

BUREAU OF RECLAMATION
STANDARD PROCESSES OF COSTING (SPOC)
BUSINESS PRACTICES



September 30, 1999

INTRODUCTION

Both internal and external pressures are driving the need for Reclamation to develop and implement a common set of business practices for defining, costing, and charging direct and indirect costs. Reclamation managers are being held accountable for the costs of doing business within their particular programs and need to know how to explain those costs to customers.

In September 1998, Reclamation published the "Annual Costs of Bureau of Reclamation Project Operation and Maintenance for Fiscal Years 1993-97" report. This report was in response to concerns expressed by Reclamation's water and power customers that Reclamation's operation and maintenance costs including "overhead costs" were too high. The report prompted further inquiries in the form of a substantial number of questions posed by the House and Senate Appropriation Committees.

In addition, in May 1999 UC Region's Leadership Team, after considerable study and deliberation, made a decision to change its business practices for defining and charging its Regional Office indirect costs to align with PN Region's business practices. The PN Region had changed its business practices in response to customer needs several years ago. These changes included optimizing direct charges and costs as appropriate to the benefitting function; defining what was indirect versus direct; and initiating a single indirect cost account for the Regional Office. UC Region's decision to change brought to the forefront the need for Reclamation to address this issue corporately.

In response to the above questions, concerns, and needs, the Director of Operations by memorandum of June 7, 1999, requested budget and finance representatives from each Region and the Reclamation Service Center (RSC) be assembled to review Reclamation's practices in classifying, charging and distributing the costs of Regional and Area Office general management activities, administrative services, and support functions. The Director also requested a written proposal be prepared for a single, uniform set of business practices to be used by all Regions.

The Director of Operations stated, "We no longer have the luxury of accounting for these administrative services and support functions in five different ways." In response to the concerns now raised, a group of budget, finance and area office personnel, representing each Region and the RSC, have met to develop a single, uniform set of business practices to be used throughout Reclamation.

TABLE OF CONTENTS

Introduction	1
Approach	3
Definitions	5
What Do I Charge?	
HOW TO CHARGE IT Flow Chart	8
Guidelines for Charging Regional Indirect Costs	
Regional Office Administrative Services to RIC	10
Resources & Technical Services Indirect Costs	11
Examples of Applying the HOW TO CHARGE IT Flow Chart & for Charging Costs	
Area Office Examples	13
Regional Office Examples	15
Reclamation Service Center Examples	16
How Do I Display and Explain Costs?	18
Total Cost Matrix - Summary	20
Total Cost Matrix - Detail	21
APPENDICES	
A - Cost Allocation Methods	23
B - Policy and Administration Funds	25
Policy and Administration Flow Chart	29
C - Reclamation Service Center/Regional Programs & Activities Flow Chart	30
Footnotes to Reclamation Service Center Flow Chart	31
D - Reference Materials	33
E - Tool Man Pictograph	34

APPROACH

The first step the Standard Processes of Costing (SPOC) Team took toward creating standard business practices was to identify each Region's issues and concerns. Concerns raised by Regional representatives were:

- ! Lack of a common Reclamation definition for indirect cost
- ! Apparent lack of consistency between offices in charging costs
- ! Need for standard business practices that recognize and accommodate valid and justifiable differences between offices
- ! Flexibility for unique operations that result from project legislation and organizational differences, and
- ! Need to provide managers with the knowledge and tools to understand and explain costs

There is a widely held belief that the strength of Reclamation comes from the uniqueness of its individual offices and the flexibility with which each office is allowed to operate. The Team was careful to **incorporate maximum flexibility** in charging, reporting, and explaining costs in a manner which would best suit the needs of each office and its customers **while working within standard business practices**. Additionally, effort was made to make financial information more understandable and explainable for managers and customers.

The Team focused on:

- ! Identifying and preserving the strengths of the practices already in use
- ! Identifying and eliminating the weaknesses
- ! Identifying unique situations and their requirements, and
- ! Incorporating new strengths into Reclamation's standard business practices

In doing this, the Team has preserved the hard-won lessons of many years of experience while continuing to improve and refine Reclamation's business practices.

The Team's objective was defined as:

"To develop and implement a common and consistent set of business practices for defining, charging, reporting, and explaining both direct and indirect costs within Reclamation."

