

Bell, Tammi [DOT]

From: Bell, Tammi [DOT]
Sent: Tuesday, April 29, 2008 9:59 AM
To: Bell, Tammi [DOT]
Subject: Withholding of 5% of the Federal and/or State Share

TO: County Engineers, City Representatives, and Consultants
Tammi Bell Iowa DOT - Local Systems tammi.bell@dot.iowa.gov

CC: District Local Systems Engineers, Service Bureau, Systems Planning, and Office of Local Systems

FROM: Office of Local Systems

SUBJECT: Withholding of 5% of the Federal and/or State Share

DATE: April 29, 2008

Over the years Administering Offices have withheld various amounts of reimbursement on Preliminary Engineering (PE), Construction Engineering (CE), and construction costs to ensure that appropriate paperwork is received prior to making the final reimbursement on a project. The Administering Offices (Districts, Systems Planning) met with the Office of Local Systems to discuss a possible standard approach to the withholding process.

As a result of these discussions, the Office of Local Systems will incorporate the following paragraph into all of our funding agreements to provide this standard approach:

The Department will reimburse the Recipient for properly documented and certified claims for eligible project costs, less a withholding of 5% of the Federal and / or State share of construction costs. Reimbursement will be made either by State warrant or by crediting other accounts from which payment was initially made. If, upon final audit or review, the Department determines the Recipient has been overpaid, the Recipient shall reimburse the overpaid amount to the Department. After the final audit or review is complete and after the Recipient has provided all required paperwork, the Department will release the Federal or State funds withheld.

As noted in the paragraph, we will not be withholding federal and / or state reimbursements on PE, CE or Right of Way (ROW) costs but will withhold 5% on the construction costs only. We encourage Local Public Agencies to ensure all work and associated paperwork to meet the agreement requirements are complete before making final payment on any PE, CE or other non-construction costs.

To limit the time that the 5% withholding is held on construction costs,

please follow [I.M. 3.910](#) covering the close-out procedures for federal-aid projects.

Please do not hit the reply option in your e-mail note. If you have any questions, please contact me.

Thanks

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Note: Documents are in Adobe Acrobat's pdf format. If you do not have the Adobe Acrobat Reader software, you can download it free of charge at <http://www.adobe.com/products/acrobat/readstep.html>.

Mailings are available at the Local Systems Weekly Mailing web address http://www.iowadot.gov/local_systems/mailling/main_mailing.htm

INSTRUCTIONAL MEMORANDUMS

To Local Public Agencies



To: Counties and Cities	Date: December 3, 2007
From: Office of Local Systems	I.M. No. 3.910
Subject: Final Review, Audit, and Close-out Procedures for Federal-aid Projects	

Contents: This Instructional Memorandum (I.M.) provides guidelines and procedures for closing-out Local Public Agency (LPA) Federal-aid projects, including field inspections, pre-audits, final audits or reviews, final Federal reimbursement, and records retention. This I.M. includes the following attachments:

[Attachment A](#) – Project Close-out Process Overview Flowchart. This attachment illustrates the entire project close-out process. It also directs the reader to the appropriate flow chart for the final review, audit, and payment of construction work, depending on the type of project.

[Attachment B](#) – Final Review and Audit Process Flowchart – Highway or Bridge Construction. This attachment illustrates the final review, audit, and payment process for traditional highway and bridge construction contracts that are let by the Iowa DOT and use the Iowa DOT Standard Specifications.

[Attachment C](#) – Final Review and Audit Process Flowchart – Non-highway Construction, DOT Specifications. This attachment illustrates the final review, audit, and payment process for non-highway type construction contracts that use the Iowa DOT Standard Specifications. These may be let at the Iowa DOT or locally*. They may include trails or landscaping / scenic improvement projects, such as those funded by the Transportation Enhancement, Federal Recreational Trails, Scenic Byways, and Safe Routes To School programs.

[Attachment D](#) – Final Review and Audit Process Flowchart – Non-highway Construction, Non-DOT Specifications. This attachment illustrates the final review, audit, and payment process for non-highway construction contracts that do not use the Iowa DOT Specifications. These may be let at the Iowa DOT or locally*. In addition to the kinds of projects listed for Attachment C above, these may include building restoration or renovation projects.

*For more information on the types of contracts that may be let locally, refer to [I.M. 3.720](#), Local Lettings – Federal-aid.

[Attachment E](#) – Pre-audit Checklist. This attachment includes a checklist and instructions to guide the LPA's Project Engineer through the pre-audit process and prepare for a final audit. This checklist will also be used by the Iowa DOT staff when performing the final construction contract audit.

