



COLORADO

Department of Transportation

Division of Project Support

Contracts and Market Analysis Branch
4201 East Arkansas Avenue
Denver, CO 80222-3400

DATE: 12/20/2016
TO: Consultant Industry Partners
FROM: John A. Eddy, Contracts and Market Analysis Branch Manager
SUBJECT: Announcement of Appendix J Closure /
Commencement of Decoupled MPA Process

EFFECTIVE IMMEDIATELY

OVERVIEW:

This correspondence addresses the closure of the Appendix J process implemented during the fall of 2016, as well as the introduction of a decoupling of approval processes applied to Direct and Indirect Cost Rates.

APPENDIX J PROCEDURES:

The Appendix J process has recently experienced a delay to allow for some internal corrections to be more clearly documented and approved with the Office of the State Controller. The Appendix J process is, once again, active and available for all qualified situations. The corrections have been completed and are reflected in an amendment to the Master Pricing Agreement. An MPA amendment will be provided to all consultant firms for which the Appendix J is applicable.

A new and important component of the Appendix J process is the required submittal of a certified payroll reflecting the actual effective date of pay raises associated with the Appendix J. All consultants, whether an Appendix J has already been processed, is pending, or is yet to be submitted, are *REQUIRED* to submit this necessary documentation.

The Appendix J process applies *ONLY* to eligible work performed during the 2016 calendar year. The Appendix J process will close on January 31, 2017; no submittals will be processed after this date.

DECOUPLED MPA RATE PROCEDURES:

Over the past several months, CDOT has been working with Consultant partners and representatives of the Division of Audit, State Controller, and Attorney General's Office to develop a process which would allow for the evaluation of Direct Salary Rates on an independent schedule from the renewal of the Master Pricing Agreement in conjunction with annual Indirect



Cost Rate approval. The procedures provided below give a brief overview, allowing for consultant firms who have annual Direct Salary Rate changes to begin preparations and submittal of this information for review and approval. While we are continuing to develop revisions to the Master Pricing Agreement, this should cause no further delay.

Effective immediately, Direct Salary Rates may be submitted for review to the Division of Audit at: dot_audit@state.co.us

These Direct Salary Rates require an accompanying “statement of certification to pay” in order for the Division of Audit to commence evaluation. There is no required format for the certification statement. However, a signature must be provided from a certified officer of the firm attesting the firm’s intent to implement the provided rates.

These Direct Salary Rates will not be approved until payroll registers are received allowing the Division of Audit to verify that the Direct Salary Rates have been implemented, after which the Option Letter will be finalized and authorized.

The approved rates will be available for use no earlier than the effective the date of Option Letter, as issued by the Engineering Contract Program. There is currently *NO* allowance for rates to be retroactively applied prior to this Option Letter date. Every effort will be made to minimize the gap of time between consultant pay-rate implementation and CDOT’s execution date.

The decoupled Direct Salary Rate and Indirect Cost Rate review is optional. Consultants may continue to renew their MPA annually with one full review if they choose. If this is the case, the MPA must be renewed annually within 6 months of the firm’s fiscal-year end.

We have developed a Frequently Asked Questions (FAQ) document to address common questions, as well as a procedural document to assist consultants in completing decoupled Direct Salary Rate and Indirect Cost Rate submissions, which are enclosed. The Division of Audit will update the Financial Qualification Brochure by the end of January of 2017. Upon completion, this correspondence, the FAQ, Division of Audit procedural document, and Financial Qualification Brochure will be posted on the CDOT consultant business web page. In the interim, any questions may be directed to:

Kyle Dilbert, Engineering Contracts - 303-757-9715 / kyle.dilbert@state.co.us
Josh Gosenca, Division of Audit - 303-512-4369 / josh.gosenca@state.co.us

Enclosures: Decoupled MPA Process Procedures
Decoupling Master Pricing Agreement Process FAQ

Cc: Josh Laipply, Chief Engineer
Chris Wedor, Division of Audit
Kyle Dilbert, Engineering Contracts
Liliya Gershman, CDOT Controller
Greg Diehl / Katherine Williams, EEO



DECOUPLED MPA PROCESS PROCEDURES DIRECT SALARY RATES (DSR)

The CDOT Division of Audit (CDOT Audit) is able to review Direct Salary Rates (DSR) separately from the Indirect Cost Rate (ICR) effective January 1, 2017. The DSR are subject to the same fair and reasonableness assessment as before, and must still be verified to payroll registers prior to inclusion in the Master Pricing Agreement (MPA).

The following documents will be required as part of the DSR Package, and are to be emailed to dot_audit@state.co.us with the email subject "DSR for MPA - Firm Name"

AASHTO Internal Control Questionnaire (*can use the same as used for ICR reviews, as long as it is less than 1 year old and no significant changes in company policy were made*)

Appendix E

Appendix G Employee Listing (*1 in Excel, 1 as a signed pdf*)

Payroll Registers

Pay raise certification (*if applicable, see below*)

Executive Compensation Analysis

Firms can submit the DSR Package prior to the new rates being implemented by the firm, with the following conditions:

1. The proposed DSR must be guaranteed to be implemented by the firm on the firm's normal raise date. Rates that are still under consideration by the firm's management will not be accepted; they must already be approved.
2. The firm must submit a pay raise certification attesting to the situation described above.
3. The firm must submit payroll registers as soon as available for CDOT Audit to verify the rates are implemented by the firm. The MPA will not be approved until this verification has been completed.

