California Department of Transportation (Caltrans)

Local Government Agencies
Indirect Cost Allocation Plan/Indirect Cost Rate Proposal (ICAP/ICRP)
Risk Based Approach

Presentation Overview

- Background/History
- Objective of Risk Based Approach
- Key Stakeholders
- Current Issue
- Risk-based Processes Description – Walkthrough of Proposed Solution
- Next Steps
Background/History

  - State and Local Government agencies must annually prepare ICAP/ICRPs in order to claim indirect costs from federal programs.
  - Only Federal ‘cognizant’ (approving) agencies or their designees may approve ICAP/ICRPs.
  - Federal ‘cognizant’ is determined by:
    - OMB designation -or-
    - The federal agency providing the majority of federal funds to the government unit.
  - Once approved, ICAP/ICRP must be accepted across all federal programs (unless prohibited/limited by statute)

- In 1994-Federal Highway Administration (FHWA)-California Division delegated FHWA cognizant approval in California to Caltrans.
  - Intended primarily for Metropolitan Planning Organizations (MPOs) and Regional Transportation Planning Agencies (RTPAs) but not limited to.
  - Currently-Delegation includes MPOs, RTPAs, Councils of Governments (COG), Joint Powers Authorities (JPAs), and government units within larger cities/counties with separate ICAP/ICRPs-Dept of Public Works, Dept of Planning, etc.
Develop a Department risk-based approach to ensure material compliance with 2 CFR Part 225
Key Stakeholders

- FHWA
- Local Government Agencies
- Local Government auditors and Private CPA Firms
- Caltrans
  - Planning and Modal Programs
  - Districts
  - Division of Accounting
  - Others

Current Issue

Backlog of ICAP/ICRPs awaiting approval

CAUSED BY:
- Caltrans, through FHWA-delegation, has become the cognizant agency for large number of LGAs (federal transportation pass-through funds).
- Lack of submission deadlines allows LGAs to submit several years of ICAPs/ICRPs simultaneously (usually at project closure)
- ‘Every ICAP/ICRP must be audited every year’ requirement with limited Caltrans’ audit resources.

RESULTS IN:
- Project closure delays
- LGA-Cash flow issues

PROPOSED SOLUTION:
- Implement a Risk-based audit approach
Risk-Based Process Description – Proposal

- **Annual ICAP/ICRP Submission Process:**
  - LGAs determine if indirect costs are going to be claimed and if so, prepare ICAP/ICRP submission packages in accordance with 2 CFR Part 225 requirements and Caltrans submission guidelines.
  - ICAP/ICRP submissions are reviewed by Caltrans. Non-compliant submissions will be rejected and returned to LGAs.
  - LGAs must submit ICAP/ICRPs to Caltrans within six months after the close of the LGAs fiscal year.
  - LGAs may request a submission time-extension but will be subject to FHWA review/approval.

Risk-Based Process Description – Proposal

- **Annual ICAP/ICRP Submission Process (Cont’d):**
  - Proposed processing timelines:
    - LGAs to be notified of Submission review results within an average of 45 business days* from submission receipt date.
    - LGAs granted until June 30, 2011 to submit FY 2009/10 and prior ICAP/ICRPs.
    - LGAs required to submit FY 2010/11 ICAP/ICRPs no later than December 31, 2011 (conformity to six-month submission requirement).

*pending staffing/resource availability
Risk-Based Process Description – Proposal

○ Annual Risk-Based Analysis:
  ● Caltrans will perform additional analytical procedures utilizing pre-determined risk factors:
    ○ Assess risk of non-compliance using factors such as LGA audit history, ICAP/ICRP rate fluctuation history, Program/FHWA oversight history.
  ● Based upon risk analysis results-
    ○ LGA will be notified ICAP/ICRP is accepted and LGA is authorized to bill for indirect costs utilizing ICAP/ICRP rate.
    -OR-
    ○ LGA will be notified an ICAP/ICRP audit is required.
  ● LGAs to be notified of Risk-based analysis results within an average of 45 business days* from submission receipt date.

*pending staffing/resource availability

Risk-Based Process Description – Proposal

○ Annual ICAP/ICRP Audit Process:
  ● If ICAP/ICRP audit is required, LGA is not authorized to bill for fiscal year indirect costs until audit completion and depending on audit results.
  ● ICAP/ICRP audit may be performed by Caltrans or LGAs may choose to procure their own ICAP/ICRP audit services.
    ○ LGA-procured audits must be performed in compliance with Government Auditing Standards (GAS) and Caltrans’ guidelines.
    ○ LGA-procured audits may be performed by CPA firms or local government auditors.
    ○ LGA must ensure Caltrans/FHWA-access to auditors’ working papers.
Risk-Based Process Description – Proposal

- **Annual ICAP/ICRP Audit Process (Cont’d):**
  - Caltrans will notify the LGA of audit acceptance, need for further review, or further corrective actions to be taken.
  - Once notified of ICAP/ICRP acceptance, LGA is authorized to bill for indirect costs utilizing ICAP/ICRP rate.
  - Caltrans will provide ICAP/ICRP audit guidelines to assist LGAs that wish to procure their own audit services.

---

Risk-Based Process Description – Proposal

- **Annual ICAP/ICRP Audit Process (Cont’d):**
  - Proposed processing timelines:
    - If LGA chooses to procure ICAP/ICRP audit services:
      - LGAs must notify Caltrans within 30 business days from Caltran’s notification of an ICAP/ICRP audit requirement.
      - LGAs must submit the final audit report within one year of LGA notification to procure audit services.
      - Caltrans will notify the LGA of audit acceptance, need for further review, or further corrective actions to be taken, within 45 business days* of final audit report receipt.

*pending staffing/resource availability
NEXT STEP

- Obtain LGA stakeholder feedback
  - Presentations
  - Directors Letter to LGA’s asking for Comments to be sent out in the near future.
  - Email box: Audits.and.Investigations.questions@dot.ca.gov