[Attachment F](#) – Final Forms Packet Checklist. This attachment includes a checklist and instructions that describe the necessary forms and documents that should accompany the Project Engineer's request for approval of final payment to the Contractor.

Introduction

The primary objective of this I.M. is to document the process for closing-out Federal aid projects and set expectations, for both LPA and Iowa DOT staff, concerning the amount of time required to complete this process. Timely completion of the close-out process is very important because of Federal and State laws or regulations that pertain to prompt payment to contractors and subcontractors. The flowcharts included as Attachments A through D of this I.M. provide an estimate of the *minimum* amount of time required to complete each step. However, depending on the circumstances of each project, more time may be required.

Another important objective of this I.M. is to outline the documentation necessary to ensure that the project was constructed in accordance with the approved plans and specifications. In order to effectively carry-out its responsibilities to oversee the use of Federal funds, the Iowa DOT reviews some of this documentation. If such documentation is lacking, the Iowa DOT has the responsibility and the authority to deny Federal participation in some or all of the project costs.

Besides reviewing the construction documentation, the Iowa DOT is also responsible to ensure that the LPA is adequately staffed and equipped to undertake a Federal-aid project. If the Iowa DOT's reviews of an LPA's

projects during the close-out process consistently indicate that the LPA is not adequately staffed or equipped, the Iowa DOT has the responsibility and the authority to withhold letting of future Federal-aid projects until the LPA makes the necessary corrections.

The best way to make the project close-out process run smoothly and quickly is to ensure that proper documentation and records are kept during construction. Some of the documentation reviewed during the close-out process is discussed in [I.M. 3.805](#), Construction Inspection. Therefore, the information contained in I.M. 3.805 should be thoroughly reviewed before beginning either construction or the project close-out process.

Besides I.M. 3.805, the Iowa DOT's Construction Manual should also be consulted as a resource for construction inspection and close-out procedures. The current version of the Construction Manual is available on-line as part of the Iowa DOT's [Electronic Reference Library](#). In many places throughout this I.M., references to the Construction Manual are provided for additional explanation or information.

Note: LPA and consultant staff should be aware that the Construction Manual is written primarily for use by Iowa DOT staff. Therefore, the terminology it uses reflects the Iowa DOT's organizational structure. For example, references in the Construction Manual to the Resident Construction Engineer (RCE) should be interpreted as referring to the LPA's Project Engineer. Likewise, references to the District Construction Engineer (DCE) correspond to the District Local Systems Engineer (DLSE), or in the case of projects administered by the Office of Systems Planning, the appropriate Grant Program Manager or their designee. In addition, the LPA should also recognize that some of the procedures described in the Construction Manual are internal to the Iowa DOT and therefore may not be applicable for LPA administered projects. If you have any questions concerning the applicability of procedures in the Construction Manual, contact the Administering Office for assistance.

While not detailed extensively in this I.M., timely completion and review of other non-construction contracts that have Federal participation, such as consultant, railroad, or utility relocation contracts, are also very important to the project close-out process. When such Federal-aid participating work is complete, the LPA should forward a request for final reimbursement for that work to the Iowa DOT as soon as possible. This enables the final review or audit process for such contracts to begin prior to completion of the construction contract, when possible. Sometimes the final reviews or audits of consultant, railroad, or utility work can take a significant amount of time, and therefore have potential to delay close-out of the project as a whole. For more information regarding these procedures, refer to [I.M. 3.305](#), Federal-aid Participation in Consultant Costs; [I.M. 3.650](#), Federal-aid Participation in Utility Costs; and [I.M. 3.680](#), Federal-aid Projects Involving Railroads.

The attachments referenced above provide an outline of the entire process for closing-out a Federal-aid project. The remainder of this I.M. provides additional explanation for each major part of this process. These parts include the following:

Completion of Field Work

The project field work is considered complete when all the Contractor's items of physical work have been completed. In other words, unless some of the work is found to be defective, the Contractor will not need to come back to the project site.

Completion of field work requires some, but not all of the paperwork that will eventually be required from the Contractor. Before accepting the field work as complete, the Project Engineer should obtain the following from the Contractor, as applicable: survey books, the Contractor's Daily Traffic Control Diary, Abandoned Water Well Plugging Record (DNR Form 542-1226), corrected profilometer reports, and plant reports. In addition, any non-compliances related to field work should be resolved before accepting the field work as complete.

