



**Architectural and Engineering  
Consulting Firms  
Prequalification  
Indirect Cost Rate Guidelines**

**- February 5, 2016 -**

## **Annual Prequalification Audit Requirement**

As part of MassDOT's Highway Division – Architect and Engineering prequalification requirements, consultants are required to submit an audit report in accordance with Generally Accepted Government Auditing Standards and the Federal Acquisition Regulations (FAR 31) of their indirect costs and resultant overhead rate for their most recent completed fiscal year.

The audit report is due annually, **no later** than June 1<sup>st</sup> for those consultants whose fiscal year ends on December 31<sup>st</sup>. For those whose fiscal year is other than the calendar year end the audit report will be due 5 months after the close of their twelve-month fiscal year period. For example, for those consultants with a fiscal year ending of June 30<sup>th</sup>, the reports are due by December 1<sup>st</sup> of the same year. An audit period shall be for one fiscal year.

It is the consultant's responsibility to submit an audit report each year. No notice of non-compliance with the prequalification audit requirement will be sent out by MassDOT. Requests for extensions of time will be considered. A **One-time** courtesy audit will be considered for start-up firms/smaller size consultants located within the Commonwealth that have not previously worked with MassDOT. These courtesy audits are conducted by the MassDOT Audit Operations Unit. For further information on courtesy audits please contact MassDOT Audit Operations at 857-368-8700 or email [DOT.Audit@dot.state.ma.us](mailto:DOT.Audit@dot.state.ma.us).

### **Required Audit Documents to be Submitted Annually**

1. Certificate of Indirect Costs – (Page 4 of this Guide) (See FHWA Memorandum HIPA-20 for guidance.)
2. Original or electronic copy of the Independent CPA Audit Report on Indirect Cost Rate with Internal Control and Compliance Reports.
3. AASHTO Internal Control Questionnaire (ICQ) for Consulting Engineers located at <http://audit.transportation.org/Pages/default.aspx>. (signed by company representative who completed the questionnaire).
4. Complete copy of the annual financial statements (i.e. Balance Sheet and Income Statements) including footnotes. Audited financial statements are not required.
5. Electronic file of all schedules with calculations that are contained in the audit report in Microsoft Excel.
6. Cognizant Audit Letter for firms in which MassDOT is not the cognizant audit agency. If letter has not been submitted please state so in the submission.
7. Analysis of reasonableness of compensation as outlined in Chapter 7 of the AASHTO Uniform Audit and Accounting Guide, 2012 Edition (or later, see AASHTO website for latest edition) <http://audit.transportation.org/Pages/default.aspx>.

Please e-mail required documents to [DOT.Audit@dot.state.ma.us](mailto:DOT.Audit@dot.state.ma.us) or mail to:

Massachusetts Department of Transportation  
Audit Operations  
10 Park Plaza, Suite 7130  
Boston, MA 02116-3973

***Consultants will be removed from the Architect and Engineering Review Board prequalification list for non-compliance with the annual audit requirement.***

## **Audit Standards and Criteria Requirements**

The indirect cost rate audit must meet the following requirements:

- The Audit shall be conducted by an Independent Certified Public Accountant; Federal Government or another State Highway or governmental audit agency for an one year fiscal period.
- The complete audit report must be in accordance with the Government Auditing Standards as published by the Controller General of the United States of America, in order to be accepted.
- The indirect cost rates shall be prepared in accordance with the cost principles and procedures as set forth in 48 CFR, chapter 1, Part 31, Federal Acquisition Regulation (FAR 31).
- The consultant and their auditor shall follow the guidance of the AASHTO Uniform Audit & Accounting Guide, 2012 Edition (or later, see AASHTO website for latest edition).
- For cognizance and oversight purposes, when requested, the Consultant must authorize access to their Independent Certified Public Accountant's audit workpapers for review to MassDOT Audit Operations or its designee. A review will be conducted on those consultants to whom MassDOT is the Home State Cognizant Agency in accordance with Chapter 12 and Appendix A of the AASHTO Uniform Audit and Accounting Guide, 2012 Edition (or later, see AASHTO website for latest edition).

