



TxDOT ROW UTILITY WEEK

THE POWER OF YOU - Delivering Right-Of-Way Solutions to Texas

Direct & Indirect Cost Review

**TxDOT Right of Way
Utility Portfolio Section Auditors**

Track 3 Session 3
Day 2 - 12/13/2023





I am a native of Abilene, TX and currently reside in San Antonio, TX.

I hold a Bachelor of Science Degree in Accounting with a Minor in Management.

I began my career with TxDOT in October 2014. I have spent most of my TXDOT career as a Construction Records Auditor and served as a lead for three years. I have worked as a Utility Auditor for ROW/UPS since December 2022.

Prior to TxDOT, I contracted as a paralegal for various law firms and spent 11 years working for a law firm as a full charge bookkeeper/office manager. My career also includes working for financial institutions as well as the Abilene Municipal Court.

I love spending time with my family, going to the beach, dancing, and volunteering.



Sarah Wegenast is a Utility Auditor for the Texas Department of Transportation, in the Right of Way Division. Sarah started her TxDOT career at the Waco District as a construction records auditor and the District's DBE Coordinator. Prior to joining the TXDOT family, Sarah spent five years as a Research Associate for the Roadside Safety and Physical Security Division at the Texas A&M Transportation Institute. Aside from being a crash test technician, her primary focus was contracting, reporting and quality control. Outside of work, Sarah can be found "mommin" with Forrest (the coolest 4-year-old ever), at gym training JiuJitsu, or at a coffee shop.



The purpose of this review is to provide a deeper understanding of the following:

- Direct and Indirect Costs,
- Allowable and Unallowable Costs,
- Components of Overhead, such as,
 - Overhead Rates
 - Cost Pools, and
- How all the above are ultimately invoiced to TxDOT on utility projects.



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- **Actual Costs**- Actual costs are supported by original source documentation (invoices, receipts, etc.) These costs are not based on forecasts or historical averages.
- **Allocable** – Goods and services involved that provide benefit to the project.
- **Allowable Costs**- A cost that is eligible to be paid by the contract or grant.
- **Cost objective** - Can include a **contract, a project**, a task, or a contract line item. It also includes individual indirect projects such as bid and proposal or an independent research and development project.
- **General Overhead Expense** - The portion of **indirect costs** that relate to projects, but not to just one. *Overhead costs come about because there is billable work; if there is no billable work, then no overhead cost exists!*



- **Indirect Cost** - An indirect cost is an expenditure that cannot directly be identified with a single, intermediate or final cost objective (project/contract).
- **Overhead Rate/Indirect Cost Rate** - Calculated by adding together all of the firm's costs that cannot be associated with a single cost objective (project/contract), then dividing by a base (usually direct labor cost) to determine a rate.



Contracts generally have two types of expenses that exist...





Following the Rules is Essential...

The Federal Acquisition Regulation (FAR) is **the principal set of rules regarding Government procurement in the United States and is codified at 48 CFR 1.*

***Reference the Government Grant & Contract Rules**

- Rules & regulations specifically outline what is considered a direct or indirect cost.
- Define what costs are eligible for reimbursement at time of billing.

The Benefits of Following the Rules:

- Allows for development of accurate estimates.
- Ability to easily calculate overhead rate(s).



What is a Direct Cost?

- Tied to **ONE** cost objective (project/contract).
- *Primarily* made up of labor charges or direct material costs.
- Contained within an actual cost agreement and based on cost principles found in **FAR 31.2**.
- Costs which can be specifically traced to a project/contract which do not need to be allocated (to a cost/labor pool).
- A direct cost cannot also be an indirect cost.



Types of Direct Costs

Common direct costs include but are not limited to the following:

- Direct labor (time spent working on one cost objective).
 - Direct material costs
 - Subawards/subcontracts
 - Other direct costs (meals, mileage, etc.)
 - Equipment purchased (including rentals) exclusively for one cost objective.
 - Published equipment rates are not allowable, instead use actual rates. (*ROW Utilities Manual Chapter 7, Section 2*)
 - Sales Use Tax (*ROW Utilities Manual Appendix Section 5*).
- *Sales Use Tax is reviewed by ROW Utility auditors.

