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June 6, 2011

Mr. Ronald J. McKechan
Chief Financial Review Officer
Financial Review and Investigations Section
Office of Quality Compliance and Review
Illinois Department of Transportation
2300 South Dirksen Parkway
Springfield, Illinois 62764

RE: Response to Draft IDOT Audit Report No. 11-22-001 dated May 10, 2011

Dear Mr. McKechan,

We have received your second draft letter regarding the audit conducted for the period 2001 to 2009, a period of 9 years. We would first like to assure you that MAI had no intention or will ever have any intention of misrepresenting costs associated with any contract. Interpretation of audit rules may be an issue but we will accept the desires of IDOT auditors after discussions are complete. We will take corrective action as indicated in your draft letter.

Below we are responding to each of the findings and providing the corrective action that will be taken.

FINDING NO. 1

AUDIT OPINION: "From 2000 through 2009, MAI included as eligible compensation for the determination of overhead rates $46,492,270 in incentive expenses which we have determined were actually distributions of profits (i.e. dividends) to stockholder investors."

MAI RESPONSE: We request that the figures presented in the draft letter be discussed. The actual amount should be $15,460,555, as $31, 031,715 was excluded from our submittal. As can be seen in Table 1, of the $46.5 million indicated to be disallowed from inclusion in the overhead, MAI had already voluntarily disallowed $31,031,715. MAI understood the general IDOT practice concerning allowable incentive compensation in place at the time and prepared its SEFC's accordingly. Only the remaining $15, 460,555 is in question.

The $15,460,555 million at issue was paid in aggregate over a ten-year period and represents compensation to an average of 34 employee/shareholders. This averages out to $45,472 per employee/shareholder per year. We understand the guidelines for making these distributions along the lines of ownership, but our intent is clear that only a reasonable amount of the total compensation was considered allowable. We believe the question of reasonableness is appropriate and should be applied to this issue as outlined in the guidelines. Table 2 shows the larger share of incentive compensation which MAI disallowed and the smaller portion included in the overhead. By contrast, Table 3 illustrates the proposed disallowance from the Audit Report, an amount which claims virtually all of this compensation as disallowed. The reasonableness of our approach was endorsed by BDO Seidman, our independent accounting reviewers.

We wish to resolve the issues surrounding our overhead rates. Our request is that the disputed amounts be judged by their reasonableness. If that is not acceptable then we are very anxious to reach a settlement on this issue. For future compensation, MAI will design a compensation program in keeping with the Audit recommendation. This program will include a written incentive policy.

FINDING NO.2

AUDIT OPINION: "During our audit of fiscal years 2000 through 2007, we reviewed the labor accounting system of MAI. Though it initially appeared labor charges were being posted to the Time Journal and the Project Control Post Entries Report properly, our further review of employees time sheets indicated that project related costs were being charged to MAI's indirect labor accounts 'Precontract' and 'Office'.

MAI RESPONSE: We agree that some costs that ended up in "Pre-Contract" accounts were possibly project related. Many of those costs were coded this way in anticipation of a new contract or additional services agreement. A review of the time charged to the "Office" account shows that it substantially included individuals such as secretaries, accounting staff, company Administrators and marketing personnel whose responsibilities were clearly administrative. However, the Draft Letter reports that, "In order to move forward with rate development, a negotiated agreement was made with MAI to exclude 50% of the Precontract and Office accounts as indirect expenses." We wish to move forward to a resolution of these issues and will accept the 50% disallowance for audit years 2000 thru 2007.

In response to our discussions with the Audit Section field staff and to be more precise, MAI expanded the number of indirect labor codes in 2008 and went to an electronic time sheet system in 2009. That system includes electronic notations as to what exactly the employee did while charging the time. For example, if "Office-Proposal" was charged, the specific proposal was noted. When time sheets are reviewed and it is found that an incorrect job number was used or the incorrect number of hours was charged, neither the employee nor the reviewer can independently change the incorrectly coded charge. A reviewer must "Reject" the entry and the employee must re-enter the correct codes and/or hours. This provides added security to changes made. See attached Table 4 for details regarding this process.

The Draft Letter has suggested that the same 50% reduction should apply to Indirect Labor categories in '08 and '09. We respectfully request reconsideration of that action. We adopted the Axium iTime system which is used nation-wide by 400 of our peer firms. The Audit report was concerned about built-in controls in this system when mistaken entries need to be corrected. Please note that any changes require both a "Rejection" by a reviewer and a separate recoding of the time by the employee. These changes have been instituted for 2008, 2009 and beyond. We have as suggested taken corrective action and the time keeping system will provide documentation of all edits, corrections and adjustments.

