



ODOT Railroad Audit Circular No. 5

Final Invoicing Procedures for Railroads

Release Date: January 1, 2010

Application:

Unless and until revised by ODOT, this Circular is effective for actual costs incurred by railroads on projects authorized by ODOT or ORDC on or after January 1, 2010.

RAILROAD AUDIT CIRCULAR No. 5



OHIO DEPARTMENT OF TRANSPORTATION

CENTRAL OFFICE, 1980 W. Broad St., 4th Floor, COLUMBUS, OHIO 43223

SUBJECT: Final Invoicing Procedures

Effective Date: January 1, 2010

Last Updated: October 13, 2009

I. DEFINITIONS

As used in this Circular—

1. "Job Cost Report" refers to a report, generally created by a job costing system, which specifically outlines all costs incurred within a particular project, in a clear, concise manner.
2. "Upcharges" refer to any labor paid to an employee that is not directly associated with actual hours worked. For example, if any employee is guaranteed eight (8) hours of pay on a given day, and the employee actually worked five (5) hours, the 3 hours paid-but-not-worked would be considered an upcharge. Additionally, if the employee receives additional pay for working in adverse weather conditions, working alone, or other similar conditions, these costs would be considered upcharges.
3. "Effective Hourly Rate" refers to a salaried employee's labor costs divided by actual hours worked in the same time period. For example, a salaried employee who works 2,080 hours in a year and earns \$52,000 in total compensation earns an effective hourly rate of \$25.00 per hour ($\$52,000 / 2,080$ hours).

II. ISSUE

During the course of a railroad project, the railroad will submit partial and final invoices to ODOT/ORDC for reimbursement. The following procedures set forth the policy regarding the submission of an audit packet to the ODOT Office of Audits upon completion and final invoicing of the project.

Per FAR 31.201-3(a), "the burden of proof shall be upon the contractor to establish that such cost is reasonable." The following submission requirements and guidelines greatly aid in creating the required burden of proof, as it pertains to reimbursement of actual cost contracts.

III. SUBMISSION REQUIREMENTS

Audit Packet. Upon completion of any ODOT or ORDC railroad project with total costs exceeding \$200,000, the railroad is required to submit to the ODOT Office of Audits¹ a full job cost report containing a detailed account of all project costs incurred, whether invoiced or not, to ODOT from inception through project completion and final invoicing. This report and supporting documentation must include at least the following:

- Detailed labor records that show the daily hours worked by employee, including pay rate.
- All applicable overhead rates, such as fringe benefits, general overhead, material storage rates, and any other additive rates invoiced.

¹ ODOT Office of Audits, Attn: Railroad Audits, 1980 West Broad Street, 4th Floor, Columbus, Ohio 43223

- If the Railroad is invoicing any overhead rates that have not been previously approved by ODOT or the railroad's home State Department of Transportation and the FHWA, a detailed overhead statement may be requested (refer to ODOT Railroad Audit Circular Nos. 1 and 4 for additional guidance).
- Detailed records of all non-salary direct costs, such as materials, subcontracted costs, meals, lodging, travel expenses, equipment rentals, salvage, and betterments.
- Copies of original invoices from vendors to support all non-salary direct costs.
- Copies of continuing contracts or lowest bid documents if not already on file with ODOT/ORDC.

Electronic Approvals/Electronic Data Interchange (EDI). Expense reports, timesheets, and other applicable documents may be completed, submitted, and approved electronically provided that an "audit trail" feature exists and is in use within the system to support the entry and approval process. Accordingly, auditors must be able to obtain printed copies of electronic approvals or gain access to the railroad's accounting or timekeeping systems during on-site audits, where applicable.

IV. EXAMPLES

Any cost claimed by the railroad must be supported by adequate documentation. For example, inadequate support would include—

- Unsupported costs;
- Screen prints from the railroad's job costing system;
- Summary invoices;
- Non-descript or consolidated labor charges;
- Pro-rated invoiced costs without support;
- Costs allocated from an invoice in which the method of allocation is not shown;
- Unsigned/unapproved timesheets and reimbursement forms;
- Internal memos, transaction reports, or requests for payment;²
- Invoices which do not provide details as to the services provided; and
- Additive/overhead rates that do not match the accepted rates on file with ODOT.

The following provides examples of adequate and inadequate supporting documentation for each cost category.

LABOR

Example 5-1. On its final invoice, ABC Railroad provided the following detail for labor:

Employee Name	Labor Type	Rate / Unit	Hours / Days	Total Pay
Jones	Straight Time	\$25 / Hr	100 Hrs	\$2,500
Jones	Overtime	\$37.50 / Hr	40 Hrs	\$1,500
Jones	Rainy Day Pay	\$30 / Day	3 Days	\$90
Jones	Labor Differentials	\$0.65 / Hr	140 Hrs	\$91
Total				\$4,181

Analysis – This level of labor detail is insufficient. It is unclear as to what days Jones worked, on which days Jones received overtime, or which days were rainy. ABC must show, by line-item, each day's labor by type, rate, hours, and total extended pay. Additionally, increased scrutiny would be placed on the significant amount of overtime. It is also impossible to determine whether the conditions were met for this

² Internally created documents, reports, and payment requests are generally considered to be inadequate documentation unless source documentation from the vendor does not exist, such as vehicle mileage expense reports.

employee to be reimbursed for labor differentials or rainy day pay.

