

**SOUTH DAKOTA DEPARTMENT OF
TRANSPORTATION
AUDITS PROCEDURES**

September 2026

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I. Introduction

South Dakota Audits ensure costs are paid in compliance with Federal and State laws, rules, and regulations. The audits office also verifies that entities are properly following the guidelines of their contracts. This manual provides assurance to audit management that the final product meets with federal and departmental requirements and applicable professional audit standards.

The Audit Procedures Manual provides guidance to the Audit staff regarding day-to-day operations of the Audit Office. It also outlines standards of acceptable performance and duties related to the performance of audit work and are defined to contribute toward achievement of the mission and objectives for the SDDOT. References are provided to applicable audit programs and other audit guidelines.

Audits is also responsible for ensuring the Department of Transportation follows the internal written procedures, such as the Consultant Services Manual, to create cohesion within the department.

Guidance

[48 Code of Federal Regulations \(CFR\) Part 31 \(FAR\)](#)

[23 CFR Part 172](#)

[2 CFR Part 200](#)

[AASHTO Guide: Uniform Audit & Accounting Guide](#)

[Prompt Payment Act](#)

The appropriate division director should be consulted if there are questions regarding these or other office procedures not covered with this Audit Procedures manual.

II. Audit Procedures and Administrative Items

The following types of audits are performed:

Continuous Audit

- Reviews of agreements prior to authorization to determine if all necessary information is included to comply with Federal and State Regulations.
- Reviews of vouchers for compliance with Federal and State regulations as well as the terms of the agreement.

Single Audit Review

A review of an audit performed by an outside auditing firm, or Legislative Audit:

- To consider if the sub recipient audit necessitates adjustment of program records.
- To ensure that the sub recipients have met the audit requirements of the [2 CFR Part 200](#) for that fiscal year.
- A single audit is required if the entity expends more than \$1,000,000 in Federal funds per year.

- Audits receives a report of the single audit and may follow up on any concerns.
 - If any transit related findings are in the audit that effects title III B funds, the Department of Human Services must be notified.

Indirect Cost Rate Review

- An examination of the entity's indirect cost rate for a specified period to ensure costs have been correctly measured and allocated.
 - Audits requires indirect cost rates to be updated on an annual basis in accordance with the consultant's annual accounting period and in compliance with the Federal cost principles to maintain an approved provisional billing rate. In order to prevent any preferential treatment, all consultants will be held to this standard and discouraged from using the same indirect cost rate throughout the term of a contract.

III. Indirect Cost Rate (Overhead) Review Process

In accordance with [23 CFR 172.11 \(b\) \(1\)](#) an annual update of your Indirect Cost Rate is required along with the Facilities Capital Cost of Money (FCCM) or any equipment rates needing approval, if applicable. The standard DOT retainer agreement language incorporates this requirement. Consultants should pay special attention to the language included in their retainer contracts.

ICR reviews are an independent and objective service that to assist SDDOT in the negotiation process. This is not an audit. The ICR review is an interactive process and relies on data and information provided by the consultant to determine if the costs are reasonable and allowable. The consultant may be asked to send additional documentation above what is provided.

Documents needed for an ICR review process:

Cognizant Letter

Cognizant letter

Complete CPA Audit Report/Work Papers (if Applicable)

Certification of Indirect Cost [\(23 CFR 172.11\(c\)\(3\)\(iii\)\)](#)

[AASHTO ICQ \(Internal Control Questionnaire\)](#)

Indirect Cost Rate (ICR) Schedule

ICR Audit completed by an independent CPA or another State DOT

Complete CPA Audit report/Work Papers

Certificate of Indirect Cost [\(23 CFR 172.11\(c\)\(3\)\(iii\)\)](#)

Rate approval from other State (if applicable)

[AASHTO ICQ](#)

Indirect Cost Rate Schedule

Unaudited or unreviewed ICRs

ICR schedule for most recently completed fiscal year

Financial statements (detailed Balance Sheet, detailed income Statement or Profit and Loss Statement)

IRS 941s or annual equivalent & year-end payroll register broken out by individual employee

Labor Distribution Report

Certificate of Indirect Cost ([23 CFR 172.11\(c\)\(3\)\(iii\)](#))

Consultants must demonstrate that executive compensation is reasonable and in compliance with [FAR 31.205-6](#). A consultant can complete its own analysis as described in the AASHTO Audit Guide Paragraph 7.5.C or use the [National Compensation Matrix \(NCM\)](#). Please note this is not limited to top executives; all executives must be included in the analysis.

IV. Contract/Work Order Process

Work Orders over \$250,000 are subject to audit approval before the work order is signed.

Required Contract Provisions

All contracts for Engineering and Engineering-related services must be awarded in accordance with the Brooks Act whenever Federal Funds are being used. This includes but is not limited to design services, construction administration and/or oversight, and testing services. All engineering contracts and work orders must follow the [Consultant Services Manual](#).