Inspection of Field Work

After the Contractor has completed the field work, the Project Engineer shall promptly inspect the work. If any items of work are not complete and in reasonable close conformity to the contract documents, the Project Engineer shall notify the Contractor in writing and specify the corrective action that must be taken. Once the Project Engineer determines all of the work is satisfactorily completed, including any corrective actions, the Project Engineer shall send a copy of the final *Weekly Report of Working Days* (Form 830238, available in [Word](#) or [PDF](#)) to the Administering Office and request a field inspection.

After receiving the Project Engineer's request, the Administering Office will conduct an on-site inspection to verify completion of the field work. This inspection may occur prior to or concurrent with the Administering Office's final audit, if conducted. The Administering Office staff will notify the Project Engineer in writing if there are any items of work that are incomplete or unsatisfactory. Upon receipt of this information, the Project Engineer shall work with the Contractor as needed to make the necessary corrections.

Statement of Completion and Final Acceptance of Work

After the field inspections have been completed, and any required corrective actions completed, the Project Engineer shall notify the Administering Office in writing. This notice shall specify the corrective actions that have been taken, if any, and include the appropriate form to document the completion and acceptance of the work. The Administering Office staff, at its discretion, may spot check these corrections. The form used to document the completion and acceptance of the work depends on the type of specifications used:

For projects using the Iowa DOT Standard Specifications, the Project Engineer shall sign and date the *Statement of Completion and Final Acceptance of Work* (Form 830435, available in [Word](#) or [PDF](#)) and send the original to the Administering Office. Upon receipt, the Administering Office will sign and date Form 830435, return a copy to the Project Engineer, forward the original to the Office of Finance, Project Accounting and Payables Section, and retain a copy for the Administering Office's file. The Project Engineer shall then send a copy to the Contractor.

For projects that use other specifications, the Project Engineer shall sign and date the *top portion only* of the *Certificate of Completion and Final Acceptance of Agreement Work* (Form 640003, available in [Word](#) or [PDF](#)), send a copy to the Administering Office and the Contractor, and keep the original in the LPA's file. The only purpose of this submittal is to document the date of completion of the work. It is not intended to be the LPA's approval for final payment. Approval for final payment occurs later, at which time the original Form 640003 shall be sent to the Administering Office as part of the Final Forms Packet submittal. For more information, refer to [Attachment D](#) and [Attachment F](#).

The date of the Project Engineer's signature on Form 830435 or 640003 is important, because this date marks the beginning of a 50 day count that is used to determine whether interest may be due to the Contractor. For more information, refer to [I.M. 3.930](#), Interest Payment Procedures.

A County Board of Supervisors may authorize its County Engineer to sign either the Form 830435 or 640003 on its behalf, provided, that it has passed and executed a resolution authorizing the County Engineer to do so. For more information, refer to [I.M. 3.940](#), County Engineer Resolution.

Pre-audit Process

Prior to requesting a final audit from the Administering Office, the Project Engineer shall conduct a pre-audit. The pre-audit consists of a thorough review of the construction contract documentation, as specified on [Attachment E](#) – Pre-audit Checklist. The purpose of the pre-audit is to prepare for a possible audit by Administering Office staff. Therefore, when conducting the pre-audit, the Project Engineer should ensure that all of the documentation associated with the construction contract is complete, correct, and well organized. If the Administering Office finds that the documentation is not complete, correct, or well organized, it may defer its final audit until the Project Engineer addresses these issues.

As part of the pre-audit process, the Project Engineer shall also prepare the proposed final quantities, including all applicable price adjustments, such as incentives / disincentives, liquidated damages, or adjustments due to non-compliance with the contract documents. Additional guidance for each of these items is provided in [I.M. 3.805](#), Construction Inspection, and the Construction Manual sections referenced by Attachment E to this I.M.

When the pre-audit is complete, the Project Engineer shall notify the Administering Office that the project is ready for an audit. This notification shall include a completed Pre-audit Checklist, and if applicable, all materials review forms and associated documentation, as specified by Materials I.M. 101. The applicability of the materials audit process is discussed in the Final Audits section below.

Semi-final Voucher or Semi-final Pay Estimate

After the pre-audit is complete, the Project Engineer shall send the proposed final quantities, including any price adjustments, to the Contractor for review and acceptance. For contracts that are paid by the Iowa DOT through

its Contractor Pay System (CPS), this submittal consists of the semi-final voucher, which is documented using the *Construction Contract Progress Voucher* (Form 181013, available in [PDF](#)), or if the Field Manager software is used, a similar computer generated form. For contracts where the LPA makes payment to the Contractor directly, this submittal consists of a semi-final pay estimate, which may be documented using either the *Final Estimate of Road or Bridge Work on Non-State Roads / Streets* (Form 181235, available in [Word](#) or [PDF](#)) or an equivalent form.