MATERIALS

Example 5-2. To support its material costs, ABC Railroad supplies ODOT with a summary materials invoice from Safety Crossings Ltd. This invoice states "Materials Package: \$85,000."

Analysis – This level of detail is insufficient. It is unclear what materials were purchased, quantities, and unit prices. There is no way to reconcile the materials purchased to actual usage or the estimate.

SUBCONTRACTED COSTS

Example 5-3. ABC Railroad contracts engineering services from Whitewood Young Industries. Engineering costs are supported by an internally created document requesting reimbursement approval.

Analysis – A detailed copy of the invoice from Whitewood Young Industries is required, which clearly demonstrates labor rates, hours worked, overhead, non-salary direct costs, profit (net fee), and total cost.

MEALS

Example 5-4. An employee's actual cost meal reimbursement is supported by an unsigned reimbursement request form and a summary receipt from a local restaurant that only shows the total cost of the meal.

Analysis – The proper support would include a signed and approved reimbursement request form, in addition to detailed meal receipts that show the date, location, what items were purchased, amounts, tips, and total cost.

Example 5-5. According to ABC's job cost report, employee Jones was paid a meal per diem on February 28th in the amount of \$35.00. Records do not show any labor worked by Jones on this day.

Analysis – All meal charges must match labor records. Therefore, this claimed cost would be questioned. Additionally, if Jones' meal did match labor records, it would be subject to the meal reimbursement regulations contained in ODOT Railroad Audit Circular No. 2.

LODGING

Example 5-6. According to ABC's job cost report, lodging costs were incurred for employee Jones in the amount of \$657.59. No other details are provided.

Analysis – Lodging costs must be shown by date and employee, showing the location and nightly rate for each occurrence. Jones' lodging costs would also be subject to the limitations set forth in ODOT Railroad Audit Circular No. 2.

MILEAGE

Example 5-7. According to ABC's job cost report, employee Jones was reimbursed for 300 miles of vehicle mileage costs at \$0.535 per mile. The travel took place the first week of June 2007. Jones is guaranteed mileage reimbursement at this rate per labor agreement.

Analysis – Proper support would include: a signed and approved mileage reimbursement form, which disseminates the dates and locations of travel, as well as the purpose of the trip. Additionally, Jones'

reimbursement rate is in excess of the limits set forth in the Federal Travel Regulation and ODOT Railroad Audit Circular No. 2. As the mileage limit on this date is \$0.485, the \$0.05 per mile in excess of the federally mandated limit is not reimbursable.

EQUIPMENT RENTAL

Example 5-8. In support of ABC's claimed equipment rental costs, ABC provides monthly summary invoices from Pete's Rentals. On one invoice, the following is stated: "1 Month Rental of Backhoe." The total amount of the invoice is \$600. A portion of this cost is allocated to ODOT, totaling \$30. The method of allocation is unknown.

Analysis – The ideal level of documentation would include a detailed invoice which shows the equipment type, date(s) of use, unit rate, and total cost. Since a portion of the invoice is allocated to the project, the allocation method must also be shown.

COMPANY-OWNED EQUIPMENT

Example 5-9. ABC Railroad uses company-owned equipment on an ORDC project. The job cost report details "45 hours – Trailer - \$135." No further detail is provided.

Analysis – A daily reconciliation of equipment use, which shows the equipment type, dates of use, unit rate, and total cost would be required.

SALVAGE AND BETTERMENTS

Example 5-10. ABC Railroad is required to install an active warning device on Main Street. In this process, ABC closed a crossing on High Street and used many of the materials on the new crossing. Some of the unused materials are shipped back to ABC's warehouse and put into stock. A line item credit is observed on the job cost report in the amount of \$75.

Analysis – Given this treatment, it is unclear what was salvaged or if it was salvaged at the correct cost. ABC Railroad should provide a detailed list of items salvaged, including the original project cost of the materials and the appropriate credit for each item salvaged. If original project cost is unavailable, credits may be made at current stock prices. Refer to ODOT Railroad Audit Circular No. 7 for further guidance.

PROCUREMENT/CREDIT CARD PURCHASES

Example 5-11. Supervisory employees of ABC Railroad are issued procurement cards to make project-related small purchases on an as-needed basis. ABC policy dictates that expenses reported on each employee's procurement card statement are manually entered into ABC's accounts payable system and approved by management, and the original receipts are discarded. ABC provides summary reports generated by the accounts payable system to support these transactions.

Analysis – Costs supported by an internally-created document would be questioned. Absent source documents such as receipts, invoices, or bills of lading, auditors would not be able to verify that the claimed costs existed, were allocable to the project, reimbursable per applicable regulations, and reasonable in need and cost. ABC Railroad would be advised to maintain source documents for three years to meet the requirements of the *burden of proof* principle in FAR 31.201-3 and the records retention requirements set forth in 23 CFR 140.922.

VI. REFERENCES

- FAR 31.201-3 (Determining Reasonableness)
- The Federal Travel Regulation
- ODOT Railroad Audit Circular No. 1 (Definitions, Audit Authority, and General Guidance Regarding the Computation of Overhead Rates)
- 23 CFR 140.922 (Billings)