Initial Contract/Work Order Request

- a. Determine need for consultant services
- b. Prepare scope of work
- c. Prepare technical analysis
- d. Prepare proposal screening criteria
- e. Request proposal from selected consultant(s)
- f. Negotiate hours and fixed fee
- g. Obtain legal review for style and format
- h. Audit review for over \$250,000 for Indirect Cost Rate, wage rates, fixed fees, etc.
- i. Execute contract – DOT-917 form
- j. Issue notice to proceed
- k. Attach DOT-121 internal summary form.

NOTE: If the work order is over \$150,000 – a Division Director is required to sign.

Amendments

Part of the contract process is to monitor performance during progress of the work. The DOT contracting officer (the contract contact within DOT) is to prepare performance evaluation report for each federally funded contract which includes timely completion of work, conformance with contract cost, and quality of work.

FHWA Consultant Services Manager, John McAvoy, has stated that indefinite quantity contract work orders can be extended beyond the expiration date of the retainer agreement (a copy of the approval email from FHWA can be found in the Audits Procedures folder). The work order can be extended and amended until the work is satisfactorily completed.

Per the Legal Office, to extend or amend a Work Order under an expired Retainer Contract, the work order MUST be open. If both the Retainer Contract and the Work Order are expired, a new work order MUST be written.

- a. Cost overruns do not justify an increase in maximum limiting fee
- b. Must have a change in scope to justify cost increase or decrease
- c. Must have prior written approval to begin work
- d. Must be supported by a cost breakdown at the same level of detail as that provided for initial work order or contract – Current rates used
- e. Fixed fee remains fixed regardless of cost underrun or overrun
- f. Time extensions require an approval email chain or letter between the consultant and the SDDOT agreeing to the time extension only if the work order is not expired, a signed DOT-917, and a completed 121 FORM. If the work order is expired but the retainer contract is still open, a time extension email/letter can be submitted with a signed DOT-917, DOT-121, and the interim cost clause (ICC – see below), these will be added in Negotiated as an Amendment.

ICC: It is understood and agreed between the parties that certain work was performed by the consultant before this amendment was approved. Further, it was the intent of the parties that the consultant performs this work and be paid in accordance with the contract. In light of the foregoing, the parties hereto ratify the acts of the consultant which may have been performed during this period of time and agree to pay for his services which were performed. The effective date of this amendment shall be ORIGINAL OVERALL COMPLETION DATE with an overall completion date of NEW OVERALL COMPLETION DATE.

Please see the Consultant Services Manual for an example of a time extension letter.

- g. Delay in projects do not automatically allow for changes in the estimate amounts unless there is a significant change and DOT approval. As stated in the Consultant Services Manual:
 - Contract modifications are required for any amendments to the terms of the existing contract or work order that change the cost of the contract or work order; significantly change the character, scope, complexity, or duration of the work; or significantly change the conditions under which the work is required to be performed. A contract or work order modification shall clearly define and document the changes made, establish the method of payment for any

adjustments in contract costs, and be in compliance with the terms and conditions of the contract or work order, and original procurement. The Project Manager will negotiate contract or work order modifications following the same procedures as the negotiation of the original contract or work order. The PM may add to a contract only the type of services and work included within the scope of services of the original solicitation from which a qualifications-based selection was made.

- h. If money is being changed from project to project, an amendment with change of scope for hours will be required unless no specific amounts were named within the estimate, then a 121 Amendment will suffice. IF specific amounts/hours were allotted, the change in hours from one to another would need to be amended with a change in scope.

Stand-Alone Contract Amendments

If a stand-alone contract expires, a new contract must be written. It cannot be extended with the ICC in part f. above.

Subcontracts

Subconsultants may be contracted by a consulting firm to provide engineering and design related services, or other types of services that are part of the scope of work that the firm is under contract to provide to the department.

Subconsultants do not need to be on the retainer contract to be selected. Subconsultants not on the retainer contract may be required to provide:

1. Documentation of expertise
2. If using the Cost-Plus-Fixed-Fee contracting method, they need to be able to provide an established Indirect Cost Rate and provide a certified cost rate as per [23 CFR Part 172.11](#).

Small, lump sum subcontracts (**less than \$5,000**) may not require Indirect Cost Rate and certified cost rates. Each subconsultant will have:

- a. All the provisions of the prime contract (incorporate by reference)
- b. Cost breakdowns consistent with the prime contract are needed for all subcontracts at all tiers
- c. Copies of subcontracts need to be included with the contract
- d. Subcontract must be approved prior to costs being incurred
- e. A subconsultant may not perform more than [49% of the work order or contract amount](#).
- f. All subcontracts must be approved by SDDOT **prior** to execution of services.

V. Contract Reimbursement Methods and Type

Cost-Plus-Fixed-Fee

This type of contract is a cost-reimbursement contract. It provides for payment of allowable costs incurred during the performance of the contract plus a fixed fee (profit) to the contractor/consultant.

- a. Maximum limiting amounts cannot be exceeded without an amendment and justifiable need for additional services. (i.e. – DOT Caused Delays: Stopping and restarting and/or change of scope)
 - A Dot-caused delay allows for a change in scope/rates to the remaining hours only
 - A consultant-caused delay will not allow changes
 - No fault of the DOT or consultant delays will be handled the same as a DOT-caused delay.
- b. Fixed fee percent is negotiated up front
 - Contract will state how fixed fee is handled upon completion of the project.
 - See [48 CFR 16](#) for additional information on Cost-Plus-Fixed-Fee contracts
 - Please See the Consultant Services Manual for the Derivation of Profit worksheet.
- c. Actual labor costs are reimbursed; Indirect Cost Rates are matched to labor at project closeout, if requested.

