

Estimated Outstanding Cost Guidelines

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Introduction

The purpose of this paper is to provide guidance and recommendations on developing Estimated Outstanding Costs for external consultant agreements on WSDOT capital projects. With the implementation of the Project Management and Reporting System (PMRS), Project Managers are required to develop or confirm each project's Estimate at Completion (EAC) on a monthly basis as a best management practice. In addition, EAC is a key component of earned value management.

According to the Project Management Body of Knowledge "PMBOK Guide Third Edition", EAC and its components, Estimate to Complete (ETC) and Actual Cost (AC), are defined as follows:

Estimate at Completion (EAC). The expected total cost of a schedule activity, a work breakdown structure component or the project when the defined scope of work will be completed. EAC is equal to the actual cost (AC) plus the estimate to complete (ETC) for all of the remaining work. $EAC = AC \text{ plus } ETC$. The EAC may be calculated based on performance to date or estimated by the project team based on other factors, in which case it is often referred to as the latest revised estimate.

Estimate to Complete (ETC). The expected cost needed to complete all of the remaining work for a schedule activity, a work breakdown structure component or the project.

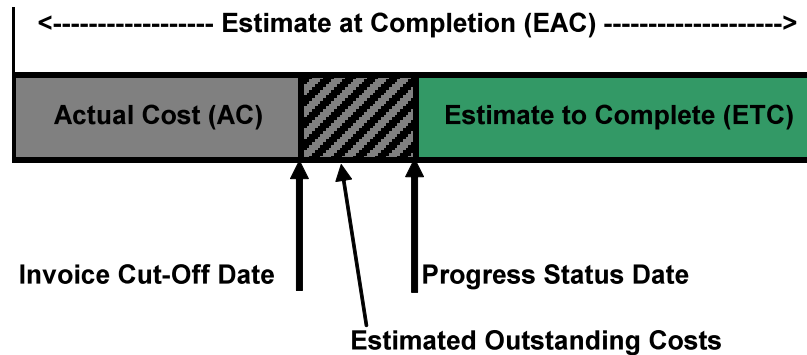
Actual Cost (AC). Total costs actually incurred and recorded in accomplishing work performed for a schedule activity or work breakdown structure component. Actual cost can sometimes be direct labor hours alone, direct costs alone, or all costs including indirect costs.

Estimated Outstanding Costs are those project costs that have been incurred by external consultants that meet any one of the following conditions:

- Have not yet been billed to WSDOT
- Have been billed but have not been paid by WSDOT and therefore are not reported as actual costs in FIRS. This includes invoices that are under review by WSDOT.
- Costs that the external consultant plans to accrue between the invoice cut-off date and the progress status date

For the purposes of measuring earned value, Estimated Outstanding Costs may be considered a subset of "actual" costs as shown in the figure below. The purpose of Estimated Outstanding Costs is to bring the "actual" costs up to the same cutoff date as the schedule and progress so that meaningful earned value measurements can be performed. The "actual" cost from

consultants is often not as of the cutoff date, so the Estimated Outstanding Cost can be used to estimate the amount of money that the consultant is expected to bill through the progress status date. Although these costs are not “actual” (have not been invoiced and paid) they are significant in relationship to showing the effort expended for the progress made (earned value) in supporting each capital project.



Using Estimated Outstanding Costs

Use of Estimated Outstanding Costs is optional, but is recommended for larger projects that have consultants billing high dollar values that would skew earned value calculations if the Estimated Outstanding Costs were not accounted for. Estimated Outstanding Costs are used for external consultant agreements, not for internal agreements or construction contracts. If the project warrants the use of Estimated Outstanding Costs, the following items should be considered:

1. The Project Manager will need to determine if Estimated Outstanding Costs are appropriate for each project based upon the cut-off date for consultant invoices, the status date of reported progress and the expected value of those invoices.
2. Estimating Outstanding Costs should include all labor and expenses that the consultant has occurred (and hasn't billed) or plans to incur from the last paid consultant invoice to the status date for schedule progress (typically the last working day of the month).
3. If the monthly cut-off date for the consultant invoice falls before the status date for measuring progress (typically the last working day of the month), the Project Manager may request that the consultant include an estimate of outstanding costs in the monthly consultant progress report.
4. If the Project Manager chooses to use Estimated Outstanding Costs and this information is not available from the external consultant, an historical, average hourly billing rate may be multiplied by estimated consultant hours for the period in question to arrive at a reasonable estimate that may be used as a substitute. Similarly, expenses may be estimated based upon historical consultant expenditures, if appropriate.
5. Estimated Outstanding Costs must be reconciled monthly as invoices are paid by updating/removing the amount from the “estimated outstanding” field in the PMRS Cost Management Tool for management and reporting purposes.