# RIDOT AUDIT HANDBOOK

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

DEPARTMENT OF TRANSPORTATION

Management Services

External Audit Section, Room 308

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## INTRODUCTION

RIDOT External Audit is responsible for conducting audits of Architectural and Engineering Services contracts. RIDOT contracts with these consultants to design or oversee various road and bridge projects throughout the state. External Audit also conducts risk assessments or audits consultant generated indirect cost rates. In addition, we conduct incurred cost audits of utility companies, Municipalities and Local Public Agencies and perform special reviews as directed by management. The audits or reviews we perform are governed by requirements of the Code of Federal Regulations (CFR), Federal Acquisition Regulations (FAR), AASHTO (American Association of State Highway and Transportation Officials), State Procurement and Purchasing laws and RIDOT Contract terms. For more details of what we do, please see the following pages.

Our office consists of 9 individuals and includes audit staff and audit managers as well as one billing specialist. We report to the Chief Financial Officer as part of the Management Services Division.

We do not audit construction projects or construction companies completing such projects. This is the responsibility of the Finals Department.

## What we do:

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| Pre-Award Review | RIDOT External Audit performs contract Pre-Award Reviews on Consultants selected through the technical consultant evaluation process. The objectives of the Pre-Award Review are to:<br><br>1. Evaluate significant internal control processes relative to contract costs and the Indirect Cost Rate Schedule to gain reasonable assurance that cost and other financial information is reliable, accurate and prepared in accordance with Generally Accepted Accounting Principles and Cost Accounting Principles, as applicable.<br><br>2. The proposed Indirect Cost Rate (ICR) is in general compliance with Federal Acquisition Regulations (FAR - 48 CFR § 31.2) and is therefore acceptable as a provisional billing rate until establishment of an audited ICR. {Provisional rates are generally awarded for Consultants that have not previously contracted with RIDOT}<br><br>**OR**<br><br>3. The proposed Indirect Cost Rate (ICR) is the most recently accepted rate by RIDOT (within 2-3 years of proposal date) and is therefore acceptable for use in billing overhead for the consultant's first fiscal period within the awarded contract. |
| Pre-Payment Review | RIDOT External Audit performs a limited review of the Consultant's first 5-10 invoices on a new contract to ensure all costs are billed in accordance with Federal and State Laws and with RI Contract terms. |
| Incurred Cost Review | Review of costs billed to RIDOT for the entire contract term, performed in accordance with provisions of the Federal Acquisition Regulations, State regulations and RIDOT contract conditions. To ensure costs billed are adequately supported and chargeable to the contract and includes reconciliation of all indirect costs, fixed fee amounts and retainage prior to authorization of payment to Consultant for Final Invoice. Includes assessment of risk, development of audit plan and testing procedures as required to provide reasonable assurance that the reviewed costs were free from material misstatement. |

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| Acceptance of Cognizant approved ICR | Per 23 U.S.C. 112: RIDOT shall accept indirect cost rates established in accordance with the FAR by a cognizant Federal or State government Agency, if such rates are not currently under dispute. Generally the cognizant agency is the Consultant's Home State. Currently RI does not perform cognizant reviews. |
| Indirect Cost Rate Risk Assessment | Use AASHTO guidance to perform a risk analysis which includes a review of the ICR schedule (Consultant Prepared or CPA prepared), Consultant's Internal Controls, audit and contract history, accounting systems, and organizational structure. The goal of the risk analysis is to support acceptance of the Consultant's ICR schedule without performance of a full CPA workpaper review or audit. Risk Assessment may result in acceptance of ICR as presented, CPA Workpaper review, limited review, audit of ICR schedule or denial of ICR rate as presented. |
| CPA Workpaper Review | Use the AASHTO CPA Workpaper Review Program (Appendix A of Guide) to determine if the CPA's audit was conducted in accordance with GAGAS, FAR Part 31 and related laws and regulations and that the audit report format is acceptable. Program includes review of job-cost accounting system, internal control structure, compliance with applicable laws and regulations, and sampling procedures. |
| Indirect Cost Rate Audit | Includes all aspects of an audit engagement such as planning, management of internal control risk, transaction and account level risks, testing and audit reporting. The majority of Consultants contracting with RIDOT engage CPA firms to perform audit work for presentation to RIDOT. |
| ICR Adjustment Invoice Review | A review of ICR adjustment invoices submitted by Consultant upon acceptance of Indirect Cost Rate for a given year. Review includes verification of all direct labor charges incurred by Consultant during ICR period and application of accepted rate to determine adjustment allowable to prior billed overhead costs. Memo is issued to Financial Management Section to either accept invoice as submitted or request revision per External Audit findings. |

