

INSTRUCTIONAL MEMORANDUMS

To Local Public Agencies



To: Counties and Cities	Date: February 29, 2016
From: Office of Local Systems	I.M. No. 3.810
Subject: Federal-aid Construction by Local Agency Forces	

Contents: This Instructional Memorandum (I.M.) includes guidelines and procedures to receive Federal-aid reimbursement for the costs of construction performed by Local Public Agency (LPA) forces. Topics addressed include eligible costs and activities, submittal requirements, and the procedures for requesting, reviewing, and authorizing Federal funds for such use.

Introduction

Federal regulations ([23 CFR 635.104](#)) require Federal-aid projects to be constructed by contracts awarded on the basis of competitive bidding. However, in rare cases, this requirement may be waived if the LPA finds it is more cost effective to use some other method, as provided for in [23 CFR 635, Subpart B](#). One such method is the use of LPA forces to perform the construction. The LPA's finding of cost effectiveness shall be reviewed and approved by the Iowa Department of Transportation (Iowa DOT) before construction by LPA forces can proceed.

The term "cost effective" means the efficient use of labor, equipment, materials, and supplies to assure the lowest overall cost. A "finding of cost effectiveness" must demonstrate two things:

1. completing the proposed construction work using LPA forces will be cost effective; and
2. there are special or unique circumstances that justify deviating from the competitive bidding process.

In addition, construction work done by LPA forces shall also comply with the current edition of the Iowa DOT Standard Specifications for Highway and Bridge Construction, or other specifications, if approved by the Iowa DOT. The LPA is responsible for documenting compliance with these specifications, including testing and materials inspection.

Eligible Costs

Subject to the approvals and procedures outlined in this I.M., Federal funds may participate in the direct costs of labor, equipment, materials, or supplies provided by LPA to complete the project construction, either in whole or in part. Labor costs include salaries, wages, and other related payroll expenses, such as leave, holidays, social security, retirement, and other payroll benefits.

Federal funds may also participate in the associated indirect costs, provided such costs have been allocated to the Federal-aid project in accordance with an approved cost allocation plan that meets the requirements of [2 CFR 200](#), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Such cost allocation plans must be reviewed and approved on annual basis by the Iowa DOT. The Federal Highway Administration (FHWA) may also elect to review the LPA's cost allocation plan. If reimbursement of indirect costs is desired, the LPA shall submit documentation showing approval of its indirect cost proposal by either the Iowa DOT or by the LPA's Federal cognizant agency. If the LPA's indirect cost proposal has not already been approved, the Administering Office will refer the LPA to the Iowa DOT Office of Finance, External Audits, which will provide the LPA with additional instructions and sample documents for requesting approval of indirect costs.

Submittal Requirements

To receive Federal-aid reimbursement for construction by LPA forces, the LPA must submit the following information to the Iowa DOT Administering Office to support its finding of cost effectiveness:

1. An explanation, including supporting documentation, of the reasons or special circumstances that justify using LPA forces in lieu of traditional competitive bidding. Examples of supporting documentation may include things such as:
 - a) a failed attempt to accomplish the proposed work by competitive bidding due to lack of bids or unreasonable bids; or

- b) a history of failed competitive bidding in the local area on similar work due to lack of bids or unreasonable bids, including reasons why competitive bidding, if attempted, would be unlikely to succeed for the requested work.

There may be other reasons or situations that justify the use of LPA forces. However, in all cases, they must be unusual and are unlikely to recur.

