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Department of Transportation

## **AUDIT PROCESS FOR PROFESSIONAL SERVICES CONSULTANTS AND CONTRACTS**

### **AUTHORITY:**

Sections 20.23(3)(a), and 334.048(3), Florida Statutes (F.S.)

### **REFERENCES:**

Section 20.055, F.S.

Section 287.055, F.S.

Rule Chapter 14-75, Florida Administrative Code (F.A.C.)

Procedure No. 375-030-001, Professional Services Consultant Qualification

Procedure No. 375-030-002, Acquisition of Professional Services

American Association of State Highway and Transportation Officials (AASHTO) Uniform Audit & Accounting Guide

### **STATEMENT OF POLICY:**

To describe the procedures to be used by the Florida Department of Transportation (Department) to schedule and conduct audits/reviews of professional consultants applying for qualification and contracting with the Department.

### **SCOPE:**

This procedure applies to Department staff responsible for the review and approval of consultant accounting systems and overhead audits, the review of consultant fee proposals, and the audit of consultant contracts.

The procedural steps are designed to ensure that:

- (1) Consultants' accounting systems meet the Department's standards.
- (2) Consultants comply with the overhead audit requirements designated in **Rule Chapter 14-75, F.A.C.**, and the AASHTO Uniform Audit & Accounting Guide.
- (3) Consultants' fee proposals are adequately supported.

- (4) Audits of professional service agreements selected for audit are conducted, and audit issues resolved in a timely manner.

## **DEFINITIONS:**

**Unlimited:** This level of qualification allows consultants to compete for any projects for which they are technically qualified with the Department, regardless of dollar amount. Continued qualification at this level requires annual submittal of a qualification application along with proof of insurance, an overhead audit prepared by an independent Certified Public Accountant (CPA), and a signed Contractor Cost Certification.

**Minor Projects Only:** This level of qualification allows consultants to compete for minor projects with fees estimated below \$500,000. Continued qualification at the minor project level requires annual submittal of a qualification form along with proof of insurance. A self-certified overhead report and statement describing the firm's accounting system is ultimately required for contracting with the Department.

**Technically Qualified:** Consultant firm qualified in one or more work types, as defined in *Rule Chapter 14-75, F.A.C.*

## **PROCEDURE:**

### **1. CONSULTANT ACCOUNTING SYSTEM REVIEW**

#### **1.1 REQUIREMENTS**

- 1.1.1** *Department Rule Chapter 14-75, F.A.C.*, requires that all professional Architects, Engineers, Landscape Architects, Surveyors and Mappers, Transportation Planners, and Consultants providing Right of Way services have an accounting system that meets the Department's requirements as a prerequisite to entering into contract with the Department.
- 1.1.2** Subconsultants providing technical qualification for a prime Consultant who is not prequalified in the specified work type(s) are required to have an accounting system that meets the Department's requirements.
- 1.1.3** If the total contract costs are \$500,000 or more, the prime Consultant must have an approved overhead audit. In addition, all Subconsultants must have an approved overhead audit if the cost of their services are \$500,000 or more.

## **1.2 ACCOUNTING SYSTEMS REQUIREMENTS**

**1.2.1** To meet the Department's standards, an accounting system must separate and accumulate both direct and indirect costs; and must be adequate to support billings to the Department and other clients. Generally, a job-cost accounting system is required; however, in those instances where Consultant billings to the Department are made exclusively on the basis of published fee schedules, and unit-rate (loaded billing rate) basis, a formal job-cost accounting system will not be required.

The Department's minimum standards for an acceptable job-cost accounting system are:

- a. A general ledger in which direct and indirect costs are separated and accumulated.
- b. Maintenance of individual job cost ledgers or reports in which costs, directly related to specific jobs or projects, are recorded and support the direct costs contained in the general ledger.
- c. Periodic reconciliation of subsidiary job cost ledgers or reports with the direct costs recorded in the general ledger.
- d. Use of time and expense reports for the separation of direct and indirect costs.

