



**New Jersey Department of Transportation
Bureau of Auditing - External Audit Section**

Review Program for Consulting Engineer Direct Cost Audits

Consultant Name

For the Fiscal Year Ended

Audit Performed By:

CPA Firm Name

CPA Firm Contact

Note to the Auditor

The following work program is not all inclusive but is presented as a guide for the auditor to use in performing a direct cost audit of a Consulting Engineer. The auditor, based upon their experience and the situations as they arise, may have to amend the audit procedures in order to meet the requirements of the audit.

If additional audit procedures are required, they should be added to the appropriate section(s) of the work program. Any printed audit work program procedures that are not performed must be explained in the work program as to why they were not performed.

Compliance Criteria

The regulations applicable to the audit of a Consulting Engineer's Direct Costs are:

- 1) Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the U.S.
- 2) The Code of Federal Regulations, Title 48, Federal Acquisition Regulations (FAR) Part 31.0, 31.1 and 31.2
- 3) Contract Payment Provisions
- 4) State of New Jersey Circular Letters

Errors, Irregularities and Illegal Acts

The Field Work Standards of the Government Auditing Standards require that audit steps and procedures be designed to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material impact. The steps contained herein are intended to provide reasonable assurance that these procedures were performed.

Additional audit steps and procedures are to be devised if the auditor has reason to believe that fraud, abuse, or improper or illegal acts may exist.

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I. Planning Phase

- A. Review the prior year(s) audit review and working papers for any pertinent information and any audit areas requiring special attention.
- B. Follow up on any known material findings and recommendations from the prior review.

II. Review and Evaluation of Internal Controls

Background

Government Auditing Standards require that auditors obtain a sufficient understanding of a firm's internal controls. This is necessary to plan the audit and to determining the nature, timing, and extent of the tests to be performed.

The elements of internal controls that must be considered include but are not limited to:

- ~ Compliance with applicable governmental regulations.
- ~ Assess and document the risks of material misstatement, whether due to error or fraud.
- ~ Understanding the application software that supports significant accounts and classes of transactions.
- ~ Obtaining an understanding of related party and inter-organizational transactions.

III. Review of Audit Report

- A. The scope of the audit report states that the audit was performed in accordance with Government Auditing Standards.
- B. The scope indicates that the following criteria were used in determining allowable costs:
 - 1. Title 48, Code of Federal Regulations, Part 31.
 - 2. State of New Jersey policies and regulations.
 - 3. Contract Payment Provisions.
- C. The report contains an opinion which indicates that the audited Schedule of Billed Costs and Fee is fairly presented in accordance with the applicable regulations and includes all NJDOT contracts with incurred costs.
- D. The report contains a Summary Schedule of Billed Costs and Fee (Contract Summary Schedule and CAM Details Schedule).

Initials/Date	WP Reference

IV. Review CPA’s Work Papers

A. General

1. The audit program is sufficiently detailed to guide the auditor to a successful conclusion of the audit. (Obtain copy of audit program)
2. The audit program and working papers bear evidence of supervisory review by reviewers notes and/or approvals on the working papers.
3. The summary or lead working papers are adequately indexed to supporting working papers.
4. The working papers indicate who performed the audit tests.
5. The working papers bear evidence that the firm's accounting system and internal controls were reviewed to determine if they are adequate to segregate and accumulate reasonable, allocable, and allowable costs. (Obtain copy of the internal control testing performed by the CPA and the conclusion reached)

B. Direct Cost Testing

1. Direct Labor

- a. Verified that billings were tested on a sample basis.
- b. Traced hours billed to approved employee timesheets.
- c. Traced hourly rates billed to actual rates from payroll reports.
- d. Traced vendor invoiced costs billed to original vendor invoices.
- e. Traced employee expenses billed to expense reports.
- f. Verified that rates billed are in accordance with Department maximums (ie. mileage, subsistence).
- g. Traced labor and expense amounts billed to project cost reports to ensure costs were properly assigned to the project and removed from the indirect cost pool.
- h. On a sample basis, direct deposits or cancelled checks were examined.

2. Direct Non-Salary Expenses

- a. A sample of direct non-salary expense billings on NJDOT contracts were tested.
- b. Traced vendor invoiced costs billed to original vendor invoices.
- c. Traced employee expenses billed to expense reports.
- d. Verified that rates billed are in accordance with Department maximums (i.e. mileage, subsistence).
- e. Verified expenses billed are allowable in accordance with the contract payment provisions.
- f. Traced expense amounts billed to the firms’ project cost reports.
- g. On a sample basis, direct deposits or cancelled checks were examined.

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3. Review of In-House Billing Rates

a. It was determined if the firm billed NJDOT contracts directly for any in-house costs (i.e. company vehicle mileage, in-house equipment usage). Verified the calculation of the billing rates as follows:

1. The firms' calculations of in-house rates was obtained.
2. Traced expense amounts billed to the source documentation (i.e. leases, vendor invoices, maintenance agreements).
3. Determined that total usage was used in the denominator.
4. Ensured that the indirect cost pool was reduced by the amount of direct usage.
5. Determined that standard billing rates were compared with the audited rates and revised as necessary.

4. Home Office and Field (Split) Overhead Rates

- a. Is the overhead rate on each contract (including each modification) accurate?
- b. If split rates are used, is the methodology utilized to allocate costs between field and home office consistent from year to year?

5. Determined that any findings related to direct cost testing are properly reflected in the Schedule of Billed Costs and Fee (CAM Detail Schedule – Comments field).

6. Performed an exit conference with the auditee to discuss the audit report/findings and documented the results of the meeting with the [NJDOT Exit Conference Form](#).

V. Overall Review

- A. Did it appear the CPA was free from personal and external impairments to independence and maintained an independent attitude and appearance?
- B. Did it appear that CPA firm staff assigned to conduct the audit possessed adequate professional proficiency for the tasks required?
- C. Obtain a copy of the CPA's most recent Peer Review report and Letter of Comments (if applicable).