



INDIANA DEPARTMENT OF TRANSPORTATION

Driving Indiana's Economic Growth

100 North Senate Avenue
Room N725
Indianapolis, Indiana 46204

PHONE: (317) 234-5204

Mitchell E. Daniels, Jr., Governor
Michael B. Cline, Commissioner

To: ACEC and our consulting engineering partners

From: Mark A. Ratliff, Director

Date: January 3, 2012

Re: CPA indirect cost/cost allocation audits

Dear Partners:

As many of you may be aware, this year the External Audit group started reviewing CPA audit workpapers to obtain assurance that the CPA firm is following the audit procedures as recommended in the 2010 Audit Guide. In doing so, our expectation is that we will find sufficient evidence in the CPA's audit workpapers to support the CPA's opinion that the consulting firm is in compliance with the FAR (Federal Acquisitions Regulations). Our intention is to review 100% of the overhead audits we received in 2011 for the firm's 2010 operating year.

Unfortunately, we have found in a high proportion of the audit workpapers reviewed to date that the CPA is not performing the minimum labor testing as recommended in the Audit Guide. What does this mean to the consultant? It means that the entire foundation for the calculation and charging an overhead rate for federal projects is suspect, and that the ability to direct bill clerical and administrative time to a specific project is also suspect. As you know, the labor cost is a major component of costs billed by consultant firms on projects using Federal Funds.

INDOT is notifying our consulting engineering partners about our concerns now so that they can be addressed in conjunction with your 2011 Financial Prequalification and indirect cost audits that are due to INDOT within 180 days of your fiscal year end. If the deficiencies in the audit are not corrected with the 2011 audits, then INDOT may be forced to limit the amount and/or types of contracts in which a consulting engineering firm can enter into with INDOT.

The external audit staff has and will be contacting the CPA firms and the consulting engineering firms whose audit testing is deemed to be insufficient or not in compliance with the 2010 Audit Guide to communicate our expectations going forward so that the consulting engineering firm is in a position to correct their audit deficiencies going forward.