FINDING NO. 3

AUDIT OPINION: "During our examination of account no. 7150-Transportation, we found numerous examples of direct project costs having been improperly charged to this overhead account. MAI argues that this practice is unobjectionable, because correcting entries removing those charges are later made when those costs can be reassigned to reimbursable projects. Although we did, in fact, observe many reversals of prior charges to the Transportation account, the problem with MAI's practice is that there remains substantial risk of over-inclusion of charges to the Transportation account..."

MAI RESPONSE: Our response to this Finding applies to any adjustments made to the Transportation (7150) Account and the Auto Expense (705 in 2000 and 7160 in 2001 through 2009) Account. MAI used one account for transportation costs with Transportation referring to the reimbursement of personal car usage and Auto Expense being the cost of gas, maintenance, etc. of MAI-owned vehicles. When specific travel is assigned to a specific project, the expense is then credited against our overhead calculation within the Travel (706 in 2000) and Daily Vehicle Usage (7030) accounts. The attached Table 5 summarizes all automobile related additions and subtractions to our overhead with the net over the 10 years being only $1,392. Since our original overhead rate submittals already subtracted out these costs from the allowable indirect expenses, no further adjustment may be necessary.

MAI will redesign its chart of accounts to provide clear designation of various auto expense categories and will develop a clear written policy on reporting of automobile expenses.

FINDING NO. 4

AUDIT OPINION: "During our examination of FY2002 costs, we found that MAI included in overhead account no. 7490 - Legal and Accounting, $490,000, which was for the settlement of issues concerning two specific projects. These settlement costs are direct costs of the subject projects and should not be allocated to all projects through the overhead calculation. The cost of these settlements should be treated in much the same manner as errors and omissions insurance."

MAI RESPONSE: We believed our inclusion of these costs in the overhead was acceptable and the practice was endorsed by our outside accounting firm who reviewed our overhead submissions. Nevertheless, in the interest of resolving all overhead issues, we will accept the findings presented.

FINDING NO. 5

AUDIT OPINION: "“Post-It” Notes and false or improper charging or recording of costs indicate material weaknesses in MAI's accounting procedures and controls and raise substantial concerns regarding its business ethics."

MAI RESPONSE: We agree that "Post-It" Notes should not be used. An Expense Form has been developed to more completely describe and account for the expenses that MAI reimburses. Refer to attached Table 6. Regardless of how the expenses were recorded by the employees, they were correctly disallowed by MAI in our determination of overhead, as originally submitted to IDOT. As discussed under Finding 3, as much auto/travel expenses were subtracted out of the overhead as were added in.

We will improve the documentation of employee expenses and will require all employees to provide the required documentation in detail on the new expense form. These additional controls will resolve this issue.

FINDINGS NO. 6 THRU 15

AUDIT OPINION: "Audit Findings 6 through 15 set forth in subsequent pages are categorized as General Audit Findings insofar as each involves a clear and repeated failure of MAI to follow some of the most common and explicit FAR requirements by improperly including ineligible costs in their overhead rate calculations. Common ineligible expense such as advertising, lobbying, entertainment and contributions were all included and charged to government projects through the application of the overhead rate."

MAI RESPONSE: We have summarized the totals for all ten Findings in Table 7. As you can see, all ten Findings in aggregate average out to $153,810 per year, which in turn would result in a change in the overhead rate of 0.0197. We hope this is not considered as a clear and repeated failure.

That being said, we wish to conclude the audit process and will accept the auditors' quantitative disallowance under Findings 6 thru 15.

SUMMARY

Finding No. 1

1. In view if the fact that MAI voluntarily excluded a bulk of the distribution, we requests that these exclusions be recognized.
2. MAI request that consideration be given to a reasonableness approach for this item.
3. MAI will develop an acceptable written compensation plan. Troy Washko will be engaged to help us develop an incentive program.

Finding No. 2

1. MAI accepts 50% settlement for 2000 through 2007.
2. MAI Requests further discussion for the years 2008 and 2009 based on our procedural change in time keeping.
3. MAI has instituted additional quality assurance procedures to ensure all time card changes are documented and electronically stored.
4. MAI will provide training to all existing and new employees regarding the appropriate time keeping procedures.
5. MAI has appointed a Quality Assurance Manager to ensure all instituted policies and procedures are followed.
6. MAI will implement a policy to allow employees to notify the Quality Assurance Manager regarding time card entry issues.

