STATE OF ALASKA DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES **Policy and Procedure**		POLICY AND PROCEDURE NUMBER **01.04.030**	PAGE 1 of 4
		EFFECTIVE DATE September 20, 2005	
SUBJECT **External Audits**		SUPERSEDES DPDR 01.04.020	DATED May 8,1996
CHAPTER **Office of the Commissioner**	SECTION **Internal Review**	APPROVED BY Mike Barton	

PURPOSE

This formalizes the policy and procedure of the department on external audits.

POLICY

Definition

An external audit is an audit conducted on the accounting records and other related financial information of an external entity that does business with the department under a contract, grant, or agreement. Examples are consultants, contractors, concessionaires, lessees, utility companies, and other governmental units such as municipalities, cities, and boroughs. The audit generally includes a review of the adequacy of the entity's cost accounting systems, rates to be charged, allowability of costs and accuracy of the billings submitted or rents and fees reported and paid, and a determination of compliance with the terms, covenants, and conditions of the contract, grant, or agreement.

Audits Conducted

The Office of Internal Review will conduct audits of the following:

1. Prenegotiation (pre-award) audits of contractors will generally be conducted for all negotiated construction-related professional services agreements (PSAs) and subcontracts involving state, Federal Highway Administration (FHWA), or Federal Aviation Administration (FAA) funding expected to exceed $250,000. Negotiated agreements less than $250,000 may be audited if there is insufficient current accounting or audit data available to determine fair and reasonable rates of compensation. These audits will include a review of contractor-submitted cost or pricing data that the negotiator can use to determine the propriety and reasonableness of the proposed contract amounts. The cost or pricing data includes direct labor rates, indirect cost rates, and other direct costs. The audit will seek assurance on the adequacy of the contractor's cost accounting system to

identify, segregate, and accumulate allocable and allowable costs for the proposed contract. See Policy & Procedure (P&P) 10.02.010 and the DOT&PF PSA manual.

The Office of Internal Review will conduct annual audits of selected companies that typically perform a significant volume of work for the department. The audit report or the negotiation process used by the department's contracts sections will generally establish the indirect cost rate to be used statewide for a specified period of time. To the maximum extent possible, Internal Review will use overhead rate audits of consultants that are conducted by other state departments of transportation or independent CPA firms.

Competitively bid contracts are not subject to this requirement unless an audit is specifically requested.

2. Contracts or grants to external entities made with state or federal pass-through funding that require audit under the terms of the contract or grant.

3. Utility company relocation agreements. See P&P 01.04.040.

4. Contractor claims on projects using FHWA, FAA, or state funding, as requested.

The Office of Internal Review may conduct audits of the following:

1. Agreements that involve other state or local governmental agencies.

2. Other negotiated contracts entered into by the department, as required or requested.

3. Lease or concession agreements requiring revenue reporting to the department, as required or requested.

4. Interim and final audits of contracts awarded on a basis other than competitive bidding may be performed as required or requested. The purpose of such audits is to help ensure that the contractor has complied with the terms and conditions of the contract and that financial data and claims are properly stated and are accurate, reasonable, allocable, and allowable.

The Office of Internal Review may also conduct audits of subrecipients of federal aid in conformity with the Generally Accepted Governmental Auditing Standards and related cost or other applicable reimbursement principles.

PROCEDURE

Standards

External audits are governed by P&P 01.04.010, which establishes the general standards for audits. The following standards also apply:

- 48 CFR (Federal Acquisition Regulations), Part 31 – Contract Cost Principles and Procedures,
- 23 CFR (Highways), Part 172- Administration of Engineering and Design Related Service Contracts,
- FAA Advisory Circular 150/1500,14B, Architectural, Engineering and Planning Consultant Services for Airport Grant Projects
- P&P 10.02.010 (Construction Related Professional Services)
- DOT&PF PSA Manual
- FAA AIP Handbook
- 49 CFR 18 (Transportation) - "The Common Rule" - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments
- FHWA Federal-Aid Policy Guide
- AS 36.30 State Procurement Code (esp. AS 36.30.420 Right to Audit Records)
- 2 AAC 12 State Procurement Regulations

The nature and extent of an external audit or review will vary with the circumstances. However, sufficient, competent, and relevant audit work will be accomplished to afford a reasonable basis for the auditor's opinions, judgments, conclusions, and recommendations.

Scheduling

Project managers and professional services coordinators should contact the Office of Internal Review to schedule needed audits, pre-award audit evaluations, or reviews. Managers and coordinators should allow sufficient time for Internal Review to complete audit work. Normally, four to six weeks should be allowed, as auditors may be working on other assignments or the external entity may not be ready for the audit.

Reports

The chief of the Office of Internal Review will issue an audit report on completion of the examination and testing by Internal Review staff. The report will be provided to the

appropriate deputy commissioner, division/regional director, system director/manager, or other responsible department manager, with a copy to the commissioner.

Pre-award audit evaluations, post-performance audits, or concession or other audits of firms doing business with the state that reveal proprietary information will be restricted to state employees with a need to know. Proprietary information includes profit ratios, actual or proposed overhead rates, individual employee salary and bonus rates, etc.

Internal department concerns identified during external audits will not be discussed with the external entity during the conduct of the audit or review or in the exit conference. A separate management advisory memorandum will be issued to the affected department manager to address such concerns.

Responses to Reports

Routine reports that contain no adverse findings, questioned costs, or other matters requiring action by the affected department manager do not require a response.

If the report indicates that corrective or other followup action is necessary, the affected department manager will advise the Office of Internal Review in writing on what corrective actions were taken or are anticipated. The manager will provide this response within 42 days after the report is issued. Time extensions to respond may be granted on a case-by-case basis.

AUTHORITY

P&P 01.04.010

IMPLEMENTATION RESPONSIBILITY

Chief of the Office of Internal Review

DISTRIBUTION

All department employees via the DOT&PF website