The Labor costs are based on estimated hours and current actual salary rates- list personnel by name or employee number, not just the classification. The personnel hours and rates must be associated with tasks and subtasks identified in the cost estimate.

- Labor costs for longer projects exceeding one year can be estimated with rate changes in wages over the years to provide for raises or can be estimated by the current actual rates with an added contingency (see [Labor Estimate](#) Attachment)

Indirect Cost Rates must be supported by a provisionally approved Indirect Cost Rate schedule received from SDDOT Audit Office, an audited rate provided by another state DOT organization, or a cognizant audit.

Estimated materials, supplies, travel expenses, etc. must be listed in as much detail as possible. Final reimbursable amounts are adjusted to actual Cost-Plus-Fixed-Fee during an audit.

Lump sum

This type of contract provides for payment of a previously agreed upon lump sum to the contractor to perform the work as specified in the contract, regardless of actual costs.

- a. Lump sum amount is paid irrespective of actual costs incurred.
- b. Scope must be clearly defined.

Prior to contract or work order approval, the scope must be clearly defined, and a detailed cost breakdown must be provided. **This also applies to subcontracts.**

Lump Sum (fixed-price) contracts do not require any supporting documentation if the lump sum is paid in full after the project is complete and approved by the agency. If the consultant requests partial payments, they must send any supporting detailed documentation for work and services performed to date – all current wages and approved indirect cost rates apply.

Fixed Billing Rates (Time and Materials)

This is a variation of the fixed-price type contract. It establishes advanced unit prices for quantities to be delivered later. Generally, these contracts provide for categories of labor at specified hourly rates plus the actual cost of materials or other direct costs.

- a. Maximum limiting amounts cannot be exceeded without an amendment and justifiable need for additional services.
- b. Billing rates are established prior to execution based upon the individual's salary, current available Indirect Cost Rate, and negotiated fixed fee.
- c. Billing rates are not subject to change for the duration of the contract.

VI. Audit Invoice Procedure

The SDDOT Project Manager/Originating Office must do an initial review to all documentation before sending the voucher/invoice to Audits for payment. Items to be reviewed include but are not limited to: hours worked, overtime, travel, subcontractors, deliverables, and supporting documentation. If applicable, the originating office will make any necessary changes before sending to Audits attached to the completed DOT-904 form.

The SDDOT Project Managers are responsible for addressing the procedures/guidance of the milestones and deliverables based on the complexity of the agreement on current and future projects. They are also responsible for keeping a log/spreadsheet to track all payments and fixed fees paid. Negotiated Contracts is an Audit's tool and may not be used as the originating office's log/spreadsheet for payments, but only as a reference for reconciling.

Submission of the completed SDDOT Form 996 Work Order Closeout Form is required upon submission of the final invoice.

The SDDOT Audits Office will review all documentation submitted by the originating office and may request needed documentation while performing the following audit procedures. Invoices without the following information will be held and any subsequent invoices for that contract/work order until the information is received. If information isn't received within three months, invoices will be decreased by the amount of the missing information and paid. ([Voucher Checklist](#))

For engineering work order invoices, Audits will work with the LPA to ensure that all costs submitted by the consultant for reimbursement/payment conform to tasks, subtasks, etc., hours and other expenses must be categorized in a corresponding manner. If a lump-sum agreement, costs do not need to be categorized unless partial payments are requested.

Please use only ONE method of sending invoices to Audits – email or paper. Do NOT send both.

Invoice Requirements could include but are not limited to:

- a. Indirect Cost Rate provisional rates (Indirect Cost Rate) are up to date
 - Consultant must claim the most current approved Indirect Cost Rate on invoices
 - Invoices that fall after the approval Indirect Cost Rate letter date must be billed at the new Indirect Cost Rate. (See True-Up Process)

According to the AASHTO Uniform Audit and Accounting Guide – in accordance with [23 U.S.C. 112\(b\)\(C\)](#) and [23 CFR 172.11\(1\)\(i\)](#), indirect cost rates are applicable for a one-year period, and engineering consultants are required to update their indirect cost rates annually.

- b. DOT 904 Form
- c. Review proposal cost(s) including work orders and amendments
- d. Project cost(s) as a whole or by task
- e. Current approved labor, Indirect Cost Rate, and direct cost rates on file
- f. Fixed fees (not exceeding 15%)
- g. Sub consultants ([23 CFR 172](#) for subcontract procedure)
 - Contracts
 - Rates
- h. Authorization for Federal Funding
- i. Eligibility of direct expenses
- j. Large Contracts exceeding \$750,000 or small contracts that add scope to exceed \$750,000
 - Tasks
 - Subtasks
- k. Cost breakdowns consistent with the prime contract are needed for all subcontracts at all tiers
- l. Mileage
 - If a consultant wants to use a different rate, they must submit the information for an approved rate
 - Consultant must use a current/up-to-date approved rate if different from IRS rate (old rates do not apply)
 - If no rate is approved or no current rate is approved, the IRS rate will be used
- m. Car/Taxi services like Uber or Lift are subject to Audit's discretion of reasonable costs and may be reduced or deducted. If you chose to use services like these, all backup information will be needed such as miles to destination, charge per mile or minute, and location of the service.