Finding No. 3

1. MAI will redesign its chart of accounts to provide clear designation of various auto expense categories and will develop a clear written policy on reporting of automobile expenses.

2. MAI will provide training to all existing and new employees regarding automobile usage and coding procedures.

Finding No. 4

1. MAI accepts this finding in the interest of overall resolution.

Finding No. 5

1. The use of "Post-It" Notes has been discontinued effective immediately.
2. A new expense form has been developed to provide appropriate level of detail.
3. MAI will provide training to all existing and new employees regarding the use of "Post-It" Notes and the proper procedures for recording expenses.
4. MAI will develop a written policy regarding the proper procedures for recording expenses and it shall be integral to our employee handbook.
5. MAI will implement a policy to allow employees to notify the Quality Assurance Manager regarding expense recording issues.

Finding No. 6 through No. 15

1. MAI accepts these findings in the interest of overall resolution.
2. MAI will add additional accounting codes to more accurately account for these activities.
3. Accounting staff will receive additional training regarding FAR and IDOT policies regarding handling of expenses.
4. MAI will continue to use expert, independent CPA firm auditors to provide independent analysis of our overhead calculation. MAI will use every reasonable effort to ascertain that the chosen firm is familiar with the FAR and IDOT policies regarding overhead analysis. Meticulous care will be taken in determining charges that go into overhead.

As indicated by our responses, MAI's intent is to cooperate fully with the Department in all areas. We sincerely regret the actions that have led to your preliminary draft findings. Although some audit findings may point to weaknesses in our internal controls, we wish to reassure you that MAI's intent has always been honest. We point to MAI's consistent record of

highest and best practices in engineering services over the last 45 years. In this regard, our ethics and integrity have been unquestioned. In fact, as discussed in our meeting, MAI has at times been overprotective of items such as proper invoicing to the point where notes were used just to ensure no improper charges were made.

We hope that we have conveyed our heartfelt passion to be the best in all our endeavors. We do admit that MAI made some honest mistakes in accounting procedures, and we will take immediate corrective action. However, we wish to make it clear that our intent is pure. As in our engineering practices, we will incorporate best business practices to address all your concerns.

We humbly request that all language regarding MAI's "significant internal control and business integrity and ethics weakness", as mentioned in the Recommendations section of the Audit Report, be removed. Additionally, we request that the reference to our prequalification suspension be eliminated. The findings discussed may demonstrate a deficiency in internal controls and a misunderstanding of FAR regulations, but it certainly is not an indication of our lack of integrity. Our reputation by far is our greatest asset and we hold it very dear. We stand by our integrity and our ethical approach to business. It is our hope that through our response and forthright discussions we have impressed upon you that we are a firm that conducts itself in a manner that is truly consistent with the professional requirements dictated by our licensing. Finally, as a partner with IDOT for 45 years, we would do nothing to jeopardize our relationship.

CONCLUSION

As suggested MAI will take corrective action in each instance and will ensure that information is properly documented. When in doubt we will err on the side of caution. Strict instructions will be given to the managers that, if need be, discussion should be held with the CFO on issues not readily discernable. A Quality Assurance Manager has been appointed to review timecards and expense reports on a test basis to determine if the controls are working. If further revisions are necessary, they will be implemented.

If you have any questions or comments, we would be pleased to discuss them with you.

Sincerely,

N. A. Ciotola

Nicholas A. Ciotola
Vice President and Chief Financial Officer

TABLE NO. 1
IDOT - MAI Exclusion Comparison (2000 - 2009)
IDOT Audit Finding #1 Response

	(Col 1)	(Col 2)	(Col 3)	(Col 4)
Fiscal Year	Incentive Paid To Owners	Portion of Incentive Excluded From Overhead by MAI	IDOT Exclusion 2nd Draft	(Col 3 - Col 2) Difference Between IDOT & MAI Exclusion
2000	$6,404,320	$3,538,145	$6,150,000	$2,611,855
2001	$6,138,320	$5,547,280	$5,859,000	$311,720
2002	$6,714,320	$6,128,761	$6,460,000	$331,239
2003	$6,224,320	$5,589,863	$5,970,000	$380,137
2004	$4,715,920	$3,777,129	$4,431,600	$654,471
2005	$4,254,320	$935,366	$4,000,000	$3,064,634
2006	$4,234,320	$733,442	$3,980,000	$3,246,558
2007	$4,319,770	$2,967,615	$4,065,450	$1,097,835
2008	$3,352,300	$1,338,362	$3,027,500	$1,689,138
2009	$2,939,900	$475,752	$2,548,720	$2,072,968
Totals	$49,297,810	$31,031,715	$46,492,270	$15,460,555

