

## **COST ACCOUNTING GUIDELINES FOR PUBLIC IMPROVEMENTS BY CONTRACTING AGENCIES**

ORS 279C.310 prohibits a contracting agency constructing a public improvement with the contracting agency's own equipment or personnel if the cost exceeds \$5,000, unless the contracting agency adopts and applies a cost accounting system that substantially complies with the model cost accounting guidelines developed by the Oregon Department of Administrative Services pursuant to section 3, chapter 869, Oregon Laws 1979, as determined by an accountant qualified to perform audits required by ORS 297.210 and 297.405 to 297.555 (Municipal Audit Law).

One objective of the law is to provide more accurate financial information for projects constructed by public agencies' own personnel and equipment. In addition to the advantages of obtaining more accurate information for managerial purposes, the agencies' ability to comply with minimal financial reporting standards requires cost accounting procedures.

The National Committee on Governmental Accounting in its publication "Governmental Accounting, Auditing and Financial Reporting," commonly known by its acronym GAAFR, requires that when a governmental unit's own personnel perform construction "...a complete accounting of costs of labor, materials, equipment usage, and overhead must form the basis for entries in the General Fixed Assets Group of Accounts."

Reporting in financial statements of "public domain" fixed assets - roads, bridges, drainage systems, and similar assets dedicated directly to public service other than used in providing public services - is optional. The agency's accounting policy in this respect should be disclosed in the Summary of Significant Accounting Policies, and consistently applied.

DAS cost accounting guidelines are not intended to serve as an accounting manual, but as a listing of general procedures necessary to comply with Oregon Statutes and Generally Accepted Accounting Principles.

### **COST ACCOUNTING GUIDELINES**

#### **I. NUMERIC CODING SYSTEM**

A numeric coding system for accounting purposes should be developed. Each project will be assigned an account number.

Entities with automated accounting systems are encouraged to establish cost centers for accumulating project costs. Many related costs may be incurred long before construction actually begins. Projects accounting codes are, therefore, essential to ensure that all chargeable costs are recorded.

#### **II. PERSONAL SERVICES COSTS**

- A. The use of detailed time records is a fundamental requirement for accurately accumulating labor costs. Employee time records should provide information at an hourly level for type of activity and by project.
- B. The costs of employee vacation, sick leave, employer paid insurance and/or retirement benefits, and all other employer paid benefits should be reflected in hourly charge rates. Workers' Compensation costs used in this calculation shall be based on actual rates paid.
- C. Travel time to and from the job site should be charged to the project.

#### **III. MATERIALS**

- A. Materials issuance from inventory or stores for use on a particular project should be documented by requisition forms.

- B. Direct material purchases for use on a specific project should be documented by purchase orders and invoices.
- C. Costs of other supplies not directly chargeable to a specific project should be considered in overhead calculation. See Section V.

#### IV. EQUIPMENT USAGE RATES

- A. Agencies may develop internal usage rates based on depreciation schedules, investment cost (ORS 279.023(3) (now ORS 279C.305(3)), and operating costs such as fuel, oil, and repairs.
- B. Agencies may use widely accepted rate schedules such as those used by the Oregon State Highway Division for "external" work such as force account or price agreement.

#### V. OVERHEAD AND RELATED COSTS

- A. All general administrative and other "overhead" expenses directly or indirectly applicable to construction activities should be identified and charged. The use of formula or percentage charge rates is acceptable if those rates are supported by documentation. Documentation would consist of work papers showing the rationale and computations for allocating general administrative expenses.
- B. Accounting principles require the capitalization of a wide range of ancillary costs. Examples are engineering, legal and other professional fees, acquisition costs, freight and transportation, and site preparation.

#### VI. FINANCIAL REPORTING

The final project costs will be closed to the appropriate ledger account. Public agencies are encouraged to prepare cost reports on completion of each project.

#### **Reference:**

1979 Oregon Laws, Chapter 869  
1981 Oregon Laws, Chapter 281, Section 2  
1993 Oregon Laws, Chapter 500, Sections 2b(1) and 54(2)  
ORS 279C.305(3) and 279C.310

Find these Cost Accounting Guidelines on the DAS Procurement website at:  
<http://www.oregon.gov/das/Procurement/Pages/Guideline.aspx>

Send questions to: [egs.pscustomer@oregon.gov](mailto:egs.pscustomer@oregon.gov)