Invoice Review

Direct costs that are eligible include but are not limited to:

- a. Personnel labor hours, wage rates, tasks performed
- b. Indirect Cost Rates (in % and amount)
- c. Fixed fee (% and amount)
- d. Cost of Money (in % and amount)
- e. Direct Expenses (quantities and rates listed)
- f. Remaining contract funds availability
- g. Signature of SDDOT contract administrator on DOT 904 form
- h. Work period covered by invoice (begin and end dates)

Additional Documentation

Information that must be submitted with invoices:

- a. Copies of travel expense detail
 - Airline Tickets

- Employee Expense Report
- Lodging Receipts
- Receipts for meals if company policy is to pay actual cost rather than a specified per diem amount
 - i. Our policy is to first follow the consultant's policy on reimbursement of meals.
 - ii. Meals will be reimbursed up to the current state per diem amount.
 - iii. If there are extenuating circumstances that could not be controlled (such as weather) and no work was able to be done but they still had travel expenses, these expenses can be paid with reasonable justification. *The Project Manager/Audits reserves the right to approve or deny request for reimbursement on a case-by-case basis.*
- Credit card statements are not acceptable – must have receipts
- b. Submitted travel expense information must include:
 - Name of individuals involved
 - Purpose of trip
 - Date and location
- c. Copies of vendor invoices (not subcontracts)
- d. Copies of usage log including but not limited to:
 - Company owned vehicles
 - Copies
 - Postage
 - Telephone/ Fax
- e. Additional documentation is determined on a case-by-case basis per contract
- f. Vendor's experience with cost principles

Overtime

No additional payment for premium time (overtime) as it relates to hours worked beyond forty (40) hours per week will be considered unless approved by the PM. In accordance with [48 CFR 22.103-4](#), the Project Manager must approve the Consultant's request for overtime in advance and in writing. Written approval may be by e-mail, with a copy provided to the Audits Office. Copies of timesheets will be required to verify overtime pay.

Approval may only be granted by the Project Manager if overtime is necessary to:

- (1) Meet essential delivery or performance schedules;
- (2) Make up for delays beyond the control and without the fault or negligence of the contractor; or
- (3) Eliminate foreseeable extended production bottlenecks that cannot be eliminated in any other way.

Overtime may be included in the work order cost breakdown if necessitated by any of the reasons listed above. Examples of when overtime may be allowed include, but are not limited to, an emergency project or if overtime will be necessary to accomplish construction administration or testing.

Incentives for Public Meetings per Mark Hoines of FHWA:

You are allowed to pay incentives for public involvement. FHWA has determined that in the planning process providing incentives for public involvement is allowable and Federal funds can be used. On multiple occasions this question has been asked to our Headquarters Planning Office and the answer has been as long as we determine it is a necessary cost for transportation planning it is allowable for PL or Statewide Planning funds.

Note: If a change is made to the invoice by an auditor because of unallowable or ineligible costs, the originating DOT office will be notified. The office is responsible for notifying the consultant of the change.

The project manager will notify SDDOT Audits Office when deliverables are not provided by the dates agreed to by the consultant. Project managers will take the necessary action to rectify the situation.

If contacted by the Consultant for payment status, please ask the consultant to search the [Vendor Self Service](#) before following up with audits.

VII. True-Up Process

The South Dakota Department of Transportation requires any Consultant on the Consultant Retainer to submit an updated provisional percentage (indirect cost/overhead) rate within four months after the close of each of the Consultant's fiscal years in order to more accurately reflect the cost of work during subsequent years. **The Consultant will also submit a final indirect cost rate invoice at the end of EACH fiscal year to True-Up the invoices submitted within that fiscal year.**

The above bolded provision is in the Consultant Retainer contract signed by any consultants on the retainer under section B. PAYMENT.

To initiate the true-up process, which will be limited to active contracts within the last 3 years prior to the date of receipt of the initiation request by Audits, the request must include clear and direct justification of the true-up amount in the form of copies of all affected billings, invoices, Indirect Cost Rate documents, etc., clearly showing the originally submitted information as well as the adjustments. If not complete, the initiation request will be returned.

Once the final annual indirect cost rate invoice has been received, it will be reviewed for accuracy. Invoice dates need to match the true-up Indirect Cost Rate for that year. For example: You have twelve invoices dated for 2025 which were paid under a 2024 rate. The consultant should submit a final invoice for the 2025 (remember the 2025 rate may not be approved until four-six months into 2026) and the labor within the invoices will be corrected to the 2025 rate – the difference will either be paid back to the State if the rates decreased or the State will pay out the difference for an increase if there is still money left in the contract to do so.