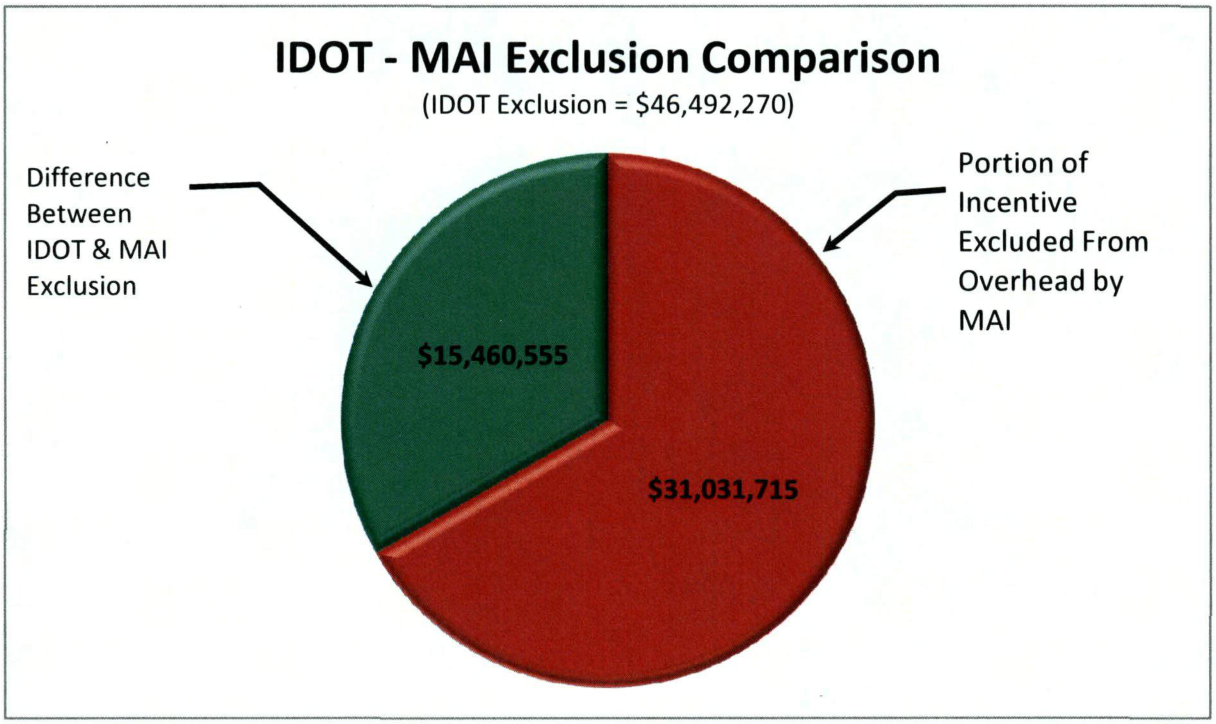


TABLE NO. 2
MAI Exclusion Analysis (2000-2009)
IDOT Audit Finding #1 Response

	(Col 1)	(Col 2)	(Col 3)	(Col 4)
Fiscal Year	Incentive Paid To Owners	Portion of Incentive **Excluded From** Overhead by MAI	(Col 1 - Col 2) Portion of Incentive **Included In** Overhead by MAI	((Col2/Col 1) x 100) Percentage of Incentive Excluded From Overhead by MAI
2000	$6,404,320	$3,538,145	$2,866,175	55.25%
2001	$6,138,320	$5,547,280	$591,040	90.37%
2002	$6,714,320	$6,128,761	$585,559	91.28%
2003	$6,224,320	$5,589,863	$634,457	89.81%
2004	$4,715,920	$3,777,129	$938,791	80.09%
2005	$4,254,320	$935,366	$3,318,954	21.99%
2006	$4,234,320	$733,442	$3,500,878	17.32%
2007	$4,319,770	$2,967,615	$1,352,155	68.70%
2008	$3,352,300	$1,338,362	$2,013,938	39.92%
2009	$2,939,900	$475,752	$2,464,148	16.18%
Totals	$49,297,810	$31,031,715	$18,266,095	62.95%

