

Memorandum

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Be energy efficient!*

To: DISTRICT LOCAL ASSISTANCE ENGINEERS

Date: August 07, 2008

File:

From: EARL R. SEABERG, JR. 
Chief
Division of Local Assistance

Subject: Amendment: Cognizant Agency Audit Program (CAAP) for Engineering and Design-Related Contracts

Please forward to your local agencies for their information.

The California Department of Transportation (Department) is in the process of implementing new policies and procedures for engineering and design-related contracts to comply with federal regulations. Specifically, 23 Code of Federal Regulation (CFR) 172.7 requires engineering and design-related contracts financed with Federal-aid highway funds to use indirect cost rates established under cognizant audits. This memo and enclosure are to provide you with specific instructions for implementing the Department's federally-mandated CAAP pursuant to 23 CFR 172.7. The program will apply to all federal-aid highway funded engineering contracts and will become effective on January 1, 2009.

A Local Programs Procedures will be issued later in the year to update the appropriate portions of the Local Assistance Procedures Manual. In the meantime, local agencies should continue with the conducting of pre-award audits for engineering and design-related contracts as specified in Chapter 10 "Consultant Contracts" of the Local Assistance Procedures Manual.

Should the local agency have questions, they should contact their District Local Assistance Engineer or they may submit written questions regarding the CAAP to [audits and investigations questions@dot.ca.gov](mailto:audits_and_investigations_questions@dot.ca.gov)

Enclosure

Cc: Mary Ann Campbell Smith, Jan Smelser, DD for Local Assistance, DLA Office Chiefs, DLA Area Engineers

COGNIZANT AGENCY AUDIT PROGRAM FOR LOCAL ASSISTANCE PROJECTS- ENGINEERING AND DESIGN-RELATED CONTRACTS

The following provisions apply to local agency engineering contracts funded in part or in whole with Federal-aid highway funds.

In accordance with 23 Code of Federal Regulations (CFR) 172.7, engineering and design-related contracts financed with Federal-aid highway funds must contain indirect cost rates established under cognizant audits. For California, the establishment of the cognizant rate will be the responsibility of the Department of Transportation, Audits and Investigations (A&I).

Effective January 1, 2009, local agencies entering into engineering contracts funded in part or in whole with Federal-aid highway funds must ensure the prime consultant indirect cost rate is a cognizant-agency approved rate. The following describes the process by which local agencies and their prime consultants may seek cognizant-approval of indirect cost rates and the thresholds for compliance.

If you have questions regarding the Cognizant Agency Audit Program (CAAP), please contact your District Local Assistance Engineer or you may submit written questions to audits and investigations questions@dot.ca.gov

A. Indirect Cost Rate (ICR) Review and Approval Process

Local agencies will notify A&I when a prime consultant is being selected through a request for qualifications or proposal procurement process. The local agency will also instruct the prime consultant to submit the following information directly to A&I in order to obtain a cognizant approved indirect cost rate (ICR).

- Audit report by independent Certified Public Accountant (CPA) of prime consultant's ICR
- Completed CPA questionnaire and Financial Schedules*
- Completed Consultant questionnaire
- Consultant's disclosures and Information
- Consultant's Letter of Authorization*
- Consultant's Certification of complete submittal package

*If prime consultant's Home State Department of Transportation is not Caltrans, consultant should submit its Home State DOT cognizant agency approval letter in place of the CPA Questionnaire and Letter of Authorization.

The ICR package should be sent to A&I at the following address with a copy to the Local Agency and should clearly indicate the associated Local Agency and Project number:

California Department of Transportation
Audits & Investigations, MS 2
P.O. Box 942874
Sacramento, CA 94274-0001
RE: Cognizant Audit ICR Approval Request

NOTES:

- All ICR documents may be downloaded at <http://www.dot.ca.gov/hq/LocalPrograms/CAAP/CAAP.htm>
- The ICR package will be considered to be confidential information by A&I.

Upon completion of the ICR review, A&I will notify both the local agency and the prime consultant in writing of the prime consultant's cognizant approved ICR. The approved rate is valid for 12 months from the date of the CPA audit report. Local agencies must ensure the ICR is included in the engineering contract and any subsequent engineering and design-related contracts entered into with the prime consultant within the approved time period of the cognizant ICR.

B. Threshold for Submitting ICR Documents to Audits & Investigations

A cognizant-approved ICR will be required for the following engineering and design-related contracts:

- Advertised contract is \$1 million or more.
OR
- Advertised contract PLUS the aggregate of current active contracts total \$1 million or more (per local agency).

A cognizant-approved ICR will NOT be required for the following engineering and design-related contracts:

- Advertised contract is less than \$1 million
AND
- Advertised contract PLUS the aggregate of current active contracts total less than \$1 million. (per local agency).