

CERM-P

Pamphlet
No. 37-1-4

30 July 2015

Financial Administration
COST OF DOING BUSINESS

1. Purpose. This pamphlet explains the unique manner in which US Army Corps of Engineers (USACE) districts and centers are funded and the basic concept upon which the method is based. This pamphlet also explains the various types of costs charged to a project and the manner in which these costs are derived.
2. Applicability. This pamphlet applies to Headquarters US Army Corps of Engineers (HQUSACE) / Office of Chief of Engineers (OCE) elements, major subordinate commands, districts, laboratories, and Centers.
3. Reference. Engineering Regulation (ER) 37-1-30 Financial Administration-Accounting and Reporting and ER 415-1-16 Fiscal Management.
4. Funding of District and Centers. Unlike other elements of the Department of the Army and the Federal Government at large, districts and centers are primarily funded on a project-by-project basis. Funds are received on both a direct fund authorization basis and by reimbursable orders from customers.
5. Basic Operating Concept. The manner in which districts and centers are funded by Congress dictates that these offices operate on a cost distribution concept. Under this concept, general and administrative expenses associated with the day-to-day operation of these offices are equitably distributed to all direct funded and reimbursable projects thereby rendering the offices self-sustaining. Project costs accumulated under this concept are all inclusive and portray the true cost of a given project.
6. Types of Costs Charged Directly to Reimbursable Projects. Project costs fall into two basic categories: direct and indirect costs.
 - a. Direct Costs. Direct costs are those costs which can be identified to a specific project at the time they are incurred. Direct costs benefit a specific project exclusively and may include the cost of contracts, equipment, in-house labor, travel, etc., directly related to the accomplishment of the project.

This pamphlet supersedes EP 37-1-4, dated 10 April 1992.

b. Indirect Costs. Indirect costs are those costs which cannot be identified to a specific project as they are incurred. They are organizational, administrative, or supportive in nature. They are commonly charged to departmental overhead (DOH) and General and Administrative (G&A) overhead.

(1) Departmental Overhead (DOH). DOH costs are those costs incurred within the technical divisions (Engineering, Construction, Operations, Contracting, etc.) of districts and centers which either cannot be identified with or are not readily chargeable to a specific project. This indirect cost category includes, but is not limited to, the labor of section, branch and division chiefs and their administrative staffs not readily chargeable to a specific project. It also includes the labor of technical personnel associated with training, answering congressional inquiries, attendance at meetings, conferences and hearings, staff visits, report preparation, management and manpower surveys and other similar mission-related efforts. As appropriate, administrative expenses (incentive awards, office furniture or equipment below the PRIP threshold, office supplies, information technology (IT) supplies or IT equipment and software below the capital threshold, etc.) incurred by the technical divisions are also included in this category. See ER 37-1-30, 20-2.b. Each Department has its own DOH rate.

(2) General and Administrative (G&A) Overhead Costs. G&A overhead costs include all administrative and/or support costs incurred in the day-to-day operation of districts and centers. This indirect cost category generally includes all labor expended by personnel assigned to administrative offices (Human Resources, Counsel, Resource Management, Safety, Executive Offices, etc.) and various other administrative and support costs (office rental, equipment, office supplies, etc.) incurred by administrative offices. Counsel labor is generally an indirect cost, but may be charged as a direct cost when in direct support of the Clean Water Act, in direct support of project-related real estate activities; and, subject to HQUSACE (CERM-FG&A) approval, in circumstances where direct charging results in a more accurate assessment of the costs USACE incurred in executing the project and the distribution of such costs to projects that did not benefit from the work would be inappropriate. Currently, Huntsville Center and TAM are authorized to direct charge for counsel labor. See ER 37-1-30, 21-2(a)(6). Other exceptions are listed in ER 37-1-30, Chapter 21. Overhead costs are continuously reviewed to ensure that they are reasonable and necessary to effective operations. There is one G&A rate for each division.

7. Accumulation of Indirect Costs. DOH and G&A overhead costs are recorded and accumulated in organizational cost accounts at the time they are incurred. Separate accounts are established and maintained for each organizational element within the district and center. Accumulated costs remain in these accounts until they are ultimately distributed to the various projects based on the direct labor charged to a project.

8. Distribution Rates. DOH and G&A overhead costs accumulated in organizational cost accounts are distributed to projects through the use of predetermined rates established at the beginning of each fiscal year by each division and center. The rates are computed by using standardized formulas and methodologies that enable these indirect accounts to break even by the end of each fiscal year. The formulas and methodologies currently in use were implemented Corps-wide after intense testing and evaluation of numerous alternative methods and formulas and are considered to be the most accurate and equitable means of ensuring that indirect costs are distributed to “customers” in a fair and equitable manner. Formulas are found in the Appendix A. The rates established at the beginning of the fiscal year are reviewed quarterly and adjusted to ensure that all incurred costs are recovered without incurring a significant “profit or loss” in the organizational cost accounts for the fiscal year.

