



# INDIANA DEPARTMENT OF TRANSPORTATION

Driving Indiana's Economic Growth

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**Michael R. Pence, Governor**  
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## **A/E Consultant Firms Doing Business with INDOT**

### **CPA Firms Engaged to Complete Indirect Cost Audits for Those Consultants**

The External Audit division of Indiana Department of Transportation (INDOT) continues to adhere to the AASHTO Uniform Audit & Accounting Guide (Audit Guide) in relation to our financial prequalification and audit procedures. Consultant firms and CPA firms share responsibility for being thoroughly knowledgeable of the Audit Guide contents in addition to the applicable FAR regulations. Where needed, INDOT will assist the consultant firms and CPA firms in understanding their responsibilities and requirements.

An important consideration is the consultant firm's engagement of the CPA firm for the annual fiscal FAR audit. Detailed guidelines for the audit are included in Chapters 9 and 10 of the Audit Guide. The following is excerpted from the Audit Guide to summarize each party's role:

The **consultant firm** management bears the sole responsibility for identifying, segregating, and removing unallowable costs from all billings to Government contracts. This requirement applies to direct costs, indirect costs, and any cost proposals that are submitted for Government contracts. Page 13.

The **CPA auditor** is responsible for performing an audit or examination level attestation engagement in accordance with Government Auditing Standards (GAGAS) to obtain reasonable assurance that the engineering consultant complied with FAR Part 31 and applicable Cost Accounting Standards. Page 15.

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 procedures and performed adequate testing in compliance with the recommended minimum audit testing procedures discussed in the Audit Guide. Page 93. The tool used to assess compliance is the Review Program for CPA Audits at Appendix A.

#### **When employing a CPA firm to audit a proposed overhead rate, the engineering consultant must inform the CPA that:**

- The audit should comply with AASHTO's minimum recommended audit procedures.
- All CPA workpapers used as the basis to establish an audited overhead rate must be made available to the home State DOT, or surrogate/agent, for review at a location of mutual agreement, as determined by the State DOT and engineering consultant.
- A sufficient audit trail of the sampling performed by the CPA must be maintained by the engineering consultant and made available for review as stated above.
- The CPA should consider meeting with representatives of the reviewing State DOT to discuss the audit process. This is especially important in cases where the auditee [consultant firm] is a new client of the CPA or in those cases where the CPA has limited experience in performing FAR overhead audits. Page 93.

To ensure the above items have been communicated from the consultant to the CPA firm, INDOT has prepared this letter to serve as an attachment to the audit engagement letter between these two parties. When the consultant submits the firm's annual audited financial statements to INDOT, a copy of this letter or its equivalent that includes the CPA's signed acknowledgement below must be included in the submittal.

\_\_\_\_\_ for the fiscal year 20\_\_ audit of \_\_\_\_\_  
**CPA firm name and representative signature** **Consultant firm name**