If more than one year is being trued-up, all invoices should be matched to the correct final indirect cost rate submitted for that year. For example, you have 2021, 2022, and 2023 invoices paid respectively under 2020, 2021, and 2022 rates. They will need to be matched with the corresponding rate to reach the correct true-up value; 2021 to 2021, 2022 to 2022 and so forth.

REMINDER: Until the new rate is established for the year being trued-up, a true-up cannot take place.

List for a True-up to take place:

- Consultant initiated the true-up with all the documentation and a final indirect cost rate invoice for each year being trued-up.
- All invoices are trued-up to the correct year.
- Invoices/contracts are no older than three years.
- SDDOT Audits agrees with the true-up.
- Pay out the difference or bill the difference once approved.

As a reminder, the True-Up process only applies to the adjustment of the indirect cost rates. If unbilled items (such as remaining fixed fees) are found on the work order/project, they must be billed before the True-Up can be finished. Once the True-Up is finished and approved by DOT Audits, this is considered the FINAL payment to any work order projects and no further payments can be requested.

VIII. Closing Processes for Contracts and Work Orders

Contracts Close out Process

When Audits receives a final payment on a contract including the Contract or Work Order Closeout Form 996 (indicated by the originating office), the contract and voucher amounts will be verified to ensure all payments/reimbursements are correct. Once verified, the contract will be closed by Audits and forwarded to Finance.

Audits Work Order Close-out and Work Order Contracts (Retainer) Close-out Process

When Audits receives the last voucher marked as “final” from the Consultant (not written from the DOT Project Manager) with the Agreement or Work Order Close Out Form 996 (if applicable), all previous payments will be verified to ensure the final payment is correct and contains any remaining fixed fees. If any fixed fees remain, the originating office will be contacted to confirm if they will be claimed. If not, a confirmation email for the unclaimed fixed fees will be required. Once the final payment is entered, the work order will be closed by Audits. A closed work order will NOT be re-opened. (See Construction Miscellaneous for processes within that spectrum.)

Note: Remaining fixed fees must be requested by the Consultant with an invoice and will be paid only if there is remaining funds to cover remaining fixed fees. If maximum limiting amount has been reached, no funds will be paid beyond that. See FHWA's email in the Audits Procedures File for request of invoice.

If the final payment comes to Audits without the Agreement/Work Order Close Out Form because of instances such as construction miscellaneous, all payments will be verified but the work order will not be closed until the Agreement/Work Order Close Out Form 996 is received from the originating office.

Please see the Consultant Services Manual for the processes included in Construction Miscellaneous and when it applies.

To avoid confusion, when Construction Miscellaneous is used, it will be added as a new work order in Negotiated Contracts under the same work order number, thus creating two work orders with the same number in Negotiated Contracts but one will be labeled *construction miscellaneous*. This will stop occurrences of closures needing to be reopened.

Construction Miscellaneous can be added at a maximum of 20 hours or \$5,000 per project in the work order. For example, if you have four projects, each project can have up to the maximum amount allowed.

A retainer contract is not closed by Audits until *all* work order close out forms for final payments and/or indirect cost rate adjustment invoices for the true-ups have been received.

Administrative Closure

The administrative closure process is not initiated by any single event. A 100% state-funded contract for which detailed information was received and reviewed by the Audit staff as progress payments were made may be closed when the final payment is processed. For federally-funded contracts, this process may be initiated once it has been determined that the entity did not meet the threshold for a single audit and all progress payments had been fully documented and determined to be provisionally allowable.

A full review upon request to close will be at the discretion of the Audit section if questions, issues, or a random request for review has been filed. This review procedure shall apply to any third-party contracts/workorders/agreements previously submitted to the Audit section for which review is currently ongoing or pending.

All contracts (Engineering and Design, Utility Relocations, Aeronautics, Transit, Railroads, etc.) under \$250,000 are subject to audit on a random selection or judgmental selection basis. Contracts over \$250,000 are subject to a pre-negotiation audit and the resultant audit options going forward.

Audits will not audit any contracts/agreements that are not currently monitored by audits.

Audits reserves the right to do a full scope audit or desk audit on any contract at any point.

Final Resolution

In the event of any conflict or inconsistency between the following provisions and any of the provisions of other policies notating audit reports requiring that action be taken, the following provisions shall govern in all respects.

- Allowability of costs incurred will be determined but not limited to the following:
 - South Dakota State Law, Regulation, or Policy
 - South Dakota DOT Regulation or Policy
 - Sponsoring Federal Agency Law, Regulation or Policy
 - Federal Acquisition Regulations ([48 CFR 31](#))
 - [Title 2 CFR 200](#)
 - [Title 23 CFR 172](#)
 - Applicable Office of Management and Budget Circulars
 - Generally Accepted Accounting Principles
- If expressly unallowable as defined above:
 - Costs will not be allowed to be paid with the funding defining the cost as unallowable, i.e., "participating" costs found to be unallowable under Federal Agency Regulations (FAR) must be coded "nonparticipating" if not refunded to the SDDOT by the company.
 - The **Lead Auditor** will work with the appropriate program manager to issue the resolution to the contractor.

If there is room for interpretation as defined above, the **Internal Services Program Manager and Lead Auditor** will provide copies of the audit report and related resolution documentation to the appropriate division director for input then the Secretary for final determination.