## **Summary of MassDOT Audit Operations Prequalification Procedures**

A letter is sent to the consultant confirming the receipt of the submittal and whether further information is required.

For those consultants for which MassDOT is the Cognizant Audit Agency, Audit Operations shall review the submittal and approve an indirect cost rate(s) for billing purposes for proposed contracts which is valid until the due date for the next year's submittal unless an extension of time is approved or if a CPA workpaper review is conducted. If a CPA workpaper review is conducted a cognizant letter will be issued by MassDOT.

For those out-of-state consultants who submit a cognizant audit agency letter, MassDOT Audit will issue a letter approving an indirect cost rate(s) for billing purposes for proposed contracts which is valid until the due date for the next year's submittal unless an extension of time is approved.

For those consultants for whom MassDOT is not the Cognizant Audit Agency and has not submitted a cognizant audit agency letter, MassDOT Audit Operations will conduct a review of the submittal following the guidance of the current AASHTO Uniform Audit & Accounting Guide. The reasonableness of compensation will be made using the criteria established in the Federal Acquisition Regulation (FAR 31) and in Chapter 7 of the AASHTO Uniform Audit & Accounting Guide. The consultant should prepare a compensation analysis in accordance with this Guide. In the absence of a compensation analysis, MassDOT Audit will accept the National Compensation Matrix (NCM) for determining the reasonableness of claimed compensation costs. Additional information may be requested by MassDOT Audit to complete the review

By letter, MassDOT Audit Operations will notify the consultant of their approved indirect cost billing rate for use on proposed contracts. Consultants will be given an opportunity to comment on adjustments made by MassDOT Audit Operations to their submitted audited indirect cost rate.

### **Cognizance and Oversight**

As provided by 23 CFR 172 and 23 U.S.C. 112, MassDOT, for prequalification purposes, will accept indirect cost rates established in accordance with the Federal Acquisition Regulation for 1 year applicable accounting periods by a cognizant Federal or State government agency, if such rates are not currently under dispute. The definition of a cognizant agency is provided in Chapter 12 of the AASHTO Uniform Audit & Accounting Guide.

As the Home State Transportation Department for the Commonwealth of Massachusetts, MassDOT intends to conduct work paper reviews on the CPA audit workpapers of the consultant's based in Massachusetts to determine: (a) the CPA's audit was conducted in accordance with Generally Accepted Government Auditing Standards; (b) the CPA adequately considered the auditee's compliance with FAR Part 31 and related laws and regulations, and (c) the audit report format is acceptable. MassDOT will conduct these reviews using the guidance of the AASHTO Uniform Audit & Accounting Guide, 2012 Edition, Chapter 12 and Appendix A-1. Based on these reviews MassDOT will determine whether it is appropriate to issue a cognizant letter of concurrence.

## Certificate of Indirect Costs

**Firm Name:** \_\_\_\_\_

**Indirect Costs and Rate(s) for Fiscal Year Ending:** \_\_\_\_\_

*This is to certify that I have reviewed the indirect costs and rate(s) proposal submitted as per the MassDOT prequalification audit requirement to establish billing or final indirect cost rates for the above firm's fiscal period as specified and to the best of my knowledge and belief:*

*1.) All costs included in this proposal to establish billing or final indirect cost rates are allowable in accordance with the cost principles of the Federal Acquisition Regulations (FAR) of title 48, Code of Federal Regulations (CFR), part 31.*

*2.) This proposal does not include any costs which are expressly unallowable under the cost principles of the FAR of 48 CFR 31 or its supplements. All known material transactions or events that have occurred affecting the firm's ownership, organization and indirect cost rates have been disclosed.*

*3.) All costs included in this proposal are properly allocable to Government contracts on the basis of beneficial or causal relationship between the expenses incurred and the contracts to which they are allocated in accordance with applicable acquisition regulations. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs and that similar types of costs have been accounted for consistently.*

***I declare that under the pains and penalty of perjury that the foregoing is true and correct.***

Signature: \_\_\_\_\_

Name of Certifying Official (Print): \_\_\_\_\_

Title: \_\_\_\_\_

Date of Certification: \_\_\_\_\_