



# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: INFORMATION: Notification of Audit –  
Compensation and Overhead Costs Claimed by  
Engineering and Design Firms on Federal-aid  
Grants, Federal Highway Administration  
Project Number: 04F3013F000

Date: November 17, 2004

From: Theodore Alves   
Assistant Inspector General for Financial and  
Information Technology Audits

Reply to  
Attn. of: JA-20

To: Federal Highway Administrator

The Office of Inspector General will perform an audit of engineering and design firms' overhead cost audits on contracts awarded by state Departments of Transportation under Federal-aid grants. Each year an estimated \$5 billion is paid by states for engineering and design contracts. These contracts are subject to annual audits of their overhead rates under Section 307 of the National Highway System Designation Act. Our audit objective is to evaluate the implementation and effectiveness of Section 307 audit requirements, including testing the allowability of compensation and other high overhead cost elements billed by these firms.

We plan to start this audit in November 2004. We will contact your audit liaison to schedule an entrance conference date to discuss the planned audit. For any additional information, please call Terrence Letko, Program Director, at (202) 366-9917 or Ken Prather, Project Manager, at (202) 366-2985.

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cc: Director, Office of Budget and  
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