

Internal Review Consultant Risk Assessment to Determine Audit Type

Note: The below process will be documented on each firm that receives a tentative selection letter from Engineering Services for architectural or engineering related contracts or for a selection made by an LPA (Local Public Agency) on all contracts.

Architectural or engineering related contracts shall be defined in accordance with United States Code (USC), Title 40, Chapter II, Selection of Architects and Engineers, Section 1102(2) (Brooks Act), which states:

- (A) professional services of an architectural or engineering nature, as defined by state law, if applicable, that are required to be performed or approved by a person licensed, registered, or certified to provide the services described in this paragraph;
- (B) professional services of an architectural or engineering nature performed by contract that are associated with research, planning, development, design, construction, alteration, or repair of real property; and
- (C) other professional services of an architectural or engineering nature, or incidental services, which members of the architectural and engineering professions (and individuals in their employ) may logically or justifiably perform, including studies, investigations, surveying and mapping, tests, evaluations, consultations, comprehensive planning, program management, conceptual designs, plans and specifications, value engineering, construction phase services, soils engineering, drawing reviews, preparation of operating and maintenance manuals, and other related services.

The following criteria will apply:

1. If the contract is considered non-architectural or engineering, then Engineering Services or the LPA can negotiate rates without Internal Review conducting an audit.
2. If the contract is considered architectural or engineering (A/E) and the contract amount is greater than or equal to \$250,000, a CPA overhead audit is **required**.
 - A. If the A/E firm has a CPA overhead audit, then Internal Review will utilize the AASHTO Uniform Audit & Accounting Guide CPA Work Paper Review Program. Upon completion of the review, WYDOT will issue a letter to the A/E firm either: (a) accepting the audited overhead rates, with or without qualifications regarding use of the report; or (b) directing the A/E firm and/or CPA to take corrective action needed to achieve required compliance.
 - B. A cognizant audit letter, reporting on another state DOT's unqualified acceptance of the overhead rates in accordance with federal cost principles (48 CFR 31), will also be accepted by WYDOT.

3. If the A/E contract is between \$150,000 and \$249,999, a risk assessment will be conducted using the following criteria:

- ✓ Firm's revenues
- ✓ Number of employees
- ✓ Stable staffing/turnover/new employees
- ✓ Maintenance of an adequate accounting system
- ✓ Prior relevant audits within the last two years
- ✓ Similar experience with other state DOTs including WYDOT in the last two years
- ✓ Proposed contract amount
- ✓ CPA overhead audit available
- ✓ Firm's need for a cognizant audit for use in another state

Based on the risk assessment, WYDOT Internal Review will determine the appropriate procedures to establish the reasonableness of the overhead and/or proposed cost which may include, but are not limited to, any or all of the following:

- A. Performing analytical procedures on the A/E firm's proposed rates or costs and performing further inquiry as considered necessary by WYDOT.
- B. Review of the Cognizant Rate letter from another state DOT and inquiry with the other state DOT as considered necessary by WYDOT.
- C. Performing an audit in accordance with the AASHTO Uniform Audit Guide or requesting the A/E firm to arrange for a CPA audit.
- D. Inquiring with the A/E firm, the A/E firm's CPA or other state DOTs in which the A/E firm has worked in within the last two years regarding the A/E firm's accounting procedures and overhead rates.
- E. Analysis of the A/E firm's internal control questionnaire (ICQ): Internal Review will obtain a copy of the ICQ.

WYDOT Internal Review will issue reports and/or memos to the consultant, Engineering Services or Grant Administrator accordingly.

Note: WYDOT *may* (as mandated by FHWA) evaluate the necessity and extent of procedures for the review of subconsultants' overhead rates and other invoiced amounts and costs to provide assurance that overall contract costs are reasonable and conform with the federal cost principles, applicable federal and WYDOT requirements, and the terms of WYDOT's agreement with the prime consultant. If a subconsultant has an overhead rate approved through the AASHTO cognizant audit process, it is expected that the subconsultant will use that rate on WYDOT contracts. The above thresholds do not have an effect on whether the rates should be used or not.