**1.2.2** Consultants who bill exclusively on a unit-rate basis or published price lists are required to maintain accounting systems that meet the following minimum standards of the Department:

- a. A general ledger in which direct and indirect costs are separated and accumulated.
- b. Use of time sheets and expense reports for the separation of direct and indirect costs.
- c. A subsidiary ledger to track jobs on a unit-rate basis (fee schedule).
- d. Records substantiating invoicing on a unit-rate basis and demonstrating that the Department is charged the same unit-rate (or less) per fee schedule as other clients for the same services.

## **1.3 REVIEW OF ACCOUNTING SYSTEMS FOR CONSULTANTS PURSUING "UNLIMITED" STATUS**

**1.3.1** Consultants who have an established job-cost accounting system and at least one year of accounting history must have an evaluation of their accounting system issued by an independent Certified Public Accountant

(CPA) or governmental agency. The requirements of the report are described in the section on annual overhead audits.

**1.3.2** Consultants who have been in business for less than one complete fiscal year may have their accounting systems reviewed by the Department's Procurement Office, at the Procurement Office's discretion, when requested by the Consultant or the contracting office.

**1.3.3** The Department reserves the right to conduct an accounting system review of any Consultant or Subconsultant doing business or interested in doing business with the Department.

## **2. ANNUAL OVERHEAD AUDITS**

### **2.1 REQUIREMENTS (FOR "UNLIMITED" STATUS)**

As part of the prequalification process described in **Rule Chapter 14-75, F.A.C.** and further discussed in **Procedure No. 375-030-001, Professional Services Consultant Qualification:**

- a. Consultants are required to submit to the Department, as part of their prequalification package, an overhead audit for their most recently completed fiscal year.
- b. Consultants qualifying solely for contracting under Group 22, Acquisition Business Damage Estimating and Estimating Review, are not required to submit an annual overhead audit.
- c. If audited overhead rates are not available for the most recently completed fiscal year and the Consultant has not previously prequalified with the Department, audited rates for the preceding year, if not more than 18 months old, may be submitted.
- d. Consultants who have been in business for less than one complete fiscal year, or who have reorganized to the extent that the most recent overhead audit does not reflect their current business operations or who have established and operated an accounting system acceptable to the Department for a period of less than one year may submit a projected estimate of revenues, expenditures and overhead rate. The Procurement Office will review the Consultant's accounting system and the projection. The Procurement Office will review the interim overhead rate which may be used in Department contracts until the Consultant has completed the first fiscal year's operations and submitted an independent overhead audit.

- e. Subsequent qualification updates will be required within six months following the close of the Consultant's fiscal year and will require submission of an overhead audit for the fiscal year just ended.

## 2.2 QUALIFIED AUDITORS

2.2.1 The audit will be performed by an independent CPA, an agency of the Federal government, a state transportation agency or similar audit agency.

2.2.2 The consultant's auditors must be familiar with the **Government Auditing Standards**, the applicable cost principles and procedures set forth in the **Federal Acquisition Regulations (FAR)**, the AASHTO Uniform Audit & Accounting Guide, State regulations and the general practices of the Department.

## 2.3 CONTENTS OF OVERHEAD AUDIT REPORT

As part of the prequalification process described in **Rule Chapter 14-75, F.A.C.**, the overhead audit report will contain the following:

- a. An independent auditor's report on the statement of direct labor, fringe benefits and general overhead.
- b. A statement that overhead schedules supporting the statement of direct labor, fringe benefits and general overhead were prepared on the basis of accounting practices prescribed in the **Federal Acquisition Regulations (FAR), 48 CFR, Part 31**.
- c. A statement by the independent auditor that the audit was performed in accordance with **Government Auditing Standards** and in compliance with Federal and State requirements.
- d. An evaluation as to the adequacy of the consultant's accounting system to segregate and accumulate direct job costs, as well as indirect costs.
- e. A statement providing assurance that the consultant's method of estimating costs for price proposals is consistent with the accumulation and reporting of costs under its accounting system.
- f. An Independent **Auditor's Report on Internal Accounting Controls**.
- g. An Independent **Auditor's Report on Compliance**.
- h. A statement of reimbursement rates for indirect costs (overhead), direct expenses, and Facilities Capital Cost of Money (FCCM), if applicable.

## 2.4 REVIEW OF AUDIT REPORTS

The overhead audit reports will be reviewed by the Procurement Office to ensure compliance with Department's requirements. In addition, the Office of Inspector General (OIG) auditors may conduct a CPA Work Paper Review of a consultant's overhead rate and other established cost rates as part of the Annual Work Plan, based on a risk assessment.