Remember: Direct costs are tied to ONE cost objective



Example of Direct Cost



October 5, 2020

Invoice #0139

Bill To: Texas Department of Transportation

Invoice Date Range 3/31/2020-6/25/2020

Construction

Pittard Construction Company

Amount
\$527,533.00

Engineering

Daniel & Brown Engineering Total

\$75,182.92

Westminster SUD

Project Administration

Operations Manager \$6,375.00
Administrative Clerk \$3,850.00
Mileage Reimbursement \$168.00

Easement Acquisition

Operations Manager \$8,250.00
Administrative Clerk \$5,500.00

Inspection

Project Inspector \$10,400.00
Mileage Reimbursement \$308.00
Westminster SUD Total **\$34,851.00**

Total Invoice \$637,566.92

Times Betterment Ratio 7.52%

Betterment Cost \$47,945.03

Total Invoice Cost Less Betterment \$589,621.89

Times Eligibility Ratio 81.80%

Total Reimbursable Amount Requested From TxDOT **\$482,310.70**

ITEM #	ITEM DESCRIPTION	Pittard Construction Company Allen, TX		
		20	Unit	Total
15	Furnish & Install Creek Crossing with 12" PVC Encasement for 6" DR 18 PVC Carrier Pipe with appurtenances	85	\$200.00	\$17,000.00
16	Furnish & Install 2.5" Gate Valve with appurtenances	1	\$1,000.00	\$1,000.00
17	Furnish & Install 3" Gate Valve with appurtenances	2	\$1,200.00	\$2,400.00
18	Furnish & Install 4" Gate Valve with appurtenances	3	\$1,400.00	\$4,200.00
19	Furnish & Install 6" Gate Valve with appurtenances	4	\$1,600.00	\$6,400.00
20	Furnish & Install 8" Gate Valve with appurtenances	4	\$1,950.00	\$7,800.00
21	Furnish & Install 12" Gate Valve with appurtenances	8	\$3,850.00	\$30,800.00
22	Furnish & Install connection of new 3" PVC waterline to existing 3" PVC waterline with appurtenances	1	\$850.00	\$850.00
23	Furnish & Install connection of new 4" PVC waterline to existing 4" PVC waterline with appurtenances	4	\$850.00	\$3,400.00
24	Furnish & Install connection of new 6" PVC waterline to existing 6" PVC waterline with appurtenances	1	\$1,000.00	\$1,000.00
25	Furnish & Install connection of new 8" PVC waterline to existing 8" PVC waterline with appurtenances	2	\$1,250.00	\$2,500.00
26	Furnish & Install connection of new 12" PVC waterline to existing 4" PVC waterline with appurtenances	1	\$1,750.00	\$1,750.00
27	Furnish & Install Ductile Iron Fittings with appurtenances	0.7	\$22,000.00	\$15,400.00
28	Furnish & Install New Service Meter with connection to existing service lines and appurtenances	6	\$750.00	\$4,500.00



What is an Indirect Cost?

- Indirect costs are tied to **multiple** cost objectives across numerous projects/contracts.
- Indirect costs represent the expenses of doing business that cannot be easily/readily traced to a specific grant, contract, or activity.
- Because indirect costs **cannot** be specifically traced to a project/contract, indirect costs must be allocated using a developed overhead rate(s).

Remember: Indirect costs are tied to MULTIPLE cost objectives





Types of Indirect Costs

Common indirect costs include, but are not limited to the following:

- Indirect labor (*administrative/office labor*)
- Rent & Utilities
- Fringe benefits (*medical leave, health insurance, paid vacation*)
- Accounting and legal services
- Insurance costs
- Depreciation expense





Key Differences Between Direct and Indirect Costs

	Direct	Indirect
Tied to one cost objective	Yes	No
Tied to multiple cost objectives	No	Yes
Benefits a single project	Yes	No
Benefits multiple projects	No	Yes
Allocated to a project	No	Yes

****Remember: A cost cannot be both direct and indirect.***



Examples of Direct and Indirect Costs...