In the resolution of audits of private companies who contract with the Department of Transportation (SDDOT), there are widespread questions about officers and/or principals of the companies owning the office space or equipment and renting it to themselves. This is called "common control", and rules stipulate that in these instances rental rates cannot exceed costs. Costs are calculated by allowing the costs of ownership and the cost of money, which allows for a return on their money. There are no provisions for charging a market rate.

SDDOT conducts audits in accordance with:

- South Dakota State Law, Regulation or Policy
- South Dakota DOT Regulation or Policy
- Sponsoring Federal Agency Law, Regulation or Policy
- Federal Acquisition Regulations ([48 CFR part 31.2](#))
- Cost Accounting Standards ([48 CFR part 30](#))
- Generally Accepted Accounting Principles

Since no definition of “common control” is found in any of the above references, the following definition of “common control” shall apply to all audits performed by SDDOT:

Common control exists whenever any principal, partner, corporate officer, a stockholder holding 20 percent or more of the outstanding shares, or an immediate family member of the aforementioned parties, is in a position of full or partial ownership of property rented or leased to the company, by contract or otherwise. A relationship meeting any one of these criteria shall be deemed "common control."

"Immediate family" is defined as the employee's spouse, children, mother, father, mother-in-law, father-in-law, daughter-in-law, son-in-law, brothers, sisters, grandparents, grandchildren, stepchildren, stepparents, and, foster children.

IX. Federal Grant Subrecipient Monitoring (2 CFR 200)

Please see our [Subrecipient Risk Assessment and Ongoing Monitoring Plan](#)

The originating office is responsible for filling out the Contractor or Subrecipient Relationship Determination Checklist to determine if a Risk Assessment packet is required. If the determination is a Subrecipient, the originating office will send out the DOT Subrecipient Questionnaire for the subrecipient to fill out and include all requested information in the Risk Assessment packet and will forward to Audits with ALL documentation for assessment.

Pre-Award Risk Assessment

Prior to the grant awards, the State of South Dakota Subrecipient Questionnaire/Risk Assessment is completed by the subrecipient and received by the program administrator with the application for the grant. The questionnaire is directly forwarded to Audits for review.

The Pre-award Risk Assessment will include but is not limited to the following:

- Mandatory Written Policies/Procedures
 - Conflict of Interest
 - Accounting/Cash Management
 - Travel policy
 - Procurement
 - Time distribution records
 - Internal Controls
- Governing board members and meeting minutes
- Key personnel performing duties and segregation of duties
- Audit information (Single Audit/CPA Audit/A-133)
- General ledger

- Sample of payable and receivable source documentation
- Time keeping records

After reviewing the risk assessment and any other requested documentation, the subrecipient will be rated low, medium, high, or extremely high risk.

Once the scoring is completed, a follow-up or final letter will be written. The letter will be sent to the program administrator and subrecipient.

Ongoing Monitoring

The audits staff reviews all invoices prior to payment. Monitoring may include but is not limited to:

- Review invoices and supporting documentation by audit staff.
- Ensure costs claimed are allowable
 - Necessary and reasonable for the performance of both the subrecipient agreement and the Federal award
 - Meet the requirements of the Uniform Guidance and the Federal award
 - Are not used to meet cost sharing or matching requirements of any other federally financed program.
 - Ordinary and necessary for operation or performance.
 - Goods or services involved can be assigned to a specific project or cost objective.
 - Represent actual costs and not budgeted or projected amounts.
 - Meet the terms of agreement.
 - Do not overspend contract funds.

Desk Review (off-site) Monitoring

Desk Reviews may be done on any subrecipient that does not receive a Single Audit or CPA Audit. They will be done on a rotation agreed upon by Audits and the Program Office.

Monitoring may include but is not limited to the following:

- Pre-Monitoring work
 - A copy of the subrecipient agreement is on File Director, if needed.
 - Obtain copies of items collected in ongoing monitoring, such as vouchers, invoices, monthly reports, and other back-up documentation for payments made to the subrecipient.
 - Notify the subrecipient of the upcoming desk review.
 - Data collected could include but not limited to:
 - ✓ Sample general ledger information
 - ✓ List of all transactions for the current agreement or invoicing period
 - ✓ Select sample transactions and review source documentation
 - ✓ Vouchers, invoices, and back-up documentation

- ✓ Sample of time keeping records and methods of recording time across multiple federal awards.
 - ✓ Plan, data, or documentation on how the subrecipient is carrying out the program objectives of the agreement.
 - ✓ If they met the requirement for a single audit, review single audit information. If they didn't meet the requirement of a single audit, however obtained an independent audit or financial review, then review that information.
- Monitoring Review of information collected
 - Review the information provided.
 - State agency will follow up with the subrecipient for:
 - ✓ Missing information originally requested
 - ✓ Explanations for areas where the state agency is unclear about what the subrecipient provided
 - ✓ Additional items needed as a result of the review.
 - Collect second requested items
 - Steps should be repeated until Audits feels all information has been collected and thoroughly reviewed.
- Final Analysis
 - Upon completion of the desk review, Audits will:
 - ✓ Decide course of action to address any issues of non-compliance
 - ✓ Decide on additional monitoring, if needed
 - ✓ Management decisions may be issued for audit findings
 - ✓ Consider whether the state agencies records or financial reports need to be adjusted.
 - Send the subrecipient notice the monitoring has been completed.
 - ✓ Include corrective action plan for areas of noncompliance, if applicable.
 - ✓ Include recommendations for areas where performance can be improved
 - ✓ Communicate additional monitoring planned, if applicable.
 - Assemble a monitoring file and compile all documentation for the monitoring visit and retain in accordance with the state/federal guidance on records retention.

