

INSTRUCTIONAL MEMORANDUMS

To Local Public Agencies



To: Counties and Cities	Date: November 4, 2022
From: Local Systems Bureau	I.M. No. 3.330
Subject: Federal-aid Participation in In-House Services	

Contents: This Instructional Memorandum (I.M.) includes guidelines and procedures to receive Federal-aid reimbursement for the costs of in-house services. In-house services include non-construction, project-related services performed by subrecipient staff. A subrecipient is a non-Federal entity that receives a subaward from a pass-through entity, such as Iowa DOT, to carry out part of a Federal program or project including Local Public Agencies (LPAs), non-profit organizations, and other entities deemed eligible to receive Federal-aid. Topics addressed include eligible costs and activities, submittal requirements, authorization, approval, reimbursement, and record keeping associated with in-house services.

With the exception of discretionary federal grants or earmark projects that specifically allow such participation, Iowa DOT **does not allow** Federal-aid participation in In-House Services for LPA projects administered by the Local Systems Bureau, including the following Federal-aid Formula programs: Surface Transportation Block Grant (STBG) Program for roadway and bridge projects, Highway Bridge Programs funded through STBG or the Bridge Formula Program, and Highway Safety Improvement Program (HSIP). If the LPA has been awarded a Federal discretionary grant or earmark that allows or requires In-House Services to be Federal-aid participating or to be credited as "local match", contact the [Iowa DOT Administering Bureau](#).

LPA projects administered by the Systems Planning Bureau (SPB), including STBG for trail projects, **will be allowed** to request participation in consultant costs. Please refer to [I.M. 1.000](#), Iowa DOT Oversight of LPA Projects, for more information regarding the Administering Bureaus.

To confirm the eligibility of In-House Services, please contact the Iowa DOT Administering Bureau prior to incurring any expenses. Failure to adhere to the procedures in this I.M. could render such costs as ineligible for Federal-aid reimbursement or credit toward local match or non-cash contribution.

This I.M. includes the following attachments:

[Attachment A](#) – Sample Scope of Work and Budget ([Excel Spreadsheet](#))

Allowable Costs

A cost allowable for reimbursement must be:

- An eligible project cost according to the terms of the federal program,
- Necessary and reasonable for the performance of the project, and
- Allocable (or assignable) to the project.

These costs can be further classified as Direct Costs and Indirect Costs as defined by the Cost Principles outlined in 2 CFR 200, Subpart E.

Direct Costs

Direct costs are those costs that can be identified specifically with a particular cost objective (or project) and that can be directly assigned to the project with a high degree of accuracy. Federal-aid may participate in the direct costs of salaries, wages, and related payroll expenses of subrecipient employees, but only for those costs incurred when the subrecipient's employees are directly engaged in eligible activities. Related payroll costs include travel, transportation, leave, holidays, social security, retirement, and other payroll benefits.

Other direct costs include equipment, materials, and supplies necessary to perform the in-house services. Examples include copying, printing, rental fees for facilities or equipment, and travel costs.

Indirect Costs

Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective and cannot be readily assignable to the cost objectives. Instead, indirect cost pools are distributed to benefited cost objectives relative to the benefits derived. Federal-aid may participate in indirect costs provided such costs have been allocated to the Federal-aid project in accordance with an approved indirect cost rate proposal (or Indirect Cost Allocation Plan (ICAP)) that meets the requirements of 2 CFR 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. The indirect cost proposal must be reviewed and approved on an annual basis by the Iowa DOT unless approved by a federal cognizant agency. The FHWA may also elect to review the subrecipient's indirect cost proposal.

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. All project costs for which reimbursement will be requested must have FHWA authorization and Iowa DOT written approval prior to being incurred.

Eligible Activities

Only project-related activities that directly contribute to the planning, design, development, or implementation of the project are eligible for Federal participation. These include the following:

1. Preliminary Engineering (PE) – This includes work that is part of the development of the plans, specifications, and estimate (PS&E) for a construction project. This includes environmental studies and documents, preliminary design, and final design up through and including the preparation of bidding documents. PE does not include planning or other activities that are not intended to lead to a construction project. Examples of work not considered PE include planning, conceptual, feasibility studies, and Interchange Justification Reports. PE may only be conducted by in-house staff of an LPA such as a city or a county. Non-governmental agencies may not conduct PE services in-house. Note: Final design activities may not begin until after receipt of FHWA Environmental Concurrence.
2. Construction Engineering (CE) – This includes supervision and inspection of construction activities, additional staking functions considered necessary for effective control of the construction operations, testing materials incorporated into construction, checking shop drawings, and measurements needed for the preparation of pay estimates. CE may only be conducted by in-house staff of an LPA such as a city or a county. Non-governmental agencies may not conduct CE services in-house.
3. Right-of-Way Acquisition Services – This includes all work associated with acquisition of property interests needed for the project. Examples include preparation of right-of-way plats, appraisals for parcel acquisitions, review of appraisals, preparation for and trial of condemnation cases, and furnishing of relocation advisory assistance. Note: Acquisition of property rights may not begin until after receipt of FHWA Environmental Concurrence.
4. Other Services – For projects that do not result in physical construction which includes activities that are necessary for the development or implementation of the project. Examples include developing or conducting programs, feasibility studies, conceptual studies, or planning documents.

