

Prepare your A/E firm for Government Transportation Contracts

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Introduction

The purpose of this brochure is to help you, as a consultant with KYTC, prepare for the financial responsibilities required by state and federal regulations. To continue as a consultant, whether a prime or a subconsultant with KYTC, your accounting system must include some basic elements.

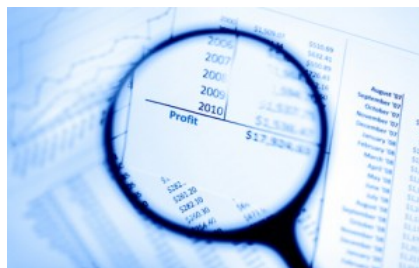
As a consultant with KYTC, your accounting systems, indirect cost rate, and contracts will be subject to audit for compliance with state and federal regulations. The cost of installing and maintaining your accounting system and preparing for audits are reimbursable on KYTC contracts through your indirect cost rate.



Elements of a Cost Accounting System

Your job cost accounting system must have certain minimum elements to satisfy the state and federal requirements for tracking costs. The minimum elements are:

- The ability to record and report financial data in accordance with generally accepted accounting principles
- A system of recording to ensure that costs billed to KYTC are:
 - * Supported by adequate documentation
 - * In compliance with the terms of the contract and applicable state and federal regulations specified in the contract.
- A system of record keeping which ideally includes the following:
 - * General Ledger
 - * Job cost ledger
 - * Labor distributions
 - * Time records
 - * Subsidiary journals
 - * Chart of accounts
 - * Financial Statements

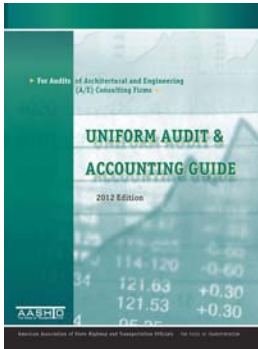


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Elements (cont.)

The [AASHTO Uniform Audit and Accounting Guide](#) provides details of what the auditor is looking for during an Indirect Cost Rate Audit.



Compliance with cost principles described in the Code of Federal Regulations 48. Federal Acquisition Regulations (FAR), Chapter 1, Part 31

- The ability to accumulate and segregate reasonable, allocable and allowable costs through the use of a cost accounting system. The following are some of the attributes which would ideally be found in such a system:
 - * A chart of accounts which includes indirect and direct general ledger accounts. Indirect costs are not specifically identified to a project, for example, rent and/or utilities
 - * Segregation of costs by contract
 - * Proper recording of direct and indirect costs. For example, recording of labor costs should provide that non-project hours be recorded on a time sheet and in the accounting records to an administration, vacation, sick leave, or other indirect cost account. Direct project hours should be recorded on a time sheet and in the accounting records to a direct cost account.
 - * Consistent accounting treatment of costs in recording and reporting. For example, if travel expense is charged directly to a project, all travel expense incurred on any project should be recorded on a time sheet and in the accounting records to a direct cost account.
 - * Ability to trace from invoices submitted for reimbursement by KYTC to job cost records and original approved source documents, for example, time sheets, vendor invoices, cancelled checks etc.
 - * Ability to reconcile job cost records to the accounting records.
- Procedures to retain accounting records and source documentation as required by the terms of the contract.
- A system of internal control which provides reasonable assurance that assets are protected; financial data, records and statements are reliable; and errors are promptly discovered, reported, and corrected. The elements of a system of internal control should include, but not be limited to, the following:
 - * Separation of duties for proper protection of assets. Incompatible duties are those that place any person in a position to both perpetrate and conceal errors or fraud in the normal course of business. For example, the person who writes checks should be different from the person who reconciles bank statements and the person who purchases goods should be different from the person who receives goods.
 - * Limiting access to assets to only authorized personnel who require these assets in the performance of their assigned duties. For example, blank check stock should be locked in a safe when not in use.
 - * Authorization and record keeping procedures which are effective accounting control over assets, liabilities, revenues, and expenditures.
 - * A system of practices to be followed in the performance of duties and functions. Such a system normally includes policies and procedures which establish the purpose and requirements of the accounting system. For example, timekeeping practices should ideally provide for the following:
 - ◇ Time sheets be prepared, signed, and dated by all employees.
 - ◇ Time sheets be completed electronically or in non-erasable ink.
 - ◇ Time sheet corrections be approved by the employee.
 - ◇ Time sheets be signed by a supervisor as reviewed and retained on file as required by the contract.
 - * Personnel with skills and training commensurate with their responsibilities.
 - * A system of internal review. For example, bank reconciliations and travel expense claims should be reviewed, approved and signed by a supervisor.