X. Single Audit Management Decision Process

OMB Uniform Guidance [2 CFR §200.521](#) requires that a management decision letter is issued within six months of acceptance of the audit report by the Federal Audit Clearinghouse if there are any program specific findings.

When a single audit letter is received from Legislative Audit, the letter will be documented in a tracking spreadsheet and will indicate if further action is required. If further action is required, the spreadsheet will be used to track and monitor resolution for all the audit findings.

When there are transportation program specific findings:

- A meeting with the program involved will take place to discuss the findings. A management decision letter will be issued after the meeting.
 - First-year findings will require quarterly reports from the subrecipient requested on the last day of the quarter (adjusted last day if it falls on a weekend) and prepare documentation to show what changes have been and will be made relating to the finding until the findings are resolved.
 - The pass-through entity must be responsible for issuing a management decision for audit findings that relate to Federal awards it makes to subrecipients.
 - The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given.
 - Agency will appear and report to the State Board of Internal Control (SBIC) on the findings.
 - A second-year repeated finding will require bimonthly (every other month) reporting.
 - The agency will meet with the subrecipient management team and the Statewide Internal Control Officer to discuss an action plan that identifies the reason(s) for the subrecipient's failure to correct the finding and details how the subrecipient plans to mitigate future findings.
 - Agency will appear and report to SBIC on the findings.
 - Third-year and beyond will require monthly reporting.
 - Agency will appear and report to the SBIC.
 - SBIC may recommend remedies for noncompliance, including that subrecipient management appear and report to SBIC on the findings and the changes subrecipient has made and will make to correct findings.

It is at the discretion of the program and audits offices to change the requirement or pull all funding until there is a resolution.

XI. Railroad Reviews

For-Profit Subrecipients

The State will perform ongoing monitoring and oversight to the Sub-Recipient's activities during the period of performance to ensure compliance with program requirements and federal cost principles to identify any deficiencies in the administration, performance of the award, and to facilitate proper

administration of the award. The Sub-Recipient will comply with all assessments along with the monitoring process. This may include but not limited to the following: On-site visits, virtual monitoring, informal monitoring, technical assistance, project financial reviews, and document and/or desk reviews for requirements within the federal and state grant.

Equipment Rates

To ensure the equipment rates are based on average or actual costs or at industry rates such as the Blue Book for Railroad Equipment Rates. Blue Book rates may be used in lieu of actual costs if agreed to by the railroad, State Highway Agency (SHA), and Federal Highway Administration (FHWA).

When using the Blue Book rates, the rates should be adjusted by the following:

- The proposed equipment rate should be an hourly rate based on the Blue Book monthly rate divided by 176 hours. Then the hourly rate is then adjusted for age factors and operating expenses as set forth in the Blue Book.
- The depreciation should be excluded from the rate calculation, if the equipment is twenty years or older.
- The hourly rate should exclude any cost for indirect (general and administrative) costs and the cost of facilities capital.

Labor Additive Costs or Rate

To ensure the labor additive rate is based on actual costs or an additive rate, which is representative of actual costs incurred. The rate should be approved by SHA and FHWA.

Indirect Cost Rate Costs

A State may elect to reimburse the railroad for its Indirect Cost Rate and indirect construction costs per Title 23 CFR 140.907. The State of South Dakota elected NOT to reimburse the railroads for their Indirect Cost Rate and indirect construction costs; therefore, the Department of Transportation will not allow reimbursement of Indirect Cost Rate costs incurred by railroads performing work on any Railroad project.

Railroad Voucher Processing

Railroad vouchers are reviewed as above in Section V, based on but not limited to the checklist. (See attachment II – [Voucher Checklist](#))

XII. State Grants

Industrial Park, Agri-Business Access, or Community Access Grants: When reviewing the above grants, the contract template will have the City/County's estimate listed but then in the Payment section of the grant, there will be a statement of what percent SDDOT will pay up to a certain amount. There are fact sheets found on Local Government Assistance's website that will list the limited amount that SDDOT will pay. If confirmation of the City/County's estimate is needed, a request will be made to Local Government Assistance for the application form filled out by the City/County. This will have the estimate listed on it.

Bridge Improvement Grants (BIG): The BIGs are state grants as opposed to federal grants which require specific guidance. The state grants received by counties are included in the overall audit process, but no firm testing is implemented. Management has the final say on level of documentation required to pass audit.