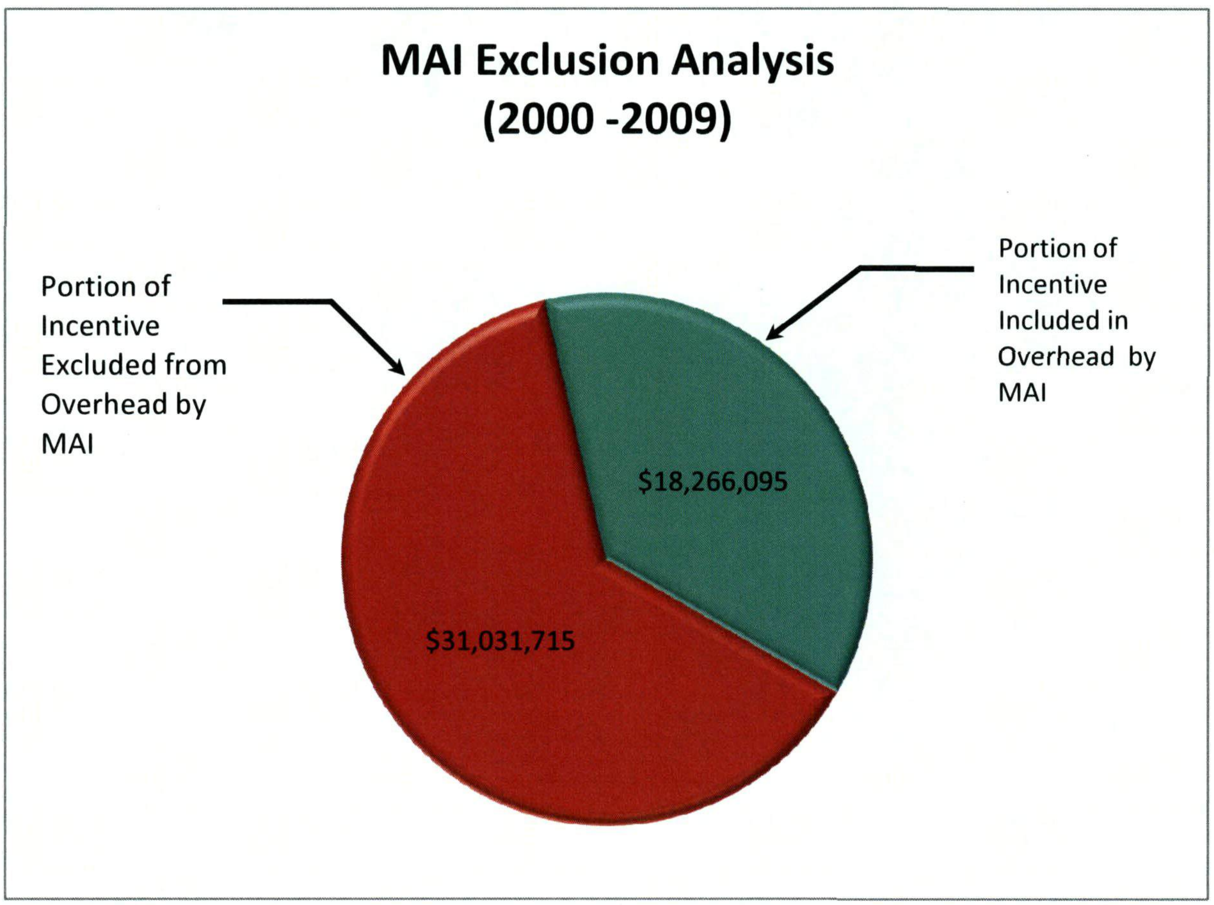


TABLE NO. 3
MAI Incentive to IDOT Exclusion Comparison (2000-2009)
IDOT Audit Finding #1 Response

