

# Alert: Hot Topic for Architecture and Engineering Firms



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## Uniform Audit and Accounting Guide Revisions

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The Uniform Audit and Accounting Guide (the Guide), scheduled to be published in January 2010, will include significant revisions from the most recent version, which was updated in September 2005. Architecture and engineering consulting firms contracting with the Departments of Transportation in their respective state as prime or sub-contractors are likely subject to the provisions of the Guide. The procedures discussed in the Guide were designed to be applied to audit and attestation engagements performed in connection with consultants' Statements of Direct Labor, Fringe Benefits, and General Overhead, as well as the related accounting systems, job-costing systems, and labor-charging systems that provide the basis for these statements. The Guide itself should be used as a tool by architecture and engineering firms, as well as CPAs and state auditors that perform audits of those firms.

**Revisions affect  
architecture and  
engineering firms'  
Federal Acquisition  
Related audits.**

### Audit Results

The revisions scheduled to be published are the result of an audit performed by the United States Department of Transportation Office of Inspector General on the oversight of architecture and engineering firms' indirect costs claimed on federal-aid grants. Included in the audit findings were the following:

- > Insufficient transaction testing was performed by CPAs
- > CPAs were not adequately trained to complete the audits
- > Unallowable costs and executive compensation was included in overhead
- > Oversight of the audit process was not effective

As a result of the audit findings and accompanying recommendations, the American Association of State Highway Transportation Officials (AASHTO) formed a task force to revise the Guide. The task force included representatives from fourteen state Department of Transportation audit agencies and the Federal Highway Administration (FHWA). The American Council of Engineering Companies (ACEC), the American Institute of Certified Public Accountants, and various public accounting and architecture and engineering firms also had the opportunity to provide input on revisions to the Guide.

### Revisions

The purpose of the revisions is to ensure that audits are conducted in accordance with applicable laws and regulations, improve audit consistency and quality, promote the cognizant audit concept, and improve government oversight and overall guidance. Some of the key revisions to the Guide include the following:

- > The Guide discusses architecture and engineering firm management and CPA firm roles and responsibilities. Management is responsible for representation of the firm's accounting records. This includes identifying, segregating, and removing unallowable costs from all billings under government contracts.
- > Chapter 7 of the Guide provides a process for demonstrating reasonableness that architecture and engineering firms should follow when preparing their own compensation analysis. When the firm does not prepare its own independent compensation analysis, a National Compensation Matrix is being developed by FHWA to set parameters on executive compensation.

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- > The Guide includes a revised guidance on several audit elements, including the definition of the cognizant audit concept, the standardization of internal control questionnaires across Departments of Transportation, CPA work paper review, and audit reports and minimum disclosure requirements.
- > By approving the Guide, AASHTO reinforced the agreement between states to follow the Guide's common interpretations of a Federal Acquisition Regulation (FAR) audit, thereby eliminating state-specific rules except in cases where those rules are supported by statute or state law.

## What Architecture and Engineering Firms Can Do Today

The Guide does not drastically alter audit requirements for architecture and engineering firms, but it is intended to provide clarity in the hopes of producing a single audit based on a consistent approach that will be accepted in all states. To benefit from the revisions of the Guide, architecture and engineering firms should consider the following:

- > Become familiar with the revisions to the Guide. Each firm's state Department of Transportation will likely have a copy available for review on their Web site.
- > If necessary, reach out to the state Department of Transportation and your CPA firm. While some states may elect to perform audits of in-state firms, many states will likely place increased reliance on audits conducted by CPA firms. Depending on each architecture and engineering firm's circumstances, there may be multiple state Departments of Transportation that require an audit. Collaboration between the architecture and engineering firms, the applicable state Departments of Transportation, and, where applicable, the CPA firm, will facilitate the audit process.
- > Stay tuned for additional communication from state Departments of Transportation. The FHWA is in the process of developing a training program on the Guide and its impact on FAR audits. This training is expected to be available sometime in spring of 2010. Additionally, the ACEC is conducting webinars focused on the Guide.

We welcome the opportunity to meet with you to discuss how we can help you meet your business goals. For more information or any questions you might have on this topic, please contact your Baker Tilly advisor at 800 362 7301, or [cpa@bakertilly.com](mailto:cpa@bakertilly.com).