The submittal of the semi-final voucher or pay estimate to the Contractor should be made at the same time a final audit is requested from the Administering Office. Therefore, the Project Engineer should make it clear to the Contractor that the proposed final quantities are subject to change by an Iowa DOT audit.

Also as part of the semi-final voucher or pay estimate submittal, the Project Engineer shall provide the Contractor with a complete list of any missing documentation that will be required in order to receive final payment, as determined by the Project Engineer's Pre-audit.

If any quantities or price adjustments are in dispute, the Project Engineer and the Contractor shall negotiate a mutually acceptable resolution. If the parties are unable to reach an agreement, the Project Engineer or the Contractor may contact the Administering Office for assistance. If requested, the Administering Office will attempt to mediate an acceptable solution to both parties.

After the Project Engineer and the Contractor have reached agreement on the semi-final voucher or pay estimate, the Project Engineer shall approve the semi-final voucher or pay estimate and the Contractor should be paid in full, less any retainage withheld.

Final Audits

The Administering Office, at its discretion, may audit any construction contract. Some Administering Offices have elected to audit all contracts; others have elected to select contracts using a systems approach.

Using the systems approach, from among those contracts that are let for a given Federal fiscal year, the Administering Office will select at least one contract for each LPA. If the LPA only has one contract, that contract will be selected. If the LPA has more than one contract, the contract will be selected at random. If the audit of the selected contract does not reveal any significant problems, the Administering Office may waive the final audits for the LPA's other contracts let during that Federal fiscal year.

If a project is not selected for an audit, the Administering Office will simply review the Pre-audit Checklist for completeness, notify the Project Engineer that a final audit will not be conducted, and send a completed copy of the Pre-audit Checklist to the Project Engineer.

If a contract is selected for a final audit, the Administering Office will forward the materials review forms and associated documentation to the District Materials staff. The materials and construction audits will proceed as follows:

Materials Audit Process (highway and bridge projects only)

A materials audit will be performed for highway or bridge projects only. Materials audits will not be performed for non-highway projects, such as those funded by the Transportation Enhancement, Federal Recreational Trails, Scenic Byways, and Safe Routes to School programs.

After receipt of the materials review forms and associated documentation, the District Materials staff will perform a materials audit in accordance with procedures outlined in Materials I.M. 101 and 103. After their audit is complete, District Materials staff will notify the Project Engineer of any deficiencies in the materials testing, certification, or other required documentation and specify the corrective action that must be taken. If needed, the District Materials staff will provide a copy of this request to the Administering Office.

After the requested corrective actions have been taken and / or obtaining the requested documentation, the Project Engineer shall forward this information to the District Materials staff.

Construction Audit Process

The Administering Office staff will review the Pre-audit Checklist submitted by the Project Engineer. For selected items, the Administering Office will examine samples of the supporting documentation contained in the Project Engineer's files in order to verify that the item was completed as indicated on the Pre-audit Checklist. Those items for which supporting documentation was reviewed will be noted as such on the Pre-audit Checklist by the Administering Office staff. Any deficiencies identified by their review will be recorded on the *Audit of Final Pay Estimate* (Form 830301, available in [Word](#) or [PDF](#)). The Administering Office staff will provide a partially completed Form 830301 to the Project Engineer. If needed, the Administering Office staff will provide a copy of Form 830301 to the District Materials staff. The Administering Office staff will also sign and date the Pre-Audit Checklist, provide a copy to the Project Engineer, and retain the original for the Administering Office's file.

After the requested corrections have been completed, the Project Engineer shall indicate the date corrective actions were taken, and sign and date Form 830301. A copy of the completed form shall be returned to the Administering Office, along with any requested documentation, as part of the Final Forms Packet submittal (see [Attachment F](#)). The original Form 830301 shall be retained in the LPA's file.

Preparation of the Final Voucher or Pay Estimate

After the materials and construction audits are complete, or upon notice by the Administering Office that a final audit will not be conducted, the Project Engineer may begin preparing the final voucher or pay estimate. The final voucher or pay estimate shall incorporate the corrections to final quantities or price adjustments, if required by the final materials or construction audits.

