

## Chapter 10

# Records Management



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## Section I: Introduction






This chapter provides the state’s airport sponsors and their partners with recordkeeping guidance necessary to advance accountability and transparency under the Airport Improvement Program (AIP). While stand-alone federal or state regulations serve as the ultimate authority over the use of AIP funding, this guide consolidates multiple sources of information and highlights major regulatory requirements applicable to AIP recipients. It also helps entities:

- ✓ Optimize record management systems
- ✓ Manage multiple sources of authoritative guidance
- ✓ Streamline audit readiness procedures
- ✓ Mitigate the risk of losing grant funding due to poor recordkeeping

Information in this chapter is structured around key activities undertaken to manage AIP grants:



Content contained under each work activity is further partitioned by the type of information presented. The following table outlines five broad content categories with a brief definition and related symbol. While utilization of all content is encouraged, AIP recipients should dedicate special attention to all policies outlined in this chapter since sponsors must ensure, at a minimum, these specific standards are met.

Symbol	Category	Purpose
	<b>Policy</b>	Specifies the most important expectations when managing AIP records.
	<b>Best Practices</b>	Outlines steps one should consider undertaking to improve existing systems. While these practices are not mandatory, they improve efficiency, effectiveness, and economy.
	<b>Case Study</b>	Offers an in-depth example of how an abstract or complex concept can be implemented in the field.
	<b>Tools</b>	Highlights templates, forms, charts, and guides useful in meeting policy and procedure requirements or implementing best practice processes.
	<b>More Information</b>	Includes references to supporting documentation related to a given topic, such as: Code of Regulations, United States Code, OMB Circulars, FAA Advisories, and AASHTO guidance.

## Section II: Creating a Record Management System



### 1. Record Management Systems (RMS)



**Policy II.1: AIP recipients should establish a sound record management system to ensure all information necessary to provide evidence of project activities is protected, organized, and retained for oversight activities.**

A sound record management system (RMS) is vital to promoting the goals and objectives of organizations and their programs/projects. With regard to AIP, these systems provide assurance to the organization's grantor that the project is being properly managed and monies spent appropriately. While RMS can hold different meanings among stakeholders, ALDOT utilizes the International Standards Organization's (ISO) definition. ISO 15489 defines records management as the "field of management responsible for the efficient and systematic control of the creation, receipt, maintenance, use and disposition of records, including processes for capturing and maintaining evidence of and information about business activities and transactions in the form of records" (ISO, 2001, sec. 3). Under this definition, a records management system may relate to one or more of the following work activities:

- ✓ Filing and protection of documents
- ✓ Computerization of information
- ✓ Document imaging
- ✓ Electronic messaging
- ✓ Printing and copying
- ✓ Form and record management
- ✓ Storage of inactive records
- ✓ Records retention

In essence, any activity that involves recording information may be part of a record management system. Therefore, these actions are subject to guidance contained in this document. According to ISO, a record constitutes "recorded information produced or received in the initiation, conduct or completion of an institutional or individual activity and that comprises content, context, and structure sufficient to provide evidence of that activity" (ISO, 2001, sec. 3). It is important to emphasize that recorded documentation cannot qualify as a record, or at least as an authentic and reliable record, unless there is sufficient evidence available to support the occurrence of a particular event.



Sponsors are encouraged to establish folders relating to grant administration and payment activity. The grant administration folder should be labeled using the FAA AIP project number and contain all relevant documents relating to the grant application, agreements with contractors, reports, and close-out of a given federal/state grant awarded to the sponsor. Meanwhile, the payment folder should also be labeled using the FAA AIP project number and include all invoices, warrants, and original reimbursement forms, such as F-25, relating to monthly transactions. Additional dividers should be utilized, where appropriate, to streamline filing and recovery activities.



**Policy II.2: All records maintained within the system should possess the following three characteristics:**

- **Authentic-** information objects can be proven to be what they purport to be
- **Reliable-** records are uniquely distinguishable and generated from legitimate business activities
- **Integrity-** information presented is complete, comprehensive, and unaltered

Information usually goes through a four-stage life-cycle process within any organization:

- 1) **Created-** putting pen to paper or entering data into a computer
- 2) **Used-** information entered is relied upon for some purpose, usually on a frequent basis
- 3) **Retained-** after the record is used for a period of time, the item is archived
- 4) **Destroyed-** finally, a record is destroyed since it is no longer needed or required by law

At any stage in a record's lifecycle, Policy II.2 could be jeopardized. For example, if the wrong information is entered into a computer system, then the "authenticity" standard has been violated. Meanwhile, if documentation relating to key events is destroyed, then the information no longer maintains "integrity" because the file only presents a limited view of all the events that have occurred. Organizations must be fully aware of the risks presented at each stage and ensure that the right information is properly managed. In doing so, managers may need to expand their understanding of what specifically constitutes a record. Information objects may be recorded on many different types of media including:

- ✓ Paper (e.g., forms, applications, certifications, contracts, etc.)
- ✓ Computer storage devices (CD-Rom, external hard drives, flash drives, etc.)
- ✓ Externally produced documentation (invoices, receipts, bank statements, etc.)
- ✓ Electronic metafiles

Failure to identify and properly maintain certain forms of records can lead to disastrous consequences for AIP sponsors and related partners, even if such negligence is unintentional. Potential penalties include diminished faith in management operating practices, public embarrassment or ridicule, loss of AIP funding in current and future periods, and, in some cases, legal ramifications. Meanwhile, organizations that collect and retain every project document indefinitely to "play it safe" may become bogged down in "red tape." A proper balance must be created. Records serve a useful purpose but only for specified periods. The purpose of this chapter is to help managers find the right balance between compliance and maintenance costs by promoting the most efficient retrieval and use of information.

## **2. Benefits of a RMS**

In addition to helping your organization demonstrate federal and state compliance, instituting a records management program can lead to both immediate and long-term benefits for your organization. Organizations who implement an RMS should expect increased efficiency and cost-savings. In almost all cases, these long-term benefits will outweigh the limited time and

money invested in the initial setup of a records management program. For example, organizations that adopt a RMS should realize:

- ✓ *Faster retrieval of information*- with both paper and electronic records.
- ✓ *Fewer misplaced records*- an indexing system reduces misfiles substantially.
- ✓ *Reduced legal liability*- records policies help prevent organizations from destroying records too soon or retaining too many records, which can be time consuming and expensive to produce in the event of litigation.
- ✓ *Space savings*- use of an electronic imaging system, records retention schedule, and destroying unnecessary and duplicate records can conserve significant space.
- ✓ *Reduced expenditures for filing equipment and supplies*- eliminating unnecessary records and using electronic media can cut these costs dramatically.
- ✓ *Better control over the creation of new records*- both forms and reports management reduce the amount of records that are created internally while improving their effectiveness.
- ✓ *Protection of the organization's vital records*- a RMS ensures that the organization has protected copies of essential records in the event of a man-made or natural disaster.

### 3. Internal Control and RMS Relationship



**Policy II.3: The organization should maintain an effective system of internal control to ensure compliance with AIP grant terms and conditions.**

As suggested previously, RMS touches many different work activities and impacts various forms of media. Any record management program should be integrated into an entity's system of internal control. According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO)<sup>1</sup>, "internal control is broadly defined as a process, affected by an entity's Board of Directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with laws and regulations" (COSO, "Internal Controls"). As a general rule, internal control systems will be the first area evaluated by an auditor and will guide all subsequent audit work in a given organization. Proactive organizations ensure that adequate internal controls are in place not only to reduce audit time and expenses but, more importantly, to consistently achieve stated project goals and objectives.

#### ***What is an example of an internal control?***



*All sponsors are required to maintain a code of standards of conduct, which governs the performance of its officers, employees, or agents in contracting with and expending airport aid funds. A sound internal control environment would*

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<sup>1</sup> COSO is a voluntary private sector organization formed in 1985 and dedicated to improving the quality of financial reporting through better business ethics and more effective internal controls and corporate governance. The COSO publication *Internal Control-Integrated Framework* was issued in 1992 and is the most commonly used control framework in the United States.

*preclude the sponsor's officers, employees, or agents from soliciting or accepting gratuities, favors, or anything of monetary value from contractors or potential contractors. To the extent permissible by state or local law, rules, or regulations, standards should provide for penalties, sanctions, or other disciplinary actions to be applied for violations of the code by the sponsor's officers, employees, or agents, or by contractors or their agents.*

COSO standards offer a useful framework for ensuring compliance to this requirement as well as evaluating potential risks and vulnerabilities across the entire organization or partner network. The next section provides a brief description of the five interrelated internal control components under the COSO framework and discusses the model's implications on the RMS:

- 1) **Control Environment** – encompasses the operating style, integrity, and ethical values of the organization, including the tone of top management. The control environment creates the foundation for effective internal controls and establishes a structure of accountability at the executive level. Management's commitment to competence, human resource policies and practices, and the assignment of authority and responsibility are all factors established under the standard.
- 2) **Risk Assessment** – addresses how the organization identifies, analyzes, and manages risk, such as changes in the operating environment, new information systems, or rapid growth.
- 3) **Control Activities** – relate to the policies and procedures that help ensure that management directives are followed, including physical controls, approvals, authorizations, verifications, reconciliations, and segregation of duties.
- 4) **Information and Communication** – pertains to whether relevant information is being identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities.
- 5) **Monitoring** – allows for evaluation as to whether internal control is operating as planned. Under the AIP grant, as one example, management is expected to monitor: 1) expenditures are reasonable as well as justified; 2) project time schedules are being met; 3) work activities and coordination are accomplished satisfactorily; and 4) other performance goals are achieved.



Components of Internal Control

Consequently, an entity's record management system transcends all five internal control elements. For example, a management initiative to establish the RMS is a function of the control environment. Evaluation of specific types of records critical to the success of the organization would be considered a risk assessment activity. The written policies and retention schedules used by the organization are examples of control activities. Systems to collect and

store records impact information and processing controls. Finally, specifying individuals responsible for overseeing RMS compliance relates to monitoring. When undergoing external audits or reviews, entities cannot systematically meet compliance without a strong records management program. Every law, regulation, and best practice stresses the need to develop better record systems, be proactive, and design effective retention and disposal programs<sup>2</sup>.

***What is a practical example of a control impacting day-to-day operations?***

*An important element to monitoring is performing timely bank reconciliations. Generally monthly, data on cash receipts and disbursements journals should be compared on an item-by-item basis with the details reported on bank statements. Mismatches should be listed for investigation. The person who prepares the reconciliation should receive the bank statements directly from the bank and retain them until the reconciliations are completed. Generally, accounting personnel (who do not have access to cash and are not involved in processing and recording cash transactions) should investigate all significant unmatched data in cash receipts and disbursements journals that fail to clear banks within a reasonable period of time, unmatched items on bank statements that are unanticipated or judged erroneous by the organization, and mismatched items in cash receipts, disbursements journals and bank statement items. Bank reconciliations and adjustments should be approved by the accounting manager.*



#### **4. Implementing a Record Management System (RMS)**

In the previous section, this manual introduced the idea that organizations of all sizes must become more knowledgeable about where data and information is located, how it is managed, and how it can be retrieved. The purpose of this section is to offer practical steps for implementing a record management system within your organization. Specific attention is focused on the types of documents used during AIP initiatives. Organizations are encouraged to use the resources provided in this chapter, as well as their own sources of information, in developing a RMS customized to meet their needs.

At a basic level, establishing an RMS involves four principle activities:

- 1) Identifying standard records that serve useful purposes to stakeholders and employees
- 2) Isolating records unique to specific types of projects
- 3) Properly securing and archiving all necessary records
- 4) Instituting a document retention policy

In carrying out this task, organizations should ensure that the internal control structure is sufficient to promote the authenticity, reliability, and integrity of all records. As a general rule, all documentation collected by the organization should be scrutinized to determine whether such

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<sup>2</sup> Over the past ten years, significant progress has occurred within the private sector. The Sarbanes-Oxley Act, as one example, requires the financial executives to attest to their systems of internal control, which include record management systems. Some experts anticipate these requirements will eventually apply to government entities as well.



information serves as satisfactory evidence that work or services were performed or supplies were received. In some cases, the method in which this information is collected is just as important as the information itself. Ultimately, all payments of ADAP/PGP project costs must be supported by not only documentary evidence, but also evidence that the proper individuals created and retained information using effective methodologies. From a practical standpoint, certain information in all projects is typically created, collected and/or retained by different job classes. Table 4.1 outlines standard records to be retained by particular job classes.

Table II.4.1: **Standard Records by Job Class**

<b>Airport Owner / Manager</b>	<b>Prof. Engineer / Consultant</b>	<b>Financial Custodian</b>
<b>Project/Admin. Records:</b> <ul style="list-style-type: none"> <li>✓ Project profile and sketch<sup>3</sup></li> <li>✓ Environmental impact statement</li> <li>✓ Contract and contract amendments</li> <li>✓ Program narrative</li> <li>✓ Risk assessments</li> <li>✓ Functional org. chart</li> <li>✓ Operations documentation</li> <li>✓ Management reports</li> <li>✓ Admin. cost plan</li> <li>✓ Project specific information (see Table II.4.2)</li> </ul> <b>Financial Records:</b> <ul style="list-style-type: none"> <li>✓ Cost-estimates</li> <li>✓ Audit history</li> <li>✓ Max. funding liability</li> <li>✓ Source document descriptions</li> </ul> <b>Procurement Records:</b> <ul style="list-style-type: none"> <li>✓ Notice of public hearing</li> <li>✓ Bid advertisements</li> </ul> <b>Systems Documentation:</b> <ul style="list-style-type: none"> <li>✓ Narratives, flowcharts, file descriptions</li> <li>✓ IT security provisions</li> <li>✓ Source code listings</li> <li>✓ Recovery procedures</li> <li>✓ Data input instructions</li> <li>✓ User documentation</li> </ul>	<b>Project/Admin. Records:</b> <ul style="list-style-type: none"> <li>✓ Project narratives</li> <li>✓ Project flowcharts</li> <li>✓ Detail file layouts</li> <li>✓ Record of changes to programs</li> <li>✓ Contingency/emergency procedures</li> <li>✓ Evidence project started within six months of agreement</li> <li>✓ Evidence of work performed</li> <li>✓ Other project documentation</li> </ul>	<b>Financial Records:</b> <ul style="list-style-type: none"> <li>✓ Audit reports</li> <li>✓ Budget &amp; budget variance</li> <li>✓ Chart of accounts</li> <li>✓ Economic events</li> <li>✓ Litigation matters</li> <li>✓ Data element descriptions</li> <li>✓ Shipping &amp; unmatched shipping reports</li> <li>✓ Original invoices &amp; unprocessed invoices<sup>4</sup></li> <li>✓ Supporting data to invoices</li> <li>✓ Cash receipts</li> <li>✓ Bank accounts</li> <li>✓ Suppliers list</li> <li>✓ Debt covenants</li> <li>✓ Attorney fees<sup>5</sup></li> <li>✓ Administrative cost assumptions</li> <li>✓ Cancelled checks or warrants</li> <li>✓ Vouchers and evidence of payment</li> <li>✓ Sales tax refund information, if applicable</li> <li>✓ Receipts</li> <li>✓ Documentation supporting JVs</li> </ul>

<sup>3</sup> Project profile should include: project funding term; project cost; project budget; type of project: cost, cost plus – fixed fee, percent of profit, lump sum, unit price, surveying rate; type of work; basis for payment; maximum cost and specified fee; sub-consultant requirements; authorization dates (ALDOT & FHWA); and unusual items.

<sup>4</sup> Check number shall be cross-referenced on the invoice and the invoice and project numbers shall be cross-referenced to check.

<sup>5</sup> Legal fees should be linked to a specific activity or asset (e.g., parcel of land). Specify the nature of the service, the hours applied, the dates of services rendered, and the rate per hour.

While standard documentation should be identified by the appropriate stakeholder for all types of projects, unique documentation will be needed depending on the nature of the project. Table II.4.2 reflects records unique to specific activities.

Table II.4.2: Project Specific Documentation

Planning	Land Acquisition	Building or Construction
<ul style="list-style-type: none"> <li>✓ If project exceeds any amount, then sufficient evidence should be collected to prove that engineering plans, specifications, and estimates were prepared under the direct supervision of a professional engineer</li> </ul>	<ul style="list-style-type: none"> <li>✓ Details concerning acquired land<sup>6</sup></li> <li>✓ Appraisal reports and evidence of appraisal review<sup>7</sup></li> <li>✓ Negotiator's agreement<sup>8</sup></li> <li>✓ Condemnation documents<sup>9</sup></li> <li>✓ Copy of purchase option and closing statement</li> <li>✓ Original deeds or easements</li> <li>✓ Record of rental income<sup>10</sup></li> <li>✓ Record of sales<sup>11</sup></li> <li>✓ Supporting documentation for incidental land costs</li> <li>✓ Area maps</li> <li>✓ Relocation payments</li> <li>✓ Statement of just compensation<sup>12</sup></li> <li>✓ Subcontractor costs<sup>13</sup></li> <li>✓ Sale or disposal of land/ properties/ structures or materials<sup>14</sup></li> </ul>	<ul style="list-style-type: none"> <li>✓ Final inspection report showing acceptance of the airport development performed under the project</li> <li>✓ Record of disposition or correction of all unsatisfactory work, if any.</li> <li>✓ Evidence construction was supervised by a professional engineer.</li> <li>✓ If the contract results in an over-run or under-run of 25% or more on a bid item that is 10% or more of the total contract, a supplemental agreement with the signature of the surety is required.</li> <li>✓ Charges for liquidated damages</li> <li>✓ Description and estimated value of materials or equipment salvaged</li> </ul>

In identifying vital documentation, management should evaluate the source of the information and the primary media sources where information will be stored (e.g., paper files, document management servers, or accounting systems). When possible, standard naming conventions should be used. A numeric indexing system should be created to quickly identify the location of documentation. Once documentation is linked to the appropriate source, management should exercise the necessary precautions to ensure the information is secured from unauthorized users and cannot be destroyed. A combination of electronic files and duplicate physical records may advance this objective. At a minimum, sponsors must file grant administration and payment materials separately by FAA AIP project number. Documentation should be retained for its useful life. Table 4.3 outlines minimum record retention requirements.

<sup>6</sup> Details must include parcel number, acreage, date acquired, name of prior owner, type of conveyance, purchase price, type and value of improvements at date of purchase, land credits, and appraised value.

<sup>7</sup> Appraiser's billings must specify the fee charged for each parcel appraised.

<sup>8</sup> Only if costs are being claimed with negotiator's fees.

<sup>9</sup> Including petition to condemn, report of commissioners, stipulation, jury verdict and final decree (recorded).

<sup>10</sup> Derived from leasing of structures or facilities acquired with land.

<sup>11</sup> Record of sales or other disposition of crops, timber, structures, or facilities acquired with land.

<sup>12</sup> Justification for land costs paid which are significantly above or below the established just compensation. The state must be compensated its fair share of the sale proceeds.

<sup>13</sup> Written approval must be obtained from the state prior to the costs being incurred.

<sup>14</sup> Per the project agreement, the airport authority must obtain written consent of the State prior to the sale or disposition of airport property as identified in the agreement.

Table II.4.3: Record Retention Schedule

Record	Retention Period	Source
<b>Financial Records:</b> Invoices Vouchers Canceled checks Receipts Final contractor payment request	3 years*	FAA
<b>Procurement Records:</b> Professional service contracts Selection documentation Contracts and associated documents Purchase orders Contract instruments (Change orders, NTP, etc.) Record of negotiations Cost or fee analysis Audit certification of overhead rates	3 years*	FAA
<b>Project Records:</b> Final project or expenditure report Record drawings Summary of test results Daily records and reports Final inspection report Summary of pay factor applications	3 years*	FAA
<b>Administrative Records:</b> Grant agreements and amendments Sponsor certifications Project applications Certificate of title Drug-free Workplace Certification Exhibit A property map Sponsor correspondence letters	Indefinitely	FAA
<b>Real Property and Equipment:</b> Real property Equipment	Duration of Ownership	FAA
<b>Systems Documentation:</b> Narratives/Flow Charts Access Logs User Documentation	Lifespan of System	ALDOT

\* 3 years from the submission of final expenditure report or day land is formally transferred as approved.



The previous schedule represents the minimum holding period. Since the passage of the Sarbanes-Oxley Act (SOA), many private companies retain the majority of records for a minimum of seven years using an electronic archiving system.

## a. Information Systems Control Environment

Once an RMS is established, many sponsors are faced with attesting to the integrity of the information. In conducting work activities, sponsors may rely on a combination of manual and programmed procedures. Nonetheless, with greater reliance on information systems and automated protocols, understanding and properly managing information systems is extremely important. Information systems can improve the accuracy, efficiency, and effectiveness of the RMS and may be used during different AIP work activities including:

- ✓ Accounting, budgeting, and financial management
- ✓ Project management planning and scheduling
- ✓ Word processing
- ✓ Email correspondence
- ✓ Document management and retention



**Policy II.4: Sponsors must retain documentation demonstrating that their information systems have been subject to a structured system development life cycle process, as evidenced by sound general and application controls.**

A well-designed system requires careful planning and coordination between users and data processing personnel. Since all systems require human involvement, a poorly planned system may result in lack of adequate controls and user dissatisfaction. There should be adequate involvement by users and data processing personnel during the key stages of development. Involvement between the users and programmers in developing specifications also ensures that appropriate control features are incorporated into the application. While there are many different approaches to systems or software development, ALDOT recognizes five distinguishable components to the traditional system development life cycle (SDLC):



### (1) Plan

During the planning phase of the SDLC, an entity evaluates their needs and identifies appropriate objectives. Once the plan has been completed, the organization will usually identify business requirements and begin surveying potential solutions. An entity may elect to develop the application either in-house, outsource to a specialist, or purchase an off-the-shelf solution (OTS). Entities should retain documentation to provide evidence that planning activities were undertaken for all major systems and briefly justify the selection of one application over another.

### (2) Analyze

Whenever possible, systems under consideration should be recognized within the appropriate industry and commonly adopted. The vendor's contract should provide support throughout the

systems expected life. To the extent possible, vendors should provide assurance that their software packages have been adequately tested and quality assured. OTS solutions are a popular alternative if an entity has a limited budget or a lack of information technology support. Depending on the size of the organization and the complexity of data processing, these standards should be communicated in the sponsor's policy manual. The specific business needs of both the user and data processing personnel should be apparent.

### (3) Design

The design phase entails customizing the system or application to meet the unique needs of the organization. During the design phase, the entity may create application controls, which typically consist of pre-recorded inputs, input checks, edit checks, or other controls to evaluate the formats, codes or ranges of data for reasonableness. Application controls should also ensure that only authorized officials can enter data. Application controls ensure:

- ✓ **Completeness**- all transactions or events should be recorded and input into the system once and only once
- ✓ **Accuracy**- all transactions or events should be recorded and input accurately into the system
- ✓ **Validity**- data entered into the system should be reasonable and necessary for completing project objectives

System documentation specifying the functions and formulas used for application controls should be retained.

### (4) Implementation



**Policy II.5: Access to information stored on systems, including the RMS, should be restricted to authorized users.**

Management should identify and classify computerized resources (data, programs, hardware, etc.) and protect them using the combination of software and general (or physical) controls. Controls should be established to prevent unauthorized access to the system and to restrict each user's access based on specific job-related functions. For example, based on a user's ID and password the operating system should restrict system modules. Moreover, access privileges should be promptly canceled or amended for terminated or transferred employees. Physical access to computer facilities and other areas identified as containing sensitive information should be limited at all times. System software should prevent anyone from making modifications to activity logs, unless documented. All unauthorized attempts to bypass access controls should be reported and promptly investigated.

### (5) Maintenance

Maintenance controls should ensure that changes to programmed procedures are designed appropriately and implemented effectively. For example, documentation should specify the

handling of the request, programming, testing, approval to move the program into the production environment, and the actual move to production. Modifications should be properly tested by end-users and approved before being placed in production. The extent of the testing depends on the significance of the change. With regard to OTS, most vendors ensure the validity and proper implementation of modifications. However, procedures should be established to ensure that all relevant system and/or program documentation is properly maintained. Master files, such as approved vendor lists, should be frequently updated.



**Policy II.6: Controls should be established to ensure that copies of all data files or other electronic records are backed up, preferably at an off-site location, on a periodic basis. Moreover, controls should ensure that data files and programs are recovered properly after a processing failure.**

Recovery controls ensure data is regularly copied and backed-up and procedures are in place to ensure a proper recovery. Involvement by various user groups will help ensure that the proper documentation is backed-up and recovered.



System documentation should be prepared and maintained so all individuals involved in an application system (users, programmers, operators, management, etc.) have sufficient information and instructions to perform their respective functions. System documentation should provide a description of the system including the system objectives, functions, original and updated system specifications, system interfaces and dependencies, hardware requirements, maintenance requirements (e.g., back-up, installation of new versions), control features (manual as well as computerized), and constraints. User documentation should provide detailed instructions on how to use the system properly. It should include control procedures as well as examples of all forms, input and menu screens, and reports. User documentation needs to address security, functions, responsibilities, and reporting features. Program documentation should provide programmers with information necessary to revise the existing system and assist in the resolution of any processing problems as they occur. Program listings, detailed descriptions of program functions, logic flowcharts, system reports, and format layouts of input and output files should be retained.

#### **b. Accounting Systems**



**Policy II.7: The organization should establish and maintain an accounting system that effectively captures economic activity data. The financial management system must meet the standards of FAR 152.**

One of the most critical components of the RMS is an entity's accounting (or financial management) system. The accounting system helps airport sponsors monitor revenue and expenditures to remain financially viable and accountable to external stakeholders. While most organizations rely upon software technologies to automate work activities conducted under the traditional accounting cycle, many organizations are often plagued with the dilemma of knowing exactly what to record and/or how to record information. To resolve this dilemma; organizations

should identify personnel knowledgeable about financial management practices, particularly governmental accounting principles.

In general, “any transaction or other event and circumstance that affect a business enterprise” (SFAS 6) or the financial position of the entity should be reflected in the accounting system. An item should be recognized if it is measurable, relevant, and reliable. An organization should rely upon systems with capacity to: journalize accounting events, post to a general ledger, prepare trial balances, make adjustments, produce financial statements, and maintains flexibility for closing activities. It is critical that the accounting records reflect accurately the operations of the organization on a continuous basis. In many cases, ALDOT and the FAA rely on accurate and timely financial reports generated from an entity’s financial system to judge the organization’s overall performance and plan for future activities. From this standpoint, financial systems are essential to effectively managing grant proceeds and meeting compliance standards.

A first step to establishing a sound financial management system is creating an effective general ledger system to quickly and accurately accumulate all financial transactions. The general ledger accounts are the source of all financial reports used by management. The general ledger consists of control accounts, a framework known as the organization’s chart of accounts (Handbook Appendix, Attachment 3). The chart of accounts consists of account titles and account numbers assigned to the titles. The account titles should be developed from an understanding of the economic activity and information management deems necessary for financial reports. Account titles should describe the assets, liabilities, net assets, revenues, and expenditures of the organization. These accounts should be listed in the general ledger in numerical order with the account title. Generally, accounts should be numbered in the following manner: 1000-1999; 2000-2999; 3000-3999; 4000-4999; 5000-5999. Expenses are often divided into several groupings: 5000-5999 cost of goods sold; 6000-6999 billing expenses; 7000-7999 general and administrative expenses. The postings to the general ledger accounts may come from any of the following sources:

- |  |                              |
|--|------------------------------|
| ✓ General journal  | ✓ Payroll journal            |
| ✓ Purchase journal<br>(expense / accounts payable entries) | ✓ Cash receipts journal      |
|  | ✓ Cash disbursements journal |

Adjusting journal entries must also be included, such as corrections of posting errors.



**Policy II.8: All journal vouchers for entries into the general ledger should be authorized by a responsible official who is not involved in the origination of the entries and accompanied by supporting documentation.**

All valid general ledger entries should be accurately recorded, at least monthly, in the general ledger. The physical posting of the general ledger will vary depending on the type of system used. Most computer accounting software packages are fully automated and post journal activity to the general ledger on command. The source of the general ledger posting should be referenced. All entries (recurring and nonrecurring) that do not originate from journals should be supported by journal vouchers that are pre-numbered.



A trial balance should be prepared periodically (preferably monthly) from the general ledger. A trial balance is a listing of all general ledger accounts and their balances as of a particular date. The trial balance will verify that the general ledger accounts balance (debits equal credits) and serves as a work paper to make adjustments to any accounts to correct their balances. Reconciliations should be performed between control accounts maintained in the general ledger and the subsidiary ledgers. These should be reviewed by a responsible independent party. Differences should be investigated and any adjustments properly processed and sufficiently documented. Table II.4.4 reflects the accounting roles and responsibilities of key stakeholders.

Table II.4.4: **Accounting Roles and Responsibilities**

Position:	Airport Owner / Manager	Professional Engineer / Consultant	Financial Custodian
Accountable for:	✓ Meet grant and other project related compliance requirements	✓ Manage project and only bill for contract deliverables	✓ Ensure adherence to financial compliance requirements
Key Responsibilities:	✓ Ensure that an adequate internal control structure is in place for all AIP improvements	✓ Ensure expenditures are reasonable, valid, and economical	✓ Maintain accounting system and monitoring of revenues and expenditures
Key Tasks:	<ul style="list-style-type: none"> <li>✓ Appoint financial custodian</li> <li>✓ Review audit reports</li> <li>✓ Monitor claims relative to performance</li> <li>✓ Resolve disputes</li> </ul>	<ul style="list-style-type: none"> <li>✓ Ensure sub-consultant expense claims are valid</li> <li>✓ Submit invoices and supporting documentation</li> </ul>	<ul style="list-style-type: none"> <li>✓ Prepare journals</li> <li>✓ Post to general ledger</li> <li>✓ Trial balance</li> <li>✓ Make necessary adjustments</li> <li>✓ Financial reporting</li> </ul>

At the end of the fiscal year, all income and expense items should be closed so that they will not carry over to the next fiscal year. After all of the required adjustments have been made to the general ledger, the organization should prepare a closing entry. A closing entry creates a zero balance in each revenue and expense account when the entry is posted to the general ledger. Since these accounts will not balance, the entry will include a credit to net assets of the organization for the net income or a debit to net assets resulting in a loss to the organization. After the closing entry is posted to the general ledger, the income and expense accounts should be zero. At this point, the general ledger is ready to accept transactions for the next fiscal year.



Table II.5.1: Tools for Creating a Record System



Tool	Source	Description
RMS Checklist	Appendix A	A step-by-step guide for recordkeeping requirements for managing an AIP grant.
Airport chart of accounts	Appendix B	Contains a listing of commonly used accounts, titles, and codes for airport management operations.
FAA OIG Audit Findings	Appendix C	Highlights recent national audit findings.
Sarbanes-Oxley record retention schedule	Appendix D	Outlines the record retention policies under the Sarbanes-Oxley Act.
COSO internal control framework	Appendix E	Complete description of the COSO framework with self-assessment tools.
AASHTO Internal control questionnaire (ICQ)	Appendix F	ICQ is a structured interview protocol used by the auditor to evaluate an entity's internal controls.
ISACA IT framework	Appendix G	Best practices in information technology controls and systems development lifecycle processes.



Table II.5.2: References for Creating a Record System

Authority	Citation	Description
Code of Federal Regulations (CFR)		
	49 CFR 18	Uniform administrative requirements for grants and cooperative agreements to state and local governments.
Office of Management and Budget (OMB)		
	OMB A-123	Highlights management's responsibility for internal control.
Federal Aviation Regulations (FAR)		
	FAR 152	Establishes financial management standards for aviation activities.
Federal Aviation Administration (FAA)		
	150/5100-10	The authoritative accounting records guide for airport program sponsors.
Other		
	ISO 23081	International Standards Organization's (ISO) information management standards for meta-data.
	McClean, B.	A journal article discussing ISO 15489 imperative, as well as best practices in records management.
	White-Dollman, M.	A book on ISO 15489 entitled <i>A Tool for Records Management</i> .
	Federal Records Act	Summarizes the Federal Records Act, which established record management systems for all Federal agencies.
	EO 9784	Executive order outlining the responsibilities of OMB and Federal department heads. These requirements pass-down to all recipients.
	EO 10186	Updates specific provisions contained within Executive Order 9784.
	ARMA International Standards	Promulgates international standards and best practices in records management, including: filing standards, information security, risk mitigation, and electronic records.

## Section III: Receiving the AIP Grant Award



The Alabama Airport Improvement Funding Assistance Program is a reimbursement program that aids publicly owned airport operators with costs associated with planning and constructing various airport facilities and the acquisition of land for airport expansion or obstruction clearance. As a general rule, all airport sponsors who participate in the program must go through the following three stages before receiving initial grant funds:



### 1. Identify Match

In most cases, sponsors are responsible for securing local funds to match the federal and state grant. Table III.1.1 reflects traditional matching contributions made at the federal, state, and local level for AIPs.

Table III.1.1: **Federal, State, and Local Matches (Small Airports)**

Type of Project	Federal	State	Local
State sponsored	0%	50%	50%
FAA sponsored*	95%	Up to 2.5%	At least 2.5%
Helicopter	0%	The lower of \$15,000 or 50% of project costs.	At least 50%

While in-kind matching sources, such as donated labor or materials, do not qualify, local revenue may be derived from an assortment of sources:

- ✓ Local taxes
- ✓ General obligation bonds
- ✓ Special revenue bonds
- ✓ Other federal/state grants (non-AIP)
- ✓ Donations
- ✓ Special revenue from land usage

Depending on the source of funds, special restrictions or provisions may impact how local funds can be used. Under no circumstance can local sources of revenue be assigned or committed to other programs or projects. Therefore, entities should carefully document the source, purpose, special conditions and total amount of the matching funds. Before formally soliciting matching funds, sponsors are encouraged to provide sufficient detail to the grantor or custodian of the

matching fund concerning eligible and ineligible FAA projects. Matching funds should not be used to pay for an ineligible project (see Table III.1.2).

Table III.1.2: **Examples of Eligible versus Ineligible AIP Projects**

Eligible Projects	Ineligible Projects
Runway construction/rehabilitation	Maintenance equipment and vehicles
Taxiway construction/rehabilitation	Office and office equipment
Apron construction/rehabilitation	Landscaping
Airfield lighting	Artworks
Airfield signage	Industrial park development
Airfield drainage	Marketing plans
Land acquisition	Training
Weather observation stations (AWOS)	Improvements for commercial enterprises
NAVAIDs such as REILs and PAPIs	Maintenance or repairs of buildings
Planning studies	Aircraft hangars*
Environmental studies	Fuel farms*
Safety area improvements	
Airport layout plans (ALPs)	
Access roads only located on airport property	
Removing, lowering, moving, marking, and lighting hazards	
Glycol Recovery Trucks & Glycol Vacuum Trucks	

*\*Permissible under special circumstances*

## 2. Secure & Restrict Match



**Policy III.1: All local funds being used to match the AIP grant must be committed by the appropriate governing body of the sponsor. Authority to proceed with the AIP must be authorized in a resolution made by this body.**

The sponsor's first step in applying for federal or state grant funding is providing sufficient evidence that the project is endorsed and the local match secured by the appropriate local governing authority. Once the appropriate amount of the match has been identified, airport sponsors should seek a resolution to proceed with the project from this same governing body and designate the appropriate local source of funds. Ultimately, all applications for AIP grant funding need to be accompanied by an assurance that local matching funds are available and authorized by the appropriate governing body of the airport. A certified copy of the resolution adopted by the governing body of the airport is necessary documentation. Applications for grant funding will not be processed until this resolution is received by ALDOT. A sample resolution is included in Appendix E. Applications must be accompanied by the supporting documentation discussed in completing the "AIP application for funding" document.

If the sponsor intends to seek state funds to offset the local 5% matching requirement, then the airport should indicate on Standard Form 424 the request for state funds along with the required

resolution authorizing the airport owner to make such application. Depending on the circumstances of the sponsor or local entity, cash may or may not be readily available for the match. If cash is made available, then the sponsor or local entity should deposit monies promptly in bank accounts and record the transaction in the appropriate period.



**Policy III.2: All funds used for the FAA AIP project must be tracked separately using different fund, project, or bank accounts. Federal, state, and local matching funds may not be commingled with non-FAA AIP funds.**

If the project is being funded in part through a series of cash receipts, then sufficient control must be exercised over the collection of those receipts. For example, individuals preparing the list of cash receipts should be persons other than those who deal with: grants receivable, accounts payable, or the general ledger. In situations where cash receipts are received directly by the organization, checks should be restrictively endorsed immediately. Records of cash receipts and summaries should be compared to deposit slips and bank statements by persons other than those who handle cash receipts and posted to the cash receipts journal. One way sponsors with limited personnel can assure a proper segregation of duties is by relying upon local districts, municipalities, or counties to manage their project funds using a fiduciary account.

In addition to maintaining adequate control over cash receipts, the sponsors should utilize proper encumbrance accounting to acknowledge the matching commitment is legally binding. Encumbrances help sponsors (or their fiscal agent) recognize that future appropriations are unavailable because the government has outstanding commitments. Furthermore, all accounting transactions relating to an airport project should be accounted by a special revenue fund (SRF) or capital projects fund (CPF). SRFs demonstrate that all revenue from that source was used for the specified purpose. Accounting and financial reporting standards for special revenue or capital projects funds are identical to those applicable to the General Fund.

### **3. Complete Federal and State Application**

Once the appropriate amount of local funds has been identified and secured, organizations should begin the pre-application process with the Bureau of Aeronautics. State grants are made available on a priority basis for planning and airport capital improvement projects at publicly owned, public-use airports. Grant recipients must be legally, financially, and otherwise able to assume and carry out the assurances and obligations contained in the grant. All applications for state funding assistance for Airport Improvement Programs must be signed by the mayor, county commission chairman, or airport authority chairman. The application must be accompanied by an assurance that local matching funds are available and have been authorized by the appropriate governing body of the airport. Both these documents should be filed in the entity's RMS. In addition to the matching assurance statement, the applicant must also provide other assurances. Upon a sponsor's acceptance of the grant offer, these assurances are incorporated into the grant agreement. Table III.3.1 summarizes the key assurances grant recipients will be expected to adhere to and sufficiently document compliance.

Table III.3.1: **Assurances to be documented during the Application Process**

Assurance	Compliance Standard
<b>1. General Compliance</b>	All applicable Federal laws, regulations, executive orders, policies, guidelines, and requirements will be met
<b>2. Authority of Sponsor</b>	Distinguishes legal authority of public versus private sponsors
<b>3. Sponsor Fund Availability</b>	Access to sufficient funds to finance project and preserve operations and maintenance needs
<b>4. Good Title</b>	Proper title over landing area or property to be upgraded
<b>5. Rights and Powers</b>	Ownership of assets will be retained by applicant
<b>6. Consistency w/ Local Plans</b>	Project consistent with plans of public agencies with control over the area surrounding the airport
<b>7. Local Interest Consideration</b>	Fair consideration to the interest of communities in or near where the project may be located
<b>8. Consultation with Users</b>	Reasonable consultations have been undertaken with affected parties
<b>9. Public Hearings</b>	Public hearings have been held considering the economic, social, and environmental effects
<b>10. Air &amp; Water Quality</b>	Located, designed, constructed, and operated in compliance with all air and water quality standards
<b>11. Pavement Maintenance</b>	An effective airport pavement maintenance-management program will be maintained
<b>12. Terminal Development</b>	All necessary safety and security equipment will be provided to passengers
<b>13. Audit &amp; Recordkeeping</b>	Effective recordkeeping practices will be maintained and right to audit all accounting records
<b>14. Minimum Wage Rates</b>	Contracts over \$2,000 shall incorporate minimum wage laws
<b>15. Veteran's Preference</b>	All contracts should reference veteran's preference
<b>16. Conformity to Plans</b>	Plans shall conform with terms approved by the Department of Transportation
<b>17. Construction Inspection</b>	Competent technical supervision will assure work conforms to plans, specifications, and schedules
<b>18. Planning Projects</b>	Will be executed in accordance with plans, subject to audit, and materials may not be restricted
<b>19. Operation &amp; Maintenance</b>	Airports must continue to operate in a safe and serviceable condition
<b>20. Hazard Mitigation</b>	Instrument and visual operations at the airport will be protected
<b>21. Compatible Land Use</b>	Actions will be undertaken to restrict use of land adjacent to or in the immediate vicinity of the airport
<b>22. Economic Nondiscrimination</b>	Aeronautical activities will not be discriminated against unless for legitimate safety reasons
<b>23. Exclusive Rights</b>	No exclusive right for the use of the airport by any person providing aeronautical services to public
<b>24. Fee and Rental Structure</b>	Fee and rental structure shall be self-sustaining
<b>25. Airport Revenues</b>	All revenues must be used for capital or operating costs relating to the airport system
<b>26. Reports and Inspections</b>	Information will be presented in accordance with FAA guidance
<b>27. Use by Government Aircraft</b>	Governmental aircraft may use facilities free of charge
<b>28. Land for Federal Facilities</b>	FAA can use land for reasonable purposes at no cost
<b>29. Airport Layout Plan</b>	Plan will remain updated and comprehensive
<b>30. Civil Rights</b>	No person shall, on the grounds of race, creed, color, nationality, sex, age, or handicap be excluded
<b>31. Disposal of Land</b>	Land must be disposed of at appropriate times and in a reasonable manner (e.g., FMV)
<b>32. Engineering &amp; Design</b>	Contracts for professional services must be issued using qualifications-based criteria
<b>33. Foreign Market Restrictions</b>	Fair and equitable market opportunities must be given for products and suppliers of the United States
<b>34. Policies &amp; Specifications</b>	Project will be carried out in accordance with policies, standards, and specifications approved by the FAA
<b>35. Relocation &amp; Real Property</b>	Land acquisitions will adhere to the real property and relocation laws and regulations.
<b>36. Access By Intercity Buses</b>	Efforts will be undertaken to connect intercity buses to the terminal
<b>37. Disadvantaged Businesses</b>	Where practicable, preference will be given to disadvantaged business enterprises
<b>38. Hangar Construction</b>	If a private hanger is constructed, a long-term lease must be drafted
<b>39. Competitive Access</b>	Applicant is accountable for ensuring competitive access or justify why requests can't be accommodated



*A detailed description of each of the aforementioned compliance standards is provided in the information section. Airport sponsors should thoroughly review each assurance and ensure sufficient documentation is maintained throughout the lifecycle of the project to demonstrate compliance standards have been met.*

Table III.3.2 outlines the key steps involved in the application process. Sponsors should be aware that the final step in the process involves the Transportation Director sending a written funding agreement that should be signed by the appropriate airport representative and returned to the Aeronautics Bureau for final execution. The agreement will contain the terms and conditions of acceptance of the grant as well as identify the state's share of the project costs.