DIRECT COSTS

Expenses that directly go into producing goods or providing services



Direct Labor



Direct Materials



Manufacturing Supplies

INDIRECT COSTS

General business expenses that keep you operating



Rent



Utilities



General office expenses



Key Points of Allowability

- All Costs are either **allowable or unallowable**.
- Costs that are explicitly or agreed to be unallowable, must be identified and excluded from any billing, claim, or proposal applicable to a government contract.
- Unallowable costs ***cannot be reimbursed***.
- Associated costs are also unallowable.
- Direct and indirect costs billed must exclude all **unallowable** costs.
- Allowable costs may either be billed directly to contracts or included as an overhead cost.
 - *Generally, direct costs are allowable if they are reasonable.*
 - *However, allowability issues occur more often with indirect costs.*



Requirements of Determining Allowability (FAR 31.201-2)

1. Allowable – according to the terms of the contract/grant.

2. Reasonable – cost does not exceed that which would be incurred by a prudent person.

3. Allocable – if incurred specifically for and benefits the contract. (FAR 31.201-4).

4. Consistent – costs incurred for the same purpose, in like circumstances, and must be treated consistently as either a direct or indirect cost.

ALLOWABLE

REASONABLE

ALLOCABLE

CONSISTENT

Any other costs not otherwise prohibited by any of the FAR 31.2 cost principles



Common Types of Allowable Costs

- Mileage (company/employee).
- Lodging, Meals* and Incidentals
- Dues and Subscriptions
- Professional and Consultant Service Costs
- Equipment
- Supplies



****Excluding gratuities & alcohol***

Common Types of Unallowable Costs

Explicitly unallowable under FAR, including but not limited to:

- Entertainment (company parties)
- Donations (cash, property and services)
- Alcohol
- Interest
- Bad debts (uncollectible accounts)
- AFUDC (allowance for funds used during construction)
- Fines and penalties
- Gratuities (per Texas Comptroller of Public Accounts)
- Excessive or unreasonable costs



Overhead and indirect costs are terms often used interchangeably.

Indirect costs are the parts of the whole, which is overhead.



Summary of Overhead Concepts

- Overhead expenses relate to one or *more projects*.
- Costs that make up OH are not to be reimbursed as separate line items on the invoice! – **No double dipping**.
- Indirect costs can be allowable but can only be recovered through an overhead rate.
- Overhead refers to all the indirect costs (expenses) of running a business!

*General & Administration (G&A) overhead is allowed.



One Important Cost Factor Included in Invoices is Overhead.

- Generally, **high overhead rates** need to be *carefully examined*.
- Increased overhead rates equate to higher costs. This can affect billing and lead to *potential cost overruns*.
- "Applicable percentages of overhead costs should be indicated, when used, so computed amounts may be verified." (*Ch. 9, Sec. 3 of the ROW Utilities Manual*)
- 23 CFR 645.117(d)(1) states, "Overhead and indirect construction costs not charged directly to work order or construction accounts may be allocated to the relocation, provided the allocation is made on an equitable basis." Costs not eligible for Federal reimbursement are discussed in 23 CFR 645.117(d)(2).

Common Types of Overhead Costs by Category

INDIRECT MATERIAL COSTS



- Shop Supplies
- Disposable Tools
- Disposable Safety Equipment
- Cleaning Supplies

INDIRECT LABOR COSTS



- Office Manager
- Admin Directors
- Production Manager
- Marketing Staff

INDIRECT EXPENSE COSTS



- Business permits
- Rent
- Office supplies
- Insurance

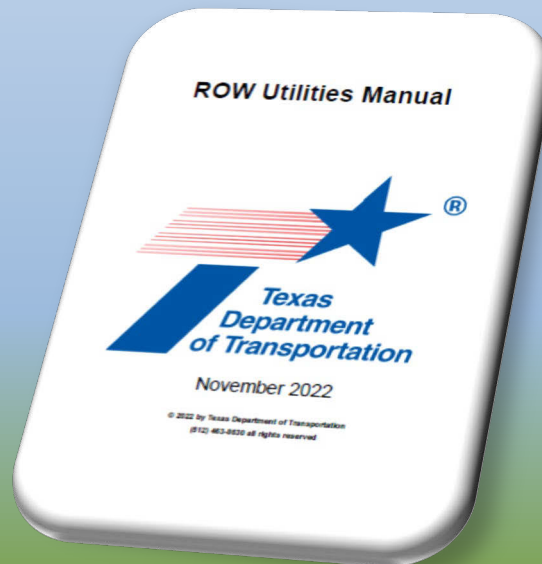


ROW Utilities Manual on Billing Overhead

ROW Utilities Manual Appendix A, Section 9

- All indirect costs (overheads/loadings) should be described and supported at the time of billing.