Note: For counties using the Field Manager software on contracts paid through the CPS, any changes to quantities required by the final audits will require re-issuing a semi-final voucher before preparing a final voucher. This is because the final voucher is only used to release retainage; it cannot process changes in quantities.

The Project Engineer shall send the final voucher or pay estimate to the Contractor and request the Contractor's approval of the final quantities, including any price adjustments that may apply. If acceptable, the Contractor signs the final voucher or final pay estimate and returns it to the Project Engineer. The Contractor shall also submit to the Project Engineer all required paperwork for final payment, if not already provided. This submittal marks the beginning of a 30 day count, referred to as the Day Zero count, that is used to determine when interest may begin to accrue. For more information, refer to [I.M. 3.930](#), Interest Payment Procedures. If all required paperwork is not provided, the Project Engineer shall promptly inform the Contractor which items are still needed and that final payment will not be processed until those items are received.

Submittal of Final Forms Packet

After the Contractor has signed the final voucher or pay estimate and provided all the required paperwork, the Project Engineer shall submit the Final Forms Packet to the Administering Office. The Final Forms Packet includes the final voucher or pay estimate and all other required documentation for final payment. Refer to [Attachment F](#) – Final Forms Packet Checklist, for a complete list of required forms and documentation.

Upon receipt of the Final Forms Packet, it is reviewed by the Administering Office to ensure all the applicable forms and documentation have been included. If any forms or documentation are missing, the Administering Office will promptly notify the Project Engineer and specify the items that are not complete. Once acceptable, the Administering Office routes the appropriate forms and documentation as needed. For contracts let under the Iowa DOT Specifications, the Iowa DOT documents approval for final payment by signing the *Final Payment* (Form 830436, available in [Word](#) or [PDF](#)). For contracts let under other specifications, the Iowa DOT documents approval for final payment by signing the bottom part of Form 640003.

Final Payment to the Contractor

After the Administering Office has approved the Final Forms Packet and signed the Form 830436 or 640003, final payment to the Contractor will be processed as follows:

For contracts that are paid by the LPA, the Administering Office notifies the Project Engineer that final payment may be processed and provides a copy of the signed Form 830436 or 640003 as appropriate. Upon receipt, the

LPA makes final payment to the Contractor in accordance with the approved final pay estimate, including release of all retainage that is due.

For contracts paid using the CPS, the Administering Office forwards Form 830436 and the Final Forms Packet to the Office of Finance. Upon receipt, the Office of Finance processes the final payment to the Contractor, including a release of all retainage that is due.

Final Federal Reimbursement

For contracts paid by the LPA, the LPA may request final Federal reimbursement of project costs after all payments have been made, including the construction contract and any other project costs for which Federal reimbursement will be requested. This request shall be made using the reimbursement claim form provided by the Administering Office, if applicable, and shall include copies of all warrants and pay estimates for which reimbursement has not yet been requested. The Administering Office will review the LPA's final Federal reimbursement request, and if acceptable, will forward to the Office of Finance for processing, along with the Final Forms Packet.

For contracts paid by the CPS, the Office of Finance will process the Federal reimbursement of participating contract costs. Federal funds so reimbursed will be deposited in the fund from which payments were originally made (e.g., the county's Farm-to-Market account for a Federal-aid project on the Farm-to-Market System). If there are any other Federal reimbursable project costs that were not paid through the CPS, the LPA shall request final reimbursement for these costs as described in the paragraph above.

Upon receipt of the final reimbursement request from the Administering Office, the Office of Finance will issue a warrant to the LPA for the final amount of Federal reimbursement that is due. If the final audits or reviews reveal that the LPA has been overpaid, the LPA shall reimburse the Iowa DOT accordingly.

Project Close-out and Records Retention

After processing the final Federal reimbursement to the LPA, the Office of Finance will prepare a final amendment / modification (amend / mod) to the project authorization in the Federal Highway Administration's Fiscal Management Information System (FMIS). The final amend / mod is sent to FHWA electronically for its review and approval.

Once approved by FHWA, the Office of Finance distributes copies of the final FMIS amend / mod document to the Administering Office (4), Program Management (1), and the Office of Local Systems (1). In turn, the Administering Office distributes copies to the LPA (1) and the District Planner (2). Finally, the District Planner forwards one copy to the appropriate Metropolitan Planning Organization (MPO) or Regional Planning Affiliation (RPA).

Upon receipt of the final amend / mod, the LPA shall retain its project records for not less than three years from the date of FHWA's signature on the final FMIS amend / mod document. These records shall be available for inspection by authorized Iowa DOT or FHWA personnel at any time during the retention period.