9. Cost Distributions. Once determined, the current DOH and G&A overhead rates are programmed into the Corps of Engineers Financial Management System (CEFMS). Thereafter, indirect costs are automatically distributed to a given project based on the direct labor charged to the project. Hence, indirect costs charged to each project are directly proportionate to the amount of effort (direct labor of technical personnel and other direct charging) involved in accomplishment of a particular project. While the manner in which the DOH and G&A costs are distributed to projects is essentially the same, there is one major difference in the actual distribution of the two categories of indirect costs.

a. Indirect costs of departmental organizations are accumulated in the departmental overhead work item assigned to each technical division in a district or center, and are not charged directly to programs, projects or reimbursable work items. DOH costs are only distributed to work in which the departmental organization is actively involved.

b. G&A overhead costs benefit all programs, projects and reimbursable work in which a district or center is actively involved and are therefore distributed to all such work.

10. Variations in Rates Between Divisions. Each division sets a regional overhead rate for the different departments for its districts using regional rates for both G&A and DOH. Although the overhead rates are computed using standardized formulas and methodologies, rates vary between divisions. These variations are the result of many independent factors over which a particular division or center has little control. Geographic location, composition of the work force, overall workload, and prevailing economic climate are but a few of the many factors which impact on the overhead rates of a given division or center. Obviously, it costs more to operate a division in a high cost region that encompasses primarily the West Coast such as South Pacific Division than it does to operate a region that encompasses primarily the Mid-West such as Mississippi Valley Division. Workload also has a significant impact on the regional rates.

11. Major Exception-Military Supervision and Administration (S&A) Flat Rates. The basic business concepts discussed above apply to all services provided by Districts except supervision and administration of military appropriations subject to the flat rate S&A procedure. Under this procedure, all direct and indirect construction supervision and administration costs related to flat rate projects on which a given Corps project team is working are charged against appropriate flat rate S&A sub-accounts maintained at the district level. Using the appropriate Corps-wide flat rate, costs are equitably distributed from the appropriate sub-account to the individual projects based on total construction contract expenses incurred. Such distributions are assessed as a percentage of contract expenditures whenever an expenditure occurs, using the prevailing S&A rate as the percentage value. This process results in what is referred to as “S&A income” to the applicable S&A account. At the end of each month, the “loss or gain” in the accounts, i.e., the difference between the S&A income and costs charged against these accounts, is transferred to central accounts maintained by the UFC/HQUSACE. The business goal is to operate the HQUSACE central accounts on a “break even” basis with rates adjusted on a very infrequent basis as required. Military appropriations that may be subject to flat rate include, but are not limited to, Military Construction and Operations and Maintenance. A full list is provided in ER 37-1-30, Chapter 22, Appendix G. For additional information on S&A management, see ER 415-1-16.

12. Distribution Rates at Centers. Most centers have different methods of determining their rates due to the type of work done, in support to the divisions, districts, centers and other customers. As with district G&A and DOH, the centers’ operating budgets should be constructed to achieve a fiscal year-end balance of zero in accordance with Paragraph 20-6 of ER 37-1-30.

a. USACE Finance Center (UFC). UFC effort is considered overhead for those they support. The UFC is a Fee-for-Service activity and the costs are billed to the customer’s G&A overhead based on the workload counts, such as; accounts payable vouchers, government orders, billings, disbursements, travel vouchers, and collections.

b. Humphreys Engineer Center Support Activity (HECSA). HECSA has authorized positions that are funded from a variety of sources, both direct (by Funding Authorization Document (FAD)) and reimbursable (by Military Interdepartmental Purchase Request (MIPR)). Levels of support and the cost of providing the support are identified on Interagency Support Agreements with each supported organization. The majority of HECSA positions are funded directly by FAD with Executive Direction and Management (ED&M) appropriations (i.e. Civil Works Expense and Operations and Maintenance, Army). The remaining positions at HECSA are funded on a reimbursable basis from non-ED&M appropriations used by HQUSACE as well as the funding of other HECSA-supported organizations and tenants of the Humphreys Engineer Center (HEC).

c. USACE Logistics Agency (ULA). ULA is considered an overhead expense for customers and is a Fee-for-Service activity. ULA customers are billed on a per capita basis using each supported organization's "full time equivalent employee" (FTE) totals in relation to the USACE total FTEs. The ULA's budget total is then multiplied by each organization's FTE "quotient" (its percentage of the COE's total FTEs) to determine each organization's annual assessment. Assessments are charged against the supported districts' and centers' G&A overhead funds, and against the Divisions' ED&M funds. ULA is not currently funded to support Transatlantic Division (TAD), Japan District (POJ), the Far East District (POF), or the Europe District (NAU). The unusual individual requests from these offices for ULA to conduct work are conducted at cost.