**Table III.3.2: Federal, State, and Local Matches**

Step	Description	Deadline / Completion Date	Documentation
<b>Submit Pre-Application</b>	Applications for state airport improvement program grants may be submitted by the airport sponsor at any time before November 15th.	November 15 <sup>th</sup>	<ul style="list-style-type: none"> <li>✓ Grant Pre-Application</li> <li>✓ Board resolution</li> <li>✓ Administrative cost plan, if applicable</li> </ul>
<b>Pre-Application Review</b>	The application will be reviewed for completeness and if additional information is needed, the airport owner will be contacted in writing with a request to submit the required information. All applications undergo a review, prioritization, and approval process.	Before planned start date	<ul style="list-style-type: none"> <li>✓ Director's decision or tentative commitment letter</li> </ul>
<b>Complete Remaining Activities</b>	The activities will vary and may include: obtaining professional services, refining the project scope and cost, updating the ALP, preparing project plans and specifications, and advertising for bids.	Not applicable	<ul style="list-style-type: none"> <li>✓ Evidence that outstanding activities have been fulfilled</li> </ul>
<b>Submit Final Application</b>	Once the sponsor has completed these steps, the final application package must be prepared. As with the pre-application, the final application must be signed by the mayor, county commission chairman, or airport authority chairman.	Listed in Tentative Allocation (T/A) Letter	<ul style="list-style-type: none"> <li>✓ AIP Application for funding</li> <li>✓ Project budget</li> <li>✓ Justification</li> <li>✓ Sketch</li> <li>✓ Assurances</li> </ul>
<b>Application Approved</b>	If the sponsor meets all of the aforementioned requirements and the project is approved, the sponsor will be notified accordingly and a grant agreement will be established. Alternatively, if the project is rejected, the sponsor's application must be either revised or withdrawn.	A decision will be made within 30 days	<ul style="list-style-type: none"> <li>✓ Signed grant agreement</li> </ul>

Table III.4.1: Tools for Securing AIP Grant



Tool	Source	Description
AIP Checklist for State Funding	State Handbook,	Contains instructions for completing the AIP application for state funding.
Application for State Funding	State Handbook, Attachment 1-2	A one page form to collect sponsor's contact, funding, consultant, and other information. Includes project budget template for a detailed breakdown of the cost of each major item.
Application for Federal Assistance	State Handbook, Attachment 2	Collects similar information as state form, but requires additional information such as DUNS.
Resolution to Accept State Funding Agreement	State Handbook, Attachment 3	Sample resolution for confirming the local matching share of funds for an AIP project.
Capital Improvement Plan Form	State Handbook, Attachment 4	Template used for monitoring capital projects by priority order and the source of funding.
Notice of Landing Area Proposal	FAA, Form 7480-1	Notifies the FAA of any construction, alteration, activation, deactivation, or change to the status or use of a civil or joint-use (civil/military) airport.
Notice of Actual Construction or Alteration	FAA, Form 7460-2	Notifies the FAA of construction or alteration that might affect navigable airspace.
Project Approval Information	FAA, 5100-38C-Appendix 4 & 5	Contains a series of questions relating to the nature of the project. Requires sponsors to outline their budget and develop a program narrative around objectives and benefits.
Project Evaluation Review & Development	FAA, 5100-38C-Appendix 8	Provides a checklist of a sponsor's financial and engineering compliance requirements.
Examples of Increasing Maximum Obligation	FAA, 5100-38C-Appendix 13	Offers examples of the way development and land increases should be handled.
Agreement on State Sponsorship and Airport Sponsor Obligations	FAA, 5100-38C-Appendix 22	Certification that the sponsor will comply with terms, conditions, and assurances contained in the project application and subsequent grant agreement.
Standard Sponsor Certification Forms	FAA, 5100-38C-Appendix 25	Certification of existence of state practices that traditionally differ from federal standards, such as procurement and property acquisition.
Block Grant Application/Agreement	FAA, 5100-38C-Appendix 26-27	A series of questions used to exemplify the sponsor's qualification to manage block grants. Contains sample grant agreement.
AIP Grant Status Report	FAA, 5100-38C-Appendix 28	Provides a screenshot of the AIP grant status report interface.
Finance Template for LOI Applicants	FAA, 5100-38C-Appendix 29	Notice the FAA has developed finance template for the purpose of standardizing the submission of airport's financial plans.

Federal resources can be found at: <http://www.faa.gov/airports/aip/>

State resources can be found at: [http://www.dot.state.al.us/aerweb/documents\\_and\\_forms.htm](http://www.dot.state.al.us/aerweb/documents_and_forms.htm)



**Table III.4.2: References for Securing AIP Grant**

Authority	Citation	Description
Code of Federal Regulations (CFR)		
	14 CFR Part 150	Regulations discussing compliance requirements associated with the airport noise compatibility program.
Office of Management and Budget (OMB)		
	OMB A-97	Rules and regulations permitting Federal agencies to provide specialized or technical services to state and local units of government under Title III of the Intergovernmental Cooperation Act of 1968.
	OMB A-102	Grants and cooperative agreements with state and local governments.
United States Code (USC)		
	49 USC 47105	Outlines rules and regulations associated with project grant applications
	49 USC 47106 (a)17	Highlights that project grant application approval is conditioned on assurances about airport operations.
Federal Aviation Regulations (FAR)		
	14 FAR 152	Offers a comprehensive overview of the history, background, and regulations associated with the airport aid program.
	14 FAR 156	Provides additional details about rules and regulations associated with the State block grant pilot program
Federal Aviation Administration (FAA)		
	Order 150/5100-38 AIP Handbook	The authoritative accounting records guide for airport aid program sponsors.



## Section IV: Procuring Goods and Services



### 1. Procurement Methods



**Policy IV.1: Sponsors must maintain documentation to provide evidence that all procurement transactions were conducted in a manner providing full and open competition per federal and state standards.**

#### a. Activities Procured

After a contract has been established between ALDOT and the sponsor, the sponsor should be prepared to take the first step in the AIP process: procure goods and services. Procurement is the acquisition of appropriate goods and/or services that meet the needs of the purchaser in terms of quality and quantity, time, and location at the best possible total cost. Title 49 CFR states “all procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of Part 18.36(c).” In completing the AIP, the sponsor will likely need to solicit a multitude of services from the private sector. Certain types of purchases lend themselves to open competition more than others; therefore, different documentation standards apply in demonstrating compliance with Policy IV.1. In general, there are four primary products or service areas for which an airport may contract:

- 1) **Professional or consultant** – constitutes services rendered by persons who are members of a particular profession or possess a special skill. Examples include services provided by contractors or subcontractors to enhance the sponsor’s construction management, legal, financial, or technical positions. Professional and consultant services are generally acquired to obtain information, advice, opinions, alternatives, conclusions, recommendations, training, or direct assistance.<sup>15</sup>
- 2) **Architect or engineer** – a special type of architectural or engineering professional service performed by contract that is particularly unique to AIP initiatives. This service is often associated with research, planning, development, design, construction, alteration, or repair of real property.
- 3) **Construction** – constitutes the primary work activity of an AIP involving construction, alteration, or repair (including dredging, excavating, and painting) of buildings, runways, structures, or other real property.
- 4) **Products, goods and other services**– in any construction or maintenance project, sponsors will consume materials or supplies and may require specialized professional services, such as asphalt maintenance or electrical services. Under this situation, entities may elect to make individual purchases or contract for recurring services.

<sup>15</sup> Examples of direct assistance includes: studies, analyses, evaluation, project management, or other forms of representation.

## b. Types of Procurement Approaches

Under each of the aforementioned work activities, one or more of the following four basic methods of procurement are permitted under the AIP grant program:

1. Competitive Sealed Bids
2. Competitive Proposal
3. Small Purchase Procedures
4. Noncompetitive Proposal

**Competitive Sealed Bids-** Competitive sealed bids are usually used in the airport grant program for procurements involving construction projects or equipment purchases. Sealed bids are publicly solicited and a firm fixed price contract (either lump sum or unit price) is awarded to the responsible bidder whose bid, conforming to all material terms and conditions of the invitation for bids, is lowest in price.

**Competitive Proposal-** Competitive proposals are used when it is not appropriate to use the sealed bid method. This method would be used when complete and adequate specifications or purchase descriptions are not available (e.g., artistic services), more than one responsible bidder is not reasonably expected to bid, or when the selection of contractor cannot be made principally on the basis of price. Under this method, sponsors may pay a reasonably higher price for a better quality product if justified.

Although price is not a factor, competition should still exist in the acquisition process. Invitation for Bids (IFBs) and Request for Proposals (RFPs) should still be prepared clearly and describe all the requirements and evaluation criteria. They should be advertised in media that will reach prospective bidders. Once received, bids should be opened, compared, and evaluated based upon predetermined criteria and prudent economical procurement practices. Contracts should be awarded to the lowest responsible and responsive bidder meeting the specified requirements and established criteria on supplies, services, prices/costs, statement of work, quality assurance, and timeliness of delivery. The approval to use competitive negotiations is given sparingly except for the required use for procurement of professional services.

**Small Purchase Procedures-** Under this procedure, procurement standards are less formal than either of the previously discussed methods and may only be used for procurements of less than \$100,000. The number of sources solicited is determined by the number of qualified sources available, the time frame involved, and the dollar value. Oral solicitation is acceptable for very small purchases but should be adequately documented. Except for very small purchases, a letter of request should be issued and a written proposal solicited.

**Noncompetitive Proposal-** Although it is preferred that all procurements be made on a competitive basis, a noncompetitive proposal is permitted under the following extraordinary circumstances: (a) the item is available only from a single source; (b) in the event of a public emergency<sup>16</sup>; (c) after solicitation of a number of sources, competition is determined

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<sup>16</sup> Only if the urgency for the requirement does not result in delay for competitive solicitation.

inadequate; or (d) the FAA authorizes noncompetitive negotiation<sup>17</sup>. Table IV.1.1 highlights the key documents to be retained for each type of procurement method:

Table IV.1.1: **Documentation Requirements by Proposal Type**

Type of Proposal	Key Documents
<b>Competitive Sealed Bids</b>	<ul style="list-style-type: none"> <li>✓ Public advertisement</li> <li>✓ Factors used, such as discounts, transportation costs, and life cycle costs, in determining which bid is lowest</li> <li>✓ If the sponsor determines that the bidder submitting the lowest bid is not responsive and/or responsible, the FAA concurrence should be sought and documented</li> </ul>
<b>Competitive Proposal</b>	<ul style="list-style-type: none"> <li>✓ Public advertisement</li> <li>✓ Request for Proposal</li> <li>✓ “Qualifications Based Selection Process” documentation (see next section)</li> </ul>
<b>Small Purchase Procedures</b>	<ul style="list-style-type: none"> <li>✓ Letter of request</li> <li>✓ Oral or written solicitations and responses, if applicable (including those vendors that declined the offer)</li> <li>✓ Proposals received</li> <li>✓ Evidence of an adequate number of proposals (two or more)</li> <li>✓ Justification for using approach</li> </ul>
<b>Noncompetitive Proposal</b>	<ul style="list-style-type: none"> <li>✓ Letter of justification sent to FAA for using method</li> <li>✓ If applicable, copy of FAA submittal letter for contracts, cost estimates, and plans for installation, extension, removal, and relocation of public utility facilities</li> <li>✓ Justification for using approach</li> </ul>

In addition to the four methods discussed, other methods of contracting may be appropriate depending upon special circumstances related to an AIP project<sup>18</sup>.

### c. General Standards

Under most competitive proposals, certain general standards are applicable to most situations. This section offers a brief overview of these requirements. As a general rule, projects that can be easily or clearly defined and have a large population able to comply with contracting requirements will receive more responses (e.g., competition) than a project defining complex provisions from a smaller population. Thus, the sponsor’s requests for bids or proposals must accurately describe the technical requirements for the material, product, or service to be

<sup>17</sup> If the cost of the professional services contract is not expected to exceed \$10,000 and the professional services are incidental to the grant project, then this type of approach may be authorized. Typical contracts of this nature include: (a) services to review legal sufficiency of the grant; (b) appraisals; (c) grant audit services performed as part of a project; and (d) independent project cost estimates.

<sup>18</sup> Other Methods of Contracting: One such method is considered a two-step procurement in which a general scope of the project is provided to prospective bidders. A technical proposal is submitted and the sponsor determines which bidders provide a technical proposal that meets the requirements of the general scope. An invitation for bids that encompasses the general scope and incorporates a bidder’s technical proposal is issued to each bidder whose technical proposal is deemed acceptable. The bidder then bids on the general scope as well as its technical approach and the responsible and responsive bidder submitting the lowest bid is awarded the contract. Other methods that may have some use under AIP are various forms of Design-Build. Except in circumstances under which a project has been approved under a Design-Build pilot program, sponsors should be cautioned that the design-build contracting must still meet the requirements stated above for professional services as well as the price competition for construction. In addition, sponsors should be cautioned that except under limited circumstances, costs incurred prior to a grant are not necessarily reimbursable so the contract phasing should reflect the need to perform construction services after a grant is issued.

procured. Only essential requirements should be highlighted in the bid or proposal announcement. The request must clearly state all requirements to be fulfilled and the factors used to evaluate the bids. The description should include a statement of the qualitative characteristics of the material, product, or service to be procured. Unreasonable limitations in a solicitation are not permitted. Practices considered to be restrictive of competition include but are not limited to:

- ✓ Unreasonable requirements on firms to qualify to do business
- ✓ Noncompetitive pricing practices between firms
- ✓ Organizational conflicts of interest
- ✓ Unnecessary experience and bonding requirements
- ✓ Use of arbitrary actions in the procurement process
- ✓ Unnecessary product or "brand name" specifications
- ✓ Preference to in-state or local bidders

If providing a clear and accurate description of the technical requirements is impractical, a "brand name or equal" description may be incorporated. The basis for acceptance, however, will be the salient characteristics of the named brand. One of the most effective means to demonstrate compliance with the competitive procurement process is through a sound cost or price analysis.



**Policy IV.2: AIP sponsors are required to perform and document their cost or price analysis for every procurement, including change orders.**

A cost analysis is the review and evaluation of a contractor's proposal to determine the necessity for costs and reasonableness of amounts. The analysis is used by the sponsor to form an opinion as to whether proposed costs are consistent with what contract performance should cost, assuming reasonable economy and efficiency. For the procurement of professional services, the sponsor should make a technical evaluation of the effort needed to perform the task and include this in the analysis.

Price analysis, on the other hand, is accomplished by comparing the submitted proposals or quotations with prior quotations and prices, using parameters such as average unit costs or published price lists. A price analysis should be used in most cases, other than for professional services since a detailed cost analysis is already required. Gross inconsistencies between a proposal and analysis requires more intensive inquiry.

Sponsors who adopt the general standards will usually be subject to fewer administrative burdens than those entities electing to employ alternative methods. For example, the sponsor seeking alternative procurement methods must furnish additional documentation to ALDOT or the FAA to justify their method if any of the following conditions apply:

- ✓ Contract is to be awarded on a sole source basis
- ✓ Vendor is on state debarred vendor list

- ✓ One bid or proposal received with aggregate expenditures exceeding \$100,000
- ✓ Contract specifies “brand name”
- ✓ Low bidder is a non-responsive and/or not responsible bidder
- ✓ A review of the bid abstract reveals the possibility of bid improprieties
- ✓ Sponsors are working on their first assistance project and have not yet been reviewed for compliance with the DOT standards
- ✓ Contracts are awarded for automatic data processing
- ✓ Contracts are repeatedly awarded to the same firm
- ✓ Purchasing is performed outside the sponsor’s established procurement system
- ✓ Competitive proposal procurement method is used for construction contract

Additionally, at any time, the FAA may determine that circumstance warrants additional documentation requests. It is absolutely critical that sponsors incorporate procurement documentation into their RMS. FAA field offices will be particularly alert to possibilities of improprieties in the procurement process, such as bid rigging and collusion, if any of the following red flags apply to the sponsor:

- ✓ Five or fewer bidders on a construction project, low bid is 95% or more of the engineer’s estimate and the bid is \$500,000 or more
- ✓ Only a single bidder on a construction contract with a bid amount of \$250,000 or more
- ✓ Unusual or suspicious bid patterns or activities
- ✓ Money will be paid directly or indirectly to an employee or official of the State of Alabama as wages, gifts, or compensation in exchange for acting as an officer, agent, employee, subcontractor, or consultant to the airport in connection with the project
- ✓ Funds have or will be paid to a person responsible for influencing or attempting to influence an officer, employee, or Congressional representative involved in the AIP
- ✓ Persons were excluded from participation in, denied benefits of, or otherwise subjected to discrimination in the performance of this agreement or in the employment practices of the airport authority, on the grounds of disability, age, race, color, religion, sex, national origin, or any other classification protected by federal, state, or statutory law
- ✓ Sponsor failed to conduct cost or price analysis

## 2. Unique Procurement Standards

While the general standards establish sound principles for the administration of competitive procurement contracts, sponsors also need to be aware of the unique procurement standards that apply to common types of work activities or products procured for AIP grants:

### a. Professional Services

Periodically it will be necessary for an airport owner to engage the services of a qualified professional consultant to assist with the development of an Airport Improvement Program. Such services may include the planning and design of airport construction projects, airport layout plans, capital improvement plans, environmental investigations, land appraisals, and obstruction evaluations. When consulting services are performed in conjunction with the architectural, planning, environmental, or engineering services, they must be contracted for. It

is recommended that the airport owner pursue the consultant selection process using “Qualifications Based Selection Criterion” every three to five years, or as appropriate for the type of work that is being performed. This process includes:



Table IV.2.1 outlines the steps, activities, and key documentation needed under this method.

Table IV.2.1: **QBSC Selection Activities and Documentation Requirements**

Step	Activities	Key Documentation Requirements
<b>Initiate consultant selection process</b>	At the time an airport sponsor decides that a consultant should be chosen to assist in airport planning, design, and construction activities, the Bureau should be informed of the airport sponsor’s decision. Technical advice and assistance can be provided by ALDOT and FAA to guide the sponsor through the proper procedures for conducting the selection process. This step will ensure the consultant selected best serves the airport’s interests.	<ul style="list-style-type: none"> <li>✓ Email or notes from phone conversation with ALDOT that supports request for technical assistance</li> <li>✓ Consultant’s qualifications</li> <li>✓ Items specified in Table IV.2.2, where applicable</li> <li>✓ Proposed fee estimate and scope of services</li> </ul>
<b>Establish selection board &amp; procedures</b>	The typical procedure for selecting a consultant is to use a selection board composed of at least three persons, with at least one being an engineer, airport planner, or other professional knowledgeable of the service required. After procedures have been established, general inquiries of potential providers should be performed and selection criterion outlined.	<ul style="list-style-type: none"> <li>✓ Names of independent persons<sup>19</sup> authorized to recommend provider</li> <li>✓ Written code of standards for procurement conduct</li> <li>✓ Notes from interviews or inquiries of consultants</li> <li>✓ Comparative analysis of professional qualifications</li> </ul>
<b>Develop selection criteria</b>	Numerical rating factors (ranges) should be assigned to each criterion based on the sponsor’s priorities and the importance of each factor in the attainment of a successful project.	<ul style="list-style-type: none"> <li>✓ Documentation noting criterion is consistent with contract language<sup>20</sup></li> <li>✓ Agreed-upon list of selection criteria with proper numerical weightings</li> </ul>
<b>Develop a RFQ</b>	Develop RFQ using standard criteria as a baseline, but customized to unique needs of the project. Distribute to eligible consultants through written notification. Most importantly, advertise announcement a minimum of three times in a local newspaper and one time in a state newspaper of general and wide circulation allowing vendors to respond a minimum of two weeks after the newspaper’ publication date.	<ul style="list-style-type: none"> <li>✓ Request for qualification (RFQ) document</li> <li>✓ Copy of advertisement, specifying date and medium</li> <li>✓ Any letters sent directly to consulting firms</li> <li>✓ Environmental assessment, if applicable to the project</li> </ul>

<sup>19</sup> They must not participate in selection or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved.

<sup>20</sup> Contract criterion should outline expected schedule of projects and scope of work in sufficient detail. All parties must: be advised that some of the services may not be required, sponsor reserves the right to initiate additional procurement action, services are limited to those projects that can reasonably be expected to be initiated within five (5) years of the date the contract is signed by the consultant, the contract must be limited to the services covered by the negotiated fee, multiple project solicitations should be sought.

With regard to the selection criterion noted in Table IV.2.1, acceptable criteria may include, but is not limited to:

- ✓ Capability to perform all aspects of the airport project with recent experience
- ✓ Key personnel's professional qualifications
- ✓ Ability to meet schedules or deadlines
- ✓ Quality of projects previously undertaken
- ✓ Experience of sub-consultants regularly engaged by the consultant under consideration
- ✓ Geographic proximity of branch office
- ✓ Ability to furnish qualified inspectors
- ✓ Demonstrated understanding of the project's potential problems or special concerns
- ✓ Degree of interest shown in undertaking the project
- ✓ Capability to incorporate and blend aesthetic and architectural concepts while meeting basic functional, safety, and efficiency requirements
- ✓ Evidence that the consultant has made good faith efforts to meet when called upon
- ✓ Disadvantaged Business Enterprise (DBE) goals

To ensure the broadest publicity in obtaining consultant services, public announcements for all projects should be advertised in local newspapers with a wide circulation and national trade journals and magazines. Public announcements should include information such as a description of the proposed project and its location, a description of the services, and the estimated range of construction costs. The public announcement should allow sufficient time for submission of the statement of qualifications, in most cases a minimum of two weeks. Sponsors may also send the public announcements directly to known, potentially qualified consultants to determine their interest in the project and to request their experience and qualification data.

After issuing the RFQ, the selection board should identify a pre-selection short-list of the best qualified consultants using the experience and qualification data obtained from consultants. With adequate response to the RFQ, the typical pre-selection short-list should consist of between three and five consultants. The selection criteria and associated weights should be used in creating this list. Detailed information on the qualifications and performance data of each short-listed consultant should be obtained. This can be achieved by contacting former clients identified by the consultant in their statement of qualifications to ascertain the quality of work, ability to meet schedules, cost control, and consultant-client relationship. At this point, consultants who expressed an interest in the project but were not included on the pre-selection short-list should be notified that they were unsuccessful.



Affirmative steps pursuant to 49 CFR Part 18 and good faith efforts should be taken to assure that small and minority firms are used whenever possible, consistent with 49 CFR part 26. Suggested steps and efforts may involve the following:

- ✓ Include qualified small business and minority firms on solicitation lists
- ✓ Assure that small business and minority firms are solicited by consulting with regional Airports Divisions, Office of Civil Rights, and ALDOT

- ✓ Divide the total requirements into small tasks, when economically feasible, to permit maximum small business and DBE firm participation
- ✓ Use the services and assistance of the Small Business Administration, the Minority Business Development Agency of the Department of Commerce, and the Minority Resource Center Regional Centers of the Department of Transportation (<http://osdbu.dot.gov>)
- ✓ Arrange solicitations, time for presentation of offers and delivery schedules to facilitate DBE and other small business participation
- ✓ Encourage consultants to subcontract portions of the work, even when they might otherwise perform the work with their own forces.

After establishing selection criteria, the selection board should obtain a general project proposal from each of the firms on the pre-selection short-list, typically by issuing a Request for Proposal (RFP) to each consultant. The RFP should include a detailed description of the project and the proposed scope of services required. In general, the consultant should not be actively involved in other public works projects for the sponsor unrelated to the airport. The selection criteria, including their relative importance in evaluating the proposals must be made available to each of the firms on the pre-selection short-list. The RFP may not contain a request for any cost information, such as total cost, cost per hour, work hours, or other pricing data. The general project proposal will help the selection board recommend a consultant who has the ability to understand the specialized requirements of the project and achieve design excellence while successfully controlling time and costs. The elements of a typical general project proposal should include, but are not limited to:

- ✓ The role and qualifications of team members and other key personnel
- ✓ Current workload and proposed project schedule, including major tasks and target completion dates
- ✓ A brief discussion of the key tasks and scope of services<sup>21</sup>.

After issuing the RFQ/RFP and receiving project proposals, the sponsor is now prepared to complete the “Qualifications Based Selection Process” (QBSP). The diagram below reflects the final steps associated with awarding the contract:



<sup>21</sup> When a value engineering study is included in the selection criteria, a brief discussion of the consultant's capability, training, and experience to carry out such a study should occur.



Table IV.2.2 outlines the steps, activities, and documentation requirements under this method.

Table IV.2.2: **Final QBSC Selection Activities and Documentation Requirements**

Step	Activities	Key Documentation
<b>Evaluate and rank project proposals (consultant selected)</b>	Review the experience and qualifications data, the general project proposal, the interview results, and other relevant data. Using the selection criteria developed for the project, rank the qualified consultants in order of preference.	<ul style="list-style-type: none"> <li>✓ Submitted proposals denoting date received</li> <li>✓ Consultant ranking and related notes</li> </ul>
<b>Initiate discussions &amp; analyze cost</b>	Conduct interviews with each consultant on the pre-selection short-list to better understand scope of work and services to be provided. <sup>22</sup> A well-defined project description and scope of services should be developed between the sponsor and first-ranked consultant prior to negotiating a project design fee. After agreement on a detailed scope of services has been reached, the consultant should submit their cost proposals with a detailed project proposal. The consultant must prepare a detailed estimate of the hours and cost required for each of the major tasks. In addition to charges for labor, the consultant should, if appropriate, indicate the costs for subcontractors, travel, living expenses, reproduction, and other out-of-pocket expenses expected to be incurred. ALDOT will perform a fee analysis on these projections.	<ul style="list-style-type: none"> <li>✓ Consultant detailed cost proposal</li> <li>✓ Evidence ALDOT was contacted before project scoping meeting</li> <li>✓ Cost of conducting a fee analysis<sup>23</sup> (ALDOT)</li> <li>✓ Independent fee analysis (ALDOT)</li> <li>✓ History files or prior contract used in estimating fees</li> </ul>
<b>Conduct negotiations</b>	Negotiations should then be conducted to reach a fair and reasonable fee. If the recommendations are not accepted, the selection board should reconvene until acceptable recommendations have been agreed upon. If a mutually satisfactory contract cannot be negotiated with the first-ranked consultant, the negotiations must be terminated and the consultant notified. Negotiations with the 2 <sup>nd</sup> ranked consultant should then begin. Upon completion of successful negotiations, all consultants interviewed should be informed of the consultant selected.	<ul style="list-style-type: none"> <li>✓ Notes from negotiations</li> <li>✓ Record of negotiations reflecting changes in scope of services or cost</li> <li>✓ An explanation between final estimate and fee</li> </ul>
<b>Award contract</b>	Before awarding the contract, a report recommending the consultant selected should be prepared. The report contains sufficient detail to indicate the extent of the review and the considerations used for the recommendations <sup>24</sup> .	<ul style="list-style-type: none"> <li>✓ Final selection report</li> <li>✓ Original contract signed and notice to proceed (ALDOT)</li> </ul>

<sup>22</sup> On small projects, a telephone interview may be sufficient. The selection board may also, at its discretion, bypass the interview process ranking the pre-selection short-listed consultants based on submitted material.

<sup>23</sup> The method and degree of analysis is dependent on the facts surrounding the contract. In order to properly evaluate the consultant's cost proposal, a sponsor having a staff or an independent consultant with experience in estimating professional services and negotiating contracts. These individuals are responsible for furnishing a detailed schedule for the cost of their professional services.

<sup>24</sup> The report should be forwarded to the sponsor's administrator or governing body authorized to review the recommendations of the selection board.

The following items are typical of those that should be considered in developing and documenting the scope of services:

- ✓ Meetings the consultant is expected to attend
- ✓ Safety and operational considerations
- ✓ Testing and commissioning requirements
- ✓ Inspection services during construction
- ✓ Data and material furnished by the sponsor
- ✓ Survey and geotechnical testing requirements
- ✓ Ability to minimize construction impacts on airport operations
- ✓ Preparation of forms, documents, and reports
- ✓ Quality control during design and construction
- ✓ Environmental considerations
- ✓ Coordination with other consultants and agencies
- ✓ Design schedule
- ✓ Special services required
- ✓ Complexity of design
- ✓ Property map preparation
- ✓ Airport layout plan updates
- ✓ Deliverables
- ✓ Number of bid packages
- ✓ City/county requirements

In addition to carefully evaluating and documenting key requirements under the scope of services, special care should also be undertaken to evaluate cost. When evaluating the reasonableness of a consultant's fee proposal, a general review standard used within the FAA and industry is whether the total fee proposal, as well as individual tasks within the proposal, is within 10% of the independent fee estimate. In general, when the consultant's fee proposal and the ALDOT's independent fee estimate are within 10% of each other, the fee can be determined to be reasonable. When differences exceed 10%, however, the sponsor should review those areas with the consultant to determine if there is a misunderstanding of the scope of services or level of effort required and attempt to resolve the differences. While this should not be construed as policy, the use of the 10% standard is one method to help identify areas of significant difference between the consultant's fee proposal and the independent fee estimate. Failure to obtain the independent cost analysis from the Bureau of Aeronautics prior to executing the contract could make the airport ineligible to receive state funding assistance for the services provided by the consultant. All price comparisons should be documented in the RMS.

After developing a detailed scope of services and an independent fee estimate, the sponsor must enter into negotiations with the consultant given first preference by the selection board. Negotiations should be based on the data submitted by the consultant and an evaluation of the specific work hours required for each task. The sponsor should subject the consultant's data to a technical/engineering analysis. Based on this analysis, the sponsor should identify differences in the work-hour estimates. The results of this analysis should be filed in the RMS.

While the aforementioned steps are the preferred selection procedure method, alternative procedures can be employed for small projects when all of the following criteria have been met:

- ✓ Scope of work and services can be clearly defined
- ✓ Sponsor anticipates receipt of less than four proposals
- ✓ Public advertisement does not request pricing information

- ✓ A/E procurements estimated to be less than \$100,000 (however, the independent fee estimate and cost estimate are still required by ALDOT)
- ✓ Meetings have been held with at least three firms discussing their qualifications.

If all of the above criteria are met, negotiations must then be conducted with the best-qualified firm to arrive at a fee. However, sponsors must consult with FAA Airport personnel before using informal procedures to assure that the circumstances justify their use. After selection using this procedure, the sponsor must submit a statement to the FAA explaining the basis for the selection and method used to determine reasonableness of the fee including: sponsor-prepared fee estimate, comparison with previous contracts of a similar nature, or evidence based on previous business experience.

The FAA may authorize non-competitive negotiation for professional services if the cost of the contract is not expected to exceed \$10,000 and the professional services are incidental to the grant project. When this procedure is used, the sponsor must submit a statement to the FAA explaining the basis used to determine reasonableness of cost. Sponsors may use their own procurement regulations reflecting applicable state and local law, rules, and regulations provided they also meet the requirements of Title 49 CFR Part 18. If, at any time, the FAA becomes aware of deficiencies based on these requirements, the sponsor shall be notified in writing of changes needed to achieve compliance.

#### **b. Architect-Engineer Services**

Requisitions for specialized services should be initiated by individuals authorized to make the specific type of purchase. Requisitions for fixed asset additions should be initiated in accordance with the capital budgeting process. Review and approval of the document or contract should be approved by the following, as deemed appropriate by the organization:

- ✓ Authorized supervisor
- ✓ Authorized organization officer
- ✓ Committee formed or authorized to commit to the purchase
- ✓ Board of directors
- ✓ Organization's legal counsel
- ✓ Professional consultant

#### **c. Construction**

If any of the following conditions are applicable, the sponsor must submit one copy of the executed contract and other procurement documents to the FAA Airports Office to determine whether all of the required contract provisions have been included:

- ✓ Procurement is expected to exceed \$100,000 and is to be awarded without competition, or only one bid or offer is received
- ✓ Procurement, which is expected to exceed \$100,000, specifies a "brand name"
- ✓ Proposed award over \$100,000 is to be awarded to other than the apparent low bidder
- ✓ Proposed contract modification changes the scope of a contract or increases the contract amount by more than \$100,000

Sponsors engaging in construction activities must comply with the Davis-Bacon Act. This measure requires recipients to ensure and document proper wage determinations.

#### d. Purchased Goods

During any construction or maintenance project, sponsors will consume materials or supplies. Entities may make individual purchases or contract for recurring services related to the construction or maintenance of a public airport. Regardless of the approach employed, requisitions for purchases should be reviewed to ensure they are within the approved organizational limits. Purchase orders<sup>25</sup> should be made on approved purchase order forms and reviewed for correctness. Approval of the purchase orders per organization guidelines should be received prior to establishment of a firm order or contract. Copies of the purchase orders should be filed to allow for timely follow-up on uncompleted orders. In some cases, purchasing guidelines may need to be established to define approval requirements and procedures for purchase commitments. The purchasing guidelines should contain the following items, as applicable:

- ✓ Limits over which the buyer is required to obtain appropriate approval prior to the establishment of a firm order or contract.
- ✓ Fixed asset appropriation requests for all expenditures over a specified dollar amount prior to commitment of funds.
- ✓ Purchases against approved capital appropriations that require approval by the individual responsible for the project.
- ✓ Purchases for certain specialized goods and services that require technical expertise, in limited circumstances.

Before the purchase orders are released, reconcile dates and quantities to requisition, compare prices to master files or standards, and check extensions and footings for accuracy. Multiple copies of the purchase order form should be maintained. A designated individual should verify and check goods received and document such inspections.

*Special Considerations for Equipment Purchases:* Solicitations should not include limiting factors that restrict competition or require manufacturers to radically change design or make other changes to their equipment unreasonably. Inclusion of limiting factors could cause a de facto limitation of competition. While FAA acknowledges the sponsor's desire to have uniformity of equipment, both for maintenance as well as for aesthetic purposes, Federal regulations require open and free competition in the bidding process. This is not to imply that there may not be reasons for specifying a certain type of equipment<sup>26</sup>. Open and free competition is to be the

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<sup>25</sup> Pre-numbered purchase orders should be prepared and contain the following information, as applicable: name and address of vendor, ship-to information (location), date the order was placed, date the goods are to be delivered or service performed, mode of transportation, terms of purchase (i.e., down payment, returnable if not used, etc.), each item listed separately with description, specific quantity and unit of measure, unit price, signature of authorized buyer.

<sup>26</sup> In this case, the sponsor must submit a justification for such restriction to FAA for consideration. An example of a justification might be that the equipment quantities to be acquired represent an insignificant number (for example, less than 5%) of the overall equipment in use and, therefore, do not justify the creation of duplicate inventory. In some cases a sponsor may request equipment to "match existing" equipment. If the effect of such request is, de facto, the establishment of sole source procurement because of the lack of interchange parts or equipment, then this type of wording should not be allowed in the solicitation. In selecting those features and characteristics, the sponsor must assure FAA that at least two manufacturers will be able to meet the selected specification with their standard production model. In cases where sponsor selections are likely to result in only one qualified manufacturer, field

norm and not the exception. To allow sponsors flexibility in purchasing equipment, they should be permitted to select and specify equipment features and characteristics when FAA standard specifications for such equipment allow a choice. Field offices will strongly encourage sponsors to send nonstandard specifications for equipment to industry for review and comment prior to issuance of the Invitation for Bids (IFB). Using information and input from industry to correct or modify the specification, the sponsor can certify to FAA that at least two manufacturers will be able to meet the proposed specification in the IFB. If a sponsor knowingly writes a proprietary specification (the specification is actually a sole source), it must notify the FAA in advance that the specification is, in fact, proprietary and then justify this procurement method.

### 3. Contracts

To finalize most procurement arrangements, sponsors must form an agreement with a third party resulting in the creation of a contract. A contract is a legally binding agreement, the performance of which the law recognizes as a duty. While contracts may be formal or informal, sponsors are encouraged to execute formal contracts to signify to all appropriate parties the terms that are binding. To establish a valid contract, sponsors should ensure there is necessary detail for formation, a formal offer, and sufficient acceptance, as demonstrated through timing and language. It is extremely important that the contract documents clearly specify the division of responsibility and authority between all parties involved in the project. Many government agencies, business firms, and engineering organizations have developed standardized forms for engineering and planning contracts. It is often necessary to modify these standard agreements to reflect the specific terms and conditions applicable to a particular project in addition to the mandatory contract provisions.

#### a. Types of Contracts

Depending on the nature of the contract (construction, product, price, etc.), special provisions and documentation may apply. Table IV.3.1 outlines the various contract types available to ensure cost-effective delivery of services under an AIP grant, as well as contract methods that are not permitted:

Table IV.3.1: **Allowable and Unallowable Contract Methods under AIP grants**

Allowable	Generally Unallowable	Unallowable
<b>Lump Sum</b>	Delivery Order	Cost plus award fee
<b>Cost Not-to-Exceed</b>	Time and Materials	Cost reimbursement
<b>(aka cost-plus-fixed-fee)</b>	Firm fixed price	
	Cost plus incentive fee	
	Cost sharing	
	Indefinite quantity	

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personnel must secure sufficient justification for the selected features that create the exclusivity since the resulting procurement will be noncompetitive.

**Lump Sum** – Provides for a firm price based on an engineer’s estimate of what the project should reasonably cost. The fee agreed upon by the airport sponsor and engineer will constitute the cost of the contract as it relates to the associated scope of work. The engineer’s fee should be based on a projection of the man-hours necessary to complete the project in addition to any costs related to travel, meals, printing, etc. The profit margin is limited to 15%. In the context of other products or services, a lump sum is sometimes referred to as a fixed-price contract that establishes a target price. Unless otherwise specified in the contract, the target price is subject to adjustment only by operation of contract clauses under stated circumstances.

**Cost Not-to-Exceed (Cost-plus-fixed-fee)** – This type of contract allows an engineer to request payment for the actual cost of performing a task or completing a project up to a pre-determined, agreed-upon amount. These contracts are typically used for special services in which the scope of work cannot be reasonably determined, or possesses a degree of unforeseen complexity that may be necessary to complete the task. The profit margin is limited to 10%. Examples of special services include, but are not limited to land acquisition, administrative services, soil investigations, surveying, and on-site construction inspection. In general, the fixed fee does not vary with actual cost but may be adjusted when the work to be performed under the contract changes. This permits contracting for efforts that might otherwise present too great a risk to contractors. However, it provides the contractor with only a minimum incentive to control costs.

Table IV.3.2: **ALDOT Preferred Contracting Methods by Service Type**

Service	Preferred Contract Method	Special Considerations
<b>Professional Services or Consultant</b>	<b>Lump Sum</b> <i>Less Desirable: cost-plus-a-fixed-fee (must justify)</i>	✓ Time overruns beyond control of the consultant <sup>27</sup>
<b>Planning</b>	<b>Lump Sum</b>	None
<b>Construction</b>	<b>Lump Sum</b>	✓ Sponsor endorsed changes during construction would be payable in addition to the fixed price (if initial specifications don’t meet needs)
<b>Goods (e.g., equipment)</b>	<b>Cost-Not-to-Exceed</b>	None

**b. Contract Requirements**

Once the appropriate type of contract has been selected, sponsors should incorporate certain language within their contracts to third parties to open the contracting process to more populations and protect contracting parties. Basic contract agreements should contain provisions with “boilerplate” language to clarify the legal responsibility of each party. Table IV.3.3 highlights standard language that should be contained in contracts.

<sup>27</sup> Frequently, the consultant continues technical inspection services on construction contracts overrunning the negotiated program schedule. In most instances, the time element is beyond the control of the consultant. To provide for the contingency of overrun of time, the agreement between the sponsor and the consultant should state the period for which the compensation applies and consultant reimbursed in excess of the specified period of time at a mutually acceptable fee when circumstances are known.

Table IV.3.3: Provisions to Incorporate in Provider Contracts

Provision	Description
<b>Conflict of interest disclosure</b>	Contractors are obligated to disclose any potential conflict they might have in the execution of the contracts, such as recommending policies or actions that might result in additional benefits for themselves, family members, or other affiliates.
<b>Anti-kickback</b>	No monetary payments were made or other services rendered to influence the evaluation or contract award.
<b>Staff qualifications</b>	The staff should possess the skills required to perform the work. This clause may include a requirement that each staff member's educational background, professional designations, applicable training hours, or years of experience be documented. Qualification clauses promote the quality of the product and timely delivery.
<b>Wages</b>	The contractor must report wages paid, total hours worked, actual travel expenses, and a reasonable itemization of other expenses incurred for the work performed.
<b>Payment &amp; billings</b>	The contractor should send billings or invoices within the appropriate time frame and within the designated fiscal year or associated lapse period. Once appropriate billing information and supporting documentation are received, the contractor should be paid within a reasonably prompt period.
<b>Right to audit</b>	The contractor shall maintain adequate accounting records and supporting documents to verify the amounts, recipients, and uses of all payments and funds received in conjunction with the contract for a designated period of time. All related records shall be available for review and audit.
<b>Property rights of the end product</b>	All items in the performance of a contract are the sole property of the project sponsor. A contractor agrees that any work or deliverable created as a result of the contract shall be a "work for hire". He or she cannot assert or claim any rights to the end product. Conversely, if a product, such as software, was developed before the contract, the contractor merely gives license to the airport sponsor for the use of the product.
<b>Confidentiality</b>	Except for its own internal use, the contractor cannot disclose information during the performance of the contract without the written consent of the airport sponsor. Information which is specified as confidential, including any data produced by, derived from, or acquired during the course of the contract, shall be held confidential.
<b>Contract termination</b>	Contractual agreements can end either naturally (i.e., by reaching the termination date or delivery of the final product) or by other means. When one party fails to perform in accordance with the contract, it can be nullified. For example, a breach of contract can occur if a construction company uses substandard materials.
<b>Set-aside programs for small or disadvantaged businesses</b>	To allow greater access to government contracts, portions or whole contracts can be set aside specifically for small businesses. Prime contractors should be encouraged to subcontract with small businesses. Factors that determine whether a business can be categorized as "small" can include net worth, annual sales, or number of employees. Ownership defines disadvantaged businesses. Traditionally, these are companies owned, at least by 51 percent, by minorities or women. Set-aside programs can address affirmative action issues and remedy past discrimination of minorities and women.
<b>Equal opportunity</b>	Contractors should comply with applicable provisions of state and federal constitutions, the U.S. Civil Rights Act, the Federal Rehabilitation Act, the Public Works Employment Discrimination Act, the Americans with Disabilities Act, and any other applicable laws, regulations, and policies regarding human rights or the prohibition of discrimination, including sexual harassment and sexual orientation.

Specific citations for these clauses, as well as other relevant laws, are listed in Table IV.3.4.

Table IV.3.4: **Mandatory Federal Contract Provisions for Professional Services Contracts**

<b>Provisions for all A/E Contracts</b>	<b>Law/Statute</b>
<b>Civil Rights Act of 1964, Title VI - Contractor Contractual Requirements</b>	49 CFR part 21
<b>Airport and Airway Improvement Act of 1982, Section 520</b>	49 USC § 47123
<b>Disadvantaged Business Organization</b>	49 CFR part 26
<b>Lobbying and Influencing Federal Employees</b>	49 CFR part 20
<b>Access to Records and Reports</b>	49 CFR § 18.36
<b>Breach of Contract Terms</b>	49 CFR § 18.36
<b>Rights to Inventions</b>	49 CFR § 18.36
<b>Trade Restriction Clause</b>	49 CFR part 30
<b>Additional Provisions for A/E Contracts Exceeding \$10,000</b>	
<b>Termination of Contract</b>	49 CFR § 18.36
<b>Additional Provisions for A/E Contracts Exceeding \$25,000</b>	
<b>Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion</b>	49 CFR part 29

### **c. Contract Monitoring**

As most work performed under AIP is implemented through contracts, sponsors are expected to establish an effective contract monitoring infrastructure to prevent receiving adverse audit findings. Sponsors may be subject to audits from the ALDOT External Audit division, FAA field office, Independent CPAs, and, on rare occasions, the Office of Inspector General or Governmental Accountability Office. Audits vary in terms of purpose and scope; therefore, sponsors should not assume that because one auditor issued a positive (or “unqualified”) opinion, the organization has a “clean bill” of health. The sponsor is responsible for ensuring adherence to all applicable rules and regulations.

Under the Single Audit Act (SAA), airport sponsors expending \$500,000 or more in federal expenditures or loan guarantees are subject to a higher level of accountability, as outlined in OMB Circular A-133. While the Single Audit does not usually coincide with the project accomplishment period (nor is a single audit likely to contain sufficient information on the project to show all grant requirements have been met), the SAA compliance standards can be used by eligible and non-eligible entities alike to monitor contract performance. Under the SAA, non-federal recipients are expected to maintain accurate financial statements, sufficient internal controls, and meet fourteen compliance areas. These compliance areas are applicable to both vendors and sub-recipients. A basic overview of the key compliance associated with these provisions is presented in Table IV.3.5.