	(Col 1)	(Col 2)	(Col 3)	(Col 4)
Fiscal Year	Incentive Paid To Owners	Incentive Excluded by IDOT	(Col 1 - Col 2) Incentive Allowed by IDOT	((Col3/Col 2) x 100) Percent Incentive Allowed by IDOT
2000	$6,404,320	$6,150,000	$254,320	3.97%
2001	$6,138,320	$5,859,000	$279,320	4.55%
2002	$6,714,320	$6,460,000	$254,320	3.79%
2003	$6,224,320	$5,970,000	$254,320	4.09%
2004	$4,715,920	$4,431,600	$284,320	6.03%
2005	$4,254,320	$4,000,000	$254,320	5.98%
2006	$4,234,320	$3,980,000	$254,320	6.01%
2007	$4,319,770	$4,065,450	$254,320	5.89%
2008	$3,352,300	$3,027,500	$324,800	9.69%
2009	$2,939,900	$2,548,720	$391,180	13.31%
Totals	$49,297,810	$46,492,270	$2,805,540	5.69%

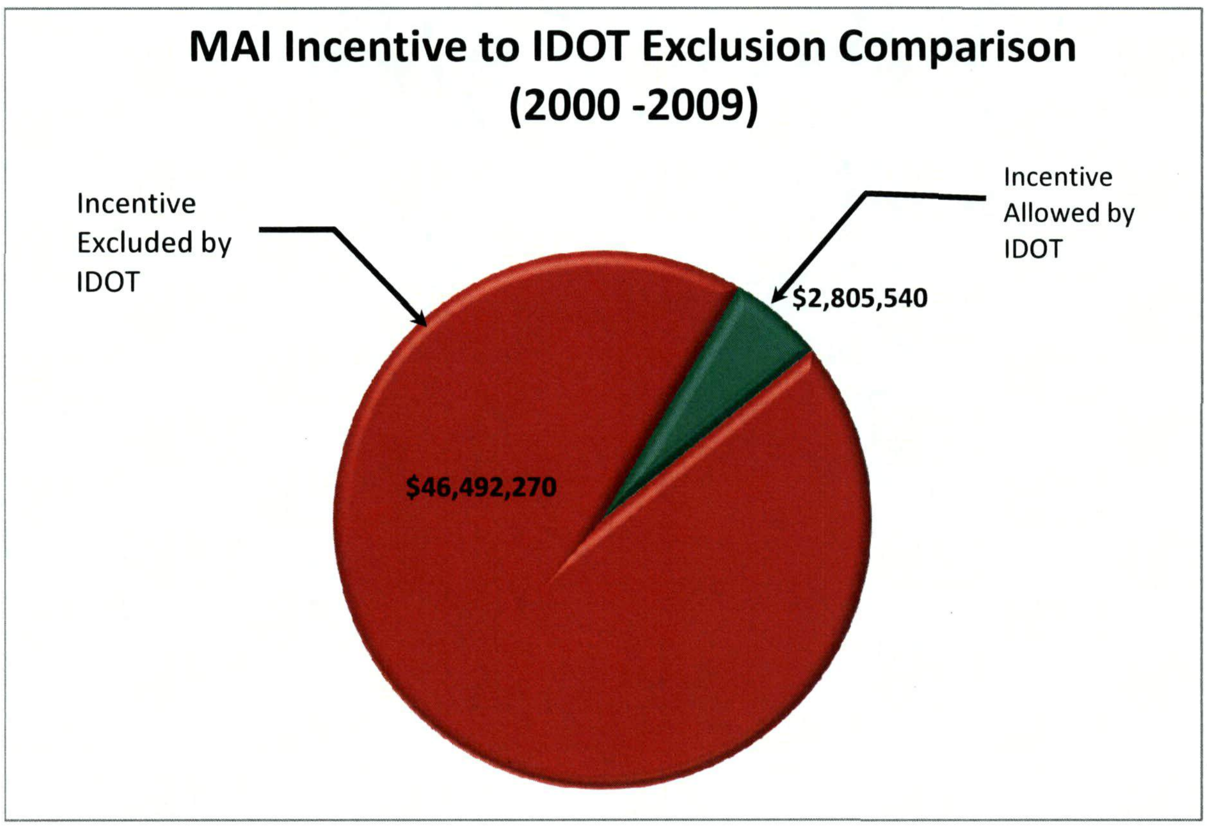
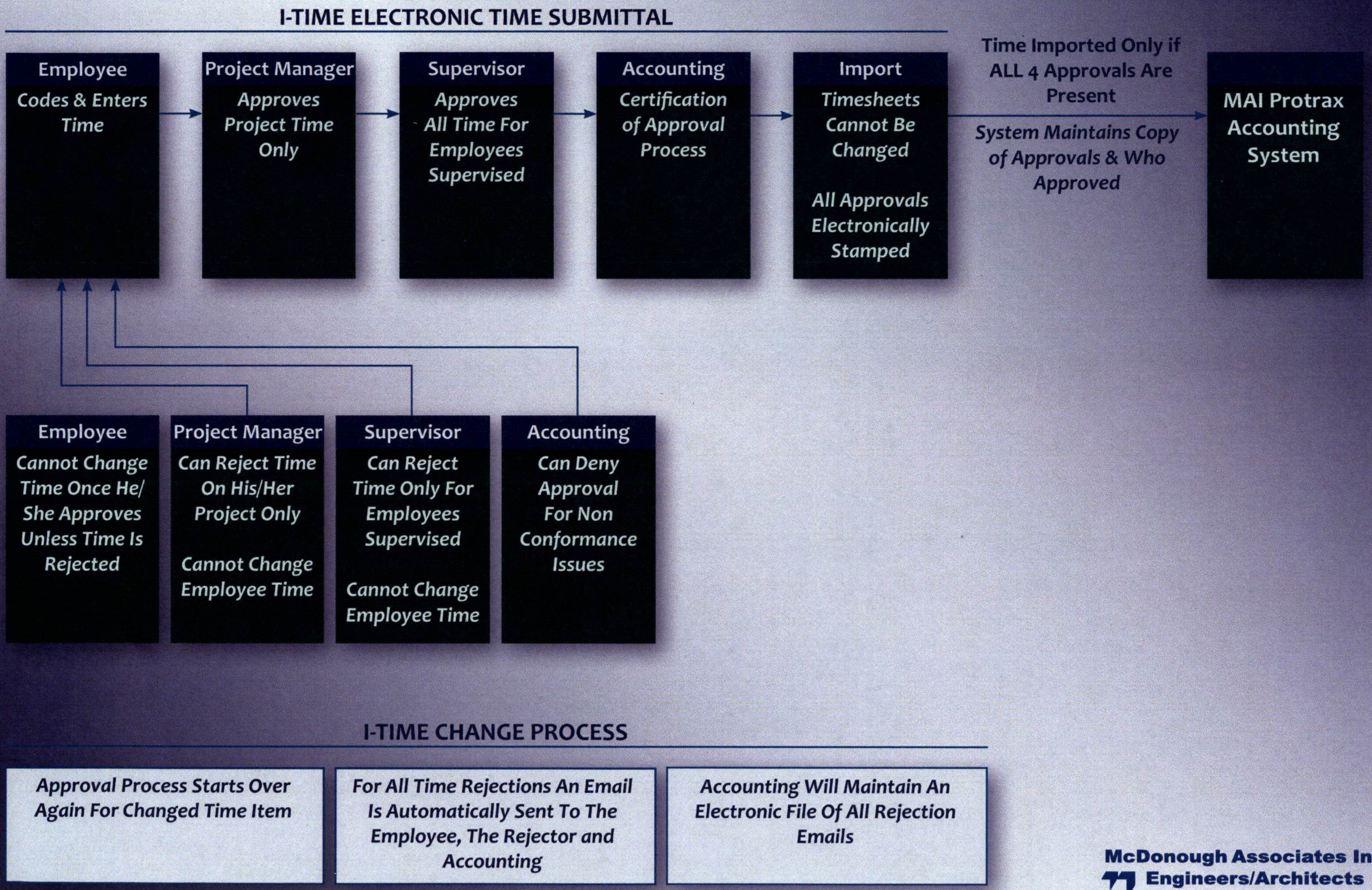


