



## **New Jersey Department of Transportation Bureau of Auditing**

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**SUBJECT:** Guidance Relating to the Audit of Direct Costs Performed by Consultant-Hired CPA Firms

Effective Date: October 10, 2008 (**Revised 3/27/15**)

### **I. ISSUE**

Consultants not classified as "exempt" are required to engage a qualified independent CPA firm to perform the overhead and direct cost audits if the firm has \$50,000 or more in NJDOT related direct labor incurred in any one fiscal year on cost plus fixed fee contracts. During a direct cost audit, the auditor must determine whether the direct labor and expense billings by a consultant are allowable.

### **II. REQUIREMENTS FOR THE DIRECT COST AUDIT SUBMISSION**

The Direct Cost Audit Package must include the following:

- A. Independent Auditor's Report on Schedules of Billed Costs and Fee addressed to the NJDOT Manager, Bureau of Auditing as follows:

Christian Breza  
Manager, Bureau of Auditing  
New Jersey Department of Transportation  
1035 Parkway Avenue  
Trenton, NJ 08625

Subject: XYZ Company

Dear Mr. Breza,

We have audited the accompanying schedules of billed costs and fee for Contract ID Nos. 1234567, 2345678, and 3456789 of XYZ Company (the "Auditee") for the periods indicated therein. These schedules are the responsibility of the Auditee's management. Our responsibility is to express an opinion of these schedules based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the schedules of billed costs and fee are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules of billed costs and fee. An audit also includes assessing the accounting principles used by management as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying schedules of billed costs and fee were prepared in accordance with the accounting practices and allowability requirements prescribed by the provisions of the contracts, the Federal Acquisition Regulations (48 CFR, Part 31) and NJDOT policies and regulations.

In our opinion, the schedules referred to above present fairly, in all material respects, the allowable costs and fee of XYZ Company for the Contract ID Nos. noted above for the periods indicated therein on the basis on the requirements referred to in the preceding paragraph.



#### B. Summary Schedule of Billed Costs and Fee – Contract Summary

This schedule should include all NJDOT contracts (See Review Note 2 below) where the company incurred cost in the audit period including all projects whether the firm was a prime or a sub consultant. The schedule should be summarized by contract ID number and include all required fields from our template. This schedule is required to be submitted in both an electronic and hard copy format. The template and instructions for this schedule can be obtained on the New Jersey Department of Transportation website under Doing Business – Audit – Overhead and Direct Cost Audits – Non Exempt Requirements.

#### C. Summary Schedule of Billed Costs and Fee – CAM Detail Summary

The schedule should be summarized by contract ID number, consultant additional modification (CAM), and when applicable phase/task order. The template and instructions for this schedule can be obtained on the New Jersey Department of Transportation website under Doing Business – Audit – Overhead and Direct Cost Audits – Non Exempt Requirements.

### III. Maximum Allowable Fees for the Performance of Direct Cost Audits

The cost of direct cost audits is eligible for reimbursement against the individual contracts being audited. When a direct cost audit engagement includes the audit of more than one consultant agreement, the CPA audit costs should be distributed amongst the audited agreements proportional to the total agreement expenditures. For required audits of fixed price plus direct expense contracts, (See Review Note 2 below) the proportional value of only the direct expenses should be used.

Consultants should include a separate line item of \$1,000 for the estimate of direct cost audits on future CPFF and fixed price plus direct expense proposals. An additional \$1,000 estimate should be added for each cost basis sub consultant.

Relating to the CPA firm audit of direct costs for a consultant, it is generally understood that:

1. If a firm has an approved/acceptable accounting system in place, the accumulation of unaudited contract costs should be readily determined from the Project Cost Reports or other similar type reports. This data should be provided to the hired CPA firm by the consultant.
2. The evaluation of any "in-house" rates would be applicable to all contracts under audit.
3. The CPA firm must make a clear distinction on its billings to the consultant between auditing services relating to the firm's overhead rate versus those relating to the audit of direct contract costs.

Reimbursement for the audit of direct costs will be limited to actual documented costs. Although funding for future proposals and for existing contracts (for "catch-up" audits) will be based on an estimate of \$1,000 per contract/CAM and per CPFF sub consultant, reimbursement will be increased if, at the time of audit, the consultant can provide evidence that the actual costs were higher.

#### Notes:

1. Any CPA firm hired by a Consultant to perform the required audits must fully comply with the *Government Auditing Standards* requirements, including those relating to independence. This means that the CPA firm cannot be doing any non-audit work for the company. For example, a CPA firm cannot be engaged to both prepare the overhead schedule and then audit it. If the company cannot prepare its own overhead schedule, they would have to use a CPA firm other than the one being engaged for the audit.
2. Effective August 15, 2011, audits of the direct expense portion of fixed price plus direct expense agreements are only required in the event that there are discrepancies or material findings noted by the independent CPA firm during the review of the direct expenses incurred on the cost plus fixed fee type agreements in the same audit scope.