d. Institute for Water Resources (IWR). IWR sets overhead rates for its activities separate from any of the divisions. Rates are developed yearly to cover the projected expenses based on the estimated hours of direct costs to be charged to projects.

e. Marine Design Center (MDC). The MDC sets their overhead rates in conjunction with those set by the North Atlantic Division.

f. Army Geospatial Center (AGC). AGC supports customers with geospatial information, engineering, and support services and has no construction mission using S&A flat rates. AGC uses G&A and DOH rates applied to direct labor charges in accordance with USACE ER 37-1-30 to recoup actual expenses.

g. Huntsville Center (HNC). HNC provides specialized technical expertise, global engineering solutions, and cutting edge innovations through centrally managed programs in support of national interests. Due to the unique nature of its work, Huntsville Center aggressively utilizes the Project Delivery Team (PDT) to deliver products. All members of the PDT charge their work directly to the project they support regardless of their organizational affiliation. For example, the financial analyst supporting the PDT may be organizationally housed in Resource Management but will charge hours worked with the PDT to the project. Overhead hours for training and other overhead activities are charged to that person's organizational overhead account.

13. Flat Rate Burdens for ERDC. ERDC has established flat rate burdens (FRBs) to cover G&A and DOH. These flat rates are charged on all project expenditures instead of only in-house labor expenditures. This method is unique to ERDC. There are two FRBs, one is for civil works activities and the other is for military programs activities. There are two separate rates because ERDC generally receives base funding for military activities, but not for civil works activities. The FRBs are due to the extensive use of resources other than government labor to perform

EP 37-1-4
30 Jul 15

work, and insures equitable payment of overhead by ERDC customers. Unlike districts, which charge significant amounts of direct labor to a project for departmental tasks such as engineering and contracting, ERDC's work requires significantly less direct labor for a majority of the tasks, thus charging FRBs on only direct labor charges would result in a less accurate distribution of expenses to each project. All project expenditures, except those exempted by law, regulation or policy are subject to the FRBs. Labor (salary cost x effective rate¹) and non-labor expenditures are all subject to the G&A and Departmental FRBs. Expenditures exempt from FRB include those funded by overhead accounts, Plant Replacement and Improvement Program funds, other funds specified as exempt in regulation or policy, or where it would be inconsistent with the law, regulation or policy to apply such burdens. There are no special rates for any cost category. Direct fund cites are not subject to FRBs, but labor and other costs are still billed to the customer at cost.

14. Foreign Military Sales (FMS). FMS is part of the USACE Military Programs. Charges to FMS administrative funds do not include DOH and G&A. Civilian labor costs charged to the FMS case do include the overhead costs. See Security Assistance Management Manual (SAMM), Table C9.T2 for additional information regarding which account is charged.

15. True Cost of Doing Business. The Corps of Engineers approach to cost accounting is to identify and charge costs directly to the benefiting project whenever practical. Those costs which cannot be readily identified to a specific project are distributed via overhead based on direct labor charges. This concept of cost accounting allows us to determine the true cost of doing business for ourselves and for others with accountability in a transparent manner.

FOR THE COMMANDER:



MICHAEL D. PELOQUIN
COL, EN
Chief of Staff

¹ The effective rate is the percentage applied to base salary to recoup USACE's share of employee benefits and fund leave.

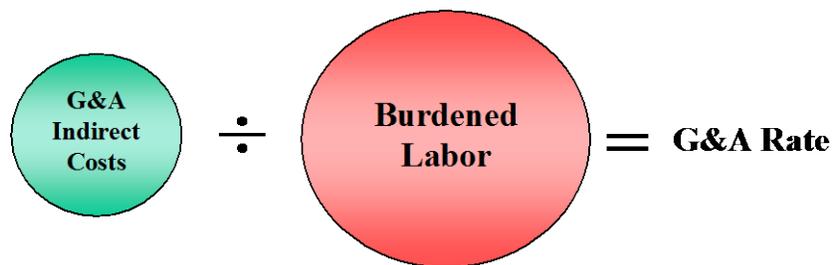
APPENDIX A

General and Administrative (G&A) Overhead Rate

Military/Civil

Measures the cost efficiency of general and administrative organizations.

G&A Overhead Rate = G&A costs/(direct labor)



Departmental Overhead (DOH) Rate

Military/Civil

Measures the cost efficiency of technical organizations.



DOH Rate = a technical organization's departmental overhead cost/(that technical division's direct labor).

EP 37-1-4
30 Jul 15

This Page Intentionally Left Blank