Firms must submit DSR renewals annually around the same time every year. No other updates to the DSR will be allowed during the year, with the exception of the Add Employee Process, which will remain unchanged. Firms will not be able to change their ICR during the DSR review; this will be a separate review which must take place within 6 months of the firm's fiscal year end.





DECOUPLED MPA PROCESS PROCEDURES **INDIRECT COST RATES (ICR)**

The CDOT Division of Audit (CDOT Audit) is able to review Indirect Cost Rates (ICR) separately from the Direct Salary Rates (DSR) effective January 1, 2017. The ICR is subject to the same FAR compliance review as before, and must still be verified prior to inclusion in the Master Pricing Agreement (MPA).

The following documents will be required as part of the ICR Package, and are to be emailed to dot_audit@state.co.us with the email subject "ICR for MPA - *Firm Name*"

- Appendix A
- AASHTO ICQ
- Appendix E - SASQ
- Appendix F - Certification of Overhead Rate
- Appendix G - Employee Listing (*as a signed pdf; must not include any DSR changes or employee additions other than those already approved through the Add Employee Process*)
- Current FYE Cognizant Review Letter (*if applicable*)
- Current FYE FAR Overhead Audit Report or Compilation
- Executive Compensation Analysis
- Post-Closing Trial Balance
- Financial Statements
- Sample Timesheet
- Bonus Policy
- Normal Cost of Ownership Schedule (*if applicable*)

Firms must submit ICR renewals annually around the same time every year and within 6 months of the firm's fiscal year end; no other updates to the ICR will be allowed during the year. Firms will not be able to add employees or change DSR during the ICR review; this is to be done through the annual DSR review and the Add Employee Process.



Decoupling Master Pricing Agreement Process

FAQ

- 1) What is the decoupling process and is it mandatory?
 - a) This is a process associated with the MPA process that provides for the Direct Salary Rates and Indirect Rate to be evaluated/approved on independent schedules. Direct Salary Rates will be approved for implementation via a separate Option Letter. The MPA will renew, as is currently done, via a separate Option Letter providing approval of the Indirect Rate.
 - b) The decoupling process is an election you may make should it meet your business needs.
- 2) When is this decoupling process going into effect?
 - a) January 1, 2017
- 3) What if I give salary raises at different times for different employees, can I submit an Appendix G when raises are given for individual or individual groups of employees?
 - a) No, we are only able to provide one opportunity within your Master Pricing Agreement year in which to submit a full listing of employees' salary rates.
- 4) When may I submit my proposed salary rates?
 - a) You are encouraged to provide a responsible submission of your salary rate changes as far in advance of your implementation as possible. Rates will be available for use upon the Option Letter approval date.
- 5) What is "responsible" submission?
 - a) Responsible submission refers to the submission of all required documentation in order for CDOT to commence its review. Please frequently check CDOT's website for the latest information regarding the MPA process at <https://www.codot.gov/business/consultants/forms>.
- 6) What if I promote an employee? Am I required to wait until I file my annual Appendix G?
 - a) No, employee promotions are exceptions to the Appendix G process. Promotions are handled on a case by case basis and require a justification of new duties with the job classification. These may be submitted and processed any time during the year.
- 7) Am I eligible for any gap reimbursement if I pay my employees their new salary rates prior to the approval of Direct Salary Rates, yet invoice for the prior year's rates?
 - a) No, approved Direct Salary Rates may only be applied to services provided on or after the approval date reflected in the Option Letter. Any invoices for services provided prior to this date may only reflect the prior year's approved Direct Salary Rates and are not eligible for any reconciliation.
- 8) Are Contracts / Task Orders eligible for funding amendments to absorb cost increases resulting from the approved salary rate changes?
 - a) Yes. Unless contract language provides otherwise, the Consultant Project Manager and CDOT Project Manager are responsible for ensuring proper funding levels are maintained to adequately cover the costs of the contracted services.

- 9) What if I have select salary rates on my Appendix G which require further evaluation and risk delaying approval of my submitted Appendix G?
- a) We will refer to these as Exception Salary Rates and need to be resolved before an Option Letter will be issued.
- 10) Must I have a current "prequalification" prior to me submitting my Option Letter?
- a) Yes, the Audit Division will not begin their review until they are assured that the consultant has a current prequalification with CDOT. Please make certain that you are aware of your prequalification expiration date and have it renewed as soon as possible. **NOTE:** The business name listed on your prequalification application should match your IRS Employer Identification Number (EIN) which also should be listed on your Form W-9. You may check CDOT's web-site at: <https://www.codot.gov/business/consultants/consultant-pre-qualification-list>
- 11) Will I receive only one "Option Letter" notice should we elect to decouple the process?
- a) No, you will receive two Option Letter transmittal notices: 1) Upon approval of your Direct Salary Rates and 2) Upon approval of your Indirect Cost Rate.
- 12) Will there be a change in my current MPA?
- a) Yes, but not until the Audit Division review of your annual Indirect Cost Rate occurs, at which time you will be issued a new MPA, V.17 and a new 5 year MPA cycle will commence.