

Risk Based Assessment

The following table is an example of how a MoDOT auditor performs a risk based assessment.

It is important to have cohesion between the prequalification documents. The following table shows how the documents are inter-related and must reference one to another.

The example uses the process for an overhead schedule not audited by a CPA.

1. MoDOT auditors reference costs listed on the overhead schedule to the costs listed on the Income Statement, General Ledger, or Trial Balance (for this example we will use the Income Statement)
2. The Income Statement costs are then referenced to the tax return.
3. The accounts and costs listed on the overhead schedule are then referenced to the Internal Control Questionnaire (ICQ). The ICQ describes the accounting process and procedure used by the firm to segregate direct and indirect costs, as well as, identify and remove from the overhead schedule all unallowable costs.

Overhead Account	Overhead Amount	General Ledger	Tax Return	Comments	ICQ
Auto Expense	51,000	65,000	65,000	Please explain the 14,000 difference between the G/L, tax return and overhead	<p>Appendix B-12 Question H.4. Classification of Cost Items.</p> <p>Your firm answered N/A for vehicle, therefore vehicle costs should not be included in the overhead</p>
Admin Travel	14,595	16,315	16,315	<p>Please list the type of activities included in this costs. If the costs are associated with a project(s), those costs must be removed.</p> <p>Please explain the 1,720 difference between the G/L, tax return and overhead schedule.</p>	<p>Appendix B-12 Question H.4. Classification of Cost Items.</p> <p>Your firm answered Travel and Subsistence is treated as a <u>direct expense</u> therefore, the cost should not be included in the overhead.</p> <ul style="list-style-type: none"> Please revise the ICQ to show how Travel and Subsistence costs are managed by the firm
Telephone	7,645	11,843	11,843	Please explain the 4,198 difference between the G/L , tax return and overhead schedule	<p>Appendix B-12 Question H.4. Classification of Cost Items.</p> <p>Your firm answered N/A for telephone; therefore, telephone costs should not be included in the overhead.</p> <p>Appendix B-13 Questions H.10. Telephone Costs</p> <p>The firm answered that telephone costs are treated as a <u>direct expense</u>.</p> <ul style="list-style-type: none"> Please revise the ICQ to show how telephone costs are managed by the firm