

CHAPTER 7

DIRECT/INDIRECT COSTS

1. INTRODUCTION

Estimates can be broken down into direct, indirect, contingency, and escalation costs. Standard definitions of direct and indirect costs provide consistency in estimating and reporting of project costs. This benefits program/project management, project validation, independent estimating and helps to provide uniformity in the departmental cost database. This chapter provides recommended categories for direct and indirect elements developed by the Committee for Cost Methods Development (CCMD) and describes various estimating techniques for direct and indirect costs.

2. DEFINITIONS

A. U. S. Department of Energy

DOE Order 4700.1, PROJECT MANAGEMENT SYSTEM, states that direct costs include "...any costs that can be specifically identified with a particular project or activity, including salaries, travel, equipment and supplies directly benefitting the project or activity." Emphasis is placed on the term "activity," which is interpreted as being the same as a cost account.

DOE Order 4700.1 states that indirect costs are "...costs incurred by an organization for common or joint objectives, and which cannot be identified specifically with a particular activity or project."

B. American Association of Cost Engineers

The AACE defines direct costs as "...costs of installed equipment, material, and labor directly involved in the physical construction of the permanent facility."

The AACE defines indirect costs as "...all costs which do not become a final part of the installation, but which are required for its orderly completion. It includes (but is not limited to): field administration, direct supervision, capital tools, some start-up costs, contractor's fees, insurance, taxes, etc."

C. Table of Indirect/Direct Costs

For the majority of the activities, there is agreement as to whether it is an indirect or direct cost. Table 7-1 provides guidance for the treatment of some categories and indicates whether they are indirect or direct costs. The definitions of the categories or activities can be found in Appendix A.

D. Type of Contract Cost Considerations

The items considered a direct cost vary with the type of contract as follows.

Type of Contract	Direct Costs
Fixed Price or Lump Sum	Material and labor costs including payroll burden
Cost Plus Fixed Percentage	Material and labor costs including payroll burden, field and home office expenses, accounting, secretarial, and equipment, or all costs except the fee.

TABLE 7-1
RECOMMENDED CATEGORIES FOR DIRECT/INDIRECT COST
ELEMENTS

CONSTRUCTION COST ACCOUNT	DOE-CCMD COMMITTEE
ACCOUNTING	I
ADMINISTRATION	I
AIRCRAFT OPERATION	I
BONDS	I
CAMP OPERATIONS	I
COMPRESSED AIR	I
CONST. CONTRACTOR'S ENG.	I
CONSTRUCTION	D
CONST. EQUIPMENT	I ¹
CONST. EQPT. MAINT.	I
CONST. FACILITIES	I
CONSUMABLES	I
CONTAMINATION RESTRICTIONS	D
CONTRACT FEE	I
CONTRIB. TO WELFARE PLANS	I
DEMOLITION	D
DRINKING WATER & SANITATION	I
ESCORTS	D
FIRE PROTECTION	I
FREIGHT	D
GENERAL CLEANUP	I ¹
HEAT	I
HOLIDAY & VACATION PAY	I
INSURANCE	I
LAUNDRY	I

TABLE 7-1
RECOMMENDED CATEGORIES FOR DIRECT/INDIRECT COST
ELEMENTS

CONSTRUCTION COST ACCOUNT	DOE-CCMD COMMITTEE
LEGAL	I
LIGHT & POWER	I
MAINT. OF GEN. CONST. PLANT	I
MATERIAL HANDLING	I
MEDICAL & FIRST AID	I
MOTOR POOL OPERATIONS	I
OFFICE SUPPLIES & EXPENSES	I
PAYROLL INSURANCE	I
PAYROLL TAXES	I
PERMITS, LICENSES	I
PERSONNEL	I
PREMIUM PAY	D
PROCUREMENT	I
PRODUCTIVITY	D
PROTECTIVE CLOTHING	D
REPORTING TIME	I
RETROACTIVE PAY	I/D ²
SAFETY	I
SALES TAX	I
SCAFFOLDING	I ¹
SECURITY	I
SECURITY RESTRICTIONS	D
SIGNUP & TERMINATION PAY	I
SITWORK	I/D ³
SMALL TOOLS	I

TABLE 7-1

RECOMMENDED CATEGORIES FOR DIRECT/INDIRECT COST ELEMENTS

CONSTRUCTION COST ACCOUNT	DOE-CCMD COMMITTEE
STANDARD EQUIPMENT	D
SUPERINTENDENCE	I ¹
SURVEYS, GEOL. STUDIES & TESTS	I
TAXES OTHER THAN PAYROLL	I
TRANSFER AND RELOC.	I
TRANSPORTATION OF WORKERS	I
WAREHOUSING	I
WATER	I
WELDING TESTS	I

¹ INDIRECT ONLY IF NOT ASSOCIATED WITH A PARTICULAR WORK OPERATION.

² HOLDING ACCOUNT; ONLY UNALLOCATABLE COSTS SHOULD REMAIN IN THIS ACCOUNT.

³ DIRECT IF PERMANENT, OTHERWISE INDIRECT.