These costs are subject to audit for determination of eligibility.





ROW Utilities Manual on Billing Overhead

ROW Utilities Manual Chapter 11, Section 13

- Overhead and indirect construction costs not charged directly to a work order or construction account may be allocated to the relocation, provided the allocation is made on an equitable basis. All costs (eligible) included in the allocation **shall be** eligible for Federal reimbursement (23 CFR § 645.117(d)).
- Applicable percentages of overhead costs should be indicated, when used, so computed amounts may be verified.
- Overhead and payroll additive items should be shown individually with an explanation or breakdown of each.



What are Cost Pools?...

- Cost pools are made up of similar indirect costs grouped together to be allocated. Resulting in an easier allocation process.
- Costs that have **accumulated in cost pools** need to be allocated to a project using an *overhead rate*.
 - **Multiple cost pools** will result in **multiple rates** commonly seen during invoicing.
- Overhead rates are used to determine the proportion of indirect costs each program/project will bear.



Properly Allocating Indirect Costs Into Cost Pools

- Shop Supplies
- Disposable tools
- Safety Equipment
- Cleaning Supplies



- Equipment
- Inventory



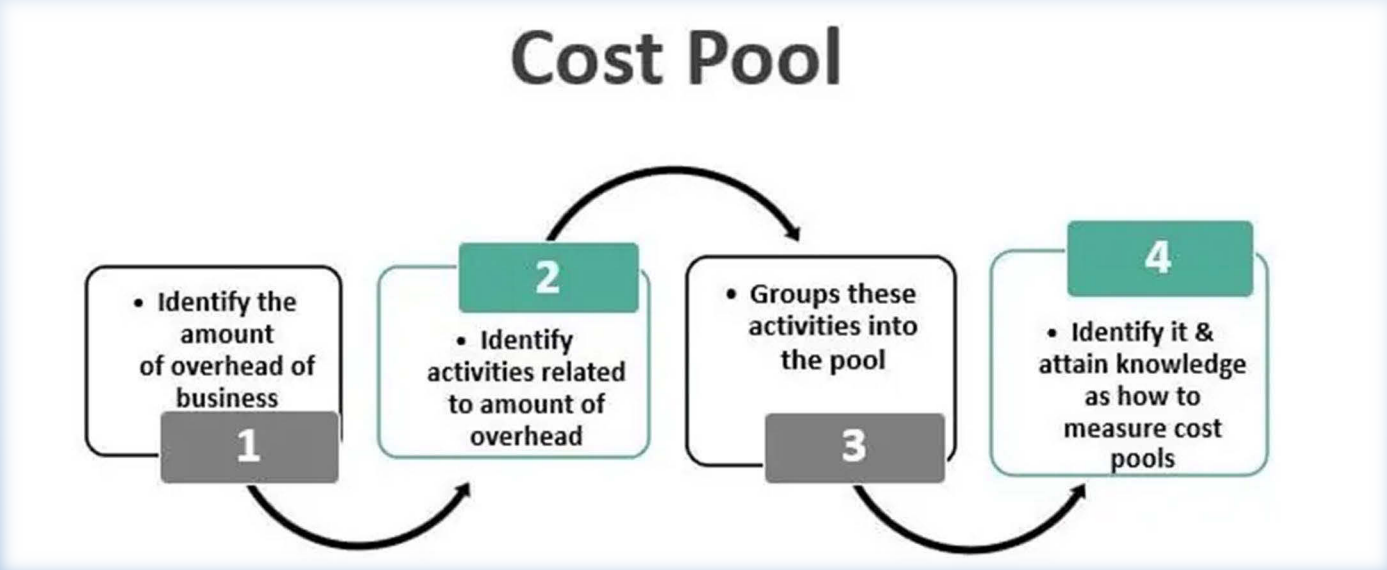
- Administrative Labor
- Office Labor



Total Overhead Costs



How To Create A Cost Pool





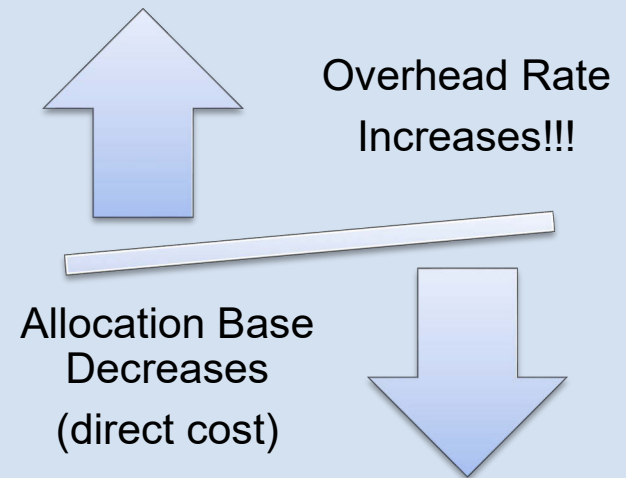
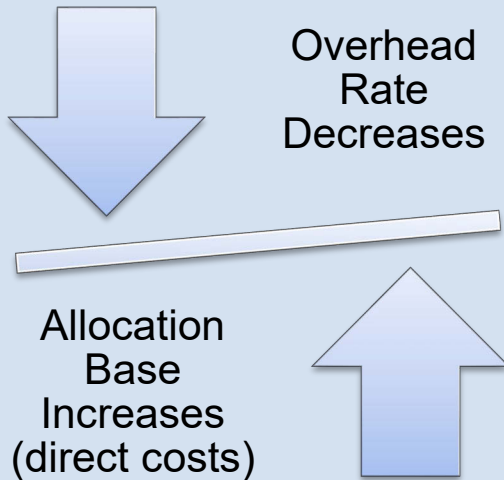
The Overhead Calculation is the Same for all Cost Pools

$$\text{Overhead Rate (For a Given Cost Pool)} = \frac{\text{Total Overhead Cost in Given Pool}}{\text{Applicable Allocation Base}}$$

- Common allocation bases include *direct labor hours, units, machine hours, inventory, square footage, etc.*