Table IV.3.5: **Single Audit Act Compliance Measures**

Provision	Description
<b>Activities allowed or unallowed (Section V)</b>	Federal funds may only be expended for activities specifically allowed under the terms and conditions of the grant. For example, in most cases, funds cannot be used to purchase alcohol or entertainment. To demonstrate compliance with this provision, state governments must properly classify their expenditures
<b>Allowable costs/cost principles (Section V)</b>	There are six general criteria for this principle: 1) reasonable and necessary; 2) allocable to a particular cost objective; 3) costs must be net of all applicable credits; 4) costs must receive consistent treatment; 5) sufficient documentation must support the costs; 6) costs must conform to laws, regulations and sponsored agreements
<b>Cash management</b>	Entities must minimize the time elapsing between when funds are passed from the U.S. Treasury and when they are disbursed by the recipient. In addition, interest earned on advances must be reported and remitted in a timely fashion ( <i>see Section VI</i> ).
<b>Davis Bacon Act</b>	Recipients using federal funds to pay for construction contracts over \$2,000 must ensure contractors detail labor rates in their contracts, pay prevailing wages as established by the Department of Labor, and certify payrolls.
<b>Eligibility</b>	Recipients are expected to determine what individuals, groups, or service areas are eligible for federal funds. In most cases, this process entails ensuring that information technology controls exist to perform the appropriate calculations, allocate funds, maintain records, and generate exception reports to effectively control program eligibility.
<b>Equipment &amp; real property management</b>	Any federally funded equipment that costs \$5,000 or more must be adequately safeguarded, documented, and maintained. If the equipment is sold, the federal agency must be compensated for the fair market value of the asset disposed ( <i>see Section VI</i> ).
<b>Matching, level of effort, earmarking (Section III)</b>	To prevent communities from replacing all local money with federal money or to increase local spending, matching provisions are typically included in most grant programs. In other cases, state governments are required to earmark local funds and/or maintain certain service levels to receive a federal grant award. Organizations cannot supplant other sources of federal funding or non-budgeted state revenues ( <i>see Section III</i> ).
<b>Period of availability of funds (Section III)</b>	Recipients are required to obligate and liquidate federal funds within the period of availability specified within the award document or related regulations. Generally, states must liquidate all obligations incurred under a federal award no later than 90 days after the end of the funding period, but extensions can be granted in some situations.
<b>Procurement (Section IV)</b>	Contracts must include specific clauses required by federal statutes and follow sound procurement procedures (e.g., accurate description of the project and service, identify all requirements the provider must fulfill, and specify any other factors that will be used in evaluating bids or proposals, such as selecting the lowest responsible bidder).
<b>Program income (Section VI)</b>	Program income is gross income received that is directly generated by the federally-funded project during the grant period. This could include service fees, the sale of commodities, and payments of principal and interest on loans made with grant funds. This source of income must be correctly managed according to grant requirements.
<b>Real property acquisition (Section VI)</b>	Recipients must use proper procedures in acquiring real property or displacing households or businesses. For example, property acquired must meet the just compensation amount offered by the property owner as determined by a professional appraisal process. Likewise, persons displaced must be treated uniformly and equitably.
<b>Reporting (Section VI)</b>	State governments are required to submit a wide range of financial and programmatic reports demonstrating program performance and financial accountability on monthly, quarterly, annual or special basis. Reports submitted through this system must be presented with generally accepted accounting principles and sufficiently disclose material events, non-compliance with laws, regulations, contract or grant agreements.
<b>Monitoring (Section VI)</b>	With respect to all of the aforementioned federal requirements, recipients must effectively monitor sub-recipients and ensure a corrective action infrastructure is in place.
<b>Special tests</b>	Recipients must comply with the specific requirements (laws, regulations, & provisions).

**Table IV.4.1: Procurement Tools**



<b>Tool</b>	<b>Source</b>	<b>Description</b>
Sources of Consultants	AC 150/5100-14D (Appendix C)	Potential list of consulting firms who have engaged in similar projects in their areas of jurisdiction
Scope of Services Sample	AC 150/5100-14D (Appendix E)	Contains three different examples of scope of services, including: design, planning, and construction
Consultant Services Fee/Costs Sample	AC 150/5100-14D (Appendix F)	Spreadsheet outlining the specific costs to be incurred by project role.
Detailed Fee/Cost Analysis Sample	AC 150/5100-14D (Appendix G)	Spreadsheet outlining the specific rates and work hours to be incurred by project role.
Record of Negotiations Sample	AC 150/5100-14D (Appendix H)	Record of negotiations sample for architectural and engineering services
Standard Form-LLL	Appendix H	Disclosure form for reporting lobbying.
Requests for Proposals (RFP)	AC 150/5100-14D Chapter 2	Information Regarding Requests for Proposals (RFP)
Newspaper Announcements	Appendix I	Sample format
Standard Form 330	Appendix J	Architect-Engineer and related services questionnaire.
Architectural contracts	www.aia.org	The American Institute of Architects has standardized forms for architectural contracts.
Standardized Engineering forms & templates	www.acec.org www.nspe.org www.asce.org	From the American Council of Engineering Companies, the National Society of Professional Engineers, and the American Society of Civil Engineers.
Contract Checklist	Appendix K	Checklist identifies important items and provisions to be considered in preparing any contract for consultant services
Labor Standards Interview Protocol	FAA, Form SF-1445	Supports Davis-Bacon monitoring efforts.
Contractor's Payroll	FAA, Form WH-347	Used by contractors and subcontractors required by Federal or Federally aided construction-type contracts and subcontracts to submit weekly payrolls.
Agreement for Acquisition & Relocation Services	FAA, Form 5100-122	Template for establishing an agreement for acquisition and relocation services.
Claim for Relocation Payments expenses	FAA, Form 5100-124/125	USDOT approved form template for claiming relocation payments. Residential (R)/Non-R
Reestablishment Expenses	FAA, Form 5100-124	USDOT approved form template for recovering reestablishment expenses.
Search Expenses	FAA, Form 5100-124	USDOT approved form template for recovering search expenses.
Payment of Moving Costs	FAA, Form 5100-124/125	USDOT approved form template for claiming moving costs. Residential (R)/Non-R
Direct Loss of or Purchase of Substitute Personal Property	FAA, Form 5100-124	USDOT approved form template for claiming direct losses.
Decent, Safe, and Sanitary Certification	FAA, Form # Not Available	Form used to assess the results of an inspection.
Sponsor Pre-Reimbursement Federal-aid Compliance Review	FAA, Form # Not Available	Form used to assess the results of an inspection.

Federal resources can be found at: <http://www.faa.gov/airports/aip/>

State resources can be found at: [http://www.dot.state.al.us/aerweb/documents\\_and\\_forms.htm](http://www.dot.state.al.us/aerweb/documents_and_forms.htm)



Table IV.4.2: **Procurement References**

Authority	Citation	Description
Code of Federal Regulations (CFR)		
	41 CFR § 60	Discusses Federal contract compliance programs, such as EEO.
	49 CFR § 18	Outlines procurement regulations and fee analysis requirements.
	49 CFR § 20	Establishes new restrictions on lobbying.
	49 CFR § 21	States nondiscrimination standards within DoT.
	49 CFR § 26	Discusses participation by disadvantaged business enterprises.
	49 CFR § 29	Outlines certification requirements for debarment, suspension, ineligibility and voluntary exclusion.
	49 CFR § 30	Notes denial of public works contracts to suppliers of goods & services of countries that deny procurement market access to U.S. contractors
United States Code (USC)		
	49 USC § 47107 (a) 17	Requests for cost or pricing information, prior to discussions with the best qualified firm, to define the scope of services.
	55 USC § 4321	Highlights requirements of the National Environmental Act of 1969.
	40 USC § 11	Outlines requirements for selection of architects and engineers.
	49 USC § 47123	States nondiscrimination standards against selection and engagement of architectural, engineering, and planning consultants.
FAA		
	150/1050-1	Policies and procedures relating to environmental impact assessments.
	150/5050.4	Outlines citizen participation requirements in airport planning
	150/5100-14	Discusses consultant selection process & environmental impact work.
	Order 5100.38, Chapter 9	Outlines the importance of establishing a record of negotiations.
	150/5300-15	Discusses value engineering and design of airport grant projects
	150/5220-20	Provides guidance to airport operators on the procurement of snow and ice control equipment for airport use.
Other		
	URARPA	Procedures and other requirements regarding acquisition of real property, relocation payments and advisory assistance in the relocation of persons and businesses.
	Brooks Act	Outlines federal government selection of architects and engineers.
	EP-1110-1-8	United States Army Corps of Engineers "Construction Equipment Ownership and Operating Expense Schedule" uniform method for evaluating service rates <a href="http://www.usace.army.mil/inet/usace-docs/eng-pamphlets/cecw.htm">http://www.usace.army.mil/inet/usace-docs/eng-pamphlets/cecw.htm</a> .
	"Contractors Equipment Cost Guide,"	The Associated General Contractors of America (AGCA) equipment cost standards.
	Fixed Fee Estimator	Calculators for determining estimated costs, including overhead: <a href="http://www.scaeronautics.com/publications.asp">http://www.scaeronautics.com/publications.asp</a> <a href="http://www.doav.virginia.gov/forms_reports.htm">http://www.doav.virginia.gov/forms_reports.htm</a> <a href="http://www.wsdot.wa.gov/aviation/Publications/default.htm">http://www.wsdot.wa.gov/aviation/Publications/default.htm</a>
	ASCE Manuals	Contains reports for estimating consultant's costs, such as Engineering Practice No. 45, "How to Work Effectively with Consulting Engineers."

## Section V: Invoices and Other Expense Claims



### 1. Elements of a Valid Expense Claim

All information contained in the RMS should sufficiently support any expenditure claim. Sponsors should be aware of and take the necessary steps to ensure that valid and relevant information is collected and retained to substantiate financial claims and reports. Auditors and external reviewers will use this information when evaluating a sponsor's compliance with grant terms and conditions. Documentation supporting the sponsor's assertions and underlying accounting data may include:

- ✓ Books of original entry
- ✓ General and subsidiary accounts
- ✓ Accounting manuals
- ✓ Supporting records such as spreadsheets and worksheets
- ✓ Titles
- ✓ Vendor invoices
- ✓ Warrants (*in limited circumstances*)
- ✓ Records of electronic funds
- ✓ Contracts

In addition to reviewing the existence and meaningfulness of documentation, reviewers and auditors will also evaluate the reliability of the information by:

- ✓ Retracing procedures in the accounting process including worksheets, allocations, etc.
- ✓ Recalculating allocations
- ✓ Reconciling related types and applications of common information
- ✓ Confirming information with third parties
- ✓ Physically observe or inspect items

This information will be used to form an opinion concerning the validity and relevance of a particular claim. Further, there should be an interrelationship within the accounting data to provide assurance for the reasonableness of items and the absence of material misstatements due to errors. A determination that any given transaction is valid is accomplished by reviewing the following documentation as applicable:

- ✓ Invoices (reconcile with receiving reports and purchase orders)
- ✓ Payroll records
- ✓ Remittance advices
- ✓ Check requisitions



**Policy V.1: Sponsors must establish proper controls to meet the following assertions: 1) existence and occurrence, 2) completeness, 3) rights and obligations, 4) valuation and allocation, 5) presentation and disclosure.**

- 1) **Existence and occurrence** – all recorded transactions should occur during the appropriate period and documentation should exist, providing evidence the transaction actually occurred. For purchased items, all details of a transaction should be properly recorded, including the nature, quality, and condition of goods received by counting, weighing, and inspecting them on receipt. If this occurs, a vendor’s invoice should easily reconcile with the receiving report and reviewers will be able to observe and count the physical objects. Someone with an understanding of the accounting system should periodically obtain evidence that a recorded transaction actually occurred in accordance with the prescribed procedures (e.g., appropriate approvals were obtained and/or comparisons made to the underlying documentation).
- 2) **Completeness**- addresses whether all appropriate transactions were recognized and recorded in the appropriate account. As transactions are completed (and/or matched with other supporting documentation), they should be entered into the appropriate journals or registers with a notation indicating the completion of the transaction. Documents should be processed once and only once. Unprocessed transactions should be investigated periodically by a person other than the record keeper and appropriate corrective actions taken.
- 3) **Rights and obligations**- this assertion is met if ownership of a product, equipment, or fixed asset belongs to the sponsor and the sponsor is maintaining sufficient control over that asset. Physical security of assets requires that access to assets be limited to authorized personnel. Locked storage facilities should be used to restrict access to inventories and sensitive documentation in the RMS.
- 4) **Valuation or allocation**- addresses whether expense elements are reported at the proper amount. Individuals should be certain that each transaction is recorded at the correct amount, in the appropriate account, and in the correct time period. For example, one might double-check another individual's work on an invoice by repeating the calculations, extensions, and additions as well as reviewing the account distributions.
- 5) **Presentation and disclosure**- determines if elements are classified, described, and disclosed. If a system is properly designed and maintained, the above tests provide persuasive evidence of reported elements. However, subsequent events may occur that impact reported estimates or assertions. Under these circumstances, the appropriate authorities should be notified.

## 2. Allowed Costs

In the previous section, the general framework for a valid expense claim was discussed. However, it did not address the question of “what constitutes a valid cost?” The first step in determining if an expenditure is an allowable cost is to determine whether the costs being incurred relate to an approved airport project<sup>28</sup>. From a technical standpoint, allowable project costs are direct or indirect costs, paid or incurred in accordance with an approved and executed OMB Circular A-87 plan. Allowable costs relate to a planning project, an airport development project, or a noise program implementation project that:

- ✓ Is necessary for accomplishing the project in conformity with the approved plans and specifications, program narrative, and terms and conditions of the grant agreement
- ✓ Is reasonable in amount. This typically is determined by a review of a sponsor’s price or cost analysis, which provides a basis for determining reasonableness of costs in airport development projects. For other projects, a reasonableness of cost determination should be based on similar work within other recent grants, land appraisals, and the region’s judgment about project negotiations or the scope of work
- ✓ Have not been included in any previous airport planning/development grant project
- ✓ Is supported by satisfactory evidence (see above)
- ✓ Is a direct cost (as defined by Appendix J to FAR 152)
- ✓ Was incurred after the date of execution of a grant agreement. However, project costs incurred prior to execution of a grant agreement can be reimbursed under special circumstances<sup>29</sup>



**Policy V.2: Costs incurred must be consistent with the Federal cost principles contained in 48 CFR Part 31, Office of Management and Budget (OMB) Circular A-87, and FAA Order 5100.38 to be reimbursable under an airport planning or development grant.**

Table V.2.1 and V.2.2 outlines allowable program expenses (see next page):

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<sup>28</sup> As a foremost measure this means that the plan was included in the National Plan of Integrated Airport Systems, adheres to FAA-approved noise compatibility program, is properly formulated, and all costs are incurred after the date of the airport agreement, except in the case of land acquisitions.

<sup>29</sup> Special circumstances: (a) Study design necessary for a planning project; (b) Costs necessary to formulation of a development project, such as preparation of plans and specifications, preparation or revision of an ALP, environmental assessment, performance of a benefit-cost analysis and field surveys; (c) Land acquisition; (d) FAA-approved noise compatibility programs; (e) Work accomplished after the issuance of letters of intent (see Paragraph 1070); or (f) Costs incurred after September 1996 in the case of funds apportioned to a sponsor as entitlements.

Table V.2.1: **Allowable Direct Salary Related Expenses**

<b>Cost</b>	<b>Examples</b>	<b>Special Provisions</b>
<b>Direct salary</b>	<ul style="list-style-type: none"> <li>✓ Salaries for time directly chargeable to the project, such as:               <ul style="list-style-type: none"> <li>○ engineers</li> <li>○ planners</li> <li>○ computer aided design and drafting (CADD)</li> <li>○ technicians</li> <li>○ surveyors</li> <li>○ administrative support etc.</li> </ul> </li> </ul>	Time sheets should reflect a job or account number chargeable to the project and payroll records certified by a supervisor.
<b>Labor overhead</b>	<ul style="list-style-type: none"> <li>✓ Sick leave</li> <li>✓ Vacation and holiday pay</li> <li>✓ Unemployment, excise and payroll taxes contributions for social security, employment compensation insurance &amp; retirement benefits</li> <li>✓ Medical insurance benefits</li> <li>✓ Other benefits afforded to all employees</li> </ul>	The allowable % for labor overhead allocable to a project is the ratio of: (a) a firm's total direct labor overhead costs to (b) a firm's total direct salary costs (excluding overtime) for a given period.
<b>General and administrative overhead</b>	<ul style="list-style-type: none"> <li>✓ Office, light, heat, and similar terms for working space</li> <li>✓ Depreciation allowances or rental of furniture</li> <li>✓ Computer equipment and engineering instruments</li> <li>✓ Other equipment supplies not identifiable to specific projects</li> </ul>	The allowable % for G/A overhead allocable to a project is the ratio of (a) all G/A costs to (b) total direct salary costs (excluding overtime) for a given period.
<b>Taxes and insurance</b>	<ul style="list-style-type: none"> <li>✓ Other than those included as salary cost</li> </ul>	Excludes state and federal income taxes.
<b>Professional support salaries and expenses</b>	<ul style="list-style-type: none"> <li>✓ Executive</li> <li>✓ Administrative</li> <li>✓ Accounting</li> <li>✓ Legal</li> </ul>	Only for the performance of general executive and administrative services related to project (as opposed to technical or advisory services).
<b>Professional education</b>	<ul style="list-style-type: none"> <li>✓ Library and periodical expenses</li> <li>✓ Costs of memberships in trade, business, technical, and professional organizations</li> </ul>	Helps staff keep abreast of advances in the field of engineering.
<b>Incentive compensation rewards</b>	<ul style="list-style-type: none"> <li>✓ Reasonable costs under an established and consistent plan, such as:               <ul style="list-style-type: none"> <li>○ Suggestion awards</li> <li>○ Safety awards</li> </ul> </li> </ul>	Except for cash bonuses for early completion of work.

Table V.2.2: **Allowable Direct Non-Salary Project Related Expenses**

<b>Cost</b>	<b>Examples</b>	<b>Special Provisions</b>
<b>Living and traveling</b>	✓ Expenses incurred by employees and partners when away from the home office on business connected with the project	Records must include employee name, dates, points of travel, mileage rate, lodging, and meals.
<b>Communication</b>	✓ Telephone ✓ Postage	
<b>Professional expenses assigned directly to project</b>	✓ Legal and accounting ✓ Computer programming ✓ Audits ✓ Consulting and sub-consultants ✓ Printing and reproduction ✓ Other costs not applicable to G/A, but attributable to State and local project issues rather than Federal requirements.	Fees must show the portion of the total fee allotted to each class or type of service rendered and the appropriate amount of time devoted to each class or type of service.
<b>Equipment and supplies</b>	✓ Office and stenographic supplies ✓ Safety and security equipment	Items used exclusively for AIP project.
<b>Advertising costs</b>	✓ Recruitment of personnel needed for the performance of work	
<b>Administrative Costs and Services</b>	✓ All administrative costs necessary for the accomplishment of the project; however, these costs may require a pre-approved "Administrative Cost Plan."	Arbitrary or prorated administrative costs that are not or cannot be supported and substantiated are exempt.
<b>Project formulation costs</b>	✓ Surveys, title examination, & appraisals ✓ Relocation plans & environmental assessments ✓ Public hearings ✓ Study design and planning costs	
<b>Engineering</b>	✓ Preparation of plans and specifications, ✓ Initial field investigations, ✓ Preliminary design and testing, ✓ Cost estimating, preparation and evaluation of bid documents ✓ Construction inspection ✓ Technical consulting services to the sponsor	
<b>Construction</b>	✓ Costs of construction necessary to complete the project according to the plans and specifications ✓ Equipment ✓ Temporary construction ✓ Non-eligible buildings or facilities removal and relocation (up to appraised value) ✓ Noise compatibility ✓ Seal coats complying with assurances on regular maintenance ✓ Converting runways to taxiways ✓ Taxiway lighting	Temporary construction requires FAA approval. Conversion must assure continuing use. Lighting must be built in accordance with engineering standards. Noise mitigation must be described in sufficient detail.
<b>Litigation costs</b>	✓ Costs under \$100,000	Costs over \$100,000 must be submitted to APP-1 for review
<b>Land</b>	✓ Land acquisition and relocation assistance	



### 3. Unallowable Costs

While entities should make a good faith effort to engage in the allowable activities previously noted, this section focuses on costs that are explicitly unallowable (or ineligible for reimbursement) according to federal and state rules and regulations. Under rare circumstances, the State or FAA Regional Office may issue waivers; however, this only occurs when the expense can be unequivocally justified. No unallowable costs will be deemed allowable unless explicitly waived by the proper authorities in advance of the expenditure. Notable “unallowable” costs generally include:

#### *Ineligible acquisitions and equipment:*

- ✓ Buildings to be used as living quarters, or for non-airport purposes at the airport
- ✓ Buildings or parts of buildings that do not meet the definition of airport development as specified in FAR 152.41(a)
- ✓ The cost of nonexpendable machinery, tools, or equipment owned by the sponsor and used under a project by the sponsor’s force account, except the fair rental value of that machinery, tools, or equipment for the period it is used on the project
- ✓ Snow removal equipment
- ✓ Security equipment beyond that required by Title 49 CFR, Part 1542
- ✓ Sand, chemicals, fluids, and other types of deicing materials
- ✓ Bays for fire trucks stationed at an airport but primarily providing protection to building outside of the airport boundaries
- ✓ Airfield security facilities located off the airport
- ✓ Local area augmentation system, remote transmitter-receiver, portable ATCT facility
- ✓ In general, terminal doppler weather radar, airport surface detection equipment, precision runway monitors, and airport surveillance radar
- ✓ Wildlife control items, such as shotgun shells, chemicals, and pyrotechnics
- ✓ Vehicles not operated within or in close proximity to the airport boundary
- ✓ Spare parts inventory that cannot be accurately tracked
- ✓ Any commercial areas (maintenance, ticketing, or fare collection)
- ✓ Land acquisition specifically for development of industrial or non-aeronautical commercial building areas
- ✓ Acquisition of land by a private sponsor
- ✓ Fixed noise monitoring equipment
- ✓ Any art feature for areas not seen by the general public or for the sole purpose of aesthetic enhancement

#### *Ineligible work activities*

- ✓ Regular cleaning operations
- ✓ Minor repairs of facilities and equipment
- ✓ Clearing of existing or future F&E site (if the only activity undertaken)
- ✓ Installation or rehabilitation of utilities for areas not eligible

- ✓ Security projects (not covered by Title 49 CFR, Part 1542) supporting local law enforcement, such as patrolling for theft, vandalism, or traffic violations
- ✓ Training for security personnel
- ✓ Personnel or rental costs associated with interactive training systems
- ✓ Building fences outside the eligible airfield or terminal building area
- ✓ Cleanup of hazardous materials
- ✓ Development and unnecessary customizing of software
- ✓ Day-to-day operational costs of a pavement management program
- ✓ Air traffic control services
- ✓ Non-authorized operational studies or planning
- ✓ Work benefiting non-aeronautical revenue producing airport areas not at the airport

*Ineligible materials and supplies owned by the sponsor, if:*

- ✓ Used for airport development before the grant agreement was executed
- ✓ Cost not supported by proper evidence of quality, quantity and value

*Ineligible planning activities:*

- ✓ The cost of general area, urban, or statewide planning of airports, as distinguished from planning a specific airport project
- ✓ Purchase of equipment during the planning phase

*Ineligible financial management practices:*

- ✓ Any cost incurred in connection with raising funds by the sponsor, including interest and premium charges as well as administrative expenses of conducting bond elections and in selling bonds
- ✓ Bad debts, including losses due to uncollectible customer's accounts and other claims, related collection costs, and related legal costs, arising from other businesses of the consultant
- ✓ Dividend provisions or payments and, in the case of sole proprietors and partners, distributions of profit
- ✓ The cost of liability insurance covering an airport sponsor (whether paid for by the sponsor or the contractor)
- ✓ Unless explicitly authorized, sponsors cannot use other Federal revenue to meet the matching requirement of a Federal AIP grant. Further, including costs of other Federal programs is not permitted<sup>30</sup>
- ✓ Any project included in an approved F&E program budget
- ✓ Use of program income, increase in land credits, sales tax refunds, liquidated damages, and interest on advances

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<sup>30</sup> While joint Federal planning and decision-making should be encouraged, combining Federal project funding is illegal without specific authority to do so. Each of the Federal programs is supported by appropriations, and the legislated funding is a limitation on that activity. In determining FAA reimbursement and accounting arrangements, in these exceptions, general administrative overhead costs that represent the cost to the agency of indirect expenses should be waived for AIP planning and development projects.

- ✓ Interest charges on borrowed capital, except payment of interest directed by a court in a condemnation proceeding, which becomes part of the condemnation award & allowable.

*Ineligible administration activities:*

- ✓ The cost of administration for general area, urban, or statewide planning of airports (as distinguished from planning a specific project) State program administration costs are ineligible unless specifically allowed by an exemption from the regulation
- ✓ Any task with the primary intent to influence people or lobby for a project
- ✓ Legal fees expended by a sponsor defending a specification
- ✓ Contributions and donations
- ✓ Bank fees or other costs associated with establishing or maintaining a checking account
- ✓ Bonus payment for early completion of work
- ✓ The cost of tuition, travel, and subsistence for a sponsor's planning personnel to attend airport planning courses, seminars, or conferences, except conferences dealing exclusively with the approved work program. The grant cannot pay for training sponsor or contractor personnel<sup>31</sup>
- ✓ Costs of amusement, social activities, and incidental costs such as meals, lodging, rentals, transportation, and gratuities
- ✓ Advertising costs for advertisements not distributed to a wide area of interest or from fair and open competition; and,
- ✓ All other costs incurred outside of the project time frame.

## 4. Payment Processing



**Policy V.3: Determination of organization needs for goods and services should be made by appropriate personnel according to law and regulations.**

Using the criterion above, sponsors and their consultants will be expected to prepare valid and accurate invoices as well as scrutinize the invoices of sub-contractors or sub-consultants before submitting their claim to ALDOT. Control should be established over vendor invoices as soon as they are received. Failure to establish control may result in delays in recording the invoice and cause misstatement of accounts payable and the related asset or expense accounts. Further, cash discounts may be lost because of untimely processing. It is important that purchase discounts be recorded as a reduction of cost or passed on to ALDOT. The determination of the reasonableness of goods and services, such as raw material, equipment, office supplies, and professional services, should be made by qualified individuals in the organization. A consideration should be made as to whether adequate quantities, reasonable prices, timely receipt, proper specifications, and desired quality were achieved. Invoices should also contain the following information:

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<sup>31</sup> If the FAA is providing management or technical training, sponsor personnel may be allowed to attend on a space-available basis after coordination with APP-1 or the Academy, although such costs are not allowable (in the same way as if the training had been undertaken by a non-FAA provider). However, if program administrative costs have been allowed under Paragraph 310k, training (as an element of such costs) may be eligible.

- ✓ Vendor-name
- ✓ Billing address
- ✓ Payment date requested/required
- ✓ Quantity delivered
- ✓ Unit of measure
- ✓ Unit price-list
- ✓ If applicable, purchase order
- ✓ Item-list in numeric sequence (if part numbers are used) of each separate item purchased
- ✓ Description-specific description of items ordered, including part number, name, catalog number, reference, model number, color, and/or dimensions



**Policy V.4: All valid accounts payable transactions, and only those transactions, should be accurately recorded as accounts payable.**

The liability of both expenses and assets should ideally be recorded by employees independent of the ordering and receiving functions. The amounts recorded should be based on vendor invoices for the related goods or services. The vendor invoices should agree with an approved purchase order and should be accompanied by some evidence of performance. Both the invoices and the related general ledger account distribution should be reviewed before recording the transaction into the RMS. The following should be retained for all vouchers:

- ✓ Vendor invoice
- ✓ Packing slip
- ✓ Purchase order
- ✓ Requisition
- ✓ Receiving report
- ✓ Authorization of acceptance of goods or services
- ✓ The nature and quantity of goods ordered and the price per the vendor
- ✓ Invoice should be compared to the purchase order and the receiving report.
- ✓ Calculations of the invoice, such as totals and extensions of quantities multiplied by unit price, should be recomputed
- ✓ The general ledger account distribution

The voucher and related general account distribution should also be reviewed and approved by a responsible, knowledgeable individual. After the voucher package is complete, the vendor invoice is ready for recording. The following information should be entered into the purchase journal.

- ✓ Voucher number
- ✓ Vendor name
- ✓ Vendor invoice number
- ✓ Date of vendor invoice
- ✓ Amount of invoice
- ✓ General ledger account
- ✓ Date invoice is to be paid
- ✓ Discount, if applicable



Upon posting of the vendor invoice to the purchase journal, a liability should be recorded. At the end of each accounting period, the total amounts due to vendors in the accounts payable subsidiary ledger should be reconciled to the total found in the accounts payable general ledger account.

In order to be reimbursed, sponsors must complete ALDOT Form-25. This form, which comes in several different versions, requires airport sponsors to complete basic profile information relating to the project, including but not limited to:

- ✓ Project sponsor
- ✓ Invoice date, period, and invoice number
- ✓ Agreement, FEIN, & project number
- ✓ Percentage of completion
- ✓ Amounts requested for that period
- ✓ Amounts previously received

An important component to this form is for the airport sponsor to estimate work-in-progress (or percentage of work complete). As a first step to establishing such a system, the sponsor should establish a project budget that matches the goals. Sponsors should measure actual accomplishments relative to baseline goals. Any slippage of goals or cost overruns should be properly documented. In terms of quantifying these results, one of the more popular input measures used to determine the progress toward completion is the cost-to-cost basis. Under the cost-to-cost basis, the percentage of completion is measured by comparing costs incurred to date with the most recent estimate of the total costs to complete the contract.

The F-25 forms entail similar information as noted above, but require sponsors to monitor both net claims (YTD) and award balances. This information must be accounted for at both the federal and state level. Sponsors are encouraged to use spreadsheets to monitor grant award balances and retain this information in their RMS. Once the forms have been completed, entities should send copies of expenses which support the total monthly amount claimed (note: consultants are encouraged to also send this information to their sponsor).

Sponsors are required to submit four copies of the Form-25 with **four copies** of supporting documentation, such as details concerning sub-consultant, appraiser, legal, or advertising services, **no later than the 10<sup>th</sup> day of each month**. All fields on the Form-25 should be completed, including dates, invoice numbers, signatures, and notarization. The FAA AIP number should be written on the first page of all supporting documentation. Within 45 days of issuance of final payment of each project, sponsors are also required to send copies of all backup documentation including all cancelled checks and paid invoices. If federal and state grant funds have been exhausted, then the sponsor may not be permitted to submit a claim.

After the sponsor has established the appropriate payment processing protocols, managers are prepared to seek reimbursement by fulfilling the following four steps: submit monthly invoice, receive payment, make necessary grant amendments, and cooperate with project inspections. Table V.4.1 outlines the process for requesting and receiving payments for AIP:

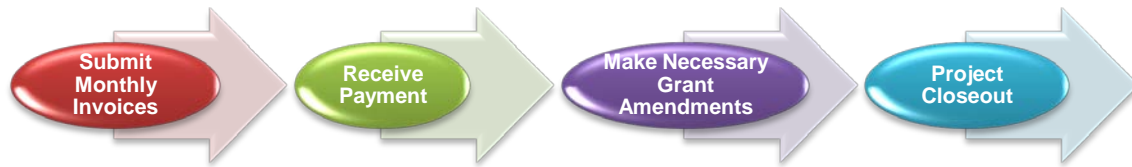


Table V.4.1: Payment Process (State to Sponsor Airport)

Step	Activities	Key Documentation Requirements
<b>Submit Monthly Invoice</b>	Typically, project invoices are completed by the airport owner's consulting engineer. The monthly invoice should contain only allowable costs and be accompanied by appropriate supporting documentation, including a copy of all contractors' pay requests, pay items, quantities and unit prices that are consistent with the construction contract. If the invoice includes fees for the airport owner's consultant, the invoice should be supported by the consultant's invoice containing a detailed listing of the services provided during the period covered by the request.	<ul style="list-style-type: none"> <li>✓ Signed FAA grant agreement</li> <li>✓ Signed ALDOT grant agreement</li> <li>✓ Signed F-25 and other notarized supporting documentation</li> </ul>
<b>Receive Payment</b>	When the monthly invoice is received, the Aeronautics staff will begin issuing a payment. The invoices are reviewed to assure that the items included on the invoice are eligible for payment under the terms of both the federal and state funding agreements. Reviews also verify that the amounts claimed for payment are accurate <sup>32</sup> . In the event that the staff should dispute a portion of the amount in an invoice, the airport owner will be notified immediately and an effort will be made to obtain additional documentation to fully support the claim. Typically, it takes about thirty (30) work days from the day the invoice is received by the ALDOT for the state to mail a check to the airport owner. Delays and other matters may arise during the 13 <sup>th</sup> accounting period <sup>33</sup> .	<ul style="list-style-type: none"> <li>✓ If applicable, notice of disputed charge</li> <li>✓ Evidence of prompt payment of the airport owner to consultants and contractors</li> </ul>
<b>Make Necessary Grant Amendments</b>	The grant agreement(s) between the airport and the FAA or ALDOT may be amended at any time during the project by request of the airport owner. Grants may be amended to change the work description, and/or the maximum federal or state obligations payable under the respective agreements.	<ul style="list-style-type: none"> <li>✓ Amendment justification</li> <li>✓ Amendment request letter</li> <li>✓ FAA grant amendment award letter</li> </ul>
<b>Project Closeout</b>	When a construction project is completed, the airport sponsor notifies ALDOT and the FAA/ADO to coordinate a final inspection of the project. The final inspection should be conducted in the presence of the airport owner and the contractor(s) representatives.	<ul style="list-style-type: none"> <li>✓ Final inspection report</li> <li>✓ Statement of distribution</li> <li>✓ SF-271</li> <li>✓ Photos</li> </ul>

<sup>32</sup> Minor mathematical errors (due to rounding) will be corrected by the Aeronautics staff to avoid payment delays. Differences larger than the amount that can be attributed to rounding will be returned to the sender. This verifies that either the consultant form needs correction or an error has occurred in ALDOT's records.

<sup>33</sup> The 13th period in the fiscal year is the period used for fiscal year-end adjusting entries. If a request is made in the 13<sup>th</sup> accounting period for goods or services received by the cutoff date, typically September 1<sup>st</sup>, the request cannot be processed until the finance bureau has re-opened the books for the new fiscal year.

Only one reimbursement request per AIP project may be submitted each month, with the exception of retainage invoices<sup>34</sup>. After filing Form 25, sponsors should record the transaction as an account receivable and track the length of time the payment has been outstanding. The grants receivable subsidiary ledger should be reconciled to the general ledger control account monthly. All differences should be investigated and resolved; reconciliations should be reviewed by responsible officials.

Once the sponsor has reviewed the integrity of invoices and submitted Form 25, the entity is ready for payment. ALDOT is authorized by section 23-1-361 of the Code of Alabama 1975 to issue payments of federal funds to the airport owner for each AIP that receives a grant from the FAA. As a service to airport owners, ALDOT now coordinates with accounting personnel in the FAA's regional office in Oklahoma City to initiate payment for the project. The Aeronautics Bureau also completes the forms required to draw down FAA funds for the project, thus eliminating paperwork for the airport owner. To execute the draw-down of FAA funds, the Aeronautics Bureau must receive an invoice accurately documenting the project costs for which funds are needed as payment. The information needed for the draw-down of FAA funds is submitted on the same invoice form used to request the payment of state funds. Generally, the documentation required by the Aeronautics Bureau is the same documentation required to obtain a payment of state funds by the airport owner. Sponsors should be aware of the key documentation required at each stage of the reimbursement process.

Under special circumstances and with prior written authorization, airport sponsors may also be granted the privilege of drawing down FAA funds for their project by ALDOT. Although an airport sponsor may be granted permission by ALDOT to execute the draw-down of federal funds for their project, the airport owner will still be required to submit reimbursement requests to ALDOT when state funds are applied toward the project.



To facilitate the reimbursement process ALDOT has created the Aviation System Management (ASM) database. This system provides airport managers, staff, and consultants with information regarding the airport's licensing and inspection status as well as status updates on proposed or active airport improvement projects. To access the system, a unique username and password is acquired by contacting the

ALDOT Aeronautics Bureau. Only designated managers will be able to create new user accounts; however, read-only privileges may be created for sub-users. Managers can only view information pertaining to their airport. In addition to licensing and funding announcements, the system offers grant application status reports and grant accounting information. For example, the grant application module contains status information for both pre-applications and applications, as well as the following information:

- ✓ Pre-application details including estimates of federal, state and local funding shares required for the project.

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<sup>34</sup> Retainage invoices must include all backup documentation, such as summaries prepared by the consultant or the latest contractor pay estimate. The amount of retainage listed on the backup documents should match the amount requested on the F-25. If the sponsor is resending a Form-25 that has been corrected, they should include only four copies of the F-25 form with original signatures and notarization. The absence of backup documentation will signal that it is a revised F-25 form and the log-in and initial review steps can be bypassed.

- ✓ Project description information and submittal status, engineering review results and consultant contract status information.
- ✓ Application details including a brief project description, funding details and grant approval status. This module also contains date of receipt, when the grant passed ALDOT review, and when the application was forwarded to the FAA for final approval.

In addition to grant application status information, the system also provides managers access to current funding levels for each project as well as a listing of all invoice information. Invoices and grant details are shown on this screen.



**Policy V.5: Proper maintenance and control should be established over the issuance of payments to vendors.**

The payment for goods and services, whether accomplished by check or bank transfer, should prohibit unauthorized payments. Complete and accurate records of payment must be kept, specifying the appropriate period. Additionally, physical access to cash and unissued checks must be restricted to authorized personnel. Disbursements from bank accounts should be made only for valid and allowable transactions. Checks and bank transfers should be prepared by persons other than those who initiate or approve any documents for disbursements. Checks and bank transfers should be designed to make subsequent unauthorized alteration difficult through the use of protective paper, check imprint, or other techniques. Checks should be signed by officials (“signatories”) other than those who approved the transaction for payment. Each signatory should examine the original supporting documentation to ensure that each item has been checked and approved. All checks and bank transfers should be summarized and recorded in the appropriate books of original entry.

The following procedures should be prohibited:

- ✓ Checks payable to "bearer" or "cash"
- ✓ Checks signed in blank
- ✓ Altered checks and bank transfers

Three-copy checks should be used, with two of the copies having "non-negotiable" printed on them. The copies of the checks should be distributed as follows:

- ✓ Vendor (negotiable copy)
- ✓ File of numerical sequenced check copies



A separate record of processed checks should be maintained by using a control log. The control log should contain: 1) sequence of checks issued 2) name of the person to whom the checks are issued 3) date the check was issued 4) signature of the custodian of the supply of unissued checks 5) signature of the person who returned voided or unused checks 6) if applicable, the sequence of checks returned and/or voided.



The usage of checks should be accounted by reconciling the quantity of checks issued to cash disbursement records. This should be performed by persons other than those who have custody of unissued checks.

## 5. Force Account & Other Project Administration Costs

Construction by sponsor's force account is construction implemented without the benefit of a contract or the services of a contractor. Sponsor's force account construction costs will not be allowed unless it has been **approved in advance by the FAA**. Because many small airports lack the organizational capacity to meet force account standards; **this practice is generally discouraged by ALDOT**. However, entities that wish to establish a force account must adhere to the following personnel, financial, and project management standards. Failure to meet any of these compliance components will result in disallowed costs.



**Policy V.6: If using a force account for reimbursement, procedures must establish sound human resource practices over recruitment, compensation, sanctions, evaluations, and employee benefits.**

### i. General human resource management

Entities using force account procedures should ensure they have the organizational capacity to sufficiently manage multiple employees. They must have well qualified human resource specialists and sound personnel practices. As an example, procedures should outline recruitment strategies for new employees. The recruitment policy should specify procedures for filling openings within the organization and recruitment from outside sources. Procedures should be established regarding job postings, recruiting methods, reference checks, and compliance with Equal Employment Opportunity requirements. Further, procedures must be established regarding the approvals necessary for the hiring of a new employee. This approval should document in detail a justification for the prospective employee's rate of compensation and their effective date.

Once an employee is hired, the organization should maintain employee files in which employee pay history is documented and withholding authorizations are retained. Changes to standing payroll data should be initiated by the appropriate human resource representative (e.g., hiring of new employees or authorization for pay rate increases). Procedures should provide for periodic evaluation and the determination of compensation increases. A policy should be established regarding the approvals necessary for pay rate changes. This written approval is determined by persons independent of the payroll function. Changes and approvals should be noted in a status report and forwarded to the payroll department. A training plan should also exist to ensure that the employee is competent to perform the work and is addressing noted deficiencies.

A procedure should be established regarding employees' eligibility for vacation and sick leave. This policy should include the amount of vacation and sick time pay earned, the period of time in

which vacation and sick time can be used, and whether vacation or sick time can be accumulated and for how long. Detailed records should be maintained for each employee indicating the vacation and sick time available and utilized. No vacation or sick time should be paid until the detailed records are reviewed. This check may be incorporated into the payroll software for computerized systems.

## ii. Wages and Salaries



**Policy V.7: If using a force account for reimbursement, payment for wages and salaries should be made only to organization employees at authorized rates of pay.**

Controls should ensure that the payroll reflects complete and authorized standing data. All changes to standing payroll data should be authorized in writing by an appropriate official outside of the payroll department. Changes may include:

- ✓ New hires or terminations
- ✓ Pay rate changes
- ✓ Voluntary payroll deductions
- ✓ Court-ordered payroll deductions

Further, payroll deductions should be correctly recorded and paid to third parties on a timely basis. Related payroll reports to third parties should be submitted promptly. Controls should ensure that payroll deductions, both compulsory and voluntary, are adequately identifiable in the general ledger, and that the payments to third parties are timely and accurate. Payroll deductions should be recorded in separate general ledger control accounts. Payments of payroll deductions to third parties should be reconciled with the related payrolls by an employee outside of the payroll department. Payments of payroll deductions to third parties, including the employer payroll expense portion and the related documentation should be reviewed by a financial official. This process will ensure that payments are appropriate and timely.

## iii. Timekeeping



**Policy V.8: If using a force account for reimbursement, payment for wages and salaries should be based on records of work performed and accurately calculated.**

Controls should be established over time records to ensure that disbursements of federal funds are for valid services performed and accurately calculated. Time clock card details should be summarized by the sponsor's human resource specialist before payroll preparation. This total should then be compared to the actual payroll amounts. All time and output records should be maintained and approved by the appropriate supervisor, including overtime. Reconciliations with supporting records should be performed on transaction data (time worked, output, and/or sales) that serves as the basis of the payroll calculation. Payrolls should be subject to final written approval by the financial officer of the organization before being paid. Further, gross pay and payroll deductions should be compared with predetermined control totals by an employee that does not have human resource related duties. This review should be documented in writing.

Payroll payments should be distributed by individuals who do not approve time reports, are not responsible for hiring/firing, and do not control payroll preparation. The payroll bank account should be reconciled monthly by an employee who has no responsibilities for the preparation of the payroll or physical distribution of paychecks.

#### iv. Indirect Costs



**Policy V.9: If using a force account for reimbursement, job costing systems must exist to allocate both direct and indirect costs to the appropriate projects on a proper, complete, and consistent basis.**

Indirect costs are associated with resources that are not specifically or readily identifiable with any of the sponsor's outputs. Typical indirect costs include general administrative services, rent, space, and utilities; however, indirect costs can also represent costs incurred for a common or joint purpose. In order to properly account for indirect costs, project costing systems must integrate with and reconcile to the sponsor's financial accounting system or general ledger accounts. The preferred method for assigning costs is by directly tracing the costs used in the production of outputs. As such, recorded labor costs tied to project costing system must be properly developed and accurate for both salaried and non-salaried employees. The sponsor must have a written policy established for the treatment of direct and indirect costs in the event employees work overtime.

In developing an indirect cost pool, the sponsor must segregate direct and indirect costs. When it is impractical to directly trace costs, then costs must be assigned on a cause-and-effect basis. Further, direct costs must be applied on a consistent basis and completely removed from the indirect cost pool. Cost pooling methodologies should apply generally accepted accounting standards and remain homogenous. Periodic reviews should be conducted to identify over-or-under allocation of pooled costs, as well as costs that may have a material impact on the organization's indirect cost rates<sup>35</sup>.