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| Letter of Agreement Review | Generally costs billed to RIDOT under these agreements are considered low risk due to performance-based nature, short term contract, and low dollar amount of award. Agreement terms do not always include audit mandate; however, language is included whereby the State does retain right to audit all costs charged to project and Applicant is required to maintain all supporting documents for a period of three years after final payment. |
| Utility Contract and Maintenance Agreement Review | Review of all direct labor, material, and overhead costs billed to RIDOT and authorized within approved Force Account Estimate in accordance with FAR Part 645. Final Utility billing initiates review performed by External Audit Section. Final report is issued to Financial Management Section to either pay invoice as submitted or revise balance due to/from Utility prior to close of agreement. |
| Local Public Agency (LPAs) | Dependent on nature of project: limited review of sub-recipient billed costs in accordance with 48 CFR Part 31, 23 CFR 172.7 and LPAs single audit requirements per OMB Circular A-133. |

## Information necessary for ICR submissions:

### Indirect cost rate submissions should be made via email to:

### dot.ICR@dot.ri.gov

### Your submission should include the following items

- Electronic copy (Excel) of your firm's Indirect Cost Presentation for the most recent fiscal year-end prepared in accordance with Federal Acquisition Regulations Title 48, Part 31 and RIDOT Contract terms, and in addition if available, an electronic copy (PDF) of an Independent CPA Indirect Cost Rate Audit Report with accompanying Independent Auditor's Report on Internal Controls (If a PDF version is not available hard copy can be submitted). Submission should include electronic files for all schedules, calculations, et al contained in the Audit Report. (An example of an ICR Presentation is contained in the AASHTO Audit Guide in Section 11.2 pg. 108)

- Electronic copy of "Management Certification of Indirect Costs" (available for download at: http://www.dot.ri.gov/business/contractorsandconsultants.php)

- Electronic copy of Cognizant Concurrence Letter(s) or Cognizant Audit Letter(s) issued by other States or Federal agencies corresponding to the submitted Indirect Cost year-end.

- Electronic copy (Excel or PDF) of the most recent annual financial statements including footnotes, audited if available.

- Electronic copy of "Management Certification of Accounting System" (available for download at: http://www.dot.ri.gov/business/contractorsandconsultants.php)

- Electronic copy of the AASHTO Internal Control Questionnaire for Consulting Engineers located at http://audit.transportation.org/Documents/UAAG-3%20FINAL.pdf (Can be found in **Appendix B** of the Audit Guide. The link to the guide can be found on Page 6 Helpful Links).

- Electronic copy of inventory of all current RIDOT contracts. (Note: This can be an excel file, word document, or included in email correspondence)

## Helpful Links

Below are some helpful links to federal regulations and guidance:

- **CODE OF FEDERAL REGULATIONS:**

http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&tpl=%2Findex.tpl

- **FEDERAL ACQUISITION REGULATIONS (FAR):**

https://www.acquisition.gov/far/loadmainre.html

- **The revised 2012 Uniform Audit and Accounting Guide (Internal Control Questionnaire is located here Appendix B):**

**http://audit.transportation.org/Pages/default.aspx**

- **AASHTO website:**

http://www.transportation.org/Pages/Default.aspx

- **NATIONAL COMPENSATION MATRIX- can be found on the page on the link below under**

External Audit **NEW! 2014 National Compensation Matrix** *Updated Feb. 20, 2014->* **Instructions**, **Q&As**, **Sample NCM Compliance Worksheet**

http://audit.transportation.org/Pages/default.aspx

- **GAGAS (YELLOW BOOK):**

http://www.gao.gov/assets/590/587281.pdf

- **STATEMENTS ON AUDITING STANDARDS**

http://www.aicpa.org/research/standards/auditattest/pages/sas.aspx

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