- Allocation ensures costs are *shared across multiple jobs*, so each project is paying a fair share of indirect expenses.
- Overhead costs are the expenses that support a business, but **do NOT** generate revenue.



OH Rates When There is a Change in the Allocation Base





OH Costs Described and Supported at the Time of Billing

Indirect Costs	Your Cost
Advertising/Marketing Costs	\$ -
Depreciation of Materials	\$ -
Wages/Salaries of Non-Hourly Workers	\$ -
Mortgage Interest or Rent	\$ -
Construction and Repairs	\$ -
Indirect Costs Total	\$ -
Supplies	Your Cost
Cleaning Supplies	\$ -
Office Supplies	\$ -
Supplies Total	\$ -
Services & Utilities	Your Cost
Internet/Telephone/Cable	\$ -
Heat, Gas, Electricity and AC	\$ -
Professional Cleaning/Window Washig	\$ -
Inventory Tracking System	\$ -
POS Fees	\$ -
Services & Utilities Total	\$ -
Fees, Fines, & Taxes	Your Cost
Professional Membership Fees	\$ -
Total Taxes	\$ -
Fees, Fines, & Taxes Total	\$ -

*Company overhead policy ***should explain*** how these rates are calculated and what costs are included in these pools.

**Rates will vary but must be displayed.*



Contact Information

Tammy Sanders

tammy.sanders@txdot.gov

(512) 416-2473 (O)

(512) 750-9743 (C)

Sarah Wegenast

sarah.wegenast@txdot.gov

(254) 867-2707 (C)



- **AASHTO Uniform Audit and Accounting Guide**
- **FAR Part 31**
- **Federal Register 2 CFR Part 200**
- **OMB Circular A-87: Cost Principles for State, Local and Indian Tribal Governments**
- **ROW Utilities Manual**
- **Texas Administrative Code Title 34, Part 1, Chapter 5, Subchapter C, Section 5.22**
- **23 CFR 645**
- **48 CFR § 9904.405-40 - Fundamental Requirement**



Thank You!



Please feel free to
stay and visit with
everyone!