Sponsors must maintain a detailed written policy relating to their indirect cost pooling methodologies. This document should clearly identify direct and indirect cost accounts that can be readily traced to the project costing and accounting system. In preparation for federal or state audits, ALDOT encourages entities to obtain an independent verification of their cost allocation system from a CPA firm.

#### v. Other Minimum Requirements and Assurances

In addition to the aforementioned requirements, the following special considerations should be factored when using a force account:

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<sup>35</sup> Typically, costs must be divided by the total allowable indirect costs (net of credits) by an equitable distribution base, such total direct costs, direct salaries and wages, or another base which results in an equitable distribution. Additional review may be warranted into whether the in-house billing rates total usage (direct and indirect) was included in the denominator calculation for the indirect rate and whether the indirect cost pool was reduced by the amount of direct usage.

- ✓ Equipment rental rates applicable to the construction on force account development vary widely. The purchase price of equipment bought by the sponsor for use on a force account project is not allowable except to the extent that its amortization is included in the calculation of rental and operating rates.
- ✓ Any procurement of supplies and materials for use in the force account project must adhere to the procurement standards in Section III to the extent possible.

**v. Other Project Administration Costs**

Airport sponsors requesting reimbursement for the administration of an FAA AIP grant project should notify the Aeronautics Bureau before seeking reimbursement for these costs. Sponsors are required to adhere to the administrative cost provisions established through rules and regulations. The subject of administrative costs is explained in FAA Order 5100.38C, AIP Handbook (Chapter Three, Section Two, subsection C). For instance, one of the most notable requirements is the submission of an *administrative cost plan*. This approved plan is required when the sponsor submits the pre-application at the beginning of each fiscal year. The general instructions and required information for the *administrative cost plan* are very similar to force account procedures outlined in the previous section. Further, any administrative costs requested by the airport sponsor are subject to the same reporting requirements and auditor reviews as those required of engineers, consultants, and contractors.

Table V.5.1: **Financial Tools**



<b>Tool</b>	<b>Source</b>	<b>Purpose</b>
Request for advance or reimbursement	FAA, SF 270	Federal form used to place a request for advance or reimbursement.
Outlay Report	FAA, SF 271	Federal report used to document outlays & place request for reimbursement for construction projects.
Federal cash transactions report	FAA, SF 272	Federal report used to document all cash transactions.
Application for Federal Assistance	FAA, SF 424	Federal form used to submit application for federal assistance.
Mileage log	Determined by Applicant	Template for tracking the total mileage associated with a project.
Timesheet	Determined by Applicant	Example of a timesheet to use for force account projects.
Grant Amendment	FAA, 5100-38C-Appendix 14	Copy of the grant agreement relating to an AIP project, including certification statements.
Informal Letter Amendment	FAA, 5100-38C-Appendix 15	Letter template used to address a request to amend an existing grant agreement.
Entitlement Transfer Agreement	FAA, 5100-38C-Appendix 16	Agreement used to waive receipt of specific funds apportioned.
Labor Standards Interview Form	FAA, SF 1445	Supports Davis-Bacon monitoring efforts.
ALDOT Invoice Form F-25	State Handbook, Attachment 6	The F-25 forms help sponsors monitor both net claims (YTD) and award balances.
Signature Form	State Handbook, Attachment F	Certification form used to designate persons authorized to approve payment requests.
Payment Information Form	State Handbook, Attachment 8	Official FTA Echo payment request form.
Statement and Distribution of ADAP Project Costs and Cost Credits	State Handbook, Attachment 11	Helps record project cost and cost credits for each individual project. Columns provide space for recording the date, payee, check number, voucher number, amount, and a distribution of project costs. Cost credits are recorded as reductions of project costs.
Statement and Distribution of Project Costs	State Handbook, Attachment 9	Records project costs for each individual project. Columns provide space for recording the date, payee, check number, amount, voucher number, and a distribution of project costs.

Federal resources can be found at: <http://www.faa.gov/airports/aip/>

State resources can be found at: [http://www.dot.state.al.us/aerweb/documents\\_and\\_forms.htm](http://www.dot.state.al.us/aerweb/documents_and_forms.htm)



Table V.5.2: **Financial References**

Authority	Citation	Purpose
<b>Code of Federal Regulations (CFR)</b>		
	29 CFR Part 29	Labor standards provisions applicable to contracts covering federally financed construction.
	48 CFR Part 31	Contract cost principles and procedures.
<b>Office of Management and Budget (OMB)</b>		
	OMB Circular A-87	Cost principles for state, local, and Indian tribal governments.
	OMB Circular A-110	Uniform administrative requirements for grants.
	OMB Circular A-123	Management's responsibility for internal control
	OMB Circular A-133	Audits of states, local governments, and non-profit organizations.
	OMB A-134	Financial accounting principles and standards.
<b>Federal Aviation Regulations (FAR)</b>		
	FAR, Part 31 (Appendix C)	Outlines allowable and unallowable costs.
	FAR 152, Appendix J	Highlights principles for determining costs applicable to contracts.
	FAR 152, Appendix L	Establishes property management standards.
	FAR 152.4l(a); FAR 152.47; FAR 152.73; FAR 152.137	Specifies buildings of which are not within the meaning of airport development.
	FAR Part 156	Discusses state program administration costs.
	FAR 31.201-2 & FAR 31.201-3	Notes reasonableness and allowable standard.
<b>Federal Aviation Administration (FAA)</b>		
	150/5100-10A	Sets forth recordkeeping requirements imposed on sponsor of Airport Development Aid Program (ADAP) and Planning Grant Program (PGP) projects funded by the Airport and Airway Development Act of 1970, as amended. In addition, Federal regulations require a sponsor to establish and maintain a financial management system that meets the standards set forth in Part 152, Appendix K. This circular provides detailed explanations of these requirements
	FAA Order 5100.38	Guidance, policy and procedures used in the administration of Airport Improvement Program
	DOT 4600.11	Principles for determining costs applicable to grants and contracts with State and Local governments.
<b>Legislation/Other</b>		
	Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970	Outlines legal standards for relocating persons or property for public works projects.
	ASMB C-10	Cost principles and procedures for establishing Cost Allocation Plans and Indirect Cost Rates for agreements with the Federal Government

## Section VI: Project Management



In addition to the steps covered in the prior sections of this chapter, an airport sponsor and their consultant(s) will be responsible for on-going project management activities that have implications on the RMS, particularly revenue generating activities and the management of assets. Section VI addresses these outstanding matters, as well as final documentation procedures that need to be undertaken at close-out.

### 1. Program Income



**Policy VI.1- Program income related to the AIP grant must be managed in accordance with Federal regulations.**

While sponsors are encouraged to earn program income to defray costs, revenues other than conventional general revenue sources flowing into the organization require special attention. Program income is best defined as gross income received by a sponsor that is either generated by a grant supported activity or earned only as a result of the grant agreement during the grant period. Program income<sup>36</sup> may include, but is not limited to, proceeds from:

- ✓ Concessions
- ✓ Fees for services performed
- ✓ Parking facilities
- ✓ Rental of property, land, or hangar/terminal space
- ✓ Sale of commodities fabricated under the grant agreement
- ✓ Payments of principal and interest on loans made with grant funds

If a sponsor generates program income, usually the revenue must be deducted from total allowable costs to determine net allowable costs. However, when authorized, program income may be added to the funds committed to the grant agreement. In other cases, this income can be used to meet matching requirements. In general, program income can only be retained for allowable capital or operating expenses.

Revenue received from special sources must be recorded at fair market value on a timely basis. Further, sponsors must charge fair market value for the sale, lease, or use of right-of-way airspace for non-transportation purposes. Lease agreements should be reviewed and a schedule of rents prepared. The schedule should be reviewed regularly and appropriate action taken for delinquent accounts. Prepayments should be recorded as unearned revenue until the designated payment time has elapsed. In general, there are no Federal requirements governing the disposition of program income earned after the end of the award period, unless the terms of

<sup>36</sup> Except as otherwise provided in regulations of the Federal agency, program income does not include interest on grant funds, rebates, credits, discounts, or refunds nor interest earned on any of these.

the agreement or the Federal agency regulations provide otherwise. Sponsors are expected to disclose the use of program income and properly account for any and all sources of revenue.

## 2. Retainage



**Policy VI.2- Sponsors must reserve an appropriate amount of retainage to ensure the sub-contractor fulfills contract obligations.**

Retainage represents the portion of a contract's final payment withheld by a sponsor until the project is complete, functioning satisfactorily according to the contract terms, and all liens have either been released or have expired. Typically, retainage is a payment determined by taking a percentage of the total bid, paid when a contractor (or subcontractor) submits a bid. In essence, retainage is considered insurance – a way for the sponsor to assure that a bidding company is solvent, insured, and stable for the duration of the project. ALDOT encourages retainage agreements. While judgment can be exercised concerning the appropriate percentage to withhold from a sub-contractor, the amount withheld and justification for using that threshold should be clearly documented in the contract and related project files. The amount of retainage being held should be properly documented in contract agreements and accounted for within the entity's accounting system.

Effective FY2010 and beyond FAA AIP grants require a **ten percent retainage for engineering fees**. Any work performed under a State of Alabama **On-Call Services Contract** is required to withhold **five percent retainage** in accordance with the conditions of the contract.

### **Grant Assurance Statement**



*The Sponsor agrees to monitor progress on the work to be accomplished by this grant. For engineering services, the Sponsor agrees to make payment only for work that has been satisfactorily completed and that ten percent (10%) of the total value of the engineering services contract will not be paid to the Engineer until acceptable final project documentation is provided. (Section III General Conditions, Part E)*

Additionally, the FAA has adopted the policy that the engineer's retainage can only be paid after the grant close-out paperwork has been submitted and approved. Once this event occurs, the Aeronautics Bureau will be notified to process the reimbursement request. Since the closeout paperwork is required to contain the SF-271 form and the Statement and Distribution of Project Costs, the request to release the engineer's retainage should be the last F-25 packet submitted for payment on the project. The contractor's retainage can be released at any point that the engineer determines the contractor has completed the project and satisfied all necessary requirements for receiving retainage. The goal is to ensure that projects are closed out in an efficient and timely manner.



### 3. Asset Management

#### a. Inventory



**Policy VI.3- Physical receipt of all purchased goods should be properly verified, accounted, and secured.**

Specific written procedures over the custody of inventory items between initial receipt and recording into the inventory records should be established. A designated individual should inspect goods for conformity with specifications on purchase orders. Quantities should be verified by counting, weighing, or measuring. Receipt and acceptance of a shipment should be documented on a receiving report with copies routed to the accounting personnel<sup>37</sup>. Raw materials, component parts, and other goods should be counted, controlled from the time of receipt, and centralized. Access to the central area or storeroom should be restricted to authorized personnel. Authorization for all movement of inventory or supplies to and from off-site locations should be documented.



Periodically, inventory log reports should be compared to the file of receiving reports. Differences should be investigated. A journal entry should be prepared to record receiving reports for goods that have been received prior to the end of an accounting period but have not yet been matched with suppliers' invoices. Accounts payable subsidiary records should be periodically reconciled to suppliers' records by comparison with suppliers' statements. The reconciliations and the results of any investigation of differences should be reviewed and approved by a responsible official.

Physical counts of all types of inventory, such as supplies and small tools, should periodically occur by someone with custody over inventory. These counts should be reconciled to the inventory records and general ledger. Instructions to sponsor's personnel concerning the physical inventory should be written and include:

- ✓ location, date, and beginning time of physical inventory
- ✓ number and job duties of persons who count inventory
- ✓ designated inventory "area"
- ✓ detailed directions on completing inventory sheets (lbs., gal., pallets, colors, boxes, bags, manufacturer) to expedite the subsequent reconciliation process
- ✓ identification of damaged or obsolete inventory and scrap
- ✓ accumulation of appropriate cut-off information

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<sup>37</sup> Services that are received should also be inspected or reviewed by a designated individual to determine that the work meets specifications in the purchase order or contract.

## b. Property, Plant, and Equipment



**Policy VI.4- A property management system must be established and maintained for the utilization and disposition of property acquired in whole or part with Federal funds. All equipment purchases must be approved by ALDOT.**

Property, plant, and equipment are generally categorized by the following broad asset types:

- ✓ Land
- ✓ Buildings and production facilities
  - Machinery and equipment
  - Furniture, fixtures, and office equipment
  - Leasehold improvements
  - Computer equipment, including purchased software
  - Tools
- ✓ Property subject to depletion, including oil wells, mines, and timber
  - Construction in progress
- ✓ Automobiles and transportation equipment
  - Equipment leased to others

Before purchasing property, plant or equipment, sponsors are encouraged to establish a capital budget. The decision to purchase a capital asset should be informed by current year budgets, projected benefits and costs of the addition, and analysis of the lease versus purchase option. Further, careful consideration should be given to whether the item is eligible for Federal and state funding. Approved equipment acquisitions are published on approved lists of items meeting FAA plans and specifications. However, the fact that a piece of equipment is not on an approved list does not necessarily make the equipment ineligible or not acceptable<sup>38</sup>. For such equipment, the sponsor will need to establish, to FAA's satisfaction, that the equipment does in fact meet standards and specifications<sup>39</sup>. At the time of acquisition, all assets should have been identified, tagged, and entered into the detailed fixed asset ledger. Tags placed in visible areas provide a clear method of tracing the asset to the fixed asset ledger.



On a periodic basis, the detailed fixed asset ledger should be reconciled with the general ledger for asset cost and accumulated depreciation, if applicable. Any differences disclosed by the reconciliation should be investigated and resolved. Moreover, the physical existence of capital assets should be verified and reconciled to the fixed asset records by taking a physical inventory of all capital assets, ensuring completeness and accuracy of the sponsor's records.

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<sup>38</sup> State-of-the-art additional equipment features may be eligible for participation if approved by the Office of Airport Safety and Standards (AAS) and justified by the airport sponsor. In no case can these added features (other than state-of-the-art ones) result in the elimination of competitive bidding by specifying a design limited exclusively to one manufacturer.

<sup>39</sup> If the sponsor elects to install equipment which has not been approved by FAA and cannot meet standards at the time of commissioning, then the sponsor must take whatever steps necessary to replace the equipment or the appropriate costs will be disallowed. Some sponsors in the past have altered or required features not contained in the advisory circulars items such as airfield lighting, aircraft rescue, and firefighting equipment. Sponsors should be advised that, if not approved by FAA in advance, these alterations could jeopardize FAA's ability to fund the purchases through AIP.

Equipment no longer needed for airport purposes may be sold or retained by the sponsor. However, disposal of capital assets should occur only after proper authorization has been given. Control over the disposition of property should be maintained to preserve the accuracy of the records, ensure that assets are safeguarded, avoid improper disposal, and ensure the best possible terms for disposal are received. The following procedures should apply to the retirement and disposal of organization assets:

- ✓ No item of property, plant, and equipment should be removed from the sponsor's property without a properly approved disposal form
- ✓ A disposal form should be completed for all disposals
- ✓ The disposal form should be reviewed and approved by a knowledgeable employee not directly responsible for the asset
- ✓ The Federal share of the current fair market value must be deducted from the grant amount or reimbursed to FAA.

When property is retired, the cost should be removed from the appropriate asset account. A sponsor rarely acquires equipment expressly to implement a grant. However, if a sponsor does, an inventory of all equipment with a current per unit fair market value in excess of \$5,000, acquired with Federal funds and used to carry out the grant, must be submitted as part of the closeout package.

Repair expense should be distinguished from expenditures for improvements, additions, renovations, alterations, and replacements. Expenditures are repair expenses if they do not materially add to the value of the property or prolong its useful life. Repair costs that increase the value of property, prolong its life, or adapt it to a new or different use are capital expenditures. If the life of the asset has been significantly extended, the remaining original cost and the repair cost should be depreciated over the new life.



#### ***What are examples of a repair expense?***

- ✓ *Replacing loose or damaged shingles*
- ✓ *Replacing broken glass*
- ✓ *Painting and decorating a showroom*
- ✓ *Resurfacing a parking lot*
- ✓ *Making temporary repairs to last less than one year*
- ✓ *Making minor repairs to fully depreciated assets*

#### ***What are examples of repair expenditures that are capital expenditures?***

- ✓ *Replacing pavement surfaces*
- ✓ *Replacing a roof on airport hanger*
- ✓ *Reconditioning machinery, thereby extending its life*
- ✓ *Replacing a truck's engine*
- ✓ *Installing a new heating system*
- ✓ *Land improvements that depreciate over time (e.g., parking lots)*

- ✓ *Structural changes or alterations to buildings, which become a part of a building and increase its life or value.*
- ✓ *Significant improvements to property leased by the organization, improvements that add value to the leasehold (e.g., permanent office partitions)*

#### 4. Close-Out Procedures



**Policy VI.5- All appropriate actions required at the completion of the AIP project should be carried out in cooperation with ALDOT’s Bureau of Aeronautics and properly documented.**

At the completion of an airport improvement project, the grant agreement must be closed-out in accordance with state and federal requirements. It is important that all parties involved fulfill these requirements promptly so that unnecessary delays in closing a grant can be avoided. The closeout process involves examining three areas to ensure that the required steps have been taken or conditions met:

- ✓ Project work completion
- ✓ Fulfillment of administrative requirements
- ✓ Completion of financial requirements

As a first order of business, a final inspection should be conducted. This activity ensures that the contractor has performed all of the duties required by the contract and to the necessary specifications. Reasonable accommodations should be made to ensure a state representative can attend the final inspection. Once a meeting date has been established, ALDOT should be notified. Only once the work items have been satisfactorily completed, should retainage held for the contractor’s work be released (see Section VI.2 for more details).

The second step in the closeout process involves resolving all outstanding administrative matters and submitting the necessary paperwork to the FAA. For example, if a grant amendment is necessary to complete a project, it should be completed based on consensus reached among the airport sponsor, consultant, and contractor. Federal and state funds can only be dispersed up to the amount listed in the federal and state grant agreements. Other administrative actions include generating the “Statement and Distribution of Project Cost” that should reflect the project listing date, payee’s name, check numbers, and check amounts. In the event of cost overruns, a letter of request must be submitted<sup>40</sup>. All subsequent amendments from the FAA should be sent to ALDOT. Further, FAA Form SF-271, accompanied by pictures of the completed project, should be included in the close-out packet.

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<sup>40</sup> After the project is satisfactorily completed, the Statement and Distribution of Project Cost should be generated to determine the amount of overrun. Once this amount has been determined, a letter of request should be submitted to the FAA and ALDOT explaining the amount requested and the reason for the overrun on the project. Should the FAA grant an amendment, please forward the award letter to ALDOT so that amount can be added to the F-25 form and the additional funds dispersed (any grant amendment issued by ALDOT will automatically be added to the F-25 when the FAA amount is added).

For construction and non-construction projects, the final report shall be made on the form the sponsor normally uses to request payment by Treasury check reimbursement. Form SF-272 should be used with a letter of credit. The following information must be included, if applicable:

- ✓ Identification of any interest earned on federal funds (if applicable)
- ✓ Identification of credit for non-expendable personal property
- ✓ Identification of any disputed costs between the contractor and the sponsor<sup>41</sup>
- ✓ Excess payments which exceed the Federal share of the estimated allowable costs
- ✓ Upward or downward fiscal adjustments resulting from an audit, grant amendments, or resolution of disputed costs.

As a final measure, the final invoice (F-25) should be submitted and all backup documentation requesting release of the consultants should be submitted to ALDOT for payment. The airport sponsor's last invoice for a project being closed out should be marked "FINAL", indicating that this is the final payment expected for the project. The request will be processed, like a normal invoice, and a copy included in the close-out packet to serve as the final request for payment. Three copies of this information should be forwarded to ALDOT, who will then send it to the FAA Airports District Office<sup>42</sup>. Sponsors are encouraged to submit all close-out documents within 45 to 60 days of a project's completion or final acceptance.

When the closeout documentation is accepted by the FAA and the state, the Aeronautics Bureau will issue a final payment to the airport owner. This payment represents the complete financial settlement of the project. The final amount of the payment issued by ALDOT will not exceed the maximum obligations of the FAA and the state for the project, including any amendments that may have been approved. If the airport owner has requested a grant amendment from either the FAA or the state, no payment for the amount of the requested amendment will be paid before the request has been approved by the FAA and/or the state. The sponsor should retain a copy of the notice of the final financial settlement to indicate the grant is closed out. The final project review will be documented in a final project report. The report contains information necessary for any subsequent examination or evaluation of the project. The report will normally be prepared by the FAA project manager, and reviewed and approved by the Airports Division Manager. In addition to items specified above, special considerations and documentation may be required depending on the nature of the project (see Table V.1.1).

#### Table VI.4.1: **Special Considerations by Project Type**

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<sup>41</sup> Contractor should furnish the sponsor an estimate of the total amount allegedly due from the sponsor. The sponsor should only recognize the undisputed portion of the contractor's claim and include that amount in the final financial report. However, in the "Remarks" section, the sponsor should point out that there is a disputed amount that the contractor claims and which may be the subject of litigation.

<sup>42</sup>Four copies of the consultant's invoices should be sent as normal procedures dictate; copies of the request signed by ALDOT will be included in the packet when it is forwarded to the FAA.

	Planning	Land Acquisition	Building or Construction
<b>Evidence of Work Completed</b>	<ul style="list-style-type: none"> <li>✓ Elements identified in the program narrative completed</li> <li>✓ FAA has reviewed and accepted the final report<sup>43</sup></li> </ul>	<ul style="list-style-type: none"> <li>✓ Obtainment of satisfactory property interest in all parcels included in the grant description</li> <li>✓ Submission of adequate title evidence or appropriate certification for all the parcels</li> <li>✓ Documentation acceptance by FAA Airports Office</li> <li>✓ FAA Airports Office satisfied with compliance of Uniform Relocation Assistance and Real Property Acquisition.</li> </ul>	<ul style="list-style-type: none"> <li>✓ Equipment has been delivered, installed, and tested in accordance with approved plans<sup>44</sup></li> <li>✓ All construction work items in the grant description have been completed in accordance with the approved or certified plans</li> <li>✓ Final inspection completed</li> <li>✓ Sponsor certification<sup>45</sup></li> <li>✓ Inventory of all equipment with a fair market value in excess of \$5,000, acquired with Federal funds</li> </ul>
<b>Documents to Retain</b>	<ul style="list-style-type: none"> <li>✓ If applicable, letter outlining significant differences of opinion and FAA position</li> </ul>	<ul style="list-style-type: none"> <li>✓ Notice of final financial settlement</li> <li>✓ Property map</li> <li>✓ Deed</li> </ul>	<ul style="list-style-type: none"> <li>✓ Statement and Distribution of Project Costs</li> <li>✓ Outlay Report and Request for Reimbursement for Construction Programs</li> <li>✓ Final financial settlement</li> <li>✓ Property Accountability Report</li> </ul>

<sup>43</sup> Acceptance does not require that the FAA agree with the conclusions or recommendations in the plan.

<sup>44</sup> At the option of the FAA Airports Office, the FAA or the sponsor may make final inspection.

<sup>45</sup> Regions may close out portions of projects that involve combinations of the preceding four categories when each specific portion meets its requirements for closeout.

Table VI.5.1: **Project Management Tools**



Tool	Source	Description
Document Checklist- Appendix A	State RMS Manual, Appendix 1	A step-by-step guide for recordkeeping requirements for managing an AIP grant.
Construction Progress and Inspection Report	FAA, Form 5370-1	The information collected on this form documents the progress of construction work on a project funded with a Federal grant under the AIP.
AIP Final Inspection Report	FAA, Form 5100-17	A checklist used to verify safety and terms and conditions relating to the grant.
Obligations in Block Grant Suspension or Termination	FAA, Form 5100-38C	Form used to disclose obligations in block grant suspension or termination.
Review of Engineers' Indirect Cost Rates	Appendix L	A review program for CPA audits of consulting engineers' Indirect Cost rates.
Short Form Appraisal Instructions	FAA, Form 5100-112	These forms are "Summary Appraisal Reports" and may be used for appraisals of whole takings of improved one-to-four family residential property. <i>See above.</i>
Value Finding for Low Value Acquisition	FAA, Form 5100-113	<i>See above.</i>
Appraisal Review Contract	FAA, Form 5100-121	<i>See above.</i>
Sample Management Representation Letter	Appendix M	A letter written by management which attests to the accuracy of an audit and that all information has been disclosed.
Federal Aid Compliance Review	FAA, Form # Not Available	Form used to conduct spot check of appraisal, acquisition, and relocation assistance activities.
Airport Pavement Design	FAA, Form 5100-1	Form used to identify design criteria and desired pavement section; typically attached to the engineer's report.



Table VI.5.2: **Project Management References**

Authority	Citation	Description
Code of Federal Regulations (CFR)		
	Title 49 CFR Parts 18.41 and 18.50	Outlines final financial report standards for recipients of federal aid.
United States Code (USC)		
	49 USC 47107	Notes that project grant close-out approval conditioned on achievement of airport assurances.
	49 USC 47111	Discusses final payments made under project grant agreements
	49 USC 47524	Establishes airport noise and access restriction review program requirements.
Federal Aviation Regulations (FAR)		
	FAR 152, Appendix L	Discusses the property management system, which must be established and maintained for the utilization and disposition of property acquired in whole or part with Federal funds.

## Appendix A – Checklist





#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
<b>1</b>	<b>Create Record System</b>					
1.1	<i>Create an RMS for permanent files with numeric indexing</i>					
1.1.1		Code of standards of conduct				
1.1.2		Chart of accounts				
1.1.3		Organizational chart				
1.1.4		Job descriptions				
1.1.5		Systems documentation (e.g., narratives, flow charts, access logs, and user documentation relating to accounting and project management software)				
1.1.6		Financial records (e.g., entity-wide financial audits and internal control assessments)				
1.1.7		Organizational risk assessments				
1.1.8		Flow charts of key business processes				
1.1.9		Financial policy & procedure manual				
1.1.10		Certifications (e.g., drug-free workplace)				
1.1.11		Certificate of title				

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
1.2	<p><i>Develop a Project RMS with separate folders for each unique AIP project. At a minimum, each folder should be organized by: Administrative Matters (e.g., Grant Application &amp; Close-Out), Contracts &amp; Agreements (e.g., Letter of Board Consent), Procurement Records (e.g., Selection Committee files), General Financial Records (e.g., cost-estimates, budgets, etc.), Invoices (e.g., from sub-contractor), Payments (e.g., checks), and Project Management (e.g., Real Property, Inventory).</i></p>					
1.2.1		All applicable AIP project related files (grant agreements, amendments, change orders, etc.)				
1.3	<p><i>Determine the type of project: Planning, Land Acquisition, Building or Construction.</i></p>					

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
1.4	<i>Review "Project Specific Documentation Requirements" (see Table II.4.2) and ensure relevant documents will be filed in the Project RMS.</i>					
1.4.1		Feasibility study				
1.4.2		Environmental impact report				
1.4.3		Engineering plans				
1.4.4		Property description / map				
1.5	<i>Review "Record Retention Schedule" (see Table II.4.3) and ensure documents will not be destroyed prematurely.</i>					
1.6	<i>Review information technology controls</i>					
1.6.1		Outline of back-up procedures and verification				
1.6.2		Verification of system rights and privileges				
1.6.3		Accounting system audit trail verification				
1.7	<i>Obtain username and password for Aviation System Management (ASM) system.</i>					
<b>2</b>	<b>Receiving the AIP Grant</b>					

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
2.1	<i>Verify project concept is eligible (see Table III.1.2)</i>					
2.2	<i>Identify the amount and source of local matching</i>					
2.2.1		Board resolution				
2.2.2		Journal entry encumbering matching funds				
2.3	<i>Establish separate fund or bank account for project</i>					
2.3.1		Relevant accounts and code information				
2.4	<i>Review assurance statements and ensure compliance</i>					
2.5	<i>Submit pre-application to ALDOT</i>					
2.5.1		Director's decision letter				
2.5.2		Preapplication				
2.6	<i>Submit project application to ALDOT</i>					
2.6.1		Project application & supporting materials (narrative, sketch, budget)				
2.6.2		Funding agreement				
<b>3</b>	<b>Procuring Goods and Services</b>					

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
3.1	<i>Determine the types of services or goods required for the project.</i>					
3.2	<i>Determine scope of services, establish selection board, develop selection criteria, and apply selection procedures.</i>					
3.2.1		Request for qualifications				
3.3	<i>Determine all appropriate documents needed based on procurement approach (see Table IV.1.1)</i>					
3.3.1		Public advertisement				
3.3.2		Request for proposal				
3.3.3		Scoring criteria sheet				
3.3.4		"Qualifications Based Selection Process" documents				
3.3.5		Oral or written solicitations, if applicable				
3.3.6		Letter of request or justification, if applicable				
3.4	<i>Rank projects proposals, initiate discussions &amp; analyze cost, and conduct negotiations</i>					
3.4.1		Original proposals (e.g., description and scope of services)				

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
3.4.2		Notice to ALDOT				
3.4.3		Names of persons on selection committee				
3.4.4		Notes from interviews with proposers				
3.4.5		Request for qualifications				
3.4.6		General correspondence with proposer				
3.4.7		Cost analysis				
3.4.8		Audit certification of overhead rates				
3.4.9		Record of negotiations				
3.4.10		Final selection report				
3.5	<i>Select vendor</i>					
3.5.1		Notice to proceed (ALDOT)				
3.6	<i>Select most appropriate contract type given nature of project</i>					
3.6	<i>Incorporate relevant contract provisions (Table IV.3.3 &amp; 3.4) and execute contract</i>					
3.6.1		Original contract				
3.7	<i>Establish contract monitoring mechanism</i>					
<b>4</b>	<b>Invoices and Other Expense Claims</b>					
4.1	<i>Review elements of a valid expense claim (Policy V.1)</i>					

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
4.2	<i>Ensure all project related expense claims and vendor invoices are an allowable cost</i>					
4.2.1		Signed sub-consultant invoices with complete information (e.g., dates, description of services, bill rates, etc.)				
4.2.2		Supporting documentation accompanying all claims (e.g., sub consultants, appraisers, legal fees, advertisements, retainage invoices, etc.)				
4.2.3		Journal entry reflecting valid accounts payable liabilities				
4.2.4		Update % of completion workbook				
4.3	<b><i>Submit monthly invoice claim to ALDOT no later than the 10th of each month.</i></b>	<b>Note:</b> Only one claim reimbursement request per month is permitted unless a retainage request is being filed. No claims if federal/state funds have been disbursed				
4.3.1		Write FAA AIP # on all backup documentation				
4.3.2		Submit four (4) copies of the F-25 form & backup documentation				
4.3.3		Submit four (4) copies of all subconsultant invoices				

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
4.4	<i>Record accounts receivable journal entry</i>					
4.5	<i>Monitor reimbursement status in the Aviation System Management (ASM) database</i>					
4.6	<i>Receive check from ALDOT</i>					
4.7	<i>Pay vendors in a prompt fashion and record transaction in accounting system</i>					
4.7.1		Copies of checks				
4.7.2		Cancelled checks				
4.7.3		Bank reconciliations				
4.8	<i>Does the grant agreement require amendments?</i>					
4.8.1		Amendment justification				
4.8.2		ALDOT amendment request letter				
4.8.3		FAA letter awarding amendment				
4.8.4		Revised F-25 form				
4.9	<b>Force Account, if applicable.</b> (Note: force account costs must be approved by FAA in advance. FA costs are generally discouraged)					



#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
4.9.1		FAA approval letter authorizing the force account method.				
4.9.2		Recruit, retention, and sanction policies				
4.9.3		Job descriptions				
4.9.4		Compensation studies				
4.9.5		Performance evaluations				
4.9.6		W-2s				
4.9.7		Timesheets with original signatures				
4.9.8		Indirect Cost Allocation Plan- ICAP				
4.9.9		CPA verification of ICAP				
4.9.10		Verification that other minimum requirements and assurances have been met.				
<b>5</b>	<b>Project Management</b>					
5.1	<i>Is Program Income being generated?</i>					
5.1.1		Verification standards are being met and proper accounting is occurring				
5.2	<i>Determine the appropriate retainage threshold: 1) Federal grant- 10% held on engineers work; 2) State grant- 5% held on engineers work; or, 3) State matching grant 50/50 - 0% held on</i>					

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
	<i>engineers work.</i>					
5.2.1		Monitor retainage being withheld from contract and notify ALDOT of any errors in the holdback process.				
5.3	<i>Maintain control of project-related inventory and conduct periodic inventory counts</i>					
5.3.1		Inventory listing				
5.3.2		Physical count results				
5.3.3		Accounting reconciliation				
5.4	<i>Obtain approval to acquire equipment from FAA (force account)</i>					
5.4.1		FAA acknowledgement letter				
5.5	<i>Properly classify transaction as an addition to fixed assets or repair expense.</i>					
5.5	<i>Tag plant and equipment</i>					
5.5.1		Asset registry				
5.5.2		Asset disposal registry				
5.6	<i>Is project finished? Begin close-out procedures, prepare close-out packet, and resolve outstanding matters.</i>					

#	Activity / Description	Key Documents	Assigned to	Date Completed	Physical Location	Date Filed w/ ALDOT
5.6.1		Written correspondence, if any				
5.6.2		Close-out packet & final report				
5.6.3		If applicable, letter outlining significant differences of opinion and FAA position				
5.6.4		If applicable, property accountability report				
5.7	<i>Establish final inspection meeting date</i>					
5.7.1		Submit notice to ALDOT				
5.8	<i>Financial close-out</i>					
5.8.1		Statement and Distribution of Project Costs				
5.8.2		SF-270 or 271 with pictures of completed project				
5.8.3		Final invoice F-25				
5.8.4		Request release of engineers' retainage.				
5.9	<i>Deposit final payment</i>					
5.9.1		Notice of final financial settlement				

**Appendix B – Classification of Airport Financial Accounts**



**Source: Adapted from *Government Finance Officers Association Airport Accounts Guide (1992)***

Airports should use a four-number classification system:

- 1000 to 1999 - Asset Accounts
- 2000 to 2999 - Liability Accounts
- 3000 to 3999 - Revenue Accounts
- 4000 to 4999 - Expense Accounts

Each account used should have a four digit number.

### **Revenue Accounts**

Area (2 digits)

- 31 - Airfield
- 32 - Hangars & buildings
- 33 - Leased area sites
- 34 - Terminal area
- 35 - Revenue producing systems & services-management operated
- 36 - Revenue not otherwise classified

Sources (1 digit)

- 1 - Aviation
- 2 - Agencies serving aviation industry
- 3-4 - Commercial agencies
- 5 - Industrial agencies
- 6-7-8-9 - General

Kind (1 digit)

Each kind of revenue is detailed.

### **Expense Accounts:**

Area (2 digits)

- 41 - Airfield
- 42 - Hangars & buildings
- 43 - Leased area sites
- 44 - Terminal area
- 45 - Revenue producing system & services-management operation
- 46 - General maintenance & other activities
- 47-48 - General administration
- 49 - Interest

Activity (1 digit)

Many different airport activities are listed as expense accounts under the title "Classification of Accounts."

**Assets**

Cash, Receivables, and Inventories  
 1111 Cash  
 1112 Petty Cash Funds  
 1113 Cash with Fiscal Agents for Payment  
 on Bonds and Interest  
 1114 Cash Held for Capital Improvements  
 1120 Accounts Receivable  
 1120 Estimated Uncollectible Accounts  
 (Credit Account)  
 1141 Due from other Municipal Funds  
 1142 Appropriations Receivable from  
 General Fund  
 1150 Inventories of Materials and Supplies

Deferred Charges  
 1210 Prepaid Expense  
 1220 Other Deferred Charges

Temporary Investments  
 1210 Temporary Investments

Special Reserve Funds  
 1410 Cash  
 1420 Investments

Depreciation Fund  
 1510 Cash

Fixed Assets  
 Land and Improvements  
 1611 Land Devoted to Airport  
 1612 Land for Expansion  
 1620 Land Improvements  
 Buildings  
 1651 Hangars  
 1652 Terminal Buildings  
 1653 Other Buildings  
 Equipment  
 1660 Major Movable Equipment Airport  
 1680 Movable Equipment Management  
 Services

Utilities  
 1691 Power Supply System  
 1692 Water Supply System

Other  
 1710 Construction Work in Progress

Intangible Assets  
 1800 Intangible Assets

**Liabilities****Current Liabilities**

2111 Vouchers Payable  
 2121 Accrued Interest on Bonds Payable  
 2141 Matured Bonds and Interest Payable  
 2151 Rental Deposits and Guarantees  
 2181 Due to Other Municipal Funds  
 2191 Other Current and Accrued Liabilities

Bonds Outstanding and Other Long-Term Debt  
 2401 Revenue Bonds Outstanding  
 2402 General Obligation Bonds Outstanding  
 Issued for Airport Purposes  
 2409 Other Long-Term Debt

**Accumulated Depreciation**

2501 Accumulated Depreciation  
 Improvements  
 2502 Accumulated Depreciation Buildings  
 2503 Accumulated Depreciation Equipment,  
 Airport  
 2504 Accumulated Depreciation Equipment,  
 Management Services

**Government Grants and Other Aid**

2601 Federal Government Contributions  
 2602 Retirement of Federal Government  
 Contributions (Debit Account)  
 2603 Contributions of Other Governmental  
 Units  
 2604 Retirement of Other Contributions  
 (Debit Account)

**Capital Investment of Operating Municipality**

2701 From Retirement of Revenue Bonds  
 2702 From Retirement of General Obligation  
 Bonds from Airport Revenues  
 2703 From General Fund Appropriations for  
 Capital Improvements

**Reserves Provided from Un-appropriated Revenues**

2801 Reserve for Deferred Maintenance  
 2802 Reserve for Working Capital  
 2803 Reserve for Special Purposes

**Un-appropriated Revenue (Deficit)**

2900 Unappropriated Revenues (Deficit)  
 2901 General Fund Contribution for Current  
 Expenses

**Revenue Accounts**

*Area Source Kind*

3100 Airfield

Aviation Industry

- 3111 Flight Fees – Scheduled Airlines
- 3112 Flight Fees – Non-Scheduled Airlines
- 3113 Flight Fees – Itinerant Aircraft
- 3114 Flight Fees - Cargo
- 3116 Field Charges - Fixed Base Operators
- 3117 Aircraft Parking Charges Paved Area
- 3118 Aircraft Parking Charges Unpaved Area

Agencies Serving Aviation

- 3121 Fees - Aviation Fuel and Oil Supply
- 3122 Fees - Ground Handling Charges
- 3123 Fees - Cargo Handling Agencies
- 3124 Fees - Aircraft Maintenance Agencies

General

- 3181 Flight Fees - Military or Governmental

3200 Hangars and Buildings

Aviation Industry

- 3211 Rental of Hangars - Airlines
- 3212 Rental of Hangars – Fixed Base Operation
- 3213 Rental of Cargo Buildings
- 3219 Rental of Other Buildings

Agencies Serving Aviation Industry

- 3221 Rentals - Aircraft Service Agencies
- 3222 Rentals - Flight Kitchen Agencies
- 3223 Rentals - Fuel Storage Facilitated Commercial
- 3231 Rentals – Commercial Agencies Industrial
- 3251 Rentals - Industrial Agencies General
- 3281 Rentals - Private Dwellings
- 3282 Rentals - Federal Government

3300 Leased Sites Areas

Aviation Industry

- 3311 Rental of Site - Airlines
- 3312 Rental of Sites – Fixed Base Operators
- 3322 Rentals - Aviation Fuel Service Area Commercial Agencies
- 3331 Rentals - Drive-In Movies
- 3332 Rentals - Golf Driving Ranges
- 3333 Rentals - Hotel-Motel
- 3334 Rentals - Auto Service Station Industrial Agencies
- 3351 Rentals – Industrial Agencies General
- 3381 Rentals - Federal Government

3400 Terminal Building Area

Aviation Industry

3411 Rentals - Airlines

3412 Rentals - Fixed Base Operators

3413 Passenger Fees

3416 Fees - Public Announcement System

Agencies Serving Aviation Industry

3421 Rentals - Agencies Serving Aviation Industry

Commercial

3431 Rentals - Food and Liquor Service

3432 Rentals - Store Tenants

3433 Rentals - Office Tenants

3434 Rentals - Car Rental Agencies

3435 Rentals - Coin Operated Service

3436 Rentals - Auto Service Station

3437 Rentals - Amusement Areas

3438 Rentals - Banks

3439 Rentals - Other and Signals

3441 Fees - Auto Parking

3442 Fees - Observation

3443 Fees - Baggage Lockers

3444 Fees - Toilet-Roomette

3445 Fees - Advertising Media

3446 Fees - Ground Transportation Service

3447 Fees - Passenger Insurance

3448 Fees – Other

General

3461 Rentals - U.S. Government, Airmail

3462 Rentals - U.S. Government, Other

3500 Systems and Services (Mgmt. Operated)

General

3570 Sale of Electricity

3571 Sale of Water

3572 Sale of Steam

3573 Pipeline of Fuel Delivery Service

3576 Ramp Service

3577 Other Services

3579 Jobbing and Contract Work

3580 Sale of Aviation Gas and Fuel

3581 Sale of Other Material

3600 Revenue Not Otherwise Classified

General

3690 Commissions - Telephone

3691 Rental of Equipment

3692 Earnings of Investments and Deposits

3693 Salvage Sales

3694 Recoveries of Expenditures of Prior Years

3695 Fees or Commissions for Privileges and Permits – Not Otherwise Classified

**Expense Accounts**

*Area and Activity*

- 4100 Airfield
  - 410 Maintenance - Public Landing Area
  - 411 Maintenance - Field Lighting and Signals
  - 412 Maintenance -Service Roadways
  - 413 Maintenance -Aircraft Parking Area- Paved Area
  - 415 Maintenance - Other Airfield
  - 418 Provision for Deferred Maintenance
  - 419 Depreciation of Airfield Improvements
- 4200 Hangars and Other Building Areas
  - 420 Maintenance – Building Structures
  - 421 Maintenance-Permanent Fixtures
  - 422 Maintenance-Hangar Area Roads
  - 425 Maintenance-Other
  - 427 Maintenance-Parking Lot Expense
  - 428 Janitorial and Other Operating Expenses
  - 429 Depreciation of Hangars and Buildings
- 4300 Leased Site Areas
  - 430 Maintenance-Leased Site Areas
  - 439 Depreciation of Improvements
- 4400 Terminal Building Area
  - 441 Maintenance-Building Structures
  - 442 Maintenance-Permanent Fixtures
  - 443 Maintenance-Terminal Area Roads
  - 444 Maintenance-Terminal Area Grounds
  - 445 Maintenance-Other
  - 446 Janitorial, Cleaning and Other Operating Expense
  - 447 Operation-Parking Lot
  - 448 Maintenance-Parking Lot
  - 449 Depreciation of Terminal Building and Improvements
- 4500 Revenue-Producing Systems and Service (Management Operated)
  - 450 Operation and Maintenance- Aircraft Field Storage Area
  - 451 Operation and Maintenance of Electric Distribution System (Outside of Buildings)
  - 452 Operation and Maintenance of Water Distribution System
  - 453 Operation and Maintenance of Parking Lots
  - 454 Operation and Maintenance of Other Systems
  - 455 Operation-Skycap Service
  - 456 Operation-Other Services
  - 457 Sales Service
  - 458 Operating Department Administrative Expense
- 459 Depreciation-Revenue Producing Systems
- 4600 General Maintenance and Other Activities
  - 460 Maintenance Department General Administrative Expense
  - 461 Maintenance-Common Use Road System
  - 462 Maintenance-Storm and Sanitary Sewer System Mobile Equipment
  - 464 (a) Maintenance of Equipment
  - 465 (b) Operation of Equipment
  - 466 (c) Depreciation of Equipment
  - 467 Police and Security
  - 468 Fire Protection
  - 469 Other General Activities
- 4700 General Administration
  - 470 Finance Department Expense
  - 471 General Administrative Expense
  - 476 Advertising
  - 477 Office Supplies and Services
  - 478 Postage
  - 479 Fuel
  - 480 Professional Services
  - 481 Allowance for Bad Debts
  - 482 Real Estate Taxes; or Payments in Lieu of Taxes
  - 483 Insurance
  - 484 Telephone Service
  - 485 Other Utilities
  - 487 Employee Benefits
    - (a) Pension Expense
    - (b) Employer's Share of Social Security
    - (c) Vacation, Holiday, and Sick Leave
  - 488 Depreciation on General Administrative Equipment
  - 489 Administrative Expense not Otherwise Classified
- 4900 Interest
  - 4910 Interest on Debt
  - 4920 Amortization of Debt Expense



## Description of Accounts

### Asset Account

#	Account	Description
1111	Cash	This account shall include all funds in banks available for use on demand, deposits in transit, and all verified funds in the custody of officers and employees of the airport.
1112	Petty Cash Funds	Charge to this account all amounts held by employees as change funds, working funds, or expense <i>advances</i> in the nature of <i>revolving</i> funds, from which specific types of expenditures are authorized.
1113	Cash with Fiscal Agents for Payments of Bonds and Interest	Charge to this account the amounts deposited with fiscal agents, for payment of mature bonds and interest due. Credit amounts disbursed by the agents.
1114	Cash for Capital Improvements	Charge to this account the proceeds of bonds issued for capital improvements, transfers from the municipal bond fund, or contributions from the General Fund for capital improvements.
1120	Accounts Receivable	Charge to this account all amounts owing to the airport upon accounts with companies and individuals.
1120R	Estimated Uncollectible Accounts (Credit Account)	Credit to this account the amount provided through periodic charge to Account. 481 Allowance for Bad Debts, to <i>cover</i> estimated losses on Accounts Receivable.
1141	Due from Other Municipal Funds	Charge to this account the amounts receivable from other funds of operating municipality.
1142	Appropriations Receivable from the General Fund	Charge to this account the amounts appropriated in the General Fund budget for the expected deficit of the airport or for capital improvements. Credit the account for cash transfers or unappropriated amounts.
1150	Inventories	Charge to this account the cost (including transportation) of all materials and supplies acquired for the Company, whether intended to be consumed in construction or in the maintenance or to be sold. A perpetual inventory of materials and supplies shall be maintained showing the unit cost and quantity on hand, and verified by actual count at least annually.  Note: In case the General Fund includes both estimated revenues and appropriations in full for the airport operations, this amount can be used to record all the transactions with the General Fund. The account would be debited with the new amount receivable from the General Fund, per the budget (and General Fund contributions credited). Revenues transmitted to the General Fund for account of the airport would be charged. The balance at the end of the year would be credited or debited to the General Fund Contributions account.
1210	Prepaid Expenses	Charge to this account the amount of prepayments made for taxes, insurance, rents, and the like.
1220	Other Deferred Charges	Charge to this account the amount of all unadjusted charges not provided for elsewhere, such as debit balances in suspense that cannot be cleared until additional information has been received, deposits for use of gas and oil connection with accidents and casualties, etc.
1310	Temporary Investments	Charge to this account the cost of bonds, notes, and other evidences of indebtedness acquired with excess cash balances. Do not include investments from special reserve funds.
1410	Special Reserve Funds-Cash	
1420	Special Reserve Funds-Investments	Charge to Accounts 1410 and 1420 restricted funds set aside for special reserves required by bond indentures, for deferred maintenance, and for

		other special purposes; excluding amounts chargeable to Account 1114 Cash for Capital Improvements.
<b>1510</b>	Depreciation Fund-Cash	Charge to this account transfers to a separate bank account of the amount of the provision for depreciation earned during the year. Credit to this account amounts applied to the payment of principal of revenue or general obligation bonds. Credit to this account amounts used for capital improvements. The balance will represent the balance of the depreciation cash available for allocation by the responsible bond redemption or capital improvements. Note: It is not intended that this fund should duplicate special funds required by bond indentures.
<b>1611-1612</b>	Land	Charge hereto the cost of all land acquired by the airport or the estimated value of land donated to it at the time of acquisition. The cost of the land includes, when assumed or paid by the airport, the purchase price, purchase commission, legal fees, liens assumed, title search and guaranty, notary and recording fees, and taxes assumed at date of purchase. Charges will be made to Account 1611 for land acquired for immediate use, and to Account 1612 for land acquired for the future expansion of operations.
<b>1620</b>	Land Improvements	<p>Charge to this account the cost of improvements to and construction on the land or in water areas devoted to airplane operations. The cost includes all fixtures and appurtenances attached to and forming a permanent part of the airfield. Subsidiary accounts should be established for:</p> <p><i>Reclamation and Improvement</i> Charge to this account the cost of clearing timber and brush, draining, filling, leveling, and grading of the areas to be used in airport landplane operations.</p> <p><i>Runways, Taxiways, Aprons, and Piers</i> Charge to this account the construction cost of the runways, taxiways, and aprons of the landplane port; and piers, docks, and floats of the seaplane port.</p> <p><i>Roads, Walks, Fences, and Landscaping</i> Charge to this account the cost of construction of walks, roadways, retaining walls, fences, and the cost of landscaping within the airfield area.</p> <p><i>Landing Field Lighting, Marking, and Communications</i> Charge to this account the cost of airport and airway lighting equipment of all types and classes used at the airport; marking of the landing fields; and airport communications apparatus, together with the installation of fixtures and appurtenances comprising such airport communication equipment for land and seaplanes.</p> <p><i>Observation Platform</i> Charge to this account the cost of construction of the landplane observation platform and the necessary fixtures and appurtenances.</p> <p><i>Parking Area-Airplane</i> Charge to this account the cost of construction of the airplane parking areas and the necessary fixtures and appurtenances.</p>
<b>1651</b>	Buildings-Hangars	Charge to this account the cost of construction of the hangars and all fixtures and appurtenances attached to and forming a permanent part thereof.
<b>1652</b>	Buildings-Administration and Terminal Buildings	Charge to this account the cost of construction of the administrative and terminal buildings, and all fixtures and appurtenances attached to and forming a permanent part thereof.
<b>1653</b>	Buildings-Other	Charge to this account the cost of construction of other buildings and all fixtures and appurtenances attached to and forming a permanent part thereof.