The following accounting system elements are strongly recommended:

- Compliance with cost principles described in the Code of Federal Regulations 48, Federal Acquisition Regulations System (FAR), Chapter 1, Part 31 (FAR).
- Procedures to monitor and adjust projected overhead rates to actual rates.

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Audits

All architectural and engineering consultants, whether a prime or subconsultant on a KYTC contract, are subject to the following audits.

Indirect Cost Rate Audits – An indirect cost rate (IDCR) audit is performed to obtain reasonable assurance that the costs presented in the schedule substantially comply with 48 CFR Part 31. 600 KAR (Kentucky Administrative Regulations) 6:040 Section 3 (1)(b) requires that to be prequalified to perform work for KYTC an overhead (indirect cost rate) submission be submitted annually within five (5) months of your fiscal year end. The overhead submission must contain the following schedules and reports::

- Schedule of Indirect Costs (Statement of Direct Labor, Fringe Benefits, and General Overhead) – this schedule must be for the last fiscal year ended.
- Schedule of Employees, Pay Rates, and Job Classifications – this schedule must reflect the information from the last payroll period for your current fiscal year.
- Payroll Register – the payroll register must be for the last payroll period for the current fiscal year.
- Detailed General Ledger – the detailed general ledger must be for the last fiscal year ended.
- Certified or Audited Financial Statements for the audit period – the financial statements must be for the last fiscal year ended. Audited means financial statements audited by a CPA who issued an opinion on the financial statements. If you do not have audited financial statements, financial statements certified by an officer of the company to be accurate to the best of their knowledge may be submitted.

The consultant will also have to complete an Internal Control Questionnaire (ICQ) prior to the beginning of the audit. The ICQ is a multi-page document requiring information about the company and its accounting system. The ICQ may be found at our website at <http://transportation.ky.gov/Audits/Pages/External-Audit.aspx>. Failure to submit this information on time may result in a delay in signing the contract or loss of prequalification to perform work for KYTC.

Description	General Ledger Balances	Period Usable	FAR Ref.	Total Proposed	Allocations	
					Home Office Costs	Field Office Costs
Direct Labor	\$ 12,500,000	\$ (2,000)	(1)	\$12,512,000	\$12,011,520	\$ 500,480
Fringe Benefits						
Vacation/Sick/Prod Leave	\$ 1,700,000			\$ 1,700,000	\$ 1,632,000	\$ 68,000
Payroll Taxes	1,550,000			1,550,000	1,488,000	62,000
Group Insurance	1,100,000			1,100,000	1,056,000	44,000
Pension and Profit Sharing	1,016,000	(500,000)	(2)	516,000	495,360	20,640
Incentive Payments	1,550,000			1,550,000	1,488,000	62,000
Summer/Relocation	400,000			400,000	384,000	16,000
Employee Welfare	10,000	(4,000)	(3)	6,000	5,760	240
Total Fringe Benefits	\$ 7,326,000	\$ (984,000)		\$ 6,342,000	\$ 6,348,120	\$ 773,880
General Overhead						
Non-Project Labor	\$ 4,900,000	\$ (12,000)	(1)	\$ 4,888,000	\$ 4,808,000	\$ 80,000
Recruiting	190,000			\$ 190,000	189,126	874
Building Costs (Rent)	1,400,000	(20,000)	(4)	\$ 1,380,000	1,300,000	-
Other Occupancy Costs	484,000			\$ 484,000	484,000	-
Supplies	380,000			\$ 380,000	380,000	-
Field Supplies and Equipment	100,000			\$ 100,000	-	100,000

“An overhead submission must be submitted annually within five (5) months of your fiscal year end.”

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“The word ‘audit’ comes from ‘auditory’ which means ‘to hear bad news coming’.”

Post Audits – KYTC audits lump sum and cost plus contracts. Both lump sum and cost plus contract audits require that costs be allowable per contract and state and federal regulations and be supported by the appropriate documentation. The lump sum audit will result in a comparison of the costs negotiated to the actual costs incurred by your company for the project. The cost plus audit will result in a determination of the amount, if any, owed either by KYTC or your company.