



Expires – Upon Issuance of LPP

Revision to Independent Office of Audits and Investigations (IOAI) Financial Document Review (FDR) Process

I. BACKGROUND

Currently, all consultants (including prime and subconsultants) on a proposed federal-aid or state-only funded Architectural and Engineering (A&E) contract with a dollar value equal to or greater than \$150K are subject to a FDR. The FDR is a process conducted by IOAI to review the Indirect Cost Rate (ICR) financial documents to either accept or adjust the indirect cost rate prior to contract execution.

In a recent process review for the year 2020-21, FDR local data showed that A&E contracts under \$1 million accounted for 62% of FDR reviews, but only 14% of the overall contract amounts. As a result, IOAI identified a need for increasing the threshold that will require an FDR submittal for A&E consultant contracts from \$150K to \$1M and eliminating the submittal requirements for Exhibit 10-H: Cost Proposal as it is not a part of the FDR procedures.

In addition, the Federal Highway Administration (FHWA) issued Memorandum HCFB-30 dated March 24, 2021, which stated that when Paycheck Protection Program (PPP) loan proceeds are applied to a firm's cost (direct or indirect) within the scope of a federally funded contract and the PPP loan is forgiven, appropriate adjustments to consultant accounting records become necessary to comply with 48 CFR Part 31. As a result, PPP loan forgiveness will need to be considered when calculating the Indirect Cost Rate (ICR).

II. POLICY

The minimum threshold that will require the FDR submittal for A&E consultant contracts will be raised from \$150K to \$1M effective immediately. Exhibit 10-H's (Cost Proposal) are no longer required for FDR submittal and are retired from Local Assistance Procedures Manual (LAPM) Chapter 10: Consultant Selection.

IOAI will assume ownership of the following LAPM Exhibits and these exhibits are retired from LAPM Chapter 10 (form titles will be changed and are now hosted on the [IOAI website](#)):

- Exhibit 10-A: A&E Consultant Financial Document Review Request is now "[Financial Document Review Request](#)"
- Exhibit 10-K: Consultant Annual Certification of Indirect Costs and Financial Management System is now "[Certification of Indirect Costs and Financial Management System](#)"

The Division of Local Assistance (DLA) is adopting Caltrans Division of Procurement and Contracts' (DPAC) guidance for PPP loan forgiveness, except the required Paycheck Protection Program Certification Form is replaced by IOAI's Paycheck Protection Program Questionnaire.



III. PROCEDURE

For consultants (including prime and sub-consultants) on a proposed federal-aid or state-only funded A&E contract with a dollar value equal to or greater than \$1M, Local Public Agencies (LPAs) are required to:

- Obtain all required ICR supporting documentation from A&E prime consultants and sub-consultants as outlined in the [Financial Document Review Request form](#).
- Ensure consultants complete IOAI’s PPP questionnaire unless the firm is requesting the Safe Harbor Rate. IOAI will use the completed questionnaire to determine compliance with the applicable requirements.
- Forward the complete Financial Review package to IOAI for review at conformance.review@dot.ca.gov.

IV. APPLICABILITY / IMPACTS

This policy, effective immediately, is applicable to all federally and state-funded A&E contracts procured by the LPAs. The PPP loan is only applicable to federally funded A&E contracts.

The following documents are created/updated to incorporate the revised policy and procedures associated with this OB:

Chapter / Exhibit	Description of Changes that supersede current publications
<p>LAPM Chapter 10: Consultant Selection</p>	<ul style="list-style-type: none"> • References to Exhibits 10-A, 10-K, and 10-Hs will be removed. • The minimum threshold that requires FDR submittal for A&E consultant contracts will be changed from \$150K to \$1M.
<p>Exhibit 10-A: A&E Consultant Financial Document Review Request</p>	<ul style="list-style-type: none"> • Form title will be changed to “Financial Document Review Request” and hosted on IOAI’s website. • The form is updated to incorporate the revised policy and procedures associated with this Office Bulletin (OB). • Exhibit 10-A is retired from the LAPM.
<p>Exhibit 10-K: Consultant Annual Certification of Indirect Costs and Financial Management System</p>	<ul style="list-style-type: none"> • Form title will be changed to “Certification of Indirect Costs and Financial Management System” and hosted on IOAI’s website. • The form is updated to incorporate the revised policy and procedures associated with this Office Bulletin (OB). • Exhibit 10-K is retired from the LAPM.