<b>1660</b>	Major Movable Equipment-Airport	Charge to this account the cost of equipment of all types and classes, including miscellaneous equipment incidental to airport operations. This account should be subdivided to meet the needs of the airport management.
<b>1680</b>	Major Movable Equipment-Management Systems and Services	Charge to this account the cost of all types and classes of equipment used in sales and services rendered by the airport management, such as restaurant and food equipment, gasoline, and all distribution equipment, service shop tools and equipment, water distribution system, etc. This account should be subdivided to meet the needs of airport management.
<b>1691-1692</b>	Utilities	The accounts in this group are designed to record the cost of construction of the utility supply systems, such as power and water, together with original installation of fixtures and appurtenances comprising such systems.
<b>1710</b>	Construction Work in Progress	Charge to this account the cost of construction work in progress pending completion of the projects.
<b>1800</b>	Intangible Assets	Charge to this account the cost or nominal value of the intangible assets acquired.

## Liability Accounts

#	Account	Description
2111	Vouchers Payable	Credit to this account vouchers payable to general creditors.
2121	Accrued Interest on Bonds Payable	Credit to this account at the close of each month the interest accrued during the month on the bonded debt of the airport. When such interest is paid, charge the amount to account 1113-Cash with Fiscal Agents for Matured Bonds and Interest.
2141	Matured Bonds and Interest Payable	The charges and credits to this account at the contra to Account 1113-Cash with Fiscal Agents for the Payment of Matured Bonds and Interest.
2151	Rental Deposits and Guarantees	Credit to this account the amounts received as security of deposit on a rental contract, or as guarantee for performance under contract agreement.
2181	Due Other Municipal Funds	Credit to this account amounts payable by the airport to other municipal funds. The records supporting entries in this account shall be kept in such manner that the airport can provide complete information concerning the liability to each fund.
2191	Other Current and Accrued Liabilities	Credit to this account all current and accrued liabilities not included in Accounts 2111 and 2121.
2401	Revenue Bonds Outstanding	Credit to this account the par value of all bonds issued or assumed by the airport that are payable from the revenues of the airport.
2402	General Obligation Bonds Issued for Airport Purposes Outstanding	Credit to this account the par value of all general obligation bonds that have been issued for airport purposes, or which have been assumed by the airport.
2409	Other Long-Term Debt	Credit to this account the par value of Other Long-Term Debt as equipment obligations, notes payable, and unsecured certificates of indebtedness.
2501 to 2504	Accumulated Depreciation	There should be credited to these accounts as are provided from time to time to cover the depreciation of, (1) the physical property of the airport, either temporary or permanent; and (2) the property and equipment used by the management in its sales and service activities. Depreciation should be calculated on the book value of assets acquired from Federal and other contributions, as well as on the assets financed by the operating municipality. Amounts provided for depreciation should be sufficient to cover those ordinary losses occurring in physical property from wear and tear not covered by current repairs; those extraordinary losses sustained from obsolescence due either to age, physical change, or from new inventions; and those losses that result from destruction from extraordinary casualties to which the principles of insurance are not applicable. There should be charged to these accounts, the original money cost of the whole or any major part of structure or equipment used in airport operations, less salvage when retired from service. The amount originally entered or contained in the charges to any capital account in respect of such capital going out of service shall be credited to such capital account. The loss or gain on the assets retired should not be charged to the reserve, but should be charged to un-appropriated revenues.
2601	Federal Government Contributions	Credit to this account the contributions received from the federal government.
2602	Retirement of Federal Government Contributions (Debit Account)	Charge to this account the amount of depreciation provided on assets acquired from Federal contributions or donations. (Refer to Account 2901 for offsetting credit.)
2603	Contributions of Other Governmental	Credit to this account the contributions received from others for the acquisition or construction of fixed assets. Fixed assets which are donated should be recorded on the books on the basis of "prudent investment." Do

	Units	not credit donations received for current expenses. They will be considered revenue of the airport.
<b>2604</b>	Retirement of Other Contributions	Charge to this account the amount of depreciation provided on assets acquired from contributions of other governmental units.
<b>2701</b>	Capital Investment of Operating Municipality from Retirement of Revenue Bonds from Airport Revenues	Credit to this account the revenue bonds retired from the assets of the airport fund.
<b>2703</b>	Capital Investment of Operating Municipality from General Fund	Appropriations for Capital Improvements. Credit to this account the General Fund Appropriations for the improvement of the airport. Do not credit any amounts provided for current expenses, since they will be considered as revenues of the airport.
<b>2801</b>	Reserve for Deferred Maintenance	This account shall not be used unless the funds required to pay the maintenance work are available and have been deposited in a special bank account to be used for this purpose. Credit to this account the contra to the amounts charged to operations to provide for probable future major repairs. Debit to this account the cost of the repairs for which the reserve was established.
<b>2802</b>	Reserve for Working Capital	Credit to this account amounts set aside by the airport board from unappropriated revenues for working capital, such as provision for purchases of materials for inventory, for accounts receivable uncollected, and similar items.
<b>2803</b>	Reserve for Special Purposes (Per Contra)	The purpose of this account is to record the amount of cash set aside for special purposes such as monies segregated from operating cash to meet bond indenture requirements. The credit to this account will be contra to a debit to the Account 2900-Unappropriated Revenues (Deficit).
<b>2900</b>	Unappropriated Revenues (Deficit)	<ul style="list-style-type: none"> <li>✓ Credit to this account the excess of revenues over expenses for the year.</li> <li>✓ Charge to this account the excess of expenses over revenues for the year.</li> <li>✓ Charge or credit to this account the loss or gain on retirement of fixed assets.</li> <li>✓ Credit to this account the amounts charged to Account 2602-Retirement of Federal Contributions, and amounts charged to Account 2604.</li> <li>✓ Charge to this account the amounts allocated for reserves for special purposes and reserve for working capital.</li> <li>✓ Charge to this account the amounts allocated for retirement of debt.</li> </ul>
<b>2901</b>	General Fund Contributions for Current Expenses	<ul style="list-style-type: none"> <li>✓ Credit to this account amounts contributed by the General Fund to cover deficits in operations.</li> <li>✓ Charge to this account amounts returned to the General Fund.</li> </ul>

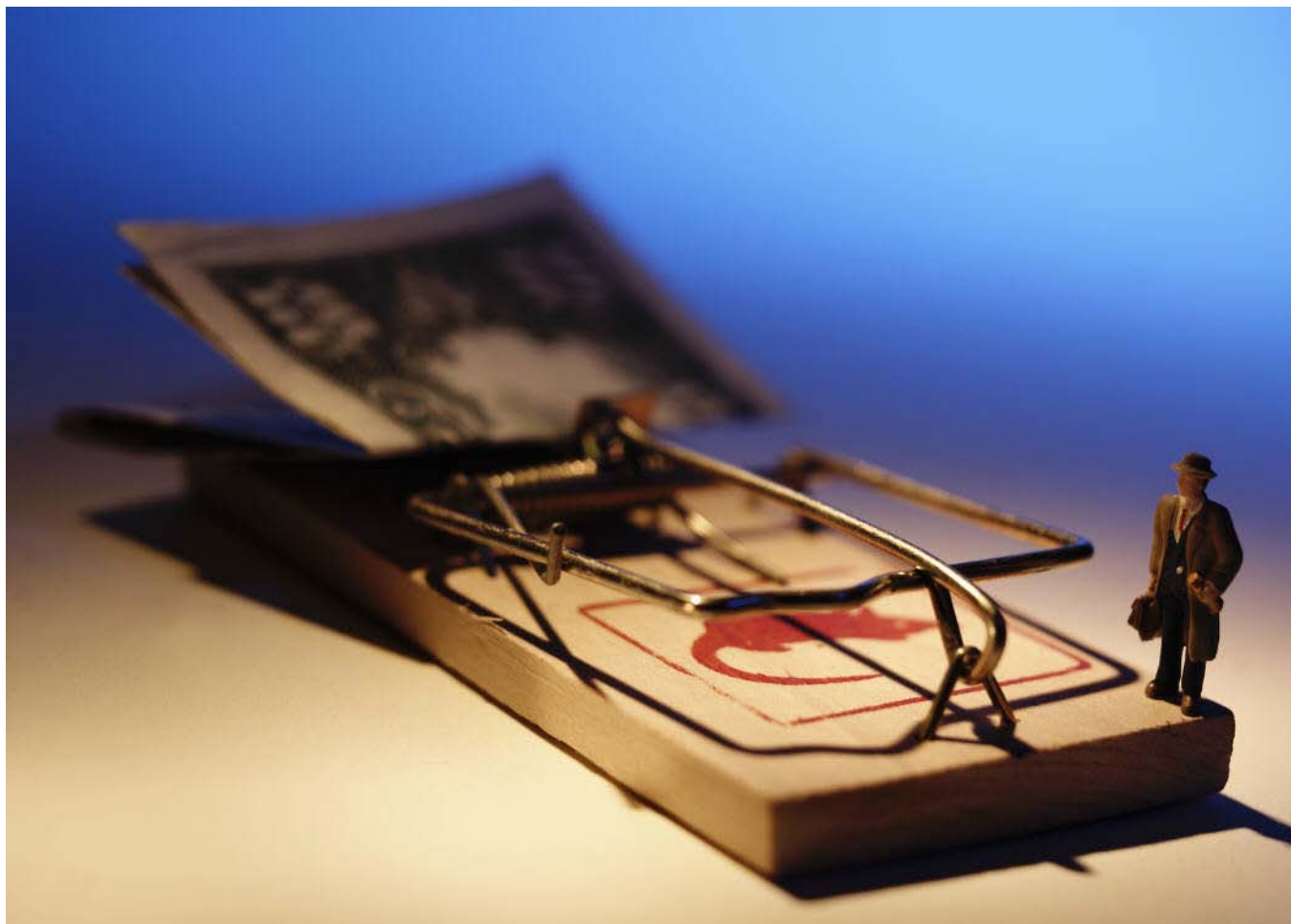
## Revenue Accounts

#	Account	Description
<b>3100</b>	Accounts-Airfield	<p>Credit to the 3100 Accounts the revenues arising from the use of the airfield. The airfield will include field roadways, ramps, peripheral area, and seaplane port.</p> <p><i>Aviation Industry</i></p> <p>3111 Flight Fees-Scheduled Airlines            3112 Flight Fees-Unscheduled Airlines            3113 Flight Fees-Itinerant Aircraft            3114 Flight Fees-Cargo</p> <p>Credit to these accounts the amounts earned from the flights of the types shown, from all agencies considered part of the aviation industry</p> <p>3116 Field Charges-Fixed Base Operators</p> <p>Credit to this account the amounts charged fixed base operators for use of the airfield.</p> <p>3117 Aircraft Parking Charges-Paved Area            3118 Aircraft Parking Charges-Unpaved Area</p> <p>Credit to these accounts the charges for temporary parking of aircraft in the parking areas.</p> <p><i>Agencies Serving Aviation Industry</i></p> <p>3121 Fees-Aviation Fuel and Oil Supply            3122 Fees-Ground Handling Agencies            3123 Fees-Cargo Handling Agencies            3124 Fees-Aircraft Maintenance Agencies</p> <p>Credit these accounts with the fees from the use of the airfield by companies servicing the aviation industry. Such companies are those providing a <i>service</i> for aircraft operators or users. Rentals for leased site areas will not be credited to these accounts.</p> <p><i>General</i></p> <p>3181 Flight Fees-Military or <i>Governmental</i></p> <p>Credit this account with flight fees charged to the Federal <i>Government</i>.</p>
<b>3200</b>	Accounts-Hangars and Buildings	<p>Credit to the 3200 Accounts the <i>revenues received</i> from the rental of space in hangars or in buildings other than the terminal building. Agencies <i>servicing</i> the <i>Aviation</i> Industry are those that, for the major part, deal with agencies considered part of the Aviation Industry. Commercial agencies are those dealing with the general public at the airport. Industrial agencies are those manufacturing or assembling products or providing <i>services</i>.</p>
<b>3300</b>	Accounts-Leased Area Sites	<p>Credit to the 3300 Accounts the rentals from the lease of sites for the erection of buildings or other purposes.</p>
<b>3400</b>	Accounts-Terminal Area	<p>Credit to the 3400 Accounts the <i>revenues</i> arising from the lease of space or the granting of concessions in the terminal building or area.</p>
<b>3500</b>	Accounts-Systems and Services (Management Operated)	<p>Credit to the 3500 Accounts the <i>revenues</i> arising from the special operations of the management. These operations would include sales activities, operation of <i>services</i> to the public, operation of distribution systems for public utilities such as electricity and steam, and jobbing and contract work performed for tenants. In case of electricity, the charge would include a return for the operation of the distribution system, as well as one for the cost of the electricity within the airport.</p>
<b>3600</b>	Accounts-Revenue Other	<p>Charge to the 3600 Accounts <i>revenues</i> not otherwise classified.</p>

## Expense Accounts

#	Account	Description
<b>4100</b>	Accounts-Airfield	Credit to the 4100 Accounts all specific expenses of the airfield, including time of working force, materials, <i>services</i> , etc. Expenses that cannot be charged directly to an airfield activity will be charged to the administrative accounts separately provided. For the purpose of this classification, the airfield will be considered to include the landing area, approach zones, ramps, aprons, <i>service</i> roadways, runway lights, fences, etc. It will include all areas leased to tenants and aircraft parking areas for which a fee is charged.
<b>4200</b>	Accounts-Hangars and Other Buildings Area	Charge to the 4200 Accounts all specific expenses for the operation and maintenance of the hangars and other buildings. The hangar and building area will include the hangars and buildings, access roadways, improvements to land and landscaping, and employee parking areas.
<b>4300</b>	Accounts-Leased Sites Area	Charge to the 4300 Accounts all specific expenses for the maintenance of this area. The leased site areas will include the leased land, access roadways, improvements to land and landscaping, and employee parking area.
<b>4400</b>	Accounts-Terminal Building Area	Charge to 4400 Accounts all specific expenses for the maintenance and operation of the Terminal Building Area. The Terminal Building Area will include the building, the access roadways, improvements to the land and landscaping, aircraft piers, concession improvements, observation facilities, and employee tenant parking lots.
<b>4500</b>	Accounts-Revenue-producing Systems and Services (Management Operated)	Charge to the 4500 Accounts all specific expenses for the operation and maintenance of the revenue-producing activities of all airport management. The systems and services included in this section are those operated solely to serve the airport's users. This section will also include others obligatory for the airport's operation but producing substantial revenue. An example of the latter is the water system which is necessary for airport operation but the tenants are also charged for it.
<b>4600</b>	Accounts-General Maintenance, Protection, and Other Activities	Charge to the 4600 Accounts the specific expense of the activities classified in this section. It is intended to provide for all activities not included in other sections of the accounts. The payroll expenses of the maintenance force will be charged by direct payroll distribution to the various activity accounts specified in other sections of this classification. Materials and services will also be charged to the extent possible; otherwise they will be charged to the Maintenance Department-General Administrative Expense.
<b>4700</b>	Accounts-General Administration	
<b>4800</b>	Accounts-General Administration	Charge to the 4700-4800 Accounts the specific expenses of the activities classified in this section. It is intended to include all expenses not otherwise provided for.
<b>4900</b>	Accounts-Interest and Amortization	Charge to the 4900 Accounts the interest accrued on bonds, notes, and other obligations; and the amortization of discount and expense of bond and note issues. Do not include payments of serial bond installments or payments to a sinking fund for term bonds.

## Appendix C – Recent USDOT OIG Findings over Airport Improvement Program

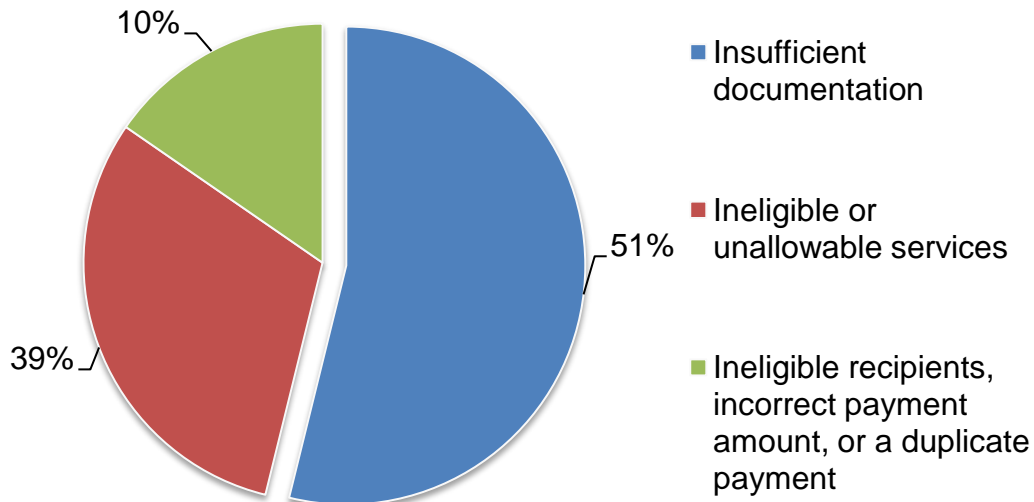




## Summary of Key Findings

In this OIG report on improper payments relating to the Airport Improvement Program (AIP), auditors found that over \$13.1 million of FY2008 AIP payments made to 17 of 26 AIP grantees sampled were improper. This constituted over 5% of the \$251 million dollars awarded to this sample group. As reflected in Figure 1, the most common audit finding was the failure to properly document work performed<sup>1</sup>.

**Figure 1:** Type of Audit Finding



## Case Study of Specific Violations

The OIG's findings were developed using statistical sampling techniques for transactions occurring in a specific year. Only a select number of entities were incorporated into their review procedures and no entities from the State of Alabama were reviewed. As such, we cannot assume that similar violations will not occur within Alabama. In fact, the OIG estimated that if the 5% improper payment rate was applied to all AIP grants awarded in the United States, an estimated total of \$161 million of fiscal year payments would be improper in nature. Table 1 highlights specific compliance violations across the country.

<sup>1</sup> Other findings included failure to perform an adequate cost or price analysis to determine the price reasonableness of an AIP funded, \$124.8 million contract award.

**Table 1:** Illustrative Example of Audit Findings of AIP Recipients

Type of Finding	Entity	Observation	Criteria
<b>Inadequate Documentation</b>	Panama City-Bay County Airport	Failure to provide documentation demonstrating over \$4 million dollars in temporary pollution and erosion control met FAA and contract requirements.	Under FAA's AIP regulations, grantees are required to perform and document daily inspections and tests to ensure that all work conforms to the project's technical specifications.
<b>Inadequate Documentation</b>	City of Santa Barbara	Unable to provide the OIG engineer inspection records to support claims for pipe drain installations (e.g., length of pipe, % of work complete, quality, or quantity of work completed, etc.)	FAA requires grantees to retain such records and a project engineer to verify that all construction invoices billed to a grantee reflect the actual work completed to date.
<b>Ineligible Services</b>	Memphis-Shelby County Airport Authority	The authority paid more than \$680,000 in performance bonuses and billed more than \$264,000 in indirect costs without an approved Cost Allocation Plan.	Performance bonuses are prohibited and the Cost Allocation Plan must be approved before incurring costs.
<b>Ineligible Services</b>	City of Santa Barbara	Billed for both eligible and ineligible services, including a \$534,000 hangar that was not eligible under the grant.	FAA AIP policy prohibits billing for expenses that are ineligible based on the terms of grant agreement.
<b>Ineligible Recipients</b>	Commonwealth Ports Authority	Awarded a \$1.3 non-competitive contract prior to receiving FAA's official approval.	Procurement by non-competitive proposal must be approved in advance of award.
<b>Incorrect Amounts</b>	City of Santa Barbara	Received AIP funds before work was completed and 5 months before vendors paid.	FAA AIP policy prohibits grantees from billing for goods or services that exceed costs incurred to date.
<b>Duplicate Payments</b>	City of Farmington	Requested and received an electronic payment of \$434,000 and one week later requested and received a manual payment for the same amount.	Sufficient internal controls must exist to prevent grantees from requesting and receiving both manual and electronic reimbursements for the same expenses.

## Recommendations

After identifying the problems specified previously, the OIG offered a series of corrective action steps that needed to be undertaken by the Airport Operation sites found in violation of particular rules and regulations. Alabama sponsors are encouraged to ensure their systems meet each of the following recommendations:

- **Conduct timely review and approval of supporting documentation-** To significantly reduce and detect improper payments, a timely review and approval of supporting documents should occur by the airport sponsor for each payment request.
- **Capture additional information to support each claim for reimbursement –** sponsors should include payment specific information such as a summary of the work performed, vendor names, amounts billed, date of services, or the Federal share of costs.
- **Evaluate the reasonableness of costs in final project review –** Establish a system to determine if the final contract price for the services rendered were fair and reasonable. If requested, within 30 days, provide a report to the state and appropriate federal authority detailing the results of this review and planned actions.
- **Review AIP handbook and attend training –** Ensure project managers have a clear understanding of their responsibilities in verifying that contract costs are reasonable. Attend training to reinforce these standards. Dedicate specific attention to the “bid improprieties” section.
- **Re-enforce guidelines with project staff -** Re-enforce FAA guidance to AIP grantees for preparing "construction" payment requests, including supporting documentation to be maintained for both the quantity and quality of the work/materials reimbursed under AIP.
- **Cost recovery plan –** Establish a system to recover improper payments identified by the project manager or external auditors. Document a plan to maximize the recovery of these payments.
- **Prevent duplicate payment claims -** Develop a procedure to prevent duplicate AIP payment claims.

**SOURCE:** USDOT's Office of Inspector General (OIG) Report- December 1<sup>st</sup>, 2010

Appendix D – Sarbanes-Oxley Record Retention Schedule







## Appendix E – COSO Internal Control Framework





Committee of Sponsoring Organizations of the Treadway Commission

Thought Leadership in ERM



**Practical Approaches for Getting Started**

By

**Mark L. Frigo and Richard J. Anderson**



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**The Strategic Risk Management Lab in the Center for Strategy, Execution, and Valuation at DePaul University** is an engagement platform for thought leaders and the business community to co-create and share leading practices in Strategic Risk Management and Enterprise Risk Management.

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## Preface

This project was commissioned by COSO, which is dedicated to providing thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control, and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations. COSO is a private sector initiative, jointly sponsored and funded by the following organizations:



**American Accounting Association (AAA)**



**American Institute of Certified Public Accountants (AICPA)**



**Financial Executives International (FEI)**



**Institute of Management Accountants (IMA)**



**The Institute of Internal Auditors (IIA)**



Committee of Sponsoring Organizations  
of the Treadway Commission

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Thought Leadership in ERM



**EMBRACING  
ENTERPRISE RISK  
MANAGEMENT**

**Practical Approaches for Getting Started**

Commissioned by



**Committee of Sponsoring Organizations of the Treadway Commission**

January 2011

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## Overview and the Question of “Where to Start?”

The increased interest in and importance of enterprise risk management is being driven by many powerful forces. Most importantly, it is driven by the need for companies to manage risks effectively in order to sustain operations and achieve their business objectives. Other forces also come into play, including rating agency reviews, government regulations, expanded proxy disclosures, and calls by shareholders and governance reform proponents for improving the way risks are managed by organizations.

Any entity that is currently operational has some form of risk management activities in place. However, these risk management activities are often *ad hoc*, informal and uncoordinated. And, they are often focused on operational or compliance-related risks and fail to focus systematically on strategic and emerging risks, which are most likely to affect an organization’s success. As a result, they fall short of constituting a complete, robust risk management process as defined by COSO (See definition of ERM below).

In addition, existing risk management activities often lack transparency. Transparency about how enterprise-wide risks are managed is increasingly being sought by directors and senior management, as well as various external parties seeking to understand an organization’s risk management activities. What’s more, existing risk management processes often are not providing boards and senior management with an enterprise-wide view of risks, especially, emerging risks. Unfortunately, many organizational leaders are struggling with how to begin in their efforts to obtain strategic benefit from a more robust enterprise-wide approach to risk management.

**Enterprise risk management is a process, effected by an entity’s board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives**

*COSO’s Enterprise Risk Management – Integrated Framework (2004)*



This leads to the question of “Where do we start?” Answering this question can be a major challenge for organizations where the perceived complexity of ERM or a lack of understanding of its strategic benefits may be barriers. At the same time, organizational pressures to reduce costs may prompt some decision makers to look at risk management as something that can be deferred or viewed as a lower priority, thereby setting the stage for unmanaged risk exposures that could seriously threaten the viability of the organization.

This COSO thought paper describes how an organization can start to move from informal risk management to ERM. We discuss the increasing importance of and focus on ERM and the need for all types of organizations to understand and embrace ERM. And, we examine perceived barriers to starting ERM and working through those barriers.

The approaches described in this document are based on successful practices that organizations have used to develop an incremental, step-by-step methodology to start ERM. While this is not the only way to start an ERM initiative, this incremental approach is designed to be very adaptable and flexible. We suggest specific, tangible actions that organizations can use to get started in this thought paper’s three sections:

- I. Keys to Success** - Overarching themes to provide management with a strong foundation for an effective ERM program as they develop and tailor their specific approach to implementing ERM.
- II. Initial Action Steps** - Action oriented, “how to” steps to implement an initial ERM effort. These steps support development and implementation of a tailored ERM initiative.
- III. Continuing ERM Implementation** - Next steps to further develop and broaden the organization’s initial ERM effort.

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## I. Keys to Success

While specific action steps may vary, there are some consistent underlying themes that have proved valuable in successful ERM initiatives. These themes represent “Keys to Success” for organizations that are now starting ERM initiatives and provide a useful foundation for specific actions detailed in Section II. These keys also help directors and management teams address some of the recognized barriers and resistance points to ERM adoption.

### Theme 1.

#### Support from the Top is a Necessity

To successfully manage risk, an ERM initiative must be enterprise wide and viewed as an important and strategic effort. In the aftermath of the financial crisis of 2008, there has been a growing emphasis on the board’s responsibilities for overseeing an organization’s risk management activities. For example, the corporate governance rules of the New York Stock Exchange require audit committees of listed corporations to discuss the risk assessment and risk management policies of their organizations. More recently, the U.S. Securities and Exchange Commission (SEC) expanded proxy disclosures pertaining to the extent of the board’s role in risk oversight. Moreover, credit rating agencies, such as Standard and Poor’s (S&P) are also inquiring about enterprise risk management practices as part of their credit rating assessment processes.

Support from the board of directors and senior management is needed to get the right focus, resources and attention for ERM. Although it is not the job of the directors to manage the ERM activities, directors do need to demonstrate clear support for the ERM initiative as well as oversee what management has designed and implemented to manage top risk exposures. Thus, ERM must be enterprise wide, and understood and embraced by its personnel, and driven from the top down through clear and consistent communication and messaging from the board and senior management. It is the board’s responsibility to ensure that management is devoting the right attention and resources to ERM and is setting the right tone for ERM. What’s more, the board should be comfortable that management has put in place an effective ERM leader who is widely respected across the organization and who has accepted responsibility for overall ERM leadership, resources and support to accomplish the effort.

Top level support for ERM from the board and senior management is also important for establishing the desired “Internal Environment” to foster ERM success (as described in Appendix A, the *Internal Environment* is one of the eight

components of COSO’s 2004 *Enterprise Risk Management - Integrated Framework*). This enterprise wide component is fundamental to setting the foundation for ERM and embedding it across the organization. It also sets the stage for further development of other COSO ERM Framework components including the establishment of the tone or the “risk culture” of the organization. S&P and other rating agencies have identified “risk culture” as a key element of ERM and have stressed its importance in their releases.

### Theme 2.

#### Build ERM Using Incremental Steps

One perceived barrier to launching ERM is the perception that ERM is overly complex and requires a major and costly effort to implement. Related to this perception is the belief that an organization must implement all of the components of ERM in one single effort for it to work and bring any tangible value to the organization. Experience suggests otherwise.

In practice, some organizations, especially smaller organizations, have achieved ERM successes by taking an incremental, step-by-step approach to enhancing their risk management capabilities to provide a more enterprise-wide view over time rather than undertaking one massive launch effort. They start with a simple process and build from there using incremental steps rather than trying to make a quantum leap to fully implement a complete ERM process. By doing so, they are able to:

- **Identify and implement key practices to achieve immediate, tangible results.** For example, they may start by completing and sharing with their board for the first time a short list of enterprise wide risks with certain action steps to address the risks identified. This initial step would be followed by a more detailed risk assessment delving deeper into other risks the organization faces.
- **Provide an opportunity to change and further tailor ERM processes.** As the organization and its executives and directors expand their knowledge of ERM, they have the opportunity to make additional requests to broaden or deepen the organization’s risk management activities.
- **Facilitate the identification and evaluation of benefits at each step.** This can be an effective way to respond to another possible barrier, the question of “What value do we derive from ERM?” There are two examples to illustrate this point on the next page:

Example Incremental Action Step	Benefit Received
Perform a risk assessment and prepare a short list of the organization's most significant risks	Board and senior management sees and discusses, often for the first time, a consensus view of the organization's most significant risks and how they are managed. This builds a common understanding and focus around these risks.
Identify opportunities to enhance risk management activities related to the significant risks identified	Specific actions are identified to enhance the risk management activities on each significant risk. This results in a better understanding of the organization's practices and how to enhance those practices and enables the identification of specific tangible benefits related to each action.

### Theme 3.

#### Focus Initially on a Small Number of Top Risks

For an organization just starting out with ERM, it might make sense to first identify a small number of critical risks that can be managed, and then evolve from this starting point. For some organizations, such an approach might mean keeping the initial ERM focus on only those strategic risks that are deemed critical to the organization achieving its strategic business objectives. Focusing initially on a smaller, manageable number of key risks would also be beneficial in developing related processes such as monitoring and reporting for those specific risks. This focused approach also keeps the developing ERM processes simple and lends itself to subsequent incremental steps to expand the risk universe and ERM processes.

Another way to keep ERM manageable is to focus initially on a few top risks in just one critical business unit. This limited focus could be used to develop initial risk management processes that can be expanded across the enterprise to other business units. And when dealing with much smaller organizations, it can be useful to start things off by identifying just one critical risk or risk category and building ERM processes around that one risk.

Whichever specific risk approach is utilized, the critical success factor is to focus attention on a manageable number of key risks and then apply the lessons learned to identifying and managing additional critical risks across the enterprise.

### Theme 4.

#### Leverage Existing Resources

Another possible barrier to initiating an ERM process may be the view that significant resources including investments or outside expertise are needed to undertake an ERM project. For example, some directors or senior executives might think that they would need to hire an experienced Chief Risk Officer or make significant investments in new technologies or automated tools. Such a viewpoint could prove to be a

significant barrier to smaller organizations, in particular, which might have a strong desire to move ahead with ERM but have limited resources for making it happen.

Many organizations have successfully entered the ERM arena by leveraging their existing risk management resources. Organizations often discover that they have the personnel on their existing staffs, with the knowledge and capabilities relating to risks and risk management that can be effectively used to start. For example, some organizations have used their Chief Audit Executive or their Chief Financial Officer as the catalyst to begin an ERM initiative. In other instances, organizations have appointed a management committee, sometimes headed by their CFO, to bring together a wide array of personnel from across the entity who collectively have sufficient knowledge of the organization's core business model and related risks and risk management practices to get ERM moving. In addition, most organizations start their ERM effort without any specific enabling technology or automated tools other than basic spreadsheets and word-processing capabilities.

### Theme 5.

#### Build on Existing Risk Management Activities

Any organization with current operations has some form of risk management activities or risk related activities already in place. These might include activities such as risk assessments performed by the internal audit, insurance or compliance functions, fraud prevention or detection measures, or certain credit or treasury activities. By leveraging, aligning and subsequently enhancing these existing risk related activities, the organization can achieve immediate and tangible benefits. For example, a company might implement a common set of risk definitions or a common risk framework across the organization. Others have conformed their risk assessment methodologies so that all areas of the organization performing a risk assessment do so using the same methodology.

Although it makes sense to build upon existing risk related activities, it must be done with the recognition that the existing activities probably do not constitute ERM. ERM requires risk management processes that ultimately are applied across the enterprise and represent an entity-wide portfolio view of risk, which is often missing from these existing functions.

### **Theme 6.** **Embed ERM into the Business** **Fabric of the Organization**

As articulated in COSO's ERM definition, enterprise risk management is a process that is applied across the organization. It is a management process, ultimately owned by the chief executive officer and involves people at every level of the organization. The comprehensive nature of the ERM process and its pervasiveness across the organization and its people provides the basis for its effectiveness.

ERM cannot be viewed or implemented as a stand-alone staff function or unit outside of the organization's core business processes. In some companies and industries, such as large banks, it is common to see a dedicated enterprise risk management unit to support the overall ERM effort including establishing ERM policies and practices for their business units. However, because ERM is a process,

organizations may or may not decide that they need dedicated, stand-alone support for their ERM activities.

Whether a risk management unit exists or not, a key to success is linking or embedding the ERM process into its core business processes and structures of the organization. Some organizations, for example, have expanded their strategic plans and budgeting processes to include the identification and discussion of the risks related to their plans and budgets.

### **Theme 7.** **Provide Ongoing ERM Updates and Continuing** **Education for Directors and Senior Management**

ERM practices, processes and information continue to evolve. Thus, it is important for directors and senior executives to ensure that they are receiving appropriate updates, new releases and continuing education on ERM, including information about regulatory requirements and best practices. This information provides the opportunity for directors and senior management to update their risk management processes as they become aware of new or developing practices. This ongoing improvement process is particularly important with the increased focus on ERM by regulators, rating agencies, and the SEC.

## **II. Initial Action Steps and Objectives**

Building off the "Keys to Success," this section of the thought paper details an initial action plan and steps to support development of a tailored ERM initiative. The plan reflects some simple, basic steps for implementing ERM, including the key step of performing an initial risk assessment. In Appendix B – "Where to Start: Draft Action Plan for an ERM Initiative" – we have included an example action plan, which can be further adapted for use by organizations. And in Appendix C – "Frequently Asked ERM Questions" – we have included responses to some common questions related to ERM that directors and senior management should find useful.

### **Step 1.** **Seek Board and Senior Management** **Leadership, Involvement and Oversight**

The board of directors and senior management set the tone for the organization's risk culture. Their involvement, leadership and oversight are essential for the success of any ERM effort.

A recent COSO thought paper, *Effective Enterprise Risk Management: The Role of the Board of Directors*, notes that;

"An entity's board of directors plays a critical role in overseeing an enterprise-wide approach to risk management. Because management is accountable to the board of directors, the board's focus on effective oversight is critical to setting the tone and culture towards effective risk management through strategy setting, formulating high level objectives, and approving broad-based resource allocations."<sup>1</sup>

The board and senior management should agree on their initial objectives regarding ERM, its benefits and their expectations for successful ERM. At a high level, there should be clear agreement and alignment of the board's and senior management's expectations, timing and expected results. This should include agreement on the resources to be made available and targets dates for the effort. The board should also consider the timing and level of status reporting that will be required to effectively monitor and oversee the ERM effort.

<sup>1</sup> Download COSO's *Effective Enterprise Risk Management: The Role of the Board of Directors* thought paper from COSO's website ([www.coso.org](http://www.coso.org)).



This is also an appropriate time to lay the groundwork for the organization's risk culture including how to best communicate a desire for more effective risk management. This initial communication may be focused at senior level executives to emphasize the importance of the initial ERM effort and the critical nature of these activities. Subsequent communications can be directed at describing the ERM effort in more general terms for a broader audience across the organization.

## Step 2.

### Select a Strong Leader to Drive the ERM Initiative

Finding a leader to head the initial ERM project is also critical for success. Management should identify a leader with the right attributes (see box below) to head the ERM effort. This person does not need to be a "CRO" (Chief Risk Officer). Often, it is best to initially use existing resources, for example the Chief Audit Executive or Chief Financial Officer, for this role to get ERM started. This leader will not necessarily be the person to head ERM long term, but the person to get the initiative started and to take responsibility for moving the organization's ERM activities to the next level.

It is critical that the risk leader have sufficient stature and be at an appropriate senior management level in the organization to have a rich strategic perspective of the organization and its risks and to be viewed as a peer by other members of senior management. Embedding ERM into the business fabric of the organization is necessary. Having a risk leader who can be viewed as a peer by members of senior management is vital for the success of the ERM initiative.

#### Attributes of Effective Leaders of Enterprise Risk Management

- Broad knowledge of the business and its core strategies
- Strong relationships with directors and executive management
- Strong communication and facilitation skills
- Knowledge of the organization's risks
- Broad acceptance and credibility across the organization



## Step 3.

### Establish a Management Risk Committee or Working Group

To provide strong backing for its ERM effort, an organization should consider creating a senior-level Risk Management Committee or Working Group as the vehicle through which the designated risk leader can implement the ERM initiative.

While the use of a committee or working group in addition to the risk leader can be viewed as optional, these committees have been used by risk leaders as an effective means to engage the right people across the organization to ensure success of their ERM efforts.

Ideally, such committees or working groups would include "C-suite" level executives as well as key business unit leaders to ensure that the organization's ERM efforts are firmly embedded within the organization's core business activities. Engaging senior executives at this level also ensures ERM receives appropriate attention and support and it can be very useful in building and communicating the risk culture across the organization. And it provides top executives with the opportunity to share their insights about the types of risks that could impede the organization's ability to achieve its business objectives, which will be important information during the initial risk assessment.

Typically, the organization's ERM leader, as described in step 2 above, would head this committee and use it as a principle forum for implementation of ERM. Alternatively, an organization could create a committee and use the committee solely for the purpose of implementing ERM. With this approach, a risk leader or Chief Risk Officer could then be named at a later point as the organization matures its ERM processes and decides it needs a dedicated leader.

## Step 4.

### Conduct the Initial Enterprise-wide Risk Assessment & Develop an Action Plan

In many ways, this step is the heart of the initial ERM process. The focus here is to gain an understanding of and agreement on the organization's top risks and how they are managed. The assessment is a top-down look at the risks that could potentially be most significant to the organization and its ability to achieve its business objectives. While any organization faces many risks, the starting point is to get a manageable list of what are collectively seen as the most significant risks. Here, members of the risk committee or working group can be most helpful by sharing their views or identifying people in the organization who should be involved in the risk assessment.