Submittal Requirements

Scope of Work and Budget

The subrecipient shall submit a Scope of Work and Budget for the requested in-house services to the Administering Bureau using the provided [Excel spreadsheet](#). This includes a completed form, a detailed list of project tasks to be performed by the subrecipient, the deliverables associated with each task, a listing of fringe benefits provided to employees, and the accompanying budget detail. For a Sample Scope of Work and Budget, refer to [Attachment A](#) to this I.M.

Tasks and Deliverables

As part of the Scope of Work and Budget, the subrecipient must provide the project tasks to be performed and the expected deliverables to be accomplished with each task. This information will be provided by the

subrecipient in a narrative format on the required form. The subrecipient shall identify what work will be performed and will identify specific cost items associated with each deliverable to be included in the budget.

Budget

The budget shall include, but may not be limited to, the following information:

1. Staff time (hours) for each task. Staff time should be estimated separately for individual employees or classifications of employees.
2. Hourly rates (salaries) for each employee or classification of employee. Include a breakdown of the rate showing the wage and fringe rates applied.
3. Fringe benefits, including any payroll expenses such as IPERS, FICA, employee benefits, or other related direct payroll expenses.
4. Other direct costs. Include an explanation to show how the estimated costs or cost rates were determined. Examples include: equipment or printing costs that are charged directly to the project, mileage, outside printing costs, etc.
5. Indirect costs. If these are requested for reimbursement, an estimated line item for indirect costs shall be included in the budget.

Indirect Costs

If the subrecipient has an ICAP that has been approved by a federal cognizant agency, the approval from the federal agency must be submitted along with the ICAP. If no federal cognizant agency has reviewed, negotiated, and approved the ICAP, Iowa DOT will serve as the cognizant agency on behalf of the Federal Highway Administration (FHWA). The subrecipient is advised to notify the Iowa DOT Administering Bureau well in advance of an anticipated project start date if a cognizant agency review is needed.

It is the subrecipient's responsibility to ensure that any ICAP approval is re-reviewed and approved as necessary to avoid expiration of the approval and to provide documentation showing subsequent approval to the Administering Bureau. Indirect costs incurred under an ICAP with an expired approval will not be reimbursed.

Authorization and Approval Procedures

The necessary procedures to request, review, and approve in-house services costs are summarized below:

1. The subrecipient submits a request for Federal-aid participation in in-house services to the Administering Bureau. The request shall include a Scope of Work and Budget. If indirect costs are requested, the subrecipient shall submit documentation showing approval of its indirect cost proposal by either the Iowa DOT or by the subrecipient's Federal cognizant agency. If the subrecipient's indirect cost proposal has not already been approved, the Administering Bureau will refer the subrecipient to the Iowa DOT Finance Bureau, External Audits, which will provide the subrecipient with additional instructions and sample documents for requesting approval of indirect costs.
2. The Administering Bureau reviews for the completeness of the submittal. If the submittal is incomplete, the Administering Bureau works with the subrecipient to address any concerns.
3. The Administering Bureau reviews the submittal for the eligibility and allowability of project costs and that costs identified as direct costs have been classified appropriately. The Administering Bureau provides its findings and requests a pre-audit from the Finance Bureau, External Audits.
4. The Finance Bureau, External Audits, reviews the Administering Bureau's findings and pre-audit request and either performs a pre-audit or notifies the Administering Bureau that it concurs with the findings and the pre-audit has been waived. If a pre-audit is conducted, the Finance Bureau, External Audits, sends an electronic copy of the pre-audit report to the Administering Bureau.

5. The Administering Bureau sends an electronic copy of its findings and/or pre-audit report (if completed) to the subrecipient. If modifications are required of the subrecipient's submittal, the subrecipient must respond. The Administering Bureau will work with the subrecipient and the Finance Bureau, External Audits, until the LPA's request is acceptable.
6. Once the subrecipient's request is acceptable, the Administering Bureau requests FHWA authorization based on the approved Scope of Work and Budget.
7. After FHWA Authorization is received, the Administering Bureau notifies the subrecipient its request has been approved and provides the effective date of FHWA authorization. The Administering Bureau sends an electronic copy of this notice to the Finance Bureau, External Audits.