XIII. Links

Uniform Audit & Accounting Guide

<https://transportation.org/audit/>

Additional Information for Consultant Services

<https://dot.sd.gov/doing-business/engineering/design-services/consultant-services>

GASB

<http://www.gasb.org/>

Yellowbook

<http://www.gao.gov/yellowbook/overview>

Brooks Act

<http://www.fhwa.dot.gov/programadmin/121205.cfm>

XIV. Audits Team

Audit Reviewers:

Rip Ray – Auditor III

Jana Uhrig – Auditor III

Rochelle Grambihler – Auditor II

Danae Dean – Auditor I

Cely Johnson – Auditor I

XV. Definitions

Amendment

A change in the scope of work

Cost of Money (Facilities Capital Cost of Money FCCM)

The amount of profit that could be generated from interest payments on a given amount of money;

Based on direct labor; must be proposed as a separate line item in the original contract to be allowable.

Deliverables

A project management term for the quantifiable goods or services that will be provided upon the completion of a project.

Direct Cost

Any cost that can be identified specifically with a particular final cost objective; that is, a project-related cost. Direct costs would include labor, materials, and reimbursable incurred specifically for an agreement. It is irrelevant whether the costs are actually billed.

Desk Review (Off-site) Monitoring

Conducting Desk Review monitoring is defined when Audits performs a remote review of financial records and analysis of financial and programmatic information, either together or separately. Financial and programmatic data is reviewed by the state agency in their office and may consist of communication by e-mail, mail, teleconference, or video conference.

Fixed Fee (profit)

Based on the direct labor plus general Indirect Cost Rate; becomes a lump sum once the contract or amendment is executed. Maximum percentage that can be used during negotiations for engineering and engineering- related work is 15%. DOT 924- Derivation of Profit

Indirect Cost

Any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective. Recipients recover their indirect costs in their Indirect Cost Rate. [References: FAR 31.202, FAR 31.203]

Indirect Cost Rate (Overhead)

A computed rate developed by adding all of recipient's general and administrative costs, plus fringe benefit costs, then dividing by a base value, usually direct labor, to get a percentage. This rate is applied to direct labor to allow a recipient to recover the share of indirect costs allowable to the agreement.

Indirect Cost Rate Expenses

All allowable general administrative expenses and fringe benefit costs (sometimes called payroll additives). Depending on the size of the firm, these costs may be separately identified on a schedule of Indirect Cost Rate costs.

Ineligible Cost

Costs that are not reimbursed no matter the situation (ie – tips on a meal, sewer/water main, city/county project let with DOT project)

Interim Cost Clause

Clause states: It is understood and agreed between the parties that certain work was performed by the consultant before this amendment was approved. Further, it was the intent of the parties that the consultant performs this work and be paid in accordance with the contract. In light of the foregoing, the parties hereto ratify the acts of the consultant which may have been performed during this period of time and agree to pay for his services which were performed. The effective date of this amendment shall be ORIGINAL OVERALL COMPLETION DATE with an overall completion date of NEW OVERALL COMPLETION DATE.

Labor

Must be based on distribution records created from time sheet and payroll data. Company must maintain separate general ledger accounts for direct and indirect labor. The labor costs must reconcile to payroll records and IRS Form 941 information.

Local Public Agency (LPA)

Refers to any City, County, or other political subdivision of the State

Non-Participating Projects

Projects that have no federal funding

Notice to Proceed

A verbal/written document to begin a project. If a verbal notice to proceed is given it must be followed up with a written notice within two days.

Ongoing Monitoring

The continuous process of reviewing invoices and documentation by programmatic and financial staff, providing training and technical assistance, and reviewing performance and financial reports throughout the period of performance.

Participating Projects

Projects that take part in federal reimbursement

Progress Report

A statement report on the work accomplished along with the percentage of completion of each deliverable and an overall percent project completion. Also, an estimation of work tasks and percentage of upcoming project completions.

Scope of Work (SOW)

The area in an agreement where the work to be performed is described. The SOW should contain any milestones, reports, deliverables, and end products that are expected to be provided by the performing party. The SOW should also contain a time line for all deliverables.

Start Date/End Date

The date a project may begin and the date the project needs to be completed by.

Subconsultant

An individual or firm contracted by a consultant to provide engineering and design related or other types of services that are part of the services which the consultant is under contract to provide to a recipient (as defined in 23 CFR 200.86) or subrecipient (as defined in 2 CFR 200.93) of Federal assistance.

Travel

Costs associated with the reimbursement of employee travel expenses are allowable, provided that the employee is in travel status for an official business purpose, the nature of the cost is allowable, and the cost does not exceed the per diem rates established in the Federal Travel Regulation. Travel costs incurred in the normal course of overall administration of the business are allowable and should be treated as indirect costs. Travel costs attributable to specific contract performance are allowable and

may be charged to the contract, subject to any special limitations contained in said contract. **[Reference: FAR 31.205-46]**

Unallowable Cost

Costs that might be eligible but, under specific regulations or contract terms, cannot be included in prices, cost reimbursements, or settlements related to a specific funding source.

Vendor Invoices

And individual or entity that sells goods or services that has an established pricing structure used with all customers.

Work Order

An order of work to be performed under the engineer retainer contract (see attachment I)