## 3. CONSULTANT FEE PROPOSALS

### 3.1 REVIEW OF FEE PROPOSAL AUDIT PACKAGE

As part of the requirements described in **Section 287.055, F.S.** and **Rule Chapter 14-75, F.A.C.:**

- 3.1.1 Consultants selected for a project are required to submit with their fee proposal an audit package that supports the costs contained in the fee proposal.
- 3.1.2 The audit package will be reviewed by the responsible Professional Service Unit (PSU) to ensure that the audit package contains the information stipulated in **Procedure No. 375-030-002, Acquisition of Professional Services.**
- 3.1.3 The audit package will contain wage rates and reimbursement rate data, certified by the consultant. Subconsultant costs less than \$500,000 can also be substantiated by self-certification.
- 3.1.4 The contracting officer will require the Consultant to submit an audit package to support the proposed costs. An independent overhead audit will not be required to support the proposed rates for those non-prequalified Consultants whose fee proposal is less than \$500,000. However, such Consultants will be required to submit documentation acceptable to the contracting officer to support their proposed rates or fees.
- 3.1.5 The complete audit package should be maintained with the contract negotiation documents as part of the project file.

## 4. INTERIM AUDITS

Interim audits will not generally be conducted unless the contract extends beyond twenty-four months in duration and a specific request is made to the OIG for such an audit. The Project Manager, District Professional Services Administrator, Procurement Office or other appropriate Department personnel may request an interim audit of a project when an audit is considered necessary.

## 5. POST AUDITS

### 5.1 SELECTION PROCESS

All professional agreements are subject to post audits, however, only a sampling will be selected, based on a risk assessment. Contracts selected for post audits will be determined by the OIG based primarily on the recommendations of the districts and other factors. The factors include: previous experience or lack thereof with the consultant, dollar amount, method of compensation, the Consultant's job cost report and available audit resources.

### 5.2 INITIATING THE AUDIT

To initiate the post audit process the following procedures should be followed:

1. The OIG will determine whether or not the completed contract will be audited.
2. The audit should consist of an examination of the Consultant's accounting records and appropriate documents to enable the auditor to express an opinion on the reasonableness and allowability of the claimed and reimbursed costs.

### 5.3 AUDIT REPORT

Upon completion of the audit, the findings in the report should be reviewed with the PSU. After review and resolution of any internal concerns regarding the audit a final report will be issued. Copies of the report should be sent to the District Professional Services Administrator, the Department's Secretary, the Department's Comptroller, the Federal Highway Administration, the Auditee and Central Office Procurement.

### 5.4 RESOLUTION OF AUDIT ISSUES

**5.4.1** The PSU will review the final audit report and provide a written acceptance or rejection of the findings within 20 working days as provided for in **Section 20.055, F.S.** If the audit findings are rejected, the OIG and Procurement Office should be notified.

**5.4.2** If any additional funds due to the consultant were identified in the audit and the contracting office accepts the findings, that office should advise the consultant to submit an invoice.

**5.4.3** If the audit findings indicated that the consultant was overpaid and the PSU accepts the findings, the PSU should prepare and send a notice to the consultant advising the consultant that if the audit findings are contested, the consultant must submit a rebuttal, with documentation, within 30 calendar days to the OIG. Otherwise payment must be received

by the Accounts Receivable Section (ARS) within 60 days. Copies of the notice will be provided to the OIG, Procurement Office and the ARS for establishing an accounts receivable entry.

**5.4.4** If a timely rebuttal is received, the OIG will forward the rebuttal to the ARS and the contracting office for review. The OIG in consultation with the contracting office will determine the validity of the consultant's rebuttal within 30 calendar days and advise the consultant, the contracting office, the Procurement Office, and the ARS of their decision.

**5.4.5** If no rebuttal is received or if a rebuttal is received and rejected, the ARS will collect the due funds in accordance with **Section 17.20, F.S.**

## **6. TRAINING**

Training in this procedure will be included in periodic Project Manager and Professional/Contractual Services training programs.

## **7. FORMS**

There are no forms required.