Table 4
MAI Electronic Time Card Approval Process



McDonough Associates Inc.
Engineers/Architects

TABLE NO. 5
Auto/Transportation Expense Review (2000 - 2009)
IDOT Audit Finding #3 Response

	(Col 1)	(Col 2)	(Col 3)
	Original Overhead Amounts Submitted to IDOT		(Col 1 - Col 2)
Fiscal Year	Charges (Note 1)	Credits (Note 2)	Net Submitted
2000	$91,666.00	($43,063.00)	$48,603.00
2001	$98,457.00	($90,469.00)	$7,988.00
2002	$84,872.00	($86,899.00)	($2,027.00)
2003	$87,757.00	($96,705.00)	($8,948.00)
2004	$84,388.00	($59,033.00)	$25,355.00
2005	$128,152.00	($174,282.00)	($46,130.00)
2006	$151,354.00	($184,263.00)	($32,909.00)
2007	$150,725.00	($182,575.00)	($31,850.00)
2008	$270,868.00	($221,016.00)	$49,852.00
2009	$322,633.00	($331,175.00)	($8,542.00)
Totals	$1,470,872.00	($1,469,480.00)	$1,392.00

Notes:

1. Account 7050 in 2000, sum of accounts 7150 and 7160 thereafter
2. Account 7060 in 2000, account 7030 thereafter

Table No. 6
DRAFT EXPENSE REPORT

McDonough Associates Inc. Expense Report

Pay Period	
From:	

Employee Name: ____________________

Department: ____________________

Manager: ____________________

DATE	DESCRIPTION	Project	Extra	Phase	B	N/B	Account	Miles	Auto Expense	Travel	Lodging	Meals	Entertain ment	Other	TOTAL
															-
															-
															-
															-
															-
															-
															-
															-
															-
															-
															-
															-
									0.00	0.00	0.00	0.00	0.00	0.00	0.00

DRAFT

TOTAL REIMBURSEMENT $ -

Itemized Expenses or Description for "Other"

DATE	DESCRIPTION	Amount

TOTAL $ -

*** Don't forget to attach receipts ***

Signatures:

Submitted By **Date**

Authorized By **Date**

B = Billable to the project
N/B = Non-Billable to the project
Auto Expense = Mileage @ $.505/mile, parking, and tolls
Travel = Out of town travel
Meals = Employee meals when traveling

TABLE NO. 7
IDOT Audit Finding Numbers 6 Thru 15 Impact Analysis

Year	Col 1	Col 2	Col 3	Col 4	Col 5	Col 6	Col 7	Col 8	Col 9	Col 10	Col 11 Sum (Col 1 Thru Col 10)	Col 12
	Overhead Amount in Question											
	Finding No. 6	Finding No. 7	Finding No. 8	Finding No. 9	Finding No. 10	Finding No. 11	Finding No. 12	Finding No. 13	Finding No. 14	Finding No. 15	Total Overhead Amount in Question	Direct Labor Base
2000	$1,372	$19,909	$42,444	$67,660	$510	$1,294	$500	$0	$0	$0	$133,689	$7,809,851
2001	$7,772	$10,585	$51,182	$56,598	$1,969	$432	$180	$25,346	$7,403	$0	$161,467	$7,615,214
2002	$4,757	$10,381	$14,653	$72,626	$3,841	$0	$600	$0	$0	$0	$106,858	$7,383,155
2003	$0	$854	$102,403	$64,541	$3,306	$0	$0	$0	$0	$0	$171,104	$7,294,274
2004	$0	$0	$0	$44,128	$4,313	$0	$0	$0	$0	$11,550	$59,991	$6,156,161
2005	$0	$0	$40,125	$32,244	$2,091	$0	$750	$0	$0	$0	$75,210	$8,165,611
2006	$0	$0	$8,610	$42,846	$3,041	$0	$8,500	$633	$0	$0	$63,630	$8,262,248
2007	$24,178	$0	$0	$47,552	$48,057	$635	$800	$0	$78,839	$0	$200,061	$8,246,539
2008	$0	$19,512	$7,898	$38,338	$67,243	$9,832	$0	$0	$165,312	$0	$308,135	$8,148,800
2009	$0	$0	$104,463	$49,182	$0	$21,095	$1,450	$0	$81,765	$0	$257,955	$8,996,580
Totals	$38,079	$61,241	$371,778	$515,715	$134,371	$33,288	$12,780	$25,979	$333,319	$11,550	$1,538,100	$78,078,433

Overhead Rate Impact Analysys				
	Col 13 (Col 11/Col 12) x 100	Col 14	Col 15 (Col 14 - Col 15)	
Year	Percent of Direct Labor in Question	MAI Overhead Rate Submitted with SEFC	MAI Adjusted Overhead Rate	MAI Overhead Submitted to IDOT
2000	1.71%	116.46%	114.75%	11,883,506
2001	2.12%	102.70%	100.58%	7,395,918
2002	1.45%	110.94%	109.49%	7,512,181
2003	2.35%	104.99%	102.64%	7,062,342
2004	0.97%	135.16%	134.19%	7,393,623
2005	0.92%	139.67%	138.75%	10,445,261
2006	0.77%	154.57%	153.80%	11,484,656
2007	2.43%	121.59%	119.16%	9,539,105
2008	3.78%	141.59%	137.81%	9,456,699
2009	2.87%	143.30%	140.43%	11,833,970
Average	1.94%	127.10%	125.16%	94,007,261