit or examination level attestation engagement in accordance with GAGAS to obtain reasonable assurance that the A&E firm complied with 48 CFR part 31 (FAR) and applicable cost accounting standards
- determining if the CPA has the required specialized knowledge to complete the engagement
- exercising significant judgment in planning and performing engagements and considering both the environment in which the A&E firm operates and the adequacy of firm's accounting systems and procedures to comply with the Federal requirements
- considering specific government regulations and individual contract provisions when designing, performing and evaluating audit procedures

- testing a minimum of 26 timesheets across an appropriate mix of direct-charge employees including supervisors and or project managers
- testing a minimum of 2 to 20 transactions for each high-risk or material accounts—tracing from the indirect cost schedule to the general ledger and vouched from the general ledger to source documents
- conducting fraud inquiries
- evaluating internal controls relating to the job cost accounting system, as well as payroll system
- identifying and testing the internal control systems used to prepare the overhead schedule

A&E firms can include the cost of a CPA firm audit in its overhead. Many state DOTs do not audit A&E firms indirect cost rates and purely rely on CPA firms to do this work. We feel it is important to continue to perform indirect cost rate audits as well as post audits on these contracts.

We look forward to working with you and your firm. If you have questions or concerns, please feel free to contact me at [Alice.Wilson@ky.gov](mailto:Alice.Wilson@ky.gov), Kenny Blackwell at [Kenny.Blackwell@ky.gov](mailto:Kenny.Blackwell@ky.gov) or Mike Coffey at [Mike.Coffey@ky.gov](mailto:Mike.Coffey@ky.gov). You may also reach us at 502-564-6760.