Changes to the Approved Scope of Work and Budget

Once a Scope of Work Budget has been approved by the Administering Bureau, none of the following revisions shall be made without the approvals shown.

Revision Type	Approval
Changes in Federal-aid amount.	Iowa DOT with FHWA Authorization
Transfer of funds between project categories, tasks, or activities exceeding 10 percent of the total approved budget when the Federal share of the total budget exceeds \$100,000.	Iowa DOT
Revision of the project scope or objectives regardless of whether there is an associated budget revision requiring prior approval.	Iowa DOT with FHWA Authorization
Extending the period of availability of funds.	Iowa DOT
Changes in key persons in cases where specified in an application or a grant award (i.e., change in lead consultant or uniquely qualified staff).	Iowa DOT

If the need arises to make any of the above revisions to the Scope of Work and Budget, the subrecipient shall submit a request to the Administering Bureau. Each request should consist of a detailed narrative description of each change requested and should be accompanied by the existing and proposed project budget. The request will be reviewed by the Administering Bureau and notice of approval or denial of the request will be made in writing. Iowa DOT approval and/or FHWA Authorization must be acquired prior to incurring any costs associated with the proposed revision.

Reimbursement Procedures

After the requested in-house services have been authorized by FHWA and the subrecipient has received written notification from the Administering Bureau, the subrecipient may proceed to perform the in-house services. After costs have been incurred, the subrecipient shall submit periodic requests, no more than monthly but not less than every six months, for reimbursement to the Administering Bureau. In general, reimbursement requests shall include the same information as the approved Scope of Work and Budget. Reimbursement requests shall include the following information:

1. A signed reimbursement claim form.
 - Claim for Reimbursement of Federal Grant Program Project Costs ([Form 240007](#))
2. Supporting documentation, including:
 - A statement of work completed during the billing period. This shall be identified by the tasks and / or deliverables as shown on the approved Scope of Work and Budget. Include details on the specific activities completed. For example, for a public meeting task item, include the meeting date and location.
 - For direct costs, a copy of invoices, receipts, or other documentation showing what was purchased and how much was paid. This should also include proof that the item was received or produced such as copies of documents or photos showing proof of receipt.

- For direct costs, proof of payment such as copies of cancelled checks or check registers.
- For indirect costs, include the approved indirect cost rate used to calculate the indirect costs and documentation showing how the ICAP was applied during the billing period. For payroll costs, include documentation that shows the actual wages and fringe benefits.
- Timesheets for each employee charging direct hours to the project signed by the employee and showing supervisor approval. This should be in a format that shows how their time on a daily basis was charged to all projects during the billing period.

Project Close-out Procedures

1. Upon completion of the in-house services, the subrecipient notifies the Administering Bureau and requests final reimbursement for such costs. This request shall include a statement that all project tasks and deliverables have been completed and include copies of all project deliverables, such as final reports, manuals, brochures, etc.
2. The Administering Bureau requests a final audit from the Finance Bureau, External Audits.
3. The Finance Bureau, External Audits, reviews the final audit request and either performs a final audit or notifies the Administering Bureau that the final audit has been waived. If a final audit was conducted, the Finance Bureau, External Audits, sends 2 copies of the final audit report to the Administering Bureau and 1 copy to the Finance Bureau, Project Accounting and Payables.
4. The Administering Bureau provides a copy of the final audit report to the subrecipient. If additional reimbursement is due, the Administering Bureau processes the final reimbursement. If the final audit finds the subrecipient has been over-reimbursed, the Administering Bureau will request the Finance Bureau, Financial Management and Reporting, to invoice the subrecipient for the appropriate Federal-aid share or deduct this amount from the balance of Federal-aid reimbursement that is due to the subrecipient for other project costs.
5. If the project includes construction or consultant costs, refer to [I.M. 6.110](#), Final Review, Audit, and Close-out Procedures for Federal-aid Projects, for additional instructions.

Record Retention

The subrecipient shall maintain records of supporting documentation for all in-house services costs for at least 3 years after the record retention date provided by the Administering Bureau. The FHWA and the Iowa DOT may review the records any time prior to this date. If such a review finds costs reimbursed cannot be documented, some or all of the Federal reimbursement will need to be returned. Documentation may be maintained electronically, provided the electronic record keeping system can produce the required documentation upon request.