While there is no one best way to conduct a risk assessment, many organizations start by obtaining a top-down view of the most important risk exposures from key executives across the organization. This is typically accomplished by starting with a discussion of the

organization's business strategy and its components and then identifying the principal risks that would impede its ability to achieve its strategic objectives. An alternative is to discuss the strategies and risks of each of its major business units. To aid in these discussions, some organizations prepare a list of major risk categories, such as operational, financial, legal, market and then discuss exposures to that risk category for the business overall or each significant business unit.

It is often simplest and most effective for an organization to conduct this initial, top-down risk assessment with a handful of key business-unit leaders and members of the "C-suite." More individuals across and further within the organization can be added later as the risk assessment process matures. This data gathering could be accomplished through interviews, surveys, facilitated discussion groups or committee meetings. (See Appendix D to this paper for some examples of questions to consider for this initial risk assessment.)

The organization should then consider prioritizing or ranking the risks identified. This step could be accomplished by a simple ranking of the perceived level of inherent risk or by a more detailed assessment of the probability and impact of each risk. Consider using a basic scale of high, medium and low for each inherent risk as a starting point rather than quantification or modeling. Again, during this initial assessment, many organizations find good discussion and simple classifications helpful.

As a result of some of the large and unexpected risks that have manifested themselves lately, some organizations are now expanding their impact and probability assessments to include other factors. Examples of these new factors include assessing the velocity of a risk or the level of preparedness of the organization for that risk. For an example of an expanded risk assessment, see the Example Strategic Risk Profile following Step 6.

Whatever specific approach is taken, the information gathered should be compiled into an initial list with a manageable number of risks or potential risk events. As the organization matures its ERM processes, it can probe into finer levels of detail on other risks or, with enhanced knowledge of risk management activities, evolve its risk assessment from inherent risks to residual risks. Keep in mind, however, that focusing on too much detail or too many risks in the early stages of ERM adoption can impede progress on the broader ERM effort.

The organization also needs to assess its risk responses related to identified risks and develop action plans to address any gaps that are beyond those acceptable. Typically, action plans stemming from the initial risk assessment would identify gaps in the existing risk management processes related to the risks identified and detail specific ways to address those gaps.

The initial risk assessment exercise is also a time to initiate discussions about the organization's risk appetite relative to the risks identified. Some executives find it difficult to articulate, much less discuss, their organization's risk appetite. To overcome this challenge, consider focusing initially on qualitative or narrative descriptions of the risk appetite, (e.g. the organization may have zero tolerance for anything related to customer or employee safety). Management can facilitate the discussion of the risk appetite by identifying types of activities or products that they will or will not undertake because of the perceived risks. Alternatively, they may discuss how risk aggressive or conservative they want to be compared to their peers or competitors.

## **Step 5.**

### **Inventory the Existing Risk Management Practices**

During the risk assessment process, the organization should also be taking an inventory of its current risk management practices to determine areas of strength to build upon and areas of weakness to address. This inventory becomes valuable information for management to assist in enhancing the risk management processes.

First, it enables the organization to identify gaps in its current risk management processes relative to its most important and significant risks as they are identified. Oftentimes risk management activities are focused on existing operations and compliance risks, as opposed to significant external, emerging or strategic risks. As new risks are identified in the risk assessment process, the knowledge gained from a comprehensive inventory of existing risk management activities will help the organization assess the connections between existing risk management processes and the most critical enterprise level risks so that management can determine if there are any gaps in how they are managing the most important risks. Further, it assists the organization in mapping risks to underlying objectives.

Second, the inventory forms a baseline for the organization as it continues to develop and enhance its ERM processes. It helps management demonstrate progress and the benefits of ERM by serving as a point of comparison as the processes mature.

A **Risk Management Alignment Guide**, such as the example depicted below, can help facilitate compiling and documenting a high level inventory of the organization's risk management activities. The guide can be developed in two steps. First, management would list the top risks in the **Risk Category** column, which would be identified during its initial risk assessment as described on the prior page. Next, management would ensure that they have pinpointed an owner of the risk, articulated some form of risk appetite relevant to that risk, and have considered what existing processes are in place to monitor the risk over time, if any.

The last three columns would include information about any needed actions required to strengthen risk oversight and pinpoint management and board oversight related to the risk. In practice, organizations have found the completion of the column on the **Risk Owner** to be a useful exercise to ensure that they have a risk owner identified and acknowledged for each major risk. The **Risk Management Alignment Guide**, once completed, also serves as a concise and useful way to communicate the organization's overall risk management practices at a high level for the board and senior management.

### Risk Management Alignment Guide Example

Risk Category	Risk Owners(s)	Risk Appetite Metrics	Monitoring	Action Plans	Company Oversight	Board Oversight
Reputation Risk	CEO	Policy including specific metrics approved xx/xx/xx	Corporate Communications	Approved & Updated xx/xx/xx	Executive Committee	Full Board
Operations Risk	COO	Daily operations metrics in place in all operating divisions	Operations Management daily monitoring and reporting	Plans in place for each trigger point	Risk Management Internal Audit	Risk Committee
Information Technology Risk	CTO	Policies including daily performance metrics in place for security, back-up and recovery	Daily monitoring against established performance standards	Contingency and back-up plans in place and periodically tested	Operating Committee Internal Audit	Audit Committee Full Board
Risk 4						

### Step 6.






#### Develop Your Initial Risk Reporting

The organization next needs to develop its initial approach to risk reporting including its communication processes, target audiences, and reporting formats. Organizations should start by keeping things simple, clear and concise. Make it a point, however, that regardless of what specific reporting format employed, the reporting must reflect clearly the relative importance or significance of each risk. To this end, many organizations use simple lists, with their top risks listed in rank order. Others use colors or graphics along with their ranking to help focus attention on the most significant of the risks being reported. Also consider what status reporting and tracking you need to monitor progress on your action plans in order to address gaps in risk processes or risk responses identified during the ERM implementation.

The following example of a **Strategic Risk Profile** (see next page) includes three major strategic risk categories in the rows of the table (*Operations, Reputation, and Information Technology*) and four possible risk factors in the columns of table (*Likelihood, Impact, Velocity and Readiness*). The strategic risks are then listed in order of their overall priority and the red, yellow, and green readiness symbols help readers focus on risks that are most critical (e.g. those highlighted in red).

This example of a **Strategic Risk Profile** is presented for illustrative purposes only. Organizations should test various risk-reporting formats, approaches and risk factors in addition to talking with directors and executives about the level of detail needed and formats they find most useful.

**Example Strategic Risk Profile**

Strategic Risk	Description of Risk	Likelihood	Impact	Velocity	Readiness	Priority
Operations Risk	Supply Chain Disruptions; Product Liability Events	Low	High	High		1
Reputation Risk	Damage to reputation caused by company actions and/or partner actions	Medium	High	High		2
Information Technology Risk	Liability to achieve objectives because of failures of enabling technology	Medium	High	High		3
Risk 4						4
Risk 5						5

**Step 7.**  
**Develop the Next Phase of Action Plans & Ongoing Communications**

The implementation of ERM is an evolutionary process that takes time to develop. In the spirit of continual improvement, once the initial ERM action plan has been completed, the working group or risk leader should conduct a critical assessment of the accomplishments to date and develop a series of action plans for the next stage of implementation. Following the incremental approach, the leader should identify next steps in the ERM roll-out that will foster additional enhancements and afford tangible benefits as a result.

The completion of the initial ERM action plan is also an opportune time for the risk leader and the ERM working group to convey the status and benefits achieved to the board of directors and senior management. The risk leader should also consider what types of ongoing education offerings and communications should be deployed across the organization to continue to strengthen the organization's risk culture and ERM capabilities.

### III. Continuing ERM Implementation

The intent of this paper is to provide a simple illustration of ways to launch ERM. It represents a beginning, not an end point. An organization following this incremental approach to achieving ERM benefits will have taken a significant first step toward ERM and have a much better understanding of where it is headed and what needs to be accomplished next.

To lay the groundwork for ERM success, an organization should first establish its initial ERM process as an ongoing and important element that will assist in achieving business objectives. Given the evolutionary nature of ERM and the dynamic nature of risk, the ERM process must be ongoing and not viewed as a one-time event. The initial risk assessment process will need periodic updating and the organization will need to be attuned to the need to identify new and emerging risks. A solid foundation for risk

management should be established and nurtured. Ongoing communications from directors and senior management will serve to reinforce and nurture the risk management culture.

Once ERM is off the ground, the organization can look for additional ways to expand the implementation of ERM across the organization. It should also be aware that, while tangible risk processes may have been implemented during this initial phase of ERM deployment, the processes may likely fall short of a complete ERM process and need to be enhanced. Accordingly, the organization's risk management leaders need to continue to drive further development and maturity of the risk management processes. They need to pursue levels of risk management maturity that reflect the components of the COSO's *Enterprise Risk Management - Integrated Framework*.

As the organization considers next steps, it should also evaluate the need for further developing and broadening the organization's risk culture and practices. Here is a working list of activities to consider that will strengthen an organization's risk culture and practices:

- A program of continuing ERM education for directors and executives
- ERM education and training for business-unit management
- Policies and action plans to embed ERM processes into the organization's functional units such as procurement, IT, or supply chain units
- Continuing communications across the organization on risk and risk management processes and expectations
- Development and communication of a risk management philosophy for the organization
- Identification of targeted benefits to be achieved by the next step of ERM deployment
- Development of board and corporate policies and practices for ERM
- Further discussion and articulation of a risk appetite for the organization and /or significant business units, including quantification
- Establishment of clear linkage between strategic planning and risk management
- Integration of risk management processes into an organization's annual planning and budgeting processes
- Expansion of the risk assessment process to include assessments of both inherent and residual levels of risk
- Exploration of the need for a dedicated Chief Risk Officer or ERM functional unit

The specific next steps to be taken should be implemented by continuing the incremental approach, taking small, tangible steps rather than attempting to implement the complete ERM framework. The primary objective is to keep the momentum moving and to continue to evolve, expand and deepen the organization's ERM capabilities.

## Summary

Boards of directors and senior management need to challenge critically their organization's risk management practices and take the opportunity to enhance their processes and improve their ability to meet their organizations' objectives.

The concepts, techniques, and tools outlined in this thought paper, coupled with COSO's *Enterprise Risk Management - Integrated Framework* and other COSO thought papers, are intended to provide a strong foundation and effective starting point for pursuit of ERM benefits. Collectively, these resources provide a robust source of information and knowledge of ERM practices and processes.

The ideas and recommendations presented in this paper are neither intended to be, nor are they, the only way to enter the ERM arena. Ultimately, every organization must develop its own approach to ERM, one that best suits its particular culture and circumstances.

Above all, keep in mind the benefits of taking small, incremental steps on the path toward full ERM rather than attempting to implement the complete ERM framework all at once. The goal is to keep the momentum for ERM that will continue to expand and deepen the organization's ERM capabilities on a continual basis.

## Appendix A – COSO’s Enterprise Risk Management – Integrated Framework

### Components of Enterprise Risk Management –

Enterprise risk management consists of eight interrelated components. These components are derived from the way management runs a business and are integrated with the management process.

For more detailed information on enterprise risk management, the COSO *Enterprise Risk Management - Integrated Framework*, and related practices and activities, see the following COSO publications, available through the COSO website at [COSO.org/guidance](https://www.coso.org/guidance).

- *Enterprise Risk Management - Integrated Framework*
- *Effective Enterprise Risk Oversight: The Role of the Board of Directors*
- *Strengthening Enterprise Risk Management for Strategic Advantage*



## Appendix B – Where to Start: Draft Action Plan for an ERM Initiative

Outlined below is an initial high-level draft of an action plan for ERM. This draft plan highlights key events and actions that organizations should consider in starting an ERM initiative. The draft is not intended to be viewed as a complete plan; furthermore, it requires careful tailoring and expansion prior to use. However, we believe it reflects useful information and is a practical draft plan as a basis to start.

### 1. Seek Board and Senior Management Involvement and Oversight

- a. Set an agenda item for the board and executive management to discuss ERM and its benefits
- b. Agree on high-level objectives and expectations regarding risk management
- c. Understand the process to communicate and set the tone and expectations of ERM for the organization
- d. Agree on a high-level approach, resources and target dates for the initial ERM effort

### 2. Identify and position a leader to drive the ERM Initiative

- a. Identify a person with the right attributes to serve as the risk management leader
  - i. Does not have to be a CRO (Chief Risk Officer)
  - ii. Use existing resources
- b. Set objectives and expectations for the leader
- c. Allocate appropriate resources to enable success

### 3. Establish a Management Working Group

- a. Establish a management working group to support the risk leader and drive the effort across the organization
- b. Have the right, key people in the group
  - i. Sufficient stature
  - ii. “C-suite” representation
  - iii. Business unit management
- c. Look at using cross-functional teams
- d. Agree on objectives for the working group
  - i. Build ERM using incremental steps
  - ii. Define some sought-after benefit to evaluate each step
  - iii. Establish reporting process for management and the board

### 4. Conduct an Initial Enterprise-wide Risk Assessment and Action Plan

- a. Focus on identifying the organization’s most significant risks
- b. Look for risks at the strategic level
- c. Consider risk factors beyond just probability and impact, e.g.
  - i. Velocity of risk
  - ii. Preparedness
  - iii. Other factors
- d. For the most significant risks;
  - i. Assess exposure to the risk
  - ii. Assess adequacy of existing risk mitigation or monitoring
  - iii. Identify opportunities to enhance mitigation or monitoring activities

- e. Develop action plans to enhance risk management practices related to the risk identified
  - i. Identify actions to implement the opportunities identified above
  - ii. Establish target dates and responsibilities
  - iii. Develop process to monitor and track implementation

#### **5. Inventory the Existing Risk Management Practices**

- a. Identify and inventory existing practices
- b. Identify gaps and opportunities
  - i. Consider initial completion of the Risk Management Alignment Guide
- c. Develop specific action steps to close gaps
- d. Produce and implement action plans to close gaps and manage risks

#### **6. Develop Initial Risk Reporting**

- a. Assess adequacy and effectiveness of existing risk reporting
- b. Develop new reporting formats
  - i. Consider extensive use of graphics and colors
  - ii. Consider developing a risk “dashboard” for the board

- c. Develop process for periodic reporting of emerging risks
- d. Assess effectiveness of new reporting with stakeholders and revise as appropriate

#### **7. Develop the Next Phase of Action Plans and Ongoing Communications**

- a. Conduct a critical assessment of the accomplishments of the working group
- b. Revisit the risk process inventory and identify next processes for enhancement
- c. Identify tangible steps for a new action plan including benefits sought and target dates
  - i. Review with executive management and the board
- d. Implement with appropriate resources and support
- e. Schedule sessions for updating or further educating directors and executive management
- f. Assess progress and benefits of ERM initiative against objectives and communicate to target audiences
- g. Continue organization-wide communication process to build risk culture

## **Appendix C – Frequently Asked ERM Questions**

### **• “Do I need to appoint a Chief Risk Officer?”**

No, COSO has observed that many organizations have started ERM using existing staff and appointing one of their key, senior-level personnel as the leader of the initiative. For example, some organizations have used their Chief Audit Executive or their CFO to begin the process. Regardless of title, the person selected to lead the ERM initiative must have the stature, authority and senior management leadership skills to be a true leader for ERM. Some organizations then develop their ERM processes to a point that they believe a dedicated Chief Risk Officer is needed. However, organizations don't have to create a CRO position in order to get started, nor does a more mature ERM process necessarily require a dedicated CRO.

### **• “Do I need to form a functional ERM unit?”**

No, many organizations have started ERM using management committees, working groups or existing personnel. Working groups or committees can take the lead in developing the organization's initial approach to ERM or to conduct an initial risk assessment as part of their existing duties. For smaller organizations, in particular, a separate risk management unit may not be necessary. Again, ERM as defined by COSO is a process not a functional unit. Whether a functional risk unit is needed ultimately depends on the complexity of the organization and the breadth and depth of its ERM processes.

### **• “What's wrong with just continuing my current, informal risk activities? Don't they constitute ERM?”**

While you want to leverage existing, informal risk management activities, these activities often lack both transparency and an enterprise-wide view or application. Accordingly, they are unable to address risk in a portfolio manner, including aggregation of risk. In addition, existing, informal risk activities are more likely to be performed on an *ad hoc* basis and done separately; therefore, these informal risk activities lack the consistency of approach and communications required by ERM processes. Thus, an organization's current, informal risk processes probably do not constitute true ERM. Increasingly, boards and other stakeholders, including rating agencies and regulators, are looking for ERM processes that are transparent, systematic and repeatable and that produce an enterprise-wide view.

### **• “What role does the board play in ERM?”**

The board is ultimately responsible for overseeing the ERM process, which is typically driven by management. The board's oversight responsibilities often involve using various board committees to oversee risks related to their areas of responsibility. In the end, effective engagement, involvement, and communications with the board is critical to ERM success. More specific guidance for boards is contained in the COSO thought paper, *Effective Enterprise Risk Oversight: The Role of the Board of Directors*.

- **“Do I have to implement the complete COSO Enterprise Risk Management - Integrated Framework to conduct ERM activities?”**

COSO’s *Enterprise Risk Management - Integrated Framework* notes that an entity may find it useful to discuss sub-sets of one or more of its objective categories to facilitate communications on a narrower topic. This approach can help an entity build its understanding of ERM and risk components on a step by step or incremental basis, staying within the context of the COSO ERM Framework. As noted in this paper, many organizations are taking a step-by-step approach to ERM to facilitate building their understanding and experience with components of ERM. While this “starting small” approach to ERM adoption has significant merit, care must be taken to maintain momentum.

If an organization loses momentum and only implements a few initial ERM steps, it will fall short of having an adequate ERM process. See Appendix A for additional information about the *COSO Enterprise Risk Management - Integrated Framework*.

## Appendix D – Risk Assessment Questions

Outlined below are some example questions that could be used in an interview with a senior executive or director during the risk assessment process. These questions are representative of the types of questions that could be asked to help identify the organization’s most significant strategic or emerging risks.

- What are your primary business objectives or strategies?
- What are the key components of enabling your business strategy or objectives?
- What internal factors or events could impede or derail each of these key components?
- What events external to the organization could impede or derail each of the key components?
- What are the three most significant risk events that concern you regarding the organization’s ability to achieve business objectives?
- Where should the organization enhance its risk management processes to have maximum benefit and impact on its ability to achieve business objectives?
- What types of catastrophic risks does the organization face? How prepared is the organization to handle them, if they occur?
- Can you identify any significant risks or exposures to third-parties (vendors, service providers, alliance partners etc) that concern you?
- What financial market risks do you believe are or will be significant?
- What current or developing legal/regulatory/governmental events or risks might be significant to the success of the business?
- Are you concerned about any emerging risks or events? If so, what are they?
- What risks are competitors identifying in their regulatory reports that we have not been addressing in our risk analysis?

- **“Do I need to use quantitative models and metrics in starting ERM?”**

The use of quantitative models and metrics may ultimately be useful in a more robust ERM environment, but they are not needed to launch an ERM effort. What’s more, some types of risks, strategic or emerging risks, for example, may not lend themselves to quantification at all.

Many organizations start their ERM process by simply listing or identifying what management and the board believe to be their top risks and then reviewing how those risks are managed and monitored. Depending on the size and complexity of the organization, quantitative modeling may, in the long run, prove helpful and even necessary to address certain types of risks, such as some financial and market risks. However, the quantification of all risks is not a goal. Management and the board need to first develop a solid understanding of ERM processes, approaches, and tools and then ensure that the organization’s risk processes and tools are appropriate for the nature and scope of their specific risks and risk profile.



## About COSO

*The Committee of Sponsoring Organizations of the Treadway Commission (COSO)* is a voluntary private-sector organization comprised of the following organizations dedicated to guiding executive management and governance participants towards the establishment of more effective, efficient, and ethical business operations on a global basis. It sponsors and disseminates frameworks and guidance based on in-depth research, analysis, and best practices.

### COSO, 2011



## About the Authors

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*The Strategic Risk Management Lab in the Center for Strategy, Execution, and Valuation at DePaul University* is an engagement platform for thought leaders and the business community to co-create and share leading practices in Strategic Risk Management and Enterprise Risk Management

Thought Leadership in ERM



**COSO**

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of the Treadway Commission

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Thought Leadership in ERM



EMBRACING  
ENTERPRISE RISK  
MANAGEMENT

Practical Approaches for Getting Started



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## Appendix F – AASHTO Internal Control Questionnaire (ICQ)





## Internal Control Questionnaire (ICQ) for Consulting Engineers

Name of Engineering Consultant: \_\_\_\_\_  
TIN (Taxpayer Identification Number): \_\_\_\_\_  
Headquarters Address: \_\_\_\_\_  
\_\_\_\_\_  
Company Website: \_\_\_\_\_  
Fiscal Year End: \_\_\_\_\_  
This ICQ was prepared for (agency name): \_\_\_\_\_  
Time Period Covered: \_\_\_\_\_  
Location of Accounting Records: \_\_\_\_\_

- Please include the following items as attachments to this ICQ:

- FAR Part 31 Overhead Audit Report for most recent fiscal year, including audited Statement of Direct Labor, Fringe Benefits, and General Overhead (hereinafter "Overhead Schedule") and related reconciliation to the financial statements.
- Cognizant audit report or cognizant letter of concurrence from the cognizant Government agency.  
*Check here if not applicable:*
- Post-closing trial balance and financial statements (balance sheet, income statement, and statement of cash flows) for the most recent fiscal year.
- Current chart of accounts that ties to financial statements and overhead schedule.
- Independent Auditor's Report on financial statements and accompanying management letter.  
*Check here if not applicable:*
- Sample timesheet.
- The company's policies for vacation and sick leave.
- The company's bonus policy.
- Other written policies, as requested throughout this ICQ.

**Note:** Throughout this ICQ, all references to "AASHTO Guide" pertain to the 2010 Edition of the *AASHTO Uniform Audit & Accounting Guide*.

- Who is the company's primary contact person for accounting questions?

Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Phone Number: \_\_\_\_\_  
E-mail Address: \_\_\_\_\_  
Mailing address (if different than headquarters address listed above): \_\_\_\_\_

### A. Background Information

1. When was the company formed? \_\_\_\_\_

2. What form of business entity is the company?

- Sole Proprietorship     Partnership     C Corporation     S Corporation  
 Other \_\_\_\_\_

## AASHTO Internal Control Questionnaire for Consulting Engineers

3. Is the company a subsidiary of another company?

- Yes            If yes, please explain: \_\_\_\_\_  
 No

4. Does the company own or control any other company through common ownership? (See AASHTO Guide Section 8.23.B for details.)

- Yes            If "yes," please explain: \_\_\_\_\_  
 No

5. List the major stockholders, partners, or other owners with greater than five percent ownership of the company and their respective percentages of ownership.

Name:	Title:	Ownership Percentage:

6. What types of services does the company provide? (e.g., consultant–Architectural and Engineering Design)

\_\_\_\_\_

7. How many offices does the company operate, and where are these offices located?

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

8. How many employees (including managers and principals) does the company currently employ?

a. Full time: \_\_\_\_\_ b. Part time: \_\_\_\_\_

9. For most recent fiscal year, what percentage of the company's revenue was generated from each of the following?

a. State government: \_\_\_\_\_%            c. Local government: \_\_\_\_\_%  
 b. Federal government: \_\_\_\_\_%            d. Commercial/private: \_\_\_\_\_%

10. What percentage of the company's revenue was generated from each of the following contract types?

a. Lump sum: \_\_\_\_\_%            c. Cost plus (time and materials): \_\_\_\_\_%  
 b. Cost plus fixed fee: \_\_\_\_\_%            d. Other: \_\_\_\_\_% (Explain "Other" below.)

\_\_\_\_\_

### **B. Accounting: General Background**

1. Has the company used the same fiscal reporting period for the past two years?  Yes  No

2. What basis of accounting does the company use to prepare general purpose financial statements?

Cash     Accrual     Hybrid. Explain: \_\_\_\_\_

- Was the same basis of accounting also used to prepare the firm's overhead schedule?

Yes     No. Explain: \_\_\_\_\_

## AASHTO Internal Control Questionnaire for Consulting Engineers

3. Does the company have written accounting policies that address the following topics?

(If "yes," please provide a copy.)

	<u>Yes</u>	<u>No</u>
a. Accounting system . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
b. Billing . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
c. Cost estimating/allowability. . . . .	<input type="checkbox"/>	<input type="checkbox"/>
d. Bonus policy. . . . .	<input type="checkbox"/>	<input type="checkbox"/>
e. Recording time worked/timesheet preparation . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
f. Fringe benefits/leave time . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
g. Recording overtime . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
h. Compliance with FAR Part 31 <sup>(†)</sup> and applicable CAS . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
i. Recording direct and indirect costs . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
j. Overhead/indirect cost rate development . . . . .	<input type="checkbox"/>	<input type="checkbox"/>
k. Billing rate development . . . . .	<input type="checkbox"/>	<input type="checkbox"/>

<sup>(†)</sup> FAR Part 31 is codified at 48 CFR Part 31, which is available at [www.arnet.gov/far](http://www.arnet.gov/far).

4. How frequently does the company prepare an overhead schedule to determine costs eligible for reimbursement per FAR Part 31?

Annually                       Other (specify): \_\_\_\_\_

- Is the schedule prepared by the company or by another entity instead (e.g., CPA firm)?

Prepared by:     Internal staff             External party (specify): \_\_\_\_\_

- Period covered by most recent overhead schedule:

\_\_\_\_\_ (e.g., "one-year fiscal period ended December 31, 20xx")

5. Is management aware of any material instances of fraud, illegal acts, abuse, or violations of contracts provisions or grant agreements?

No                       Yes. If "yes," please explain below:

\_\_\_\_\_

6. Are appropriate personnel within the company familiar with FAR Part 31?

Yes                       No. If "no," please explain below:

\_\_\_\_\_

7. Within the past three years, has a CPA or governmental agency performed an independent audit, review, attestation, or compilation of the company's financial data or any phase of the company's operations?

No     Yes. If "yes," complete the following (if applicable):

a. **Financial Statements:**     Audit     Review     Compilation     Other \_\_\_\_\_

Name of CPA or Agency:

\_\_\_\_\_

Contact:

\_\_\_\_\_

Period Covered:

\_\_\_\_\_

**AASHTO Internal Control Questionnaire for Consulting Engineers**

b. **Overhead Rate:**     Audit  Review  Compilation  Other \_\_\_\_\_

- Was the overhead rate calculated in accordance with FAR Part 31?  Yes     No

Name of CPA or Agency:

\_\_\_\_\_

Contact:

\_\_\_\_\_

Period Covered:

\_\_\_\_\_

c. **Project Audits:**     Audit  Review  Compilation  Other \_\_\_\_\_

Name of CPA or Agency:

\_\_\_\_\_

Contact:

\_\_\_\_\_

Period Covered:

\_\_\_\_\_

**C. Accounting System(s)**

1. What type of accounting software does the company use?

Internally developed  Commercial system: \_\_\_\_\_

Please describe any significant manual procedures used outside of the automated accounting system to record transactions:

\_\_\_\_\_

2. Does the company have a job-cost accounting system?  Yes     No

If no, explain what type of system is used: \_\_\_\_\_

3. Does the general ledger interface with the job-cost ledger?

Yes     No     N/A (no job-cost ledger used)

4. Which of the following types of records does the company maintain to support financial transactions?

	<u>Yes</u>	<u>No</u>
a. General ledger .....	<input type="checkbox"/>	<input type="checkbox"/>
b. Cash disbursements journal .....	<input type="checkbox"/>	<input type="checkbox"/>
c. Cash receipts journal .....	<input type="checkbox"/>	<input type="checkbox"/>
d. Job/Project-cost ledger .....	<input type="checkbox"/>	<input type="checkbox"/>
e. Labor distribution reports .....	<input type="checkbox"/>	<input type="checkbox"/>
f. Employee expense reports .....	<input type="checkbox"/>	<input type="checkbox"/>
g. Payroll registers .....	<input type="checkbox"/>	<input type="checkbox"/>

5. Does the general ledger contain separate direct and indirect accounts for the following?

- a. Labor costs                     Yes     No
- b. Non-labor expenses         Yes     No

If no, please explain: \_\_\_\_\_



## AASHTO Internal Control Questionnaire for Consulting Engineers

6. Does the company have a system in place to identify and remove from the indirect cost pools all unallowable costs, in accordance with per FAR Part 31 and applicable Cost Accounting Standards? (See AASHTO Guide, Sections 2.2, 4.4, 5.2, 5.5, and 6.3.)

No       Yes. If "yes," please answer (a) through (c), below.

(a) Please provide details about the system.

\_\_\_\_\_

(b) How are appropriate personnel trained to distinguish between allowable and unallowable costs?

\_\_\_\_\_

(c) When does the review for allowability occur—at time the transaction is recorded, or later?

\_\_\_\_\_

7. Does the company have more than one division/cost center?

No       Yes. If "yes," are separate ledgers maintained for each?       Yes       No

Comment: \_\_\_\_\_

8. Does the company reconcile the financial accounting system to the job-cost system?

N/A (no job-cost ledger used)

No. Please explain. \_\_\_\_\_

Check here if systems are integrated:

Yes. If "yes," how often? (Check all that apply.)       Monthly       Quarterly       Semi-annually       Annually

Comment: \_\_\_\_\_

9. How frequently are bank statements reconciled? Who performs this process?

\_\_\_\_\_

10. Does the company use a budgeting system for project planning and oversight?

Yes       No

Comment: \_\_\_\_\_

11. Does the company prepare variance reports to compare budgeted amounts to actual amounts on projects, and are the reports distributed to appropriate management personnel?

Yes       No. Please explain: \_\_\_\_\_

12. Does the company use cost allocation methods consistently for all State and Federal government contracts? (See AASHTO Guide, Sections 5.3 and 10.5.)

Yes       No. Please explain: \_\_\_\_\_

13. When computing overhead rates, the company uses—

a single base for cost allocation.      Description of base: \_\_\_\_\_

multiple bases for cost allocation.      Description of bases: \_\_\_\_\_

(See AASHTO Guide Section 4.7 for a discussion of common allocation bases for indirect costs.)

## AASHTO Internal Control Questionnaire for Consulting Engineers

14. Does the company have field offices? (See AASHTO Guide Section 5.6.)

- No       Yes. If "yes," are separate overhead rates used for the home office and field offices?

### **D. Information Technology Systems (ITS)**

1. Does the firm have written ITS policies concerning the following topics (if "yes," please provide a copy):

	<u>Yes</u>	<u>No</u>
a. Hardware/Software		
• Purchasing .....	<input type="checkbox"/>	<input type="checkbox"/>
• Inventory .....	<input type="checkbox"/>	<input type="checkbox"/>
• Maintenance .....	<input type="checkbox"/>	<input type="checkbox"/>
• Access .....	<input type="checkbox"/>	<input type="checkbox"/>
• Use of In-house and off-site .....	<input type="checkbox"/>	<input type="checkbox"/>
• Addition and removal/retirement/disposition of .....	<input type="checkbox"/>	<input type="checkbox"/>
b. Business Continuation Plan .....	<input type="checkbox"/>	<input type="checkbox"/>
c. Security Protocol .....	<input type="checkbox"/>	<input type="checkbox"/>
d. Activation and deactivation of employees upon arrival or departure ...	<input type="checkbox"/>	<input type="checkbox"/>

2. Has an ITS risk assessment been conducted within the past three years?       Yes     No

3. Are system security and application access logs enabled and reviewed periodically?

- Yes     No

Comment: \_\_\_\_\_

4. If documents are retained in electronic format, are they stored in a format that cannot easily be modified, removed, or replaced, and does a mechanism/audit trail exist to track all such events?

- Yes     No

Comment: \_\_\_\_\_

### **E. Accounting – Payroll**

1. Does the company use an external payroll service?     No     Yes. Please specify: \_\_\_\_\_

2. What is the company's standard pay cycles?

- Bi-weekly     Monthly     1st & 15th     Other \_\_\_\_\_

If the company uses more than one pay cycle, please explain:

\_\_\_\_\_

3. Does the payroll register include the following data?

	<u>Yes</u>	<u>No</u>
a. Gross pay .....	<input type="checkbox"/>	<input type="checkbox"/>
b. Payroll deductions .....	<input type="checkbox"/>	<input type="checkbox"/>
c. Net pay .....	<input type="checkbox"/>	<input type="checkbox"/>
d. Check amount .....	<input type="checkbox"/>	<input type="checkbox"/>
e. Hourly rate .....	<input type="checkbox"/>	<input type="checkbox"/>
f. Pay period .....	<input type="checkbox"/>	<input type="checkbox"/>
g. Normal hours for pay period .....	<input type="checkbox"/>	<input type="checkbox"/>

## AASHTO Internal Control Questionnaire for Consulting Engineers

4. Does the company use an electronic timekeeping system?

Yes  No

If "yes," please provide an explanation of its operation, or provide system documentation:

---

5. Are all employees responsible for signing their own timesheets?  Yes  No

If "no," please explain below:

---

6. Are all employee timesheets approved by supervisors?  Yes  No

If "no," please explain below:

---

7. Is there a certification and approval process required for all time worked by owners and principals?

Yes  No

If "no," then how is time accounted for and billed to projects?

---

### **F. Labor Cost Accumulation**

1. Does the company maintain timesheets, with reporting codes for both direct and indirect hours? (See AASHTO Guide, Chapter 6.)

Yes  No

- If "yes," do all employees, including principals and managers, code direct and indirect time on their timesheets?

---

- If "no," then explain the method used to segregate direct and indirect labor hours.

---

2. What are the company's normal hours of business operation (normal work week)?

---

3. Do principals and other salaried personnel record all hours worked, including hours worked in excess of the normal week?

Yes  No. If "no," then please explain below:

---

4. Uncompensated Overtime (see AASHTO Guide, Section 5.4):

(a) How does the company account for *uncompensated overtime*—the hours worked without additional compensation in excess of an average of 40 hours per week by direct charge employees who are exempt from the Fair Labor Standards Act?

---

(b) What is the effect of uncompensated overtime on direct and indirect labor rates?

---

5. How does the company segregate work performed under a basic agreement/contract from work charged for contract changes/modifications?

---

## AASHTO Internal Control Questionnaire for Consulting Engineers

### **G. Labor Billings**

1. Please either describe how billing rates are determined, or attach the company's billing-rate policy.

---

2. Does the company pay overtime at a premium?  Yes  No

If "yes," what premium rate is paid, and who is eligible for this rate?

---

3. Is overtime premium ever billed directly to a job?  Yes  No

Comment: \_\_\_\_\_

4. Are overtime costs charged consistently, regardless of the type of contract (lump sum versus actual cost) or customer (government versus commercial)?

Yes  No. If "no," then please explain below:

---

5. If the company pays a principal or an employee at a rate in excess of a contract's maximum hourly labor rate, where will the excess be assigned/charged?

---

6. Does the company bill contract labor to projects?  Yes  No

- If "yes," complete the following: Contract labor is billed—

as part of direct labor, and overhead is applied.

as an other direct cost (no overhead applied).

Other. Please explain below:

---

### **H. Expense Accumulation and Billing**

1. Besides labor, what type of costs does the company normally bill as direct expenses?

---

2. Is the indirect cost pool relieved/reduced for credits/reimbursements received for indirect costs?

Yes  No. If "no," then please explain below:

---

## AASHTO Internal Control Questionnaire for Consulting Engineers

3. Explain the accounting and billing for the in-house items listed below (check both "D" and "I," if applicable):

(D = Direct; I = Indirect; N/A = not applicable)

	<u>D</u>	<u>I</u>	<u>N/A</u>
a. Vehicles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Computer Assisted Design and Drafting (CADD)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. Computer (non-CADD)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Telephone	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. Printing / reproduction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. Postage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Lab	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Drilling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Travel and Subsistence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. GPS and/or Nuclear Density Meters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
k. Other (list if significant)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Describe the accounting treatment for direct costs not billable to clients.

---

5. **Vehicle Expenses.** Does the company provide vehicles to employees for business purposes?

Yes  No

a. If "yes," are the vehicles leased or owned?

Leased  Owned

b. Identify the total number of vehicles owned or leased by your firm.

\_\_\_\_\_ Leased    \_\_\_\_\_ Owned

c. Are mileage logs maintained for all vehicles? If "no," please explain.

Yes  No

Explanation: \_\_\_\_\_

d. Is mileage separated by direct and indirect classifications, and is mileage incurred in connection with unallowable activities tracked?  Yes  No

Explanation: \_\_\_\_\_

e. What recovery/billing rate does the company use for company vehicle mileage reimbursement?

\$\_\_\_\_\_ per mile.

Explanation: \_\_\_\_\_

f. How was the rate developed?

---

6. **Computer Expenses.** Are the company's computer expenses incurred as a result of: (select one)

- a.  Outside Services?                       Company ownership?                       Both?
- b. Does the company compute a charge rate for computers?                       Yes  No

- If "yes," what is the rate? \_\_\_\_\_

- How was the rate developed?

---

c. Is computer usage segregated by direct and indirect classifications?                       Yes  No

d. Are computer usage logs maintained and coded by job/project?                       Yes  No

## AASHTO Internal Control Questionnaire for Consulting Engineers

### 7. **Printing and Reproduction Costs.** How are printing and reproduction expenses treated?

- In House:  Direct cost  Indirect cost  Combination of direct and indirect
- Outside vendor:  Direct cost  Indirect cost  Combination of direct and indirect

*If you marked "combination of both," please explain below:*

---

- a. For in-house services, are usage logs maintained and coded by job/project?  
 Yes  No
- b. Is usage segregated by direct and indirect classifications?  
 Yes  No
- c. If these costs are incurred through the use of an outside vendor, are the invoices coded by job/project when received?  
 Yes  No

### 8. **Telephone Costs.** How is the telephone service expense billed?

- Direct cost  Indirect cost  Combination of direct and indirect

*If you marked "combination of both," please explain below:*

---

- Does the company maintain a telephone log to record toll calls?  Yes  No
- Are the calls job coded by direct and indirect classifications?  Yes  No

## **I. Other - General**

### 1. Did the company pay bonuses during the period covered by the latest overhead schedule?

Yes  No

- If "yes," were the bonuses included in the submitted overhead rate?  Yes  No

- Was any portion of these bonuses excluded from the submitted overhead rate?  Yes  No

Comment: \_\_\_\_\_

### 2. Does the company have a written bonus plan? Yes No. If "yes," please provide a copy.

### 3. Are all employees eligible for the bonuses? Yes No. If "no," please explain below.

---

### 4. Has the company, an independent CPA, or compensation consultant performed an evaluation of compensation for *reasonableness* in accordance with FAR 31.205-6? (See AASHTO Guide Section 7.5.)

Yes  No

- If "yes," please describe how this process has been documented:

---

### 5. If the company rents facilities from another organization, are any of the company's owners/stockholders, or members of their immediate family, also owners/stockholders in the other organization?

Yes  No

- If "yes," please explain:

---

## AASHTO Internal Control Questionnaire for Consulting Engineers

6. Does the company pay life insurance for officers/principals of the company?

Yes  No

- If "yes," please identify the beneficiary of the life insurance:

\_\_\_\_\_

7. Has the company, its parent, subsidiary, or any owner, stockholder, officer, partner, or employee of the company been suspended or debarred from doing business by any State or the Federal government?

Yes  No

- If "yes," please provide complete details :

\_\_\_\_\_

8. Does the company have an existing process designed to provide timely updates to company procedures to accommodate changes in the FAR Subpart 31.2 cost principles?

Yes  No

Description: \_\_\_\_\_

9. Does the company have a process for assessing risks that may result from changes in cost accounting systems or processes?

Yes  No

- If "yes," please describe the process. How are risks identified and addressed?

\_\_\_\_\_

10. How does information flow from the FHWA/State DOT to appropriate management personnel?

\_\_\_\_\_

I certify that to the best of my knowledge and belief this ICQ is a complete and accurate representation of the above-named company's cost accounting and billing practices.

\_\_\_\_\_  
**Typed or Printed Name**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Title**

\_\_\_\_\_  
**Date Completed**

**Note:** The representations on this ICQ were made by, and are the responsibility of, the company's management.

## Appendix G – ISACA IT Framework





## ISACA MEMBER AND CERTIFICATION HOLDER COMPLIANCE

The specialised nature of IT audit and assurance and the skills necessary to perform such audits require standards that apply specifically to IT audit and assurance. One of the goals of ISACA® is to advance globally applicable standards to meet its vision. The development and dissemination of the IT Audit and Assurance Standards are a cornerstone of the ISACA professional contribution to the audit and assurance community. The framework for the IT Audit and Assurance Standards provides multiple levels of guidance:

### ■ Standards define mandatory requirements for IT audit and assurance.

They inform:

- IT audit and assurance professionals of the minimum level of acceptable performance required to meet the professional responsibilities set out in the ISACA Code of Professional Ethics
- Management and other interested parties of the profession's expectations concerning the work of practitioners
- Holders of the Certified Information Systems Auditor™ (CISA®) designation of requirements. Failure to comply with these standards may result in an investigation into the CISA holder's conduct by the ISACA Board of Directors or appropriate ISACA committee and, ultimately, in disciplinary action.

### ■ Guidelines provide guidance in applying IT Audit and Assurance Standards. The IT audit and assurance professional should consider them in determining how to achieve implementation of the standards, use professional judgement in their application and be prepared to justify any departure. The objective of the IT Audit and Assurance Guidelines is to provide further information on how to comply with the IT Audit and Assurance Standards.

### ■ Tools and Techniques provide examples of procedures an IT audit and assurance professional might follow in an audit engagement. The procedure documents provide information on how to meet the standards when performing IT auditing work, but do not set requirements. The objective of the IT Audit and Assurance Tools and Techniques is to provide further information on how to comply with the IT Audit and Assurance Standards.

**COBIT®** is an IT governance framework and supporting tool set that allows managers to bridge the gaps amongst control requirements, technical issues and business risks. COBIT enables clear policy development and good practice for IT control throughout enterprises. It emphasises regulatory compliance, helps enterprises increase the value attained from IT, enables alignment and simplifies implementation of the COBIT framework's concepts. COBIT is intended for use by business and IT management as well as IT audit and assurance professionals; therefore, its usage enables the understanding of business objectives and communication of good practices and recommendations to be made around a commonly understood and well-respected framework. COBIT is available for download on the ISACA web site, [www.isaca.org/cobit](http://www.isaca.org/cobit).

Links to current guidance are posted on the standards page, [www.isaca.org/standards](http://www.isaca.org/standards).

