



ODOT Railroad Audit Circular No. 7

Material Costs 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. 7



OHIO DEPARTMENT OF TRANSPORTATION

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

SUBJECT: Material Costs

Effective Date: January 1, 2010

Last Updated: December 2, 2009

I. DEFINITION

As used in this Circular, "procurement," refers to the acquisition of materials and supplies.

II. ISSUE

During an incurred-cost audit of a railroad project, auditors may encounter direct material costs billed to projects. Materials may come from company stores and/or purchased materials. Auditors must determine whether costs relating to procurement, credits, material pricing and associated handling costs are reasonable and in compliance with Federal guidelines.

III. ALLOWABILITY

The criteria for determining pricing methods, selecting external vendors, developing and applying handling charges, and accounting for credits are discussed below.

- A. Procurement.** Materials and supplies, if available, are to be furnished from company stock, unless more economically obtained near the project site at less cost. If necessary materials and supplies are not available from company stock, the railroad may obtain these materials under competitive bid or continuing contract, under which the lowest prices may be developed. Minor materials and supplies or proprietary items are excluded from this provision. The railroad shall not be required to change its existing standards for materials used in permanent changes to its facilities.
- B. Costs.** Materials and supplies furnished from company stock must be billed at current stock price. Any generally accepted method of costing is acceptable, provided that this method is utilized consistently throughout the company. Materials purchased from external vendors must be billed at actual cost, including any shipping or delivery charges. No markup is permitted on these costs by the railroad.
- C. Recovered Materials.**
 - 1. Materials recovered from temporary use by the railroad that have been accepted for reuse by the company must be credited to the project at prices charged to the job, less a consideration for loss in service life at 10 percent for rails, angle bars, tie plates and metal turnout materials, and 15 percent for all other materials. Materials recovered from the permanent facility of the company that are accepted by the company for return to stock must be credited to the project at current stock prices.
 - 2. Materials recovered and not accepted for reuse by the company, if determined to have a net sale value, shall be sold by the State or railroad following an opportunity for State inspection and appropriate solicitation for bids, to the highest bidder; or if the company practices a

system of periodic disposal by sale.

D. Handling Costs. The railroad is permitted to charge a material handling fee using one of the methods described below. The railroad may use either method, provided that its use is consistent and is only applied to company owned materials. No material handling charge is permitted on purchased materials, and no other additive may be applied to materials, such as fringe benefits, liability insurance, or general and administrative overhead. The appropriate cost base for these additives is discussed further in ODOT Railroad Audit Circular No. 1.

1. Five percent (5%) of the amounts billed for materials and supplies which are issued from company stores.
2. Actual and direct costs of handling and loading materials and supplies.

E. Betterments. Credits are required for project additions or improvements solely provided for the benefit of the railroad. No credits are required given any of the following circumstances:

1. Required by the project.
2. Are not identical, but of an equivalent standard.
3. A replacement of devices or materials that are no longer regularly manufactured. In this instance, the next highest grade or size is permissible.

IV. EXAMPLES

Example 7-1. ABC Railroad is required to install two active warning devices in Worthington, Ohio. The materials for these devices are available at its Tupelo, Mississippi storage facility. The total cost for these materials is \$80,000, plus \$4,000 in handling charges. ABC utilizes the average cost method in calculating its inventory prices.

Analysis – Provided that ABC's use of the average cost method for pricing its materials is correctly and consistently applied, this is the appropriate treatment. Additionally, ABC has correctly applied the standard five percent handling rate on its stock materials.

Example 7-2. On a project, ABC Railroad uses materials from its company owned stock, properly valued at \$18,000. Additionally, ABC purchases \$70,000 in materials from an external vendor, including freight charges. ABC applies the standard five percent handling rate to all material costs in the amount of \$4,400.

Analysis – ABC may only apply the standard five percent handling rate on materials pulled from its own company stock. Therefore, \$900 would be eligible for reimbursement.

Example 7-3. ABC Railroad is required to close a crossing located on Bleeker Street as part of a grade separation project. ABC is subsequently constructing a new set of active warning devices on nearby Wall Street. The gate mechanisms taken from the Bleeker Street crossing are then used at the Wall Street location. The original cost of the materials transferred from Bleeker Street to Wall Street is \$35,000. Additionally, the bungalow and included circuitry from the Bleeker Street crossing have been accepted for reuse by ABC and returned to its material storage facility in Tupelo, Mississippi. The original costs of the bungalow and circuitry is \$25,000.

Analysis – There is no adjustment necessary for the materials transferred from the Bleeker Street location to the Wall Street location. However, the materials returned to ABC's storage facility must be credited to

the Bleeker Street project, less 15 percent for loss in service life. Therefore, a credit of \$21,250 should be made to this project (\$25,000 X 85 percent).

V. REFERENCES

- 23 CFR 140.908 (Materials and Supplies)
- 23 CFR 140.914 (Credits for Improvements)
- ODOT Railroad Audit Circular No. 1 (Definitions, Audit Authority, and General Guidance Regarding the Computation of Overhead Rates)