2. Identification of the project in the Statewide Transportation Improvement Program (STIP), a description of the project, and the kind of work to be performed by LPA forces.
3. An estimate of the construction costs to be performed by LPA forces that includes the following:
 - (a) Staff time (hours) for each different phase of the work. Staff time should be estimated separately for each employee or classification of employees.
 - (b) Wage rates for each employee or classification of employee including any payroll expenses that are part of the wage rate, such as IPERS, FICA, employee benefits, etc.
 - (c) Equipment type, hours of use, and unit costs (such as the rental rate per hour or per mile). Note: If an LPA must acquire or rent substantially more equipment than required for its normal operations, it may be difficult to justify the use of LPA forces.
 - (d) Costs of materials and supplies to be incorporated in the project. Include sources and suppliers, if known.
 - (e) Source documentation for the unit costs (labor, equipment, and materials) used to prepare the estimate.
4. A cost estimate of the work that assumes the work will be competitively bid. This estimate is for comparison purposes with the estimate described in item 3 above. Source documentation for the unit costs should also be included with this estimate. Unit bid price averages maintained by the Iowa DOT may be used as source documentation for this estimate.
5. The amount of Federal funds requested.

Procedures

The necessary procedures to request, review, and approve Federal participation in construction by LPA forces are summarized below:

1. The LPA submits a finding of cost-effectiveness and a request for Federal-aid participation in construction by LPA forces to the Administering Office, including a cost estimate and all supporting documentation, as described above.
2. The Administering Office reviews the cost estimate and completeness of submittal. If the submittal is incomplete or is not acceptable, the Administering Office works with the LPA to address any concerns. The Administering Office also verifies that Environmental Concurrence has been obtained. If not, the Administering Office reminds the LPA that construction work by LPA forces may not proceed until Environmental Concurrence and FHWA Authorization has been obtained.
3. The Administering Office requests a pre-audit from the Office of Finance, External Audits.
4. The Office of Finance, External Audits, reviews the pre-audit request and either performs a pre-audit or notifies the Administering Office that the pre-audit has been waived. If a pre-audit is conducted, External Audits sends 2 copies of the pre-audit report to the Administering Office and 1 copy to Office of Finance, Project Accounting and Payables.
5. The Administering Office sends 1 copy of the pre-audit report (if completed) to the LPA. If the pre-audit report requires modifications of the LPA's submittal, the LPA must respond to the findings of the pre-audit report. The Administering Office will work with the LPA and External Audits until the LPA's request is acceptable.
6. Once the LPA's request is acceptable, and after verifying that Environmental Concurrence has been obtained, the Administering Office requests FHWA authorization. The Administering Office's request shall indicate its concurrence with the LPA's finding of cost-effectiveness and include all supporting documentation.

Note: The Administering Office shall also provide a copy of the request and all supporting documentation to the FHWA prior to initiating action in the Fiscal Management Information System (FMIS). In addition, the "State Remarks" of the FMIS document shall indicate the request is for construction by LPA forces.

7. After FHWA authorization is received, the Administering Office notifies the LPA and provides the effective date of FHWA authorization. The Administering Office sends 1 copy of this notice to External Audits, Project Accounting and Payables, and the appropriate Metropolitan Planning Organization (MPO) or Regional Planning Affiliation (RPA).
8. After incurring construction costs by LPA forces, the LPA may submit periodic requests for reimbursement to the Administering Office. The requests shall document the actual costs incurred, including: staff hours and rates, equipment usage and rates, and costs of materials or supplies.
9. The Administering Office reviews and processes the requests for reimbursement as appropriate.
10. Upon completion of construction by LPA forces, the LPA notifies the Administering Office and requests final reimbursement for such costs.
11. The Administering Office requests a final audit from External Audits.
12. External Audits reviews the final audit request and either performs a final audit or notifies the Administering Office that the final audit has been waived. If a final audit was conducted, External Audits sends 2 copies of the final audit report to the Administering Office and 1 copy to Project Accounting and Payables.
13. The Administering Office provides a copy of the final audit report to the LPA. If additional reimbursement is due, the Administering Office processes the final reimbursement. If the final audit finds the LPA has been over-reimbursed, the Administering Office will request the Office of Finance, Financial Management and Reporting, to invoice the LPA for the appropriate Federal share or deduct this amount from the balance of Federal reimbursement that is due to the LPA for other project costs.