The titles of issued standards documents are:

### IT Audit and Assurance Standards

- S1 Audit Charter Effective 1 January 2005
- S2 Independence Effective 1 January 2005
- S3 Professional Ethics and Standards Effective 1 January 2005
- S4 Professional Competence Effective 1 January 2005
- S5 Planning Effective 1 January 2005
- S6 Performance of Audit Work Effective 1 January 2005
- S7 Reporting Effective 1 January 2005
- S8 Follow-up Activities Effective 1 January 2005
- S9 Irregularities and Illegal Acts Effective 1 September 2005
- S10 IT Governance Effective 1 September 2005
- S11 Use of Risk Assessment in Audit Planning Effective 1 November 2005
- S12 Audit Materiality Effective 1 July 2006
- S13 Using the Work of Other Experts Effective 1 July 2006
- S14 Audit Evidence Effective 1 July 2006
- S15 IT Controls Effective 1 February 2008
- S16 E-commerce Effective 1 February 2008

### IT Audit and Assurance Guidelines

- G1 Using the Work of Other Experts Effective 1 March 2008
- G2 Audit Evidence Requirement Effective 1 May 2008
- G3 Use of Computer-assisted Audit Techniques (CAATs) Effective 1 March 2008
- G4 Outsourcing of IS Activities to Other Organisations Effective 1 May 2008
- G5 Audit Charter Effective 1 February 2008
- G6 Materiality Concepts for Auditing Information Systems Effective 1 May 2008
- G7 Due Professional Care Effective 1 March 2008
- G8 Audit Documentation Effective 1 March 2008
- G9 Audit Considerations for Irregularities Effective 1 September 2008
- G10 Audit Sampling Effective 1 August 2008
- G11 Effect of Pervasive IS Controls Effective 1 August 2008
- G12 Organisational Relationship and Independence Effective 1 August 2008
- G13 Use of Risk Assessment in Audit Planning Effective 1 August 2008
- G14 Application Systems Review Effective 1 October 2008
- G15 Audit Planning Revised Effective 1 Mar 2010
- G16 Effect of Third Parties on an Organisation's IT Controls Effective 1 March 2009
- G17 Effect of Non-audit Role on the IS Auditor's Independence Effective 1 May 2010
- G18 IT Governance Effective 1 May 2010
- G19 Withdrawn 1 September 2008
- G20 Reporting Effective 16 September 2010
- G21 Enterprise Resource Planning (ERP) Systems Review Effective 16 September 2010
- G22 Business-to-consumer (B2C) E-commerce Reviews Effective 1 October 2008
- G23 System Development Life Cycle (SDLC) Reviews Effective 1 August 2005
- G24 Internet Banking Effective 1 August 2005
- G25 Review of Virtual Private Networks Effective 1 July 2004
- G26 Business Process Re-engineering (BPR) Project Reviews Effective 1 July 2004
- G27 Mobile Computing Effective 1 September 2004
- G28 Computer Forensics Effective 1 September 2004
- G29 Post-implementation Review Effective 1 January 2005
- G30 Competence Effective 1 June 2005
- G31 Privacy Effective 1 June 2005

- G32 Business Continuity Plan (BCP) Review From IT Perspective Effective 1 September 2005
- G33 General Considerations for the Use of the Internet Effective 1 March 2006
- G34 Responsibility, Authority and Accountability Effective 1 March 2006
- G35 Follow-up Activities Effective 1 March 2006
- G36 Biometric Controls Effective 1 February 2007
- G37 Configuration and Release Management Effective 1 November 2007
- G38 Access Controls Effective 1 February 2008
- G39 IT Organisation Effective 1 May 2008
- G40 Review of Security Management Practices Effective 1 October 2008
- G41 Return on Security Investment (ROSI) Effective 1 May 2010
- G42 Continuous Assurance Effective 1 May 2010

### IT Audit and Assurance Tools and Techniques

- P1 IS Risk Assessment Measurement Effective 1 July 2002
- P2 Digital Signatures and Key Management Effective 1 July 2002
- P3 Intrusion Detection Systems (IDS) Review Effective 1 August 2005
- P4 Malicious Logic Effective 1 August 2005
- P5 Control Risk Self-assessment Effective 1 August 2005
- P6 Firewalls Effective 1 August 2005
- P7 Irregularities and Illegal Acts Effective 1 December 2005
- P8 Security Assessment—Penetration Testing and Vulnerability Analysis Effective 1 September 2004
- P9 Evaluation of Management Controls Over Encryption Methodologies Effective 1 January 2005
- P10 Business Application Change Control Effective 1 October 2005
- P11 Electronic Funds Transfer (EFT) Effective 1 May 2007

### Standards for Information System Control Professionals Effective 1 September 1999

- 510 Statement of Scope
  - .010 Responsibility, Authority and Accountability
- 520 Independence
  - .010 Professional Independence
  - .020 Organisational Relationship
- 530 Professional Ethics and Standards
  - .010 Code of Professional Ethics
  - .020 Due Professional Care
- 540 Competence
  - .010 Skills and Knowledge
  - .020 Continuing Professional Education
- 550 Planning
  - .010 Control Planning
- 560 Performance of Work
  - .010 Supervision
  - .020 Evidence
  - .030 Effectiveness
- 570 Reporting
  - .010 Periodic Reporting
- 580 Follow-up Activities
  - .010 Follow-up

### Code of Professional Ethics Effective 1 January 2011

**Appendix H – Standard Form LLL: Disclosure of Lobbying Activities**



## DISCLOSURE OF LOBBYING ACTIVITIES

Complete this form to disclose lobbying activities pursuant to 31 U.S.C. 1352

Approved by OMB

0348-0046

(See reverse for public burden disclosure.)

<b>1. Type of Federal Action:</b> <input type="checkbox"/> a. contract <input type="checkbox"/> b. grant <input type="checkbox"/> c. cooperative agreement <input type="checkbox"/> d. loan <input type="checkbox"/> e. loan guarantee <input type="checkbox"/> f. loan insurance	<b>2. Status of Federal Action:</b> <input type="checkbox"/> a. bid/offer/application <input type="checkbox"/> b. initial award <input type="checkbox"/> c. post-award	<b>3. Report Type:</b> <input type="checkbox"/> a. initial filing <input type="checkbox"/> b. material change <b>For Material Change Only:</b> year _____ quarter _____ date of last report _____
<b>4. Name and Address of Reporting Entity:</b> <input type="checkbox"/> Prime <input type="checkbox"/> Subawardee Tier _____, <i>if known</i> :  Congressional District, <i>if known</i> : <sup>4c</sup>	<b>5. If Reporting Entity in No. 4 is a Subawardee, Enter Name and Address of Prime:</b>  Congressional District, <i>if known</i> :	
<b>6. Federal Department/Agency:</b>	<b>7. Federal Program Name/Description:</b>  CFDA Number, <i>if applicable</i> : _____	
<b>8. Federal Action Number, if known:</b>	<b>9. Award Amount, if known:</b> \$	
<b>10. a. Name and Address of Lobbying Registrant</b> <i>(if individual, last name, first name, MI):</i>	<b>b. Individuals Performing Services</b> <i>(including address if different from No. 10a)</i> <i>(last name, first name, MI):</i>	
<b>11.</b> Information requested through this form is authorized by title 31 U.S.C. section 1352. This disclosure of lobbying activities is a material representation of fact upon which reliance was placed by the tier above when this transaction was made or entered into. This disclosure is required pursuant to 31 U.S.C. 1352. This information will be available for public inspection. Any person who fails to file the required disclosure shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.	Signature: _____ Print Name: _____ Title: _____ Telephone No.: _____ Date: _____	
<b>Federal Use Only:</b>		Authorized for Local Reproduction Standard Form LLL (Rev. 7-97)

## INSTRUCTIONS FOR COMPLETION OF SF-LLL, DISCLOSURE OF LOBBYING ACTIVITIES

This disclosure form shall be completed by the reporting entity, whether subawardee or prime Federal recipient, at the initiation or receipt of a covered Federal action, or a material change to a previous filing, pursuant to title 31 U.S.C. section 1352. The filing of a form is required for each payment or agreement to make payment to any lobbying entity for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with a covered Federal action. Complete all items that apply for both the initial filing and material change report. Refer to the implementing guidance published by the Office of Management and Budget for additional information.

1. Identify the type of covered Federal action for which lobbying activity is and/or has been secured to influence the outcome of a covered Federal action.
2. Identify the status of the covered Federal action.
3. Identify the appropriate classification of this report. If this is a followup report caused by a material change to the information previously reported, enter the year and quarter in which the change occurred. Enter the date of the last previously submitted report by this reporting entity for this covered Federal action.
4. Enter the full name, address, city, State and zip code of the reporting entity. Include Congressional District, if known. Check the appropriate classification of the reporting entity that designates if it is, or expects to be, a prime or subaward recipient. Identify the tier of the subawardee, e.g., the first subawardee of the prime is the 1st tier. Subawards include but are not limited to subcontracts, subgrants and contract awards under grants.
5. If the organization filing the report in item 4 checks "Subawardee," then enter the full name, address, city, State and zip code of the prime Federal recipient. Include Congressional District, if known.
6. Enter the name of the Federal agency making the award or loan commitment. Include at least one organizational level below agency name, if known. For example, Department of Transportation, United States Coast Guard.
7. Enter the Federal program name or description for the covered Federal action (item 1). If known, enter the full Catalog of Federal Domestic Assistance (CFDA) number for grants, cooperative agreements, loans, and loan commitments.
8. Enter the most appropriate Federal identifying number available for the Federal action identified in item 1 (e.g., Request for Proposal (RFP) number; Invitation for Bid (IFB) number; grant announcement number; the contract, grant, or loan award number; the application/proposal control number assigned by the Federal agency). Include prefixes, e.g., "RFP-DE-90-001."
9. For a covered Federal action where there has been an award or loan commitment by the Federal agency, enter the Federal amount of the award/loan commitment for the prime entity identified in item 4 or 5.
10. (a) Enter the full name, address, city, State and zip code of the lobbying registrant under the Lobbying Disclosure Act of 1995 engaged by the reporting entity identified in item 4 to influence the covered Federal action.  
  
(b) Enter the full names of the individual(s) performing services, and include full address if different from 10 (a). Enter Last Name, First Name, and Middle Initial (MI).
11. The certifying official shall sign and date the form, print his/her name, title, and telephone number.

According to the Paperwork Reduction Act, as amended, no persons are required to respond to a collection of information unless it displays a valid OMB Control Number. The valid OMB control number for this information collection is OMB No. 0348-0046. Public reporting burden for this collection of information is estimated to average 10 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding the burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Office of Management and Budget, Paperwork Reduction Project (0348-0046), Washington, DC 20503.

## Appendix I – Sample Newspaper Announcement for Consultant Selection



# [SAMPLE ADVERTISEMENT]

## NOTICE TO CONSULTANTS

The [city, county, airport authority]\* is seeking statements of qualifications from experienced airport planning and engineering consultants to perform services for the next five years at the [airport name] Airport. Possible work will include preparation of preapplications and applications for federal and state funding, airport layout plan, capital improvement plan, Disadvantaged Business Enterprise (DBE) plan, runway extension justification, environmental studies, feasibility studies, benefit cost analysis, airport compliance issues and analysis, engineering design and planning for runways and taxiways, runway/taxiway overlays, pavement maintenance, aircraft parking aprons, airport lighting, NAVAIDS, weather reporting system, land acquisition, fencing, roads, fueling facilities, and terminal/hangar area improvements.

All professional consulting firms who consider themselves qualified for this work are invited to submit [number required] copies of the statements of qualifications to:

[city, county, airport authority]\*  
[street address]  
[city, state zip]

Statements of qualifications should be limited to 50 pages and received no later than [time, date]. The [city, county, airport authority]\* will make its selection based upon materials received. (or selection could be based upon materials received and presentations/interviews by the top ranked firms) The following criteria will be used to evaluate and rank the submitted qualifications:

1. Capability to perform services as described in this notice (20 pts).
2. Recent experience in airport projects comparable to the proposed projects (20 pts).
3. Knowledge of FAA and ALDOT Aeronautics Bureau regulations, policies and procedures (20 pts).
4. Knowledge of the airport and the general geographic area (15 pts).
5. Key personnel's professional background and availability for the proposed projects (15 pts).
6. Demonstrated ability to meet schedules or deadlines (10 pts).

[other criteria could be used, see FAA AC 150/5100-14D]

The [city, county, airport authority]\* reserves the right to negotiate with any engineering firm, after statements of qualifications are opened, if such is deemed necessary. The [city, county, airport authority]\* reserves the right to reject any or all proposals.

Any additional information required may be obtained by contacting the [city, county, airport authority]\* at the address listed above or at [phone number]. The [city, county, airport authority]\* is an equal opportunity employer and statements of qualifications from minority or disadvantaged firms are encouraged.

\* substitute the appropriate name or title according to the appropriate governing body

## Appendix J – Standard Form 330



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Public reporting burden for this collection of information is estimated to average a total of 29 hours per response (25 hours for Part 1 and 4 hours for Part 2), including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the FAR Secretariat (MVA), Regulatory and Federal Assistance Publications Division, GSA, Washington, DC 20405.

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Federal agencies use this form to obtain information from architect-engineer (A-E) firms about their professional qualifications. Federal agencies select firms for A-E contracts on the basis of professional qualifications as required by the Brooks A-E Act (40 U.S.C. 1101 - 1104) and Part 36 of the Federal Acquisition Regulation (FAR).

The Brooks A-E Act requires the public announcement of requirements for A-E services (with some exceptions provided by other statutes), and the selection of at least three of the most highly qualified firms based on demonstrated competence and professional qualifications according to specific criteria published in the announcement. The Act then requires the negotiation of a contract at a fair and reasonable price starting first with the most highly qualified firm.

The information used to evaluate firms is from this form and other sources, including performance evaluations, any additional data requested by the agency, and interviews with the most highly qualified firms and their references.

## GENERAL INSTRUCTIONS

Part I presents the qualifications for a specific contract.

Part II presents the general qualifications of a firm or a specific branch office of a firm. Part II has two uses:

1. An A-E firm may submit Part II to the appropriate central, regional or local office of each Federal agency to be kept on file. A public announcement is not required for certain contracts, and agencies may use Part II as a basis for selecting at least three of the most highly qualified firms for discussions prior to requesting submission of Part I. Firms are encouraged to update Part II on file with agency offices, as appropriate, according to FAR Part 36. If a firm has branch offices, submit a separate Part II for each branch office seeking work.

2. Prepare a separate Part II for each firm that will be part of the team proposed for a specific contract and submitted with Part I. If a firm has branch offices, submit a separate Part II for each branch office that has a key role on the team.

## INDIVIDUAL AGENCY INSTRUCTIONS

Individual agencies may supplement these instructions. For example, they may limit the number of projects or number of pages submitted in Part I in response to a public announcement for a particular project. Carefully comply with any agency instructions when preparing and submitting this form. Be as concise as possible and provide only the information requested by the agency.

## DEFINITIONS

**Architect-Engineer Services:** Defined in FAR 2.101.

**Branch Office:** A geographically distinct place of business or subsidiary office of a firm that has a key role on the team.

**Discipline:** Primary technical capabilities of key personnel, as evidenced by academic degree, professional registration, certification, and/or extensive experience.



**Firm:** Defined in FAR 36.102.

**Key Personnel:** Individuals who will have major contract responsibilities and/or provide unusual or unique expertise.

## **SPECIFIC INSTRUCTIONS**

### **Part I - Contract-Specific Qualifications**

#### Section A. Contract Information.

1. Title and Location. Enter the title and location of the contract for which this form is being submitted, exactly as shown in the public announcement or agency request.
2. Public Notice Date. Enter the posted date of the agency's notice on the Federal Business Opportunity website (FedBizOpps), other form of public announcement or agency request for this contract.
3. Solicitation or Project Number. Enter the agency's solicitation number and/or project number, if applicable, exactly as shown in the public announcement or agency request for this contract.

#### Section B. Architect-Engineer Point of Contact

- 4-8. Name, Title, Name of Firm, Telephone Number, Fax (Facsimile) Number and E-mail (Electronic Mail) Address. Provide information for a representative of the prime contractor or joint venture that the agency can contact for additional information.

#### Section C. Proposed Team.

9-11. Firm Name, Address, and Role in This Contract. Provide the contractual relationship, name, full mailing address, and a brief description of the role of each firm that will be involved in performance of this contract. List the prime contractor or joint venture partners first. If a firm has branch offices, indicate each individual branch office that will have a key role on the team. The named subcontractors and outside associates or consultants must be used, and any change must be approved by the contracting officer. (See FAR Part 52 Clause "Subcontractors and Outside Associates and Consultants (Architect-Engineer Services)".) Attach an additional sheet in the same format as Section C if needed.

#### Section D. Organizational Chart of Proposed Team.

As an attachment after Section C, present an organizational chart of the proposed team showing the names and roles of all key personnel listed in Section E and the firm they are associated with as listed in Section C.

#### Section E. Resumes of Key Personnel Proposed for This Contract.

Complete this section for each key person who will participate in this contract. Group by firm, with personnel of the prime contractor or joint venture partner firms first. The following blocks must be completed for each resume:

12. Name. Self-explanatory.
13. Role in This Contract. Self-explanatory.
14. Years Experience. Total years of relevant experience (block 14a), and years of relevant experience with current firm, but not necessarily the same branch office (block 14b).
15. Firm Name and Location. Name, city and state of the firm where the person currently works, which must correspond with one of the firms (or branch office of a firm, if appropriate) listed in Section C.

16. Education. Provide information on the highest relevant academic degree(s) received. Indicate the area(s) of specialization for each degree.

17. Current Professional Registration. Provide information on current relevant professional registration(s) in a State or possession of the United States, Puerto Rico, or the District of Columbia according to FAR Part 36.

18. Other Professional Qualifications. Provide information on any other professional qualifications relating to this contract, such as education, professional registration, publications, organizational memberships, certifications, training, awards, and foreign language capabilities.

19. Relevant Projects. Provide information on up to five projects in which the person had a significant role that demonstrates the person's capability relevant to her/his proposed role in this contract. These projects do not necessarily have to be any of the projects presented in Section F for the project team if the person was not involved in any of those projects or the person worked on other projects that were more relevant than the team projects in Section F. Use the check box provided to indicate if the project was performed with any office of the current firm. If any of the professional services or construction projects are not complete, leave Year Completed blank and indicate the status in Brief Description and Specific Role (block (3)).

#### Section F. Example Projects Which Best Illustrate Proposed Team's Qualifications for This Contract.

Select projects where multiple team members worked together, if possible, that demonstrate the team's capability to perform work similar to that required for this contract. Complete one Section F for each project. Present ten projects, unless otherwise specified by the agency. Complete the following blocks for each project:

20. Example Project Key Number. Start with "1" for the first project and number consecutively.

21. Title and Location. Title and location of project or contract. For an indefinite delivery contract, the location is the geographic scope of the contract.

22. Year Completed. Enter the year completed of the professional services (such as planning, engineering study, design, or surveying), and/or the year completed of construction, if applicable. If any of the professional services or the construction projects are not complete, leave Year Completed blank and indicate the status in Brief Description of Project and Relevance to This Contract (block 24).

23a. Project Owner. Project owner or user, such as a government agency or installation, an institution, a corporation or private individual.

23b. Point of Contact Name. Provide name of a person associated with the project owner or the organization which contracted for the professional services, who is very familiar with the project and the firm's (or firms') performance.

23c. Point of Contract Telephone Number. Self-explanatory.

24. Brief Description of Project and Relevance to This Contract. Indicate scope, size, cost, principal elements and special features of the project. Discuss the relevance of the example project to this contract. Enter any other information requested by the agency for each example project.

25. Firms from Section C Involved with This Project. Indicate which firms (or branch offices, if appropriate) on the project team were involved in the example project, and their roles. List in the same order as Section C.

#### Section G. Key Personnel Participation in Example Projects.

This matrix is intended to graphically depict which key personnel identified in Section E worked on the example projects listed in Section F. Complete the following blocks (see example below).

26. and 27. Names of Key Personnel and Role in This Contract. List the names of the key personnel and their proposed roles in this contract in the same order as they appear in Section E.

28. Example Projects Listed in Section F. In the column under each project key number (see block 29) and for each key person, place an "X" under the project key number for participation in the same or similar role.

29. Example Projects Key. List the key numbers and titles of the example projects in the same order as they appear in Section F.

Section H. Additional Information.

30. Use this section to provide additional information specifically requested by the agency or to address selection criteria that are not covered by the information provided in Sections A-G.

Section I. Authorized Representative

31. and 32. Signature of Authorized Representative and Date. An authorized representative of a joint venture or the prime contractor must sign and date the completed form. Signing attests that the information provided is current and factual, and that all firms on the proposed team agree to work on the project. Joint ventures selected for negotiations must make available a statement of participation by a principal of each member of the joint venture.

33. Name and Title. Self-explanatory.

**SAMPLE ENTRIES FOR SECTION G (MATRIX)**

26. NAMES OF KEY PERSONNEL (From Section E, Block 12)      27. ROLE IN THIS CONTRACT (From Section E, Block 13)      28. EXAMPLE PROJECTS LISTED IN SECTION F Fill in "Example Projects Key" section below before completing table. Place "X" under project key number for participation in same or similar role.

		1	2	3	4	5	6	7	8	9	10
Jane A. Smith	Chief Architect	X		X							
Joseph B. Williams	Chief Mech. Engineer	X	X	X	X						
Tara C. Donovan	Chief Elec. Engineer	X	X		X						

**29. EXAMPLE PROJECTS KEY**

NO.	TITLE OF EXAMPLE PROJECT (FROM SECTION F)	NO.	TITLE OF EXAMPLE PROJECT (FROM SECTION F)
1	Federal Courthouse, Denver, CO	6	XYZ Corporation Headquarters, Boston, MA
2	Justin J. Wilson Federal Building, Baton Rouge, LA	7	Founder's Museum, Newport, RI

## Part II - General Qualifications

See the "General Instructions" on page 1 for firms with branch offices. Prepare Part II for the specific branch office seeking work if the firm has branch offices.

1. Solicitation Number. If Part II is submitted for a specific contract, insert the agency's solicitation number and/or project number, if applicable, exactly as shown in the public announcement or agency request.
- 2a-2e. Firm (or Branch Office) Name and Address. Self-explanatory.
3. Year Established. Enter the year the firm (or branch office, if appropriate) was established under the current name.
4. DUNS Number. Insert the Data Universal Numbering System number issued by Dun and Bradstreet Information Services. Firms must have a DUNS number. See FAR Part 4.6.
5. Ownership.
  - a. Type. Enter the type of ownership or legal structure of the firm (sole proprietor, partnership, corporation, joint venture, etc.).
  - b. Small Business Status. Refer to the North American Industry Classification System (NAICS) code in the public announcement, and indicate if the firm is a small business according to the current size standard for that NAICS code (for example, Engineering Services (part of NAICS 541330), Architectural Services (NAICS 541310), Surveying and Mapping Services (NAICS 541370)). The small business categories and the internet website for the NAICS codes appear in FAR Part 19. Contact the requesting agency for any questions. Contact your local U.S. Small Business Administration office for any questions regarding Business Status.
- 6a-6c. Point of Contact. Provide this information for a representative of the firm that the agency can contact for additional information. The representative must be empowered to speak on contractual and policy matters.
7. Name of Firm. Enter the name of the firm if Part II is prepared for a branch office.
- 8a-8c. Former Firm Names. Indicate any other previous names for the firm (or branch office) during the last six years. Insert the year that this corporate name change was effective and the associated DUNS Number. This information is used to review past performance on Federal contracts.
9. Employees by Discipline. Use the relevant disciplines and associated function codes shown at the end of these instructions and list in the same numerical order. After the listed disciplines, write in any additional disciplines and leave the function code blank. List no more than 20 disciplines. Group remaining employees under "Other Employees" in column b. Each person can be counted only once according to his/her primary function. If Part II is prepared for a firm (including all branch offices), enter the number of employees by disciplines in column c(1). If Part II is prepared for a branch office, enter the number of employees by discipline in column c(2) and for the firm in column c(1).
10. Profile of Firm's Experience and Annual Average Revenue for Last 5 Years. Complete this block for the firm or branch office for which this Part II is prepared. Enter the experience categories which most accurately reflect the firm's technical capabilities and project experience. Use the relevant experience categories and associated profile codes shown at the end of these instructions, and list in the same numerical order. After the listed experience categories, write in any unlisted relevant project experience categories and leave the profile codes blank. For each type of experience, enter the appropriate revenue index number to reflect the professional services revenues received annually (averaged over the last 5 years) by the firm or branch office for performing that type of work. A particular project may be identified with one experience category or it may be broken into components, as best reflects the capabilities and types of work performed by the firm. However, do not double count the revenues received on a particular project.
11. Annual Average Professional Services Revenues of Firm for Last 3 Years. Complete this block for the firm or branch office for which this Part II is prepared. Enter the appropriate revenue index numbers to reflect the professional services revenues received annually (averaged over the last 3 years) by the firm or branch office. Indicate Federal work (performed directly for the Federal Government, either as the prime contractor or subcontractor), non-Federal work (all other domestic and foreign work, including Federally-assisted projects), and the total. If the firm has been in existence for less than 3 years, see the definition for "Annual Receipts" under FAR 19.101.
12. Authorized Representative. An authorized representative of the firm or branch office must sign and date the completed form. Signing attests that the information provided is current and factual. Provide the name and title of the authorized representative who signed the form.

List of Disciplines (Function Codes)

Code	Description	Code	Description
01	Acoustical Engineer	32	Hydraulic Engineer
02	Administrative	33	Hydrographic Surveyor
03	Aerial Photographer	34	Hydrologist
04	Aeronautical Engineer	35	Industrial Engineer
05	Archeologist	36	Industrial Hygienist
06	Architect	37	Interior Designer
07	Biologist	38	Land Surveyor
08	CADD Technician	39	Landscape Architect
09	Cartographer	40	Materials Engineer
10	Chemical Engineer	41	Materials Handling Engineer
11	Chemist	42	Mechanical Engineer
12	Civil Engineer	43	Mining Engineer
13	Communications Engineer	44	Oceanographer
14	Computer Programmer	45	Photo Interpreter
15	Construction Inspector	46	Photogrammetrist
16	Construction Manager	47	Planner: Urban/Regional
17	Corrosion Engineer	48	Project Manager
18	Cost Engineer/Estimator	49	Remote Sensing Specialist
19	Ecologist	50	Risk Assessor
20	Economist	51	Safety/Occupational Health Engineer
21	Electrical Engineer	52	Sanitary Engineer
22	Electronics Engineer	53	Scheduler
23	Environmental Engineer	54	Security Specialist
24	Environmental Scientist	55	Soils Engineer
25	Fire Protection Engineer	56	Specifications Writer
26	Forensic Engineer	57	Structural Engineer
27	Foundation/Geotechnical Engineer	58	Technician/Analyst
28	Geodetic Surveyor	59	Toxicologist
29	Geographic Information System Specialist	60	Transportation Engineer
30	Geologist	61	Value Engineer
31	Health Facility Planner	62	Water Resources Engineer

List of Experience Categories (Profile Codes)

Code	Description	Code	Description
A01	Acoustics, Noise Abatement	D01	Dams ( <i>Concrete; Arch</i> )
A02	Aerial Photography; Airborne Data and Imagery Collection and Analysis	D02	Dams ( <i>Earth; Rock</i> ); Dikes; Levees
A03	Agricultural Development; Grain Storage; Farm Mechanization	D03	Desalinization ( <i>Process and Facilities</i> )
A04	Air Pollution Control	D04	Design-Build - Preparation of Requests for Proposals
A05	Airports; Nav aids; Airport Lighting; Aircraft Fueling	D05	Digital Elevation and Terrain Model Develop- ment
A06	Airports; Terminals and Hangars; Freight Handling	D06	Digital Orthophotography
A07	Arctic Facilities	D07	Dining Halls; Clubs; Restaurants
A08	Animal Facilities	D08	Dredging Studies and Design
A09	Anti-Terrorism/Force Protection	E01	Ecological and Archeological Investigations
A10	Asbestos Abatement	E02	Educational Facilities; Classrooms
A11	Auditoriums and Theaters	E03	Electrical Studies and Design
A12	Automation; Controls; Instrumentation	E04	Electronics
B01	Barracks; Dormitories	E05	Elevators; Escalators; People-Movers
B02	Bridges	E06	Embassies and Chanceries
C01	Cartography	E07	Energy Conservation; New Energy Sources
C02	Cemeteries ( <i>Planning and Relocation</i> )	E08	Engineering Economics
C03	Charting; Nautical and Aeronautical	E09	Environmental Impact Studies, Assessments or Statements
C04	Chemical Processing and Storage	E10	Environmental and natural Resource Mapping
C05	Child Care/Development Facilities	E11	Environmental Planning
C06	Churches; Chapels	E12	Environmental Remediation
C07	Coastal Engineering	E13	Environmental Testing and Analysis
C08	Codes; Standards; Ordinances	F01	Fallout Shelters; Blast-Resistant Design
C09	Cold Storage; Refrigeration and Fast Freeze	F02	Field Houses; Gyms; Stadiums
C10	Commercial Building ( <i>Low Rise</i> ); Shopping Centers	F03	Fire Protection
C11	Community Facilities	F04	Fisheries; Fish Ladders
C12	Communications Systems; TV; Microwave	F05	Forensic Engineering
C13	Computer Facilities; Computer Service	F06	Forestry and Forest Products
C14	Conservation and Resource Management	G01	Garages; Vehicles Maintenance Facilities; Parking Decks
C15	Construction Management	G02	Gas Systems ( <i>Propane; Natural, Etc.</i> )
C16	Construction Surveying	G03	Geodetic Surveying: Ground and Air- borne
C17	Corrosion Control; Cathodic Protection Electrolysis	G04	Geographic Information System Services: Development, Analysis, and Data Collection
C18	Cost Estimating; Cost Engineering and Analysis; Parametric Costing; Forecasting		
C19	Cryogenic Facilities		

Code	Description	Code	Description
G05	Geospatial Data Conversion: Scanning, Digitizing, Compilation, Attributing, Scribing, Drafting	M08	Modular systems Design; Pre-Fabricated Structures or Components
G06	Graphic Design	N01	Naval Architecture; Off-Shore Platforms
H01	Harbors; Jetties; Piers, Ship Terminal Facilities	N02	Navigation Structures; Locks
H02	Hazardous Materials Handling and Storage	N03	Nuclear Facilities; Nuclear Shielding
H03	Hazardous, Toxic, Radioactive Waste Remediation	O01	Office Buildings; Industrial Parks
H04	Heating; Ventilating; Air Conditioning	O02	Oceanographic Engineering
H05	Health Systems Planning	O03	Ordnance; Munitions; Special Weapons
H06	High-rise; Air-Rights-Type Buildings	P01	Petroleum Exploration; Refining
H07	Highways; Streets; Airfield Paving; Parking Lots	P02	Petroleum and Fuel ( <i>Storage and Distribution</i> )
H08	Historical Preservation	P03	Photogrammetry
H09	Hospital and Medical Facilities	P04	Pipelines ( <i>Cross-Country - Liquid and Gas</i> )
H10	Hotels; Motels	P05	Planning ( <i>Community, Regional, Areawide and State</i> )
H11	Housing ( <i>Residential, Multi-Family; Apartments; Condominiums</i> )	P06	Planning ( <i>Site, Installation and Project</i> )
H12	Hydraulics and Pneumatics	P07	Plumbing and Piping Design
H13	Hydrographic Surveying	P08	Prisons and Correctional Facilities
I01	Industrial Buildings; Manufacturing Plants	P09	Product, Machine Equipment Design
I02	Industrial Processes; Quality Control	P10	Pneumatic Structures, Air-Support Buildings
I03	Industrial Waste Treatment	P11	Postal Facilities
I04	Intelligent Transportation Systems	P12	Power Generation, Transmission, Distribution
I05	Interior Design; Space Planning	P13	Public Safety Facilities
I06	Irrigation; Drainage	R01	Radar; Sonar; Radio and Radar Telescopes
J01	Judicial and Courtroom Facilities	R02	Radio Frequency Systems and Shieldings
L01	Laboratories; Medical Research Facilities	R03	Railroad; Rapid Transit
L02	Land Surveying	R04	Recreation Facilities ( <i>Parks, Marinas, Etc.</i> )
L03	Landscape Architecture	R05	Refrigeration Plants/Systems
L04	Libraries; Museums; Galleries	R06	Rehabilitation ( <i>Buildings; Structures; Facilities</i> )
L05	Lighting ( <i>Interior; Display; Theater, Etc.</i> )	R07	Remote Sensing
L06	Lighting ( <i>Exteriors; Streets; Memorials; Athletic Fields, Etc.</i> )	R08	Research Facilities
M01	Mapping Location/Addressing Systems	R09	Resources Recovery; Recycling
M02	Materials Handling Systems; Conveyors; Sorters	R10	Risk Analysis
M03	Metallurgy	R11	Rivers; Canals; Waterways; Flood Control
M04	Microclimatology; Tropical Engineering	R12	Roofing
M05	Military Design Standards	S01	Safety Engineering; Accident Studies; OSHA Studies
M06	Mining and Mineralogy	S02	Security Systems; Intruder and Smoke Detection
M07	Missile Facilities ( <i>Silos; Fuels; Transport</i> )	S03	Seismic Designs and Studies

Code	Description
S04	Sewage Collection, Treatment and Disposal
S05	Soils and Geologic Studies; Foundations
S06	Solar Energy Utilization
S07	Solid Wastes; Incineration; Landfill
S08	Special Environments; Clean Rooms, Etc.
S09	Structural Design; Special Structures
S10	Surveying; Platting; Mapping; Flood Plain Studies
S11	Sustainable Design
S12	Swimming Pools
S13	Storm Water Handling and Facilities
T01	Telephone Systems ( <i>Rural; Mobile; Intercom, Etc.</i> )
T02	Testing and Inspection Services
T03	Traffic and Transportation Engineering
T04	Topographic Surveying and Mapping
T05	Towers ( <i>Self-Supporting and Guyed Systems</i> )
T06	Tunnels and Subways
U01	Unexploded Ordnance Remediation
U02	Urban renewals; Community Development
U03	Utilities ( <i>Gas and Steam</i> )
V01	Value Analysis; Life-Cycle Costing
W01	Warehouse and Depots
W02	Water Resources; Hydrology; Ground Water
W03	Water Supply; Treatment and Distribution
W04	Wind Tunnels; Research/Testing Facilities Design
Z01	Zoning; Land Use Studies



# ARCHITECT - ENGINEER QUALIFICATIONS

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## PART I - CONTRACT-SPECIFIC QUALIFICATIONS

### A. CONTRACT INFORMATION

1. TITLE AND LOCATION *(City and State)*:
2. PUBLIC NOTICE DATE:
3. SOLICITATION OR PROJECT NUMBER:

---

### B. ARCHITECT-ENGINEER POINT OF CONTACT

4. NAME AND TITLE:
5. NAME OF FIRM:
6. TELEPHONE NUMBER:
7. FAX NUMBER:
8. E-MAIL ADDRESS:

---

### C. PROPOSED TEAM

*(Complete this section for the prime contractor and all key subcontractors.)*

- 
- 9a. PRIME (CHECK HERE):
  - 9a. JOINT-VENTURE PARTNER (CHECK HERE):
  - 9a. SUBCONTRACTOR (CHECK HERE):
  - 9a. FIRM NAME:
  - 9a. IF BRANCH OFFICE CHECK HERE:
  - 10a. ADDRESS
  - 11a. ROLE IN THIS CONTRACT

- 
- 9b. PRIME (CHECK HERE):
  - 9b. JOINT-VENTURE PARTNER (CHECK HERE):
  - 9b. SUBCONTRACTOR (CHECK HERE):
  - 9b. FIRM NAME:
  - 9b. IF BRANCH OFFICE CHECK HERE:
  - 10b. ADDRESS
  - 11b. ROLE IN THIS CONTRACT
-

- 9c. PRIME (CHECK HERE):
  - 9c. JOINT-VENTURE PARTNER (CHECK HERE):
  - 9c. SUBCONTRACTOR (CHECK HERE):
  - 9c. FIRM NAME:
  - 9c. IF BRANCH OFFICE CHECK HERE:
  - 10c. ADDRESS
  - 11c. ROLE IN THIS CONTRACT
- 

- 9d. PRIME (CHECK HERE):
  - 9d. JOINT-VENTURE PARTNER (CHECK HERE):
  - 9d. SUBCONTRACTOR (CHECK HERE):
  - 9d. FIRM NAME:
  - 9d. IF BRANCH OFFICE CHECK HERE:
  - 10d. ADDRESS
  - 11d. ROLE IN THIS CONTRACT
- 

- 9e. PRIME (CHECK HERE):
  - 9e. JOINT-VENTURE PARTNER (CHECK HERE):
  - 9e. SUBCONTRACTOR (CHECK HERE):
  - 9e. FIRM NAME:
  - 9e. IF BRANCH OFFICE CHECK HERE:
  - 10e. ADDRESS
  - 11e. ROLE IN THIS CONTRACT
- 

- 9f. PRIME (CHECK HERE):
  - 9f. JOINT-VENTURE PARTNER (CHECK HERE):
  - 9f. SUBCONTRACTOR (CHECK HERE):
  - 9f. FIRM NAME:
  - 9f. IF BRANCH OFFICE CHECK HERE:
  - 10f. ADDRESS
  - 11f. ROLE IN THIS CONTRACT
- 

**D. ORGANIZATIONAL CHART OF PROPOSED TEAM** *(Attached; check here)*

---

**E. RESUMES OF KEY PERSONNEL PROPOSED FOR THIS CONTRACT**  
*(Complete one Section E for each key person.)*

12. NAME:

13. ROLE IN THIS CONTRACT:

14a. YEARS EXPERIENCE - TOTAL:

14b. YEARS EXPERIENCE - WITH CURRENT FIRM:

15. FIRM NAME AND LOCATION *(City and State)*:

16. EDUCATION *(DEGREE AND SPECIALIZATION)*:

17. CURRENT PROFESSIONAL REGISTRATION *(STATE AND DISCIPLINE)*:

18. OTHER PROFESSIONAL QUALIFICATIONS *(Publications, Organizations, Training, Awards, etc.)*:

---

19a(1) RELEVANT PROJECT - TITLE AND LOCATION *(City and State)*:

19a(2) RELEVANT PROJECT - YEAR COMPLETED - PROFESSIONAL SERVICES:

19a(2) RELEVANT PROJECT - YEAR COMPLETED - CONSTRUCTION *(If applicable)*:

19a(3) RELEVANT PROJECT - BRIEF DESCRIPTION *(Brief scope, size, cost etc.)* AND SPECIFIC ROLE:

19a(3) RELEVANT PROJECT - BRIEF DESCRIPTION - Check here if project performed with current firm:

---

19b(1) RELEVANT PROJECT - TITLE AND LOCATION *(City and State)*:

19b(2) RELEVANT PROJECT - YEAR COMPLETED - PROFESSIONAL SERVICES:

19b(2) RELEVANT PROJECT - YEAR COMPLETED - CONSTRUCTION *(If applicable)*:

19b(3) RELEVANT PROJECT - BRIEF DESCRIPTION *(Brief scope, size, cost etc.)* AND SPECIFIC ROLE:

19b(3) RELEVANT PROJECT - BRIEF DESCRIPTION - Check here if project performed with current firm:

---

19c(1) RELEVANT PROJECT - TITLE AND LOCATION *(City and State)*:

19c(2) RELEVANT PROJECT - YEAR COMPLETED - PROFESSIONAL SERVICES:

19c(2) RELEVANT PROJECT - YEAR COMPLETED - CONSTRUCTION *(If applicable)*:

19c(3) RELEVANT PROJECT - BRIEF DESCRIPTION *(Brief scope, size, cost etc.)* AND SPECIFIC ROLE:

19c(3) RELEVANT PROJECT - BRIEF DESCRIPTION - Check here if project performed with current firm:

---

19d(1) RELEVANT PROJECT - TITLE AND LOCATION *(City and State)*:

19d(2) RELEVANT PROJECT - YEAR COMPLETED - PROFESSIONAL SERVICES:

19d(2) RELEVANT PROJECT - YEAR COMPLETED - CONSTRUCTION *(If applicable)*:

19d(3) RELEVANT PROJECT - BRIEF DESCRIPTION *(Brief scope, size, cost etc.)* AND SPECIFIC ROLE:

19d(3) RELEVANT PROJECT - BRIEF DESCRIPTION - Check here if project performed with current firm:

---

19e(1) RELEVANT PROJECT - TITLE AND LOCATION *(City and State)*:

19e(2) RELEVANT PROJECT - YEAR COMPLETED - PROFESSIONAL SERVICES:

19e(2) RELEVANT PROJECT - YEAR COMPLETED - CONSTRUCTION *(If applicable)*:

19e(3) RELEVANT PROJECT - BRIEF DESCRIPTION *(Brief scope, size, cost etc.)* AND SPECIFIC ROLE:

19e(3) RELEVANT PROJECT - BRIEF DESCRIPTION - Check here if project performed with current firm:

---

**F. EXAMPLE PROJECTS WHICH BEST ILLUSTRATE PROPOSED TEAM'S QUALIFICATIONS FOR THIS CONTRACT**

*(Present as many projects as requested by the agency, or 10 projects, if not specified. Complete one Section F for each project.)*

D. EXAMPLE PROJECT KEY NUMBER:

E. TITLE AND LOCATION *(City and State)*:

F. YEAR COMPLETED - PROFESSIONAL SERVICES:

G. YEAR COMPLETED - CONSTRUCTION *(If applicable)*:

23a. PROJECT OWNER'S INFORMATION - PROJECT OWNER:

23b. PROJECT OWNER'S INFORMATION - POINT OF CONTACT NAME:

23c. PROJECT OWNER'S INFORMATION - POINT OF CONTACT TELEPHONE NUMBER:

24. BRIEF DESCRIPTION OF PROJECT AND RELEVANCE TO THIS CONTRACT *(Include scope, size, and cost)*:

25. FIRMS FROM SECTION INVOLVED WITH THIS PROJECT

(1) FIRM NAME	(2) FIRM LOCATION <i>(City and State)</i>	(3) ROLE

**G. KEY PERSONNEL PARTICIPATION IN EXAMPLE PROJECTS**

26. NAMES OF KEY PERSONNEL (From Section E, Block 12)	27. ROLE IN THIS CONTRACT (From Section E, Block 13)	28. EXAMPLE PROJECTS LISTED IN SECTION F (Fill in "Example Projects Key" section below before completing table. Place "X" under project key number for participation in same or similar role.)									
		1	2	3	4	5	6	7	8	9	10

**29. EXAMPLE PROJECTS KEY**

NO.	TITLE OF EXAMPLE PROJECT (FROM SECTION F)	NO.	TITLE OF EXAMPLE PROJECT (FROM SECTION F)
1		6	
2		7	
3		8	
4		9	
5		10	

**H. ADDITIONAL INFORMATION**

---

29. PROVIDE ANY ADDITIONAL INFORMATION REQUESTED BY THE AGENCY. ATTACH ADDITIONAL SHEETS AS NEEDED:

---

**9. AUTHORIZED REPRESENTATIVE**  
**The foregoing is a statement of facts.**

30. SIGNATURE OF AUTHORIZED REPRESENTATIVE:

31. DATE SIGNED:

32. NAME AND TITLE OF SIGNER:

# ARCHITECT-ENGINEER QUALIFICATIONS

## PART II - GENERAL QUALIFICATIONS

*(If a firm has branch offices, complete for each specific branch office seeking work.)*

1. SOLICITATION NUMBER *(If any):*
- 2a. FIRM (OR BRANCH OFFICE) NAME:
- 2b. FIRM (OR BRANCH OFFICE) STREET:
- 2c. FIRM (OR BRANCH OFFICE) CITY:
- 2d. FIRM (OR BRANCH OFFICE) STATE:
- 2e. FIRM (OR BRANCH OFFICE) ZIP CODE:
3. YEAR ESTABLISHED:
4. DUNS NUMBER:
- 5a. OWNERSHIP - TYPE:
- 5b. OWNERSHIP - SMALL BUSINESS STATUS:
- 6a. POINT OF CONTACT NAME AND TITLE:
- 6b. POINT OF CONTACT TELEPHONE NUMBER:
- 6c. POINT OF CONTACT E-MAIL ADDRESS:
7. NAME OF FIRM *(If block 2a is a branch office):*

8a. FORMER FIRM NAME(S) <i>(If any)</i>	8b. YR. ESTABLISHED	8c. DUNS NUMBER

**9. EMPLOYEES BY DISCIPLINE**

a. Function Code	b. Discipline	c(1). No. of Employees - Firm	c(2). No. of Employees - Branch
	Other Employee		



**10. PROFILE OF FIRM'S EXPERIENCE AND ANNUAL AVERAGE REVENUE FOR LAST 5 YEARS**

a. Profile Code	b. Experience	c. Revenue Index <i>below</i>

**PROFESSIONAL SERVICES REVENUE INDEX NUMBER**

- 1. Less than \$100,000
- 2. \$100,000 to less than \$250,000
- 3. \$250,000 to less than \$500,00
- 4. \$500,000 to less than \$1 million
- 5. \$1 million to less than \$2 million
- 6. \$2 million to less than \$5 million
- 7. \$5 million to less than \$10 million
- 8. \$10 million to less than \$25 million
- 9. \$25 million to less than \$50 million
- 10. \$50 million or greater

**11. ANNUAL AVERAGE PROFESSIONAL SERVICES REVENUES OF FIRM FOR LAST 3 YEARS**  
(Insert revenue index number shown above)

- 11a. Federal Work:
- 11b. Non-Federal Work:
- 11c. Total Work:

**12. AUTHORIZED REPRESENTATIVE. The foregoing is a statement of facts.**

- 12a. SIGNATURE:
- 12b. DATE SIGNED:

## Appendix K – Contract Checklist



**From AC/5100-14D:**

**3-7. CONTRACT CHECKLIST.** The following checklist identifies important items and provisions to be considered in preparing any contract for consultant services. It is not all-inclusive because each contract will vary based on the unique requirements of the project scope of services.

- a. Effective date of contract.
- b. Names and descriptions of the parties to the agreement with their addresses and, in the case of a corporate body, the legal description of the corporation.
- c. Nature, extent, and character of the project, the location thereof, and the time limitations.
- d. Services, including performance and delivery schedules, to be rendered by the consultant.
- e. Delineation of responsibilities of the consultant, the sponsor, and other consultants and parties involved in the performance of the project, particularly key personnel such as the project manager.
- f. Delineation of the duties and responsibilities of the resident engineer/inspector.
- g. Inclusion of mandatory contract provisions identified in paragraph 3-4.
- h. Provision for renegotiation of the contract on the basis of change in the scope of the project, changes in conditions, additional work, etc.
- i. Provision that reproducible copies of planning and design drawings and specifications be made available to the sponsor upon request.
- j. Compensation, including methods of payment and payment schedules, for services to be rendered by consultants.
- k. Provision for the termination of the consultant services before completion of work.
- l. Provision for preparation of a Quality Control Plan as required by the special provisions of the grant agreement.
- m. Provision for preparation of an Engineer's Design Report and Final Report.

## Appendix L – Review of Engineers' Indirect Cost Rates



Name of Consultant (A/E Firm): \_\_\_\_\_

Name of CPA Firm/Auditor: \_\_\_\_\_

Name of DOT Reviewer: \_\_\_\_\_

Date of DOT Review: \_\_\_\_\_

**I. Purpose and Objectives**

**A. Purpose**

The primary purpose of this CPA Workpaper Review Program is to allow State DOTs to obtain reasonable assurance that independent CPAs have conducted overhead audits in accordance with Government Auditing Standards (also known as "GAGAS" or "Yellowbook" standards) and Generally Accepted Auditing Standards (GAAS); to ensure compliance with Generally Accepted Accounting Principles (GAAP), FAR Part 31 and, to the extent applicable, the Cost Accounting Standards (CAS) of 48 CFR subpart 9900.

The audit/examination will evaluate compliance with GAAS and Government Auditing Standards, applicable Cost Accounting Standards, FAR Part 31, and the *AASHTO Uniform Audit and Accounting Guide* (hereinafter "AASHTO Audit Guide"). To ensure the objectives listed below are met, the following program steps have been developed to provide the auditor with a flexible outline to ensure that sufficient evidence is gathered to support audit conclusions.

**B. Objectives**

This Program was designed to provide State Department of Transportation (State DOT) auditors with a framework to—

- Evaluate the CPA's familiarity with the GAGAS, GAAS, GAAP, 23 U.S.C. 112(b)(2), 23 CFR 172, FAR Part 31, and interpretive guidance such as the DCAA Contract Audit Manual (CAM) and the AASHTO Audit Guide.
- Assess the adequacy of the CPA's audit planning procedures.
- Determine whether the CPA's workpapers support the opinions stated in the report regarding the engineering consultant's—
  - job-cost accounting and estimating systems;
  - overhead schedule;
  - internal control structure;
  - compliance with the applicable laws, regulations, and guidance; and
  - identification and segregation of field office costs.
- Verify the adequacy of the sampling procedures used by the CPA to determine audit findings.
- Ensure the CPA presented the audit findings and the Audit Report to the engineering consultant.
- Ensure that the CPA's audit adjustments agree to the adjustments listed on the final, audited overhead schedule submitted to State DOTs.
- Evaluate and report on the quality of the CPA's workpapers and audit procedures.

**Note:** The foregoing list of objectives was designed to determine whether the CPA's workpapers support various elements of the engineering consultant's financial systems, such as the job-cost accounting and estimating systems. However, it should be noted that the CPA only is required to provide an opinion on the overhead schedule and to issue a report on internal controls over financial reporting and compliance as required by GAGAS.

Name of Consultant: \_\_\_\_\_  
 Audit Period: \_\_\_\_\_  
 CPA Firm/Auditor: \_\_\_\_\_

DOT Reviewer: \_\_\_\_\_  
 Review Date: \_\_\_\_\_

II. Preparatory Work		Workpaper Reference or Comment
II.A.	Obtain current year overhead schedule.	
II.B.	Obtain previous year(s) overhead schedule(s).	
II.C.	Compare overhead schedules for consistency of amounts, rates, and allocations to home office and field offices.	
II.D.	Obtain copy of financial statements for the period being reviewed, if available, and/or Form 10K for publicly-traded companies (many times this can be obtained from the company's website). Review of the financial statements may provide additional information regarding related party transactions, acquisition of another firm(s) or other organizational changes, and other information that could be used during the review of the CPA's audit report.	
II.E.	Evaluate the length of time there has been a business relationship between the CPA and engineering consultant. If there is a lengthy and close relationship between the CPA and consultant, the CPA should incorporate additional analysis/evaluation steps for such within the work program.	

III. General Standards (GAGAS Chapter 3)		Attribute Met?	Workpaper Reference (or Comment)
III.A.	Review the CPA's most recent Peer Review report and Letter of Comments, if applicable (GAGAS 3.63). Did the CPA receive an unqualified peer review opinion? If not, document the comments of the peer reviewer(s), obtain a copy of the corrective action plan, and note any possible impairment(s) to the audit work performed.	<input type="checkbox"/> Yes <input type="checkbox"/> No	
III.B.	Did the CPA meet the minimum Yellow Book requirements for CPE credit per GAGAS 3.46? Review the earned CPE hours and course listing for each individual CPA who worked on the assignment: <ul style="list-style-type: none"> <li>• 80 hours CPE over 2 years</li> <li>• 24 hours in government auditing or government environment</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
III.C.	Did it appear that the CPA was free from personal, external, and organizational impairments to independence, and did the CPA avoid the appearance of such impairments to independence (GAGAS 3.02 through 3.30)?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
III.D.	(Answer "yes" or "no," based on overall conclusion.) Did it appear that the staff assigned to conduct the audit collectively possessed adequate professional competence for the tasks required (GAGAS 3.40)? Determine the sufficiency of CPA firm's knowledge of applicable audit criteria, such as the following: <ul style="list-style-type: none"> <li>• Was staff assigned to the audit proficient with the FAR?</li> <li>• Was assigned staff knowledgeable of the AASHTO Guide and other relevant guidance (e.g., the DCAA CAM and/or supplemental materials issued by State DOTs?)</li> <li>• Have assigned staff members received specific training in relevant subjects?</li> <li>• Has the firm had recent experience in conducting FAR audits?</li> <li>• Have any State DOTs already reviewed any of the CPA's audits of other consulting firms? If "yes," contact those states to see if they identified any problems with the CPA's work.</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	

Name of Consultant: \_\_\_\_\_  
 Audit Period: \_\_\_\_\_  
 CPA Firm/Auditor: \_\_\_\_\_

DOT Reviewer: \_\_\_\_\_  
 Review Date: \_\_\_\_\_

IV. Review of Audit Field Work (GAGAS Chapter 4)		Attribute Met?	Workpaper Reference (or Comment)
IV.A.	<p>(Answer “yes” or “no,” based on overall conclusion.) Is there evidence that the audit work was properly planned to:</p> <ul style="list-style-type: none"> <li>• Determine the nature timing and extent of auditing procedures;</li> <li>• Consider fraud and illegal acts;</li> <li>• Consider materiality;</li> <li>• Evaluate previous audits; and</li> <li>• Assess risk?</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
IV.B.	<p>Did the audit contract, engagement letter, or agreement include the following? (Answer “yes” or “no,” based on overall conclusion.)</p> <ul style="list-style-type: none"> <li>• The period to be covered,</li> <li>• The cost pools to be audited,</li> <li>• The reports to be prepared,</li> <li>• That representatives of State agencies and other applicable government audit staff shall have access to the audit documentation upon request and in a timely manner (GAGAS 4.23),</li> <li>• That working papers be maintained for at least three years after the date of the report,</li> <li>• Any restrictions or special conditions, and</li> <li>• Citations to the Audit Guide and other relevant standards and/or regulations to be followed (e.g., GAGAS, GAAS, Far Part 31)?</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	
IV.C.	<p>Did the CPA follow up on known material findings and recommendations from prior audits (GAGAS 4.09)?</p>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	
IV.D.	<p>Did the audit documentation (GAGAS 4.19 and 4.20) provide adequate evidence of the following?</p> <ul style="list-style-type: none"> <li>• Overall, there was sufficient detail to provide a clear understanding of the CPA’s work (additional detail, supplementary, or oral explanations should not be necessary);</li> <li>• The audit evidence obtained included its source, descriptions of transactions and records examined, and the conclusions reached;</li> <li>• The documentation provided sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand—               <ul style="list-style-type: none"> <li>– the nature, timing, and extent of auditing procedures performed to comply with Yellow Book and other applicable standards and requirements;</li> <li>– the results of the audit procedures performed and the audit evidence obtained;</li> <li>– the conclusions reached on significant matters; and</li> <li>– that the accounting records agree or reconcile with the audited financial statements or other audited information.</li> </ul> </li> <li>• The documentation provided evidence of supervisory review of the work performed.</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No  <input type="checkbox"/> Yes <input type="checkbox"/> No  <input type="checkbox"/> Yes <input type="checkbox"/> No  <input type="checkbox"/> Yes <input type="checkbox"/> No	

Name of Consultant: \_\_\_\_\_  
 Audit Period: \_\_\_\_\_  
 CPA Firm/Auditor: \_\_\_\_\_

DOT Reviewer: \_\_\_\_\_  
 Review Date: \_\_\_\_\_

<b>V. Review of Audit Report (GAGAS Chapter 5)</b>		<b>Attribute Met?</b>	<b>Workpaper Reference (or Comment)</b>
V.A.	Did the report contain an opinion stating that the audited overhead schedule was fairly presented in accordance with applicable Federal laws and regulations?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
V.B.	Did the report contain a scope paragraph stating that the audit was performed in accordance with Yellow Book standards?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
V.C.	Did the scope paragraph state that the CPA used FAR Part 31 as the primary basis for determining costs eligible for reimbursement under Government contracts?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	
V.D.	Did the CPA issue a report on the Internal Control and Compliance with Laws, Regulations, and Provisions of Contracts or Grant Agreements as required by Government Auditing Standards? – If “yes,” were all significant deficiencies and material weaknesses in the internal control that were found by the auditor disclosed in the auditor’s report? (GAGAS 5.10 - 5.16)	<input type="checkbox"/> Yes <input type="checkbox"/> No  <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	
V.E.	Review the procedures used by the CPA to communicate the results of the audit and deficiencies in internal controls to the engineering consultant (GAGAS 5.10-5.22). Were the procedures adequate?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
V.F.	(Answer “yes” or “no,” based on overall conclusion.) Were the Disclosure Notes to the Report Adequate? (See AASHTO Guide, Chapter 11, which discusses Audit Reports and Minimum Disclosures.) At a minimum, the following should have been disclosed (if applicable): <ul style="list-style-type: none"> <li>• Description of the Company</li> <li>• Basis of Accounting</li> <li>• Description of Accounting Policies</li> <li>• Description of Overhead Rate Structure</li> <li>• Single or Multiple Base</li> <li>• Multiple rates for field, home office, and corporate level?</li> <li>• Other Direct Costs (ODCs) consistently charged? (ODCs should be listed.)</li> <li>• Cost Allocation Policies</li> <li>• Description of Labor Related Costs</li> <li>• Project Labor</li> <li>• Variances</li> <li>• Paid Time Off</li> <li>• Paid Overtime and Uncompensated Overtime</li> <li>• Employee Compensation Analysis</li> <li>• Pension/Deferred Compensation/Employee Stock Option Plans</li> <li>• Contract Labor</li> <li>• Description of Depreciation/Leasing Policies</li> <li>• Related Party Transactions</li> <li>• Facilities Capital Cost of Money (FCCM)</li> <li>• List of Direct Cost Accounts</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
V.G.	Did the CPA’s Audit Report contain a list of costs submitted by the engineering consultant, adjustments and allowed costs per audit, explanations of the adjustments, and FAR references for the adjustments made?	<input type="checkbox"/> Yes <input type="checkbox"/> No	



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<b>VI. Review of CPA's Workpapers (GAGAS Chapter 4, FAR Part 31, and Cost Accounting Standards (48 CFR Chapter 99))</b>		<b>Attribute Met?</b>	<b>Workpaper Reference (or Comment)</b>
VI.A.1	<p><u>General Ledger</u>. (Answer "yes" or "no," based on overall conclusion.)            Did the CPA review the accounting system to determine if the system was adequate to segregate and accumulate reasonable, allocable, and allowable costs?</p> <ul style="list-style-type: none"> <li>Evaluate the testing used by the CPA to verify the accuracy of costs in the general ledger, associated subsidiary ledgers, and related documents or systems. (Assess if testing was sufficient to support the CPA's conclusions—consider additional sample testing, if necessary).</li> <li>Was there evidence that costs in the general ledger were properly classified?</li> <li>Did the general ledger contain separate accounts for segregating FAR-unallowable costs?</li> <li>If not, were unallowable costs otherwise identified or estimated? Review, evaluate, and document how the unallowable costs were determined. Review the CPA's documentation of tests and conclusions.</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
VI.A.2	<p><u>General Ledger (continued)</u>. (Answer "yes" or "no," based on overall conclusion.)            If the engineering consultant used statistical sampling as a basis to estimate unallowable costs, was a proper statistical sampling method used as required by FAR 31.201-6(c)(2)? Specifically:</p> <ul style="list-style-type: none"> <li>The sampling method must result in an unbiased sample that is a reasonable representation of the sampling universe;</li> <li>Any large dollar value or high risk transaction must be separately reviewed for unallowable costs and must be excluded from the sampling process; and</li> <li>The sampling method must permit audit verification.</li> <li>Did the engineering consultant enter into an appropriate advance agreement with its cognizant state DOT to allow for such sampling and estimation as discussed in FAR 31.201-6(c)(4)?</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A	

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<b>VI. Review of CPA's Workpapers (cont.) (GAGAS Chapter 4, FAR Part 31, and Cost Accounting Standards (48 CFR Chapter 99))</b>		<b>Attribute Met?</b>	<b>Workpaper Reference (or Comment)</b>
VI.B.	<p><u>Labor Accounting System.</u> (See AASHTO Guide, Chapters 6 and 10.)</p> <p>Did the CPA's workpapers contain evidence that the engineering consultant's labor-charging/timekeeping system was determined to be complete and sufficiently detailed to allow for a proper determination of the consultant's direct labor base and indirect labor costs, including the allowability of such costs? Specifically—</p> <ul style="list-style-type: none"> <li>• Was there evidence that the consultant accounted for all hours worked by all employees, including salaried employees and principals?</li> <li>• Was there evidence that indirect labor was recorded on timesheets in sufficient detail to allow for a determination of labor relating to FAR-governed costs, including marketing/promotional, direct selling, bid and proposal, training, reorganization, and other administrative tasks?</li> <li>• Were the labor costs per the overhead schedule reconciled to total labor costs per payroll tax returns (941s), the general ledger/financial statement, and the labor distribution system/summary?</li> <li>• Was there a labor distribution analysis—a review of hours and rates per the labor distribution reports and comparison to employee timesheets and payroll register or other payroll records?</li> <li>• Was there a review of uncompensated overtime? (FAR 52.237-10 defines uncompensated overtime as "hours worked without additional compensation in excess of an average of 40 hours per week by direct charge employees who are exempt from the Fair Labor Standards Act. Compensated personal absences such as holidays, vacations, and sick leave must be included in the normal work week for purposes of computing uncompensated overtime hours.")</li> <li>• If the consultant used a standard costing system, was there evidence that the consultant properly accumulated and disposed of variances?</li> <li>• Was there evidence that the consultant accounted for the premium portion of overtime on a consistent basis?</li> <li>• Was there evidence that the consultant consistently and properly accounted for project-related purchased/temporary labor?</li> <li>• Did the CPA's workpapers contain evidence that a minimum labor sample size of 26 timesheets were chosen for testing across an appropriate mix of direct-charge employees, including supervisors and/or project managers? Alternatively, did the CPA's workpapers for labor testing document the size of the labor population and the conclusions drawn from the risk assessment to determine if a larger sample size was warranted beyond the minimum sample size?</li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

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VI.C.	<p><u>Project (Job) Costing System.</u> Was there evidence that the project costing system accounted for all direct costs (direct labor and other costs that can be identified specifically with a project or final cost objective), on a proper, complete, and consistent basis?</p> <ul style="list-style-type: none"> <li>• Did costs contained in the project costing system integrate with, or otherwise reconcile to, financial accounting system control accounts (general ledger accounts)?</li> <li>• Was there evidence that the consultant properly recorded all direct labor to projects, including non-billable labor identified with projects?</li> <li>• Was there evidence that the consultant recorded labor costs at properly developed labor rates for both salaried and non-salaried employees? For example, did the CPA pay specific attention to the accuracy of labor rates for salaried employees who incur overtime and work in both direct and indirect functions?</li> <li>• Was there evidence that the consultant recorded all Other Direct Costs, whether billable or not, to projects on a consistent basis? Were the components of such costs segregated from general overhead?</li> <li>• Did the workpapers address costs that the consultant treated as direct costs and billed, but also included in the indirect cost pool? If so:           <ul style="list-style-type: none"> <li>– Were recoveries associated with these costs credited to the indirect cost pool in accordance with FAR 31.201-5?</li> <li>– The netting of direct costs included in the indirect cost pool and billed amounts (on a basis other than cost) in this instance may yield an inaccurate representation of costs. Did the workpapers address the acceptability of this alternative methodology?</li> </ul> </li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>	
VI.D.	<p><u>Direct Costs/Verification of Company In-House Rates and Direct Billings.</u> Did the CPA's workpapers include evidence of the following?</p> <ul style="list-style-type: none"> <li>• The consultant submitted a list of direct cost accounts and amounts for the CPA's review.</li> <li>• The CPA reviewed the consultant's direct cost accounts for consistency.</li> <li>• The CPA ensured that all direct costs were removed from the indirect cost pool.</li> <li>• The CPA reviewed the consultant's in-house billing rates to ensure that:           <ul style="list-style-type: none"> <li>– Total usage (direct and indirect) was included in the denominator?</li> <li>– If expenses associated with the development of the rate(s) were accumulated in the indirect cost pool, the indirect cost pool was reduced by the amount of direct usage?</li> <li>– If the expenses were accumulated in separate clearing account(s), the indirect cost pool included only indirect usage?</li> </ul> </li> <li>• Did the CPA audit the in-house billing rates, compare the audited in-house rates to the billing rates, and revise as necessary (e.g., CADD and in-house reproductions)?</li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

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	<ul style="list-style-type: none"> <li>• Did the CPA verify billings on other projects on a sample basis? (If a State project was tested, note project number and amount for information.) Did the CPA performed reconciliations of:           <ul style="list-style-type: none"> <li>– Hours charged on billings to timesheets,</li> <li>– Hourly rates billed to actual rates, and</li> <li>– Hourly rates billed to contract maximums?</li> </ul> </li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
VI.E.	<p><b>Cost Pooling and Allocation Methodologies.</b> (Answer “yes” or “no,” based on overall conclusion.)</p> <p>Did the CPA’s workpapers include evidence that costs were properly and consistently pooled and allocated to intermediate and final cost objectives?</p> <ul style="list-style-type: none"> <li>• Was there evidence that the CPA addressed the propriety of the methodology used by the engineering consultant in allocating costs contained in intermediate cost pools (e.g., corporate expenses, fringe benefits, general and administrative, and service specific overheads) to the final indirect cost rate(s)?</li> <li>• Specifically, did the CPA firm evaluate the homogeneity of the cost pools and the relationship to the allocators used? Did the CPA conclude that the methodology resulted in an allocation of costs in relation to the benefits accrued by the cost objectives?</li> <li>• If the consultant developed indirect costs rates for more than one region, reporting unit, or engineering discipline, did the CPA address the propriety of the cost pooling and cost allocation methodologies used?</li> <li>• For Other Direct Costs that were internally-generated, did the CPA determine that related costs were properly segregated from the general cost pool and allocated to projects on a consistent basis?</li> <li>• For Other Direct Costs that were internally-generated and were accumulated in separate cost pools, did the CPA determine that material year end variances, which resulted from over- or under-allocation of pooled costs, were properly disposed of?</li> <li>• For internally-generated costs, such as company-owned vehicles, were such costs accumulated in separate cost pools when such costs were material in amount and had a material impact on the firm’s indirect cost rates (specifically when the firm has more than one overhead rate involving differentials in the amounts of service-specific vehicle usage)?</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No	
VI.F.	<p><b>Elements of Cost in the Overhead Schedule: Generally.</b></p> <ul style="list-style-type: none"> <li>• Did the workpapers include evidence that the CPA determined that costs contained in the overhead schedule were supported by the underlying books and records, as summarized by financial statements, trial balances, tax returns (IRS Form 941s), and related schedules?</li> <li>• Did the workpapers document the identification of <i>large-dollar or sensitive</i> (LDS) transactions that were removed/stratified for complete examination, including verification (vouching) to source documents? (AASHTO Guide Chapter 10).</li> <li>• Did the workpapers document the additional sampling parameters used by the CPA if additional testing beyond the LDS was warranted? (AASHTO Guide Chapter 10).</li> </ul>	<input type="checkbox"/> Yes <input type="checkbox"/> No  <input type="checkbox"/> Yes <input type="checkbox"/> No  <input type="checkbox"/> Yes <input type="checkbox"/> No	

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VI.G.	<p><u>Elements of Cost in the Overhead Schedule: Specific Cost Elements.</u>          Did the workpapers include evidence that the CPA paid particular attention to evaluating the allowability (including reasonableness) of types or groups of costs that have the greatest potential impact on the overhead rate? These costs include the following:</p> <ol style="list-style-type: none"> <li>(1) salary,</li> <li>(2) bonus/incentive compensation costs,</li> <li>(3) fringe benefits costs,</li> <li>(4) indirect labor, and</li> <li>(5) other indirect costs.</li> </ol> <p>See the following subsections for a detailed discussion.</p>		
<p><b>Complete Section VI.G.1.A (shaded) if the engineering consultant performed an analysis of executive compensation; otherwise, complete Section VI.G.1.B (National Compensation Matrix analysis).</b></p>			
VI.G.1.A	<p><u>Salary, Bonus/Incentive Compensation, Fringe Benefits, and Indirect Labor Costs – Using the Engineering Consultant’s analysis.</u></p> <ul style="list-style-type: none"> <li>• Did the workpapers include evidence that the Consultant prepared an executive compensation schedule in compliance with Chapter 7 of the AASHTO Guide? Specifically, did the NCM schedule disclose the following?             <ol style="list-style-type: none"> <li>(1) Employee/owner/officer first and last name or employee ID,</li> <li>(2) Position title.</li> <li>(3) Employee’s responsibility for sales.</li> <li>(4) Total wages/salaries paid including taxable fringe benefits.</li> <li>(5) Total bonuses paid.</li> <li>(6) Total employer contributions to defined contribution pension plans (whether paid, earned, or otherwise accrued).</li> <li>(7) Total of items 4 through 6 above.</li> <li>(8) The reasonable compensation amount from the NCM.</li> <li>(9) The excess compensation required to be disallowed from the indirect labor or bonus line item.</li> </ol> </li> <li>• Did the workpapers include evidence that:             <ul style="list-style-type: none"> <li>– The CPA verified that the wages paid were for work performed in the current year and did not constitute a retroactive adjustment of prior years’ salaries or wages?</li> <li>– The CPA verified that the Consultant’s analysis complied with the procedures and criteria established in Chapter 7 of the AASHTO Guide?</li> <li>– The CPA verified that specific elements of compensation costs were allocable, allowable and reasonable in compliance with FAR part 31?</li> <li>– The CPA reviewed the Consultant’s written bonus/incentive compensation plan to ensure that objective, performance-based criteria were established, communicated to staff, and used in determining bonus amounts?</li> <li>– The CPA reviewed the Consultant’s written</li> </ul> </li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

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	bonus/incentive compensation plan to determine if any portion of the bonus paid was a constructive dividend or other distribution of profits?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
VI.G.1.B	<p><b><u>Salary, Bonus/Incentive Compensation, Fringe Benefits, and Indirect Labor Costs – Using the National Compensation Matrix.</u></b></p> <ul style="list-style-type: none"> <li>• Did the workpapers include evidence that the engineering consultant prepared an executive compensation analysis in compliance with Chapter 7 of the AASHTO Guide? Specifically, did the consultant’s analysis disclose the following?           <ol style="list-style-type: none"> <li>(1) Employee/owner/officer first and last name or employee ID,</li> <li>(2) Position title.</li> <li>(3) Employee’s responsibility for sales.</li> <li>(4) Total wages/salaries paid including taxable fringe benefits.</li> <li>(5) Total bonuses paid.</li> <li>(6) Total employer contributions to defined contribution pension plans (whether paid, earned, or otherwise accrued).</li> <li>(7) Total of items 4 through 6 above.</li> <li>(8) The applicable amount from the consultant’s analysis or NCM.</li> <li>(9) The excess compensation required to be disallowed from the indirect labor or bonus line item.</li> </ol> </li> <li>• Did the workpapers include evidence that:           <ul style="list-style-type: none"> <li>– The CPA verified that the wages paid were for work performed in the current year and did not constitute a retroactive adjustment of prior years’ salaries or wages?</li> <li>– The CPA verified that specific elements of compensation costs were allocable, allowable and reasonable in compliance with FAR part 31?</li> <li>– The CPA verified that the Consultant complied with the National Compensation Matrix to determine reasonable compensation?</li> <li>– The CPA verified that the Consultant used nationally-published salary survey data to prepare the analysis?</li> <li>– The CPA reviewed the Consultant’s written bonus/incentive compensation plan to ensure that objective, performance-based criteria were established, communicated to staff, and used in determining bonus amounts?</li> <li>– The CPA reviewed the Consultant’s written bonus/incentive compensation plan to determine if any portion of the bonus paid was a constructive dividend or other distribution of profits?</li> </ul> </li> <li>• <u>If the Consultant claimed superior performance, did the consultant’s analysis disclose the following?</u> <ul style="list-style-type: none"> <li>– Did the consultant apply three (or more) financial performance measures as detailed in Chapter 7 of the AASHTO Guide?</li> <li>– Did the consultant consistently use the same criteria</li> </ul> </li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

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	<p>from a prior year (if superior performance was claimed in the prior year)?</p> <ul style="list-style-type: none"> <li>- Did the consultant use proxy data available from valid sources using the prescribed criteria in Chapter 7 of the AASHTO Guide?</li> <li>- Did the consultant limit superior performance so as not to exceed the 75<sup>th</sup> percentile or the Federal Benchmark Compensation Amount (BCA)?</li> <li>• Did the workpapers include evidence that the CPA verified that the Consultant's performance analysis complied with the procedures established in Chapter 7 of the AASHTO Guide?</li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
VI.G.2	<p><u>Indirect Cost Accounts.</u> (See AASHTO Guide, Chapters 4, 5, 8, and 10.)</p> <p>(1) Did the workpapers include a list of accounts the CPA deemed immaterial and therefore did not review?</p> <p>(2) Did the workpapers adequately address the <i>allowability</i> (including <i>reasonableness</i>) of indirect costs in accordance with the FAR 31.205 Selected Costs? Specifically, did the CPA perform the following procedures?</p> <ul style="list-style-type: none"> <li>• Payroll taxes reconciled with applicable tax returns.</li> <li>• Printing/reproductions direct costs were consistently handled by the Consultant, and all direct costs were removed from the indirect cost pool.</li> <li>• <u>Travel.</u> <ul style="list-style-type: none"> <li>- All entertainment costs, alcoholic beverages, and personal charges were removed from the indirect cost pool (FAR 31.205-14 &amp; -51).</li> <li>- Costs for personal usage of company cars, regardless of whether the costs were reported as taxable income to the employee, were removed from the indirect cost pool (FAR 31.205-6(m)(2)).</li> <li>- Travel costs were reviewed for compliance with the Federal Travel Regulation (FAR 31.205-46).</li> <li>- Direct travel costs were treated consistently by the Consultant, and all direct costs were removed from the indirect cost pool (FAR 31.202(a) &amp; 31.203(b)).</li> </ul> </li> <li>• <u>Insurance.</u> <ul style="list-style-type: none"> <li>- Premiums covered the audit period.</li> <li>- Group insurance was reviewed in accordance with FAR 31.205-19.</li> <li>- Self-insurance was reviewed for compliance with FAR 31.205-19.</li> </ul> </li> <li>• <u>Professional Fees.</u> Reviewed for organization and reorganization costs (FAR 31.205-27), bad debt collections (FAR 31.205-3), and other unallowable activities.</li> <li>• <u>Rent.</u> Facilities and other, including personal property, was reviewed for common control, and the Consultant properly limited expenses for controlled assets to the allowable <i>cost of ownership</i> as discussed in FAR 31.205-36.</li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	

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	<ul style="list-style-type: none"> <li>• <u>Depreciation</u>. Amount was compared to tax return and reviewed for reasonable depreciation method. Determine whether the CPA ensured the amount was based on GAAP methods. No section 179 write-offs, and no luxury vehicles on depreciation schedule. Review IRS regulations or CPA analysis to ensure proper treatment (FAR 31.205-11).</li> <li>• <u>Employee Morale and Related Costs</u>. Reviewed for unallowable entertainment costs per FAR 31.205-14 and other allowable costs per FAR 31.205-13.</li> <li>• <u>Accounts titled "Other Indirect Costs," "General Office," or similar titles</u>. Reviewed for allowability.</li> <li>• <u>Subcontractors/ Outside Consultants</u>. Reviewed for proper segregation between direct and indirect.</li> <li>• <u>Other/Miscellaneous Income</u>. Reviewed for any amounts that should be credited to an indirect cost account.</li> <li>• <u>Gains on Sale of Assets</u>. Reviewed for proper credit on gains on sale of assets originally presented as part of the depreciation expense cost.</li> <li>• <u>Losses on Sale of Assets</u>. Reviewed to ensure reporting within the year the transaction occurred, appropriate calculation, appropriate application of credit or charge to the cost grouping(s) in which the depreciation or amortization was originally posted, and appropriate posting of cash awards.</li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>	
VI.H.	<p><u>Elements of the Overhead Rate Calculation</u>.          Did the cost base used to compute the overhead rate consist only of direct labor (e.g., the base excluded fringe benefits, and/or general and administrative costs)?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
VI.I.	<p><u>Field Rate Accounting</u>. Did the Overhead Schedule include the calculation of a field rate? (See Chapter 5 of the AASHTO Guide.) If so, ensure that the Consultant considered the following factors in computing the field rate:</p> <ul style="list-style-type: none"> <li>• Were costs that were allocable to one cost pool properly included in that cost pool?</li> <li>• Were the following field allocation percentages properly computed?             <ul style="list-style-type: none"> <li>– Direct field labor to total direct labor.</li> <li>– Allocation of supportive service "space costs."</li> </ul> </li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>	
VI.J.	<p><u>Elements of the CPA Workpapers/Workprogram</u>.</p> <ul style="list-style-type: none"> <li>• Was the CPA's audit program sufficiently detailed to support the audit conclusion?</li> <li>• Did the audit program contain references to the applicable Federal and state laws, regulations, guidance and standards (e.g., FAR Part 31, Government Auditing Standards, and Cost Accounting Standards)?</li> <li>• Were the summary or lead workpapers adequately indexed and cross-referenced to supporting workpapers (i.e., were the workpapers easy to follow)?</li> <li>• Did the CPA include narratives/notes in the workpapers that, when reviewed together with the audit program, adequately described the work performed?</li> </ul>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>	



Name of Consultant: \_\_\_\_\_  
 Audit Period: \_\_\_\_\_  
 CPA Firm/Auditor: \_\_\_\_\_

DOT Reviewer: \_\_\_\_\_  
 Review Date: \_\_\_\_\_

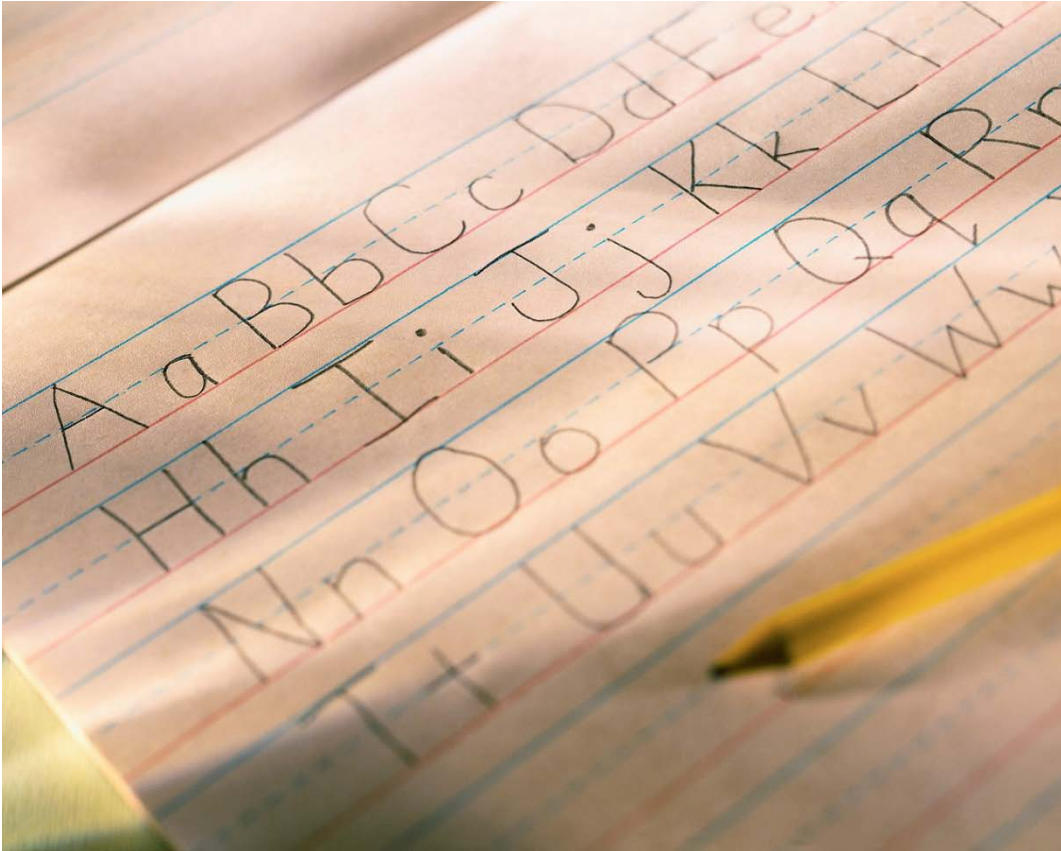
	<p>(Answer “yes” or “no,” based on overall conclusion.)</p> <ul style="list-style-type: none"> <li>• Did the workpapers include evidence that the CPA evaluated internal controls? Specifically—           <ul style="list-style-type: none"> <li>– What procedures did the CPA use to evaluate Internal Controls?</li> <li>– Did the CPA evaluate the adequacy of the controls over the accounting system (e.g., Payroll, Other Direct Costs, and posting)?</li> <li>– Did the CPA evaluate the adequacy of the controls over the computer systems (e.g. Information Technology System policies around: hardware/software, security protocol, activation/deactivation of employees; completion of risk assessment; electronic data retention)?</li> <li>– Did the CPA evaluate the following:               <ol style="list-style-type: none"> <li>(1) Control Environment (management attitude),</li> <li>(2) Risk Assessment,</li> <li>(3) Control Methods (policies and procedures),</li> <li>(4) Communications, and</li> <li>(5) Monitoring?</li> </ol> </li> </ul> </li> <li>• Did the CPA, in conformance with GAGAS 4.10-4.13, 5.27, 6.13-6.14; and SAS 99, adequately consider factors related to fraud?            _____</li> </ul>	<p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No</p>	
<p>VI.K.</p>	<p><u>Compliance with Cost Accounting Standards (CAS).</u>          Aside from the measurement, assignment, and allocability rules of selected Cost Accounting Standards (CAS) incorporated through reference in FAR Part 31—</p> <ul style="list-style-type: none"> <li>• Did the workpapers address the extent of CAS coverage with which the consultant must comply; that is:           <ul style="list-style-type: none"> <li>– Full CAS coverage, or</li> <li>– Modified CAS coverage?</li> </ul> </li> <li>• If modified CAS-coverage applied, did the CPA’s workpapers address compliance with the following four standards from CAS 9904.400, as follows:           <ul style="list-style-type: none"> <li>– <u>9904.401</u>: Consistency in estimating, accumulating and reporting of costs;</li> <li>– <u>9904.402</u>: Consistency in allocating costs incurred for the same purposes;</li> <li>– <u>9904.405</u>: Accounting for unallowable costs; and</li> <li>– <u>9904.406</u>: Cost accounting period?</li> </ul> </li> <li>• If full CAS coverage applied, did the CPA’s workpapers address compliance with all applicable 9904 standards (Subparts 9904.401 through 9904.20)?</li> </ul>	<p><input type="checkbox"/>Yes <input type="checkbox"/>No</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No <input type="checkbox"/>N/A</p> <p><input type="checkbox"/>Yes <input type="checkbox"/>No <input type="checkbox"/>N/A</p>	

Name of Consultant: \_\_\_\_\_  
 Audit Period: \_\_\_\_\_  
 CPA Firm/Auditor: \_\_\_\_\_

DOT Reviewer: \_\_\_\_\_  
 Review Date: \_\_\_\_\_

<b>VII. Final Results</b>	
VII.A.	<p><u>Exit Conference:</u>            Discuss the results of the audit/review with the Consultant and the CPA. Obtain their concurrence and/or identify areas of disagreement. Ensure that the Consultant understands the results are preliminary and are subject to review. Document the Consultant and CPA conference thoroughly.</p> <p style="text-align: center;">State DOT Workpaper Reference: _____</p>
VII.B.	<p><u>Complete the following Conclusion Statement:</u>            Based upon the application and performance of the steps within this work program:</p> <p>(1) The CPA's work demonstrated an <input type="checkbox"/> <u>Acceptable</u> level of compliance with FAR Part 31 and the AASHTO Audit Guide.  <input type="checkbox"/> <u>Unacceptable</u></p> <p>(2) Should follow-up audit work be considered? <input type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If "yes," then describe any issues that warrant additional audit work:</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>
VII.C.	<p>Issue review memorandum to Consultant incorporating above conclusion statement, observations, and recommendations.</p> <p style="text-align: center;">State DOT Workpaper Reference: _____</p>
VII.D.	<p>This CPA workpaper review program was completed and approved by—</p> <p>State DOT Reviewer and Title: _____</p> <p>Signature: _____</p> <p>Date: _____</p> <p>State DOT Supervisor and Title: _____</p> <p>Signature: _____</p> <p>Date: _____</p>

## Appendix M – Sample Management Representation Letter



**[Firm Letterhead]**

Management Representation Letter – Contract Audit

**[Insert Month Day, Year]**

[AGENCY]  
[ADDRESS]  
[ADDRESS]  
[ADDRESS]

We are providing this letter in connection with your examination of our job cost records for contract **[insert contract number]**. We confirm that we are responsible for the fair presentation of job cost records in conformity with: generally accepted accounting principles; contractual provisions; and Federal Acquisition Regulation, Subparts 9900, 31.105 and 31.2. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm to the best of our knowledge and belief, as of **[insert date]**, the following representations made to you during your examination.

1. The financial information referred to above are fairly presented in conformity with generally accepted accounting principles.
2. We have made available to you all the financial records requested and
  - A. These records were prepared from **[insert company name]** official records.
  - B. The job cost ledger provided for examination contains actual direct costs and quantities incurred for contract **[insert contract number]**.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly reported in the accounting records underlying the job cost accounting system.
5. There has been no:
  - A. Fraud involving management or employees who have significant roles in internal control.
  - B. Fraud involving others that could have a material effect on the financial statements.
6. The company has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.
7. The following have been properly recorded or disclosed in the financial job cost records:
  - A. Related party transactions and related accounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements, and guarantees.
  - B. Guarantees, whether written or oral, under which the company is contingently liable.
8. There are no:
  - A. Violations or possible violations of laws or regulation whose effect should be considered for disclosure in the financial statements or as a basis for recording a contingency loss.

- B. Unasserted claims or assessments that our legal staff has advised us are probable of assertion and must be disclosed in accordance with *Statement on Financial Accounting Standards No. 5*.
  - C. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *Statement of Financial Accounting Standards No. 5*.
9. The company has satisfactory title to all owned assets, there are no liens or encumbrances on such assets, and no asset has been pledged as collateral.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

No events have occurred subsequent to the job cost ledger date and through the date of this letter that would require adjustment to our contract costs or require any further disclosure.

Printed or Typed Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Title: \_\_\_\_\_

[FIRM NAME] Management Representation Letter  
[DATE]

[Firm Letterhead]

[DATE]

[AGENCY]  
[ADDRESS]  
[ADDRESS]  
[ADDRESS]

Dear [AGENCY REPRESENTATIVE]

We are providing this letter in connection with your audit of [FIRM NAME] Statement of Direct Labor, Fringe Benefits and General Overhead (hereinafter "Statement") for the period [MONTH, DATE] through [MONTH, DATE, YEAR]. We confirm that we are responsible for the Statement.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

As of the above date, we confirm, to the best of our knowledge and belief, the accuracy of the following representations made to you during your audit.

1. The aforementioned Statement is a fair and accurate representation of our firm's costs for year [YEAR]; furthermore, the Statement was prepared on a basis of accounting prescribed in Part 31 of the *Federal Acquisition Regulation*.
2. We have made available to you all financial records and related data. We are not aware of any accounts, transactions, or material agreements not fairly described or properly recorded in the financial accounting records underlying the computations used in the preparation of the Statement.
3. We have received no communications from regulatory or enforcement agencies concerning either of the following: (a) noncompliance with applicable laws or regulations or (b) deficiencies in financial reporting practices.
4. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
5. There has been neither—
  - a. Fraud involving our firm's management or employees who have significant roles in internal control; nor
  - b. Fraud involving others who could have a material effect on the Statements.
6. All related-party transactions, including sales, purchases, loans, transfers, leasing arrangements, and guarantees have been properly recorded or disclosed in the financial statements.
7. To the best of our knowledge, the computation and appended notes include all disclosures necessary for a fair presentation of the overhead rates shown in the Statement in accordance with Part 31 of the *Federal Acquisition Regulation*.

[FIRM NAME] Management Representation Letter  
[DATE]

8. There are no:
  - A. Violations or possible violations of laws or regulation whose effect should be considered for disclosure in the financial statements or as a basis for recording a contingency loss.
  - B. Unasserted claims or assessments that our legal staff has advised us are probable of assertion and must be disclosed in accordance with *Statement on Financial Accounting Standards No. 5*.
  - C. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by *Statement of Financial Accounting Standards No. 5*.
9. The company has satisfactory title to all owned assets, there are no liens or encumbrances on such assets, and no asset has been pledged as collateral.
10. We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
11. To the best of our knowledge and belief, no events have occurred as of the date of this letter that would require adjustment to or disclosure in the aforementioned statement.

Respectfully,

[INSERT PRINTED OR TYPED NAME AND TITLE] \_\_\_\_\_ Date \_\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_\_