It is important to note the Team recognized that although indirect cost rates between offices would not be the same nor necessarily equal, the business practices used in developing the indirect rate and how costs are charged will be standardized. Thus, the method used would form the basis for effective management and explanation of these costs.

The Team also identified a goal and subsequent benefit of the business practices to be :

“To maximize direct charging of costs to the greatest extent possible where the benefitting activity can be specifically and readily identified or a reasonable and economically feasible allocation can be made.”

This business practice would effectively minimize indirect costs. The Team also recognized that indirect costs are a part of doing business and, accordingly, are appropriate and justified.

The Team was also asked by the Director of Operations in his June 7, 1999, memorandum what portion (if not all) to label as “overhead costs.” As a result of the business practices and models developed, the Team concluded that if all activities are correctly and consistently charged following the procedure outlined in the “How to Charge It Flow Chart,” then all activities assigned to indirect costs could be considered as “overhead costs”. However, “**indirect costs**” is the term used in Federal accounting standards and in other official Federal documents and systems and, therefore, is the preferred term when discussing all costs that are not direct costs.

Representatives of the Team were:

Mishell English, Facilitator, Area Office, Curecanti Field Division, UC Region
Jack Garner, Area Manager, Eastern Colorado Area Office, GP Region
Kathy Marshall, Financial Manager, PN Region
Michele Zimmerman, Finance Officer, PN Region
Shelly Wiser, former Budget Officer, PN Region (currently on WO Budget staff)
Mike Dalley, Financial Manager, UC Region
Ralph Sokolowsky, Budget Officer, UC Region
Mike Finnegan, Manager, Business Resource Center, MP Region
Ruth Johnson, Finance Officer, MP Region
Teresa Fischer, South-Central California Area Office, MP Region
Bruce Stockinger, Financial Manager, LC Region
Clark Newby, Finance Officer, LC Region
Roger Schlosser, Budget Officer, GP Region
Bill Brayton, Finance Officer, GP Region
Efraim Escalante, Manager, FAS, RSC
Mike Arakawa, Policy, RSC
Deborah Nicholson, Finance Officer, RSC
Millie Slagle, Program Analyst, Office of Policy
Gay Ann Martinez, Business Services, RSC
Tom Luebke, Manager, Client Business Services Office, Technical Service Center

DEFINITIONS

These definitions are provided to help the reader better understand this business practices report. These definitions should be used and taken in context with the “How to Charge It Flow Chart” and the “Total Cost Matrices” along with the specific examples provided below and throughout this report.

Direct Cost - All costs which can be specifically and readily identified with an output **or** which can be specifically and readily identified with two or more outputs through a *reasonable and economically feasible* allocation.

Output - A product or service *specifically* relating to a project or program (Budget or Finance personnel establish a cost account for every output and activity).

Distributive Direct Charge - A reasonable and economically feasible allocation of direct costs which can be specifically and readily identified with two or more outputs.

Examples of **direct costs** (for general guidance and clarification to the definitions above):

- ! A mechanic is performing maintenance (output) on an emergency generator at a powerplant. The mechanic’s time, tools and supplies are all direct costs of the powerplant.
- ! An engineer is working on the design of a jet flow valve (output) that will be used at three different sites. The engineer’s time, travel and supplies are direct costs allocated (a distributive charge) to each office.
- ! A vehicle is used solely by a ditch rider on a specific project (output). All costs of the vehicle are direct costs of that project.
- ! A recreation facility rehabilitation effort (output) is being carried out on two adjacent projects. The design, planning, equipment, supplies, contracting and inspection are all direct costs allocated (a distributive charge) in proportion to each office.
- ! A building houses a lab for monitoring water salinity for five water districts (output). The rent, maintenance, utilities and any other associated costs of the building are direct costs allocated (a distributive charge) in proportion to each water district.

Cost Allocation - The process of initially charging costs to one account and then distributing those costs to more than one account. The allocation of costs is based upon a justifiable method and is accomplished either through manual or automated processes. **(See Appendix A)**

Examples of cost allocation:

- ! An area office operates a warehouse that supports three power facilities equally. All the costs for operating the warehouse are accumulated in one account and then distributed equally to the three benefitting power facilities.
- ! Indirect costs of an Area Office are accumulated in one account and then distributed to all of the Area Office's programs via a labor surcharge rate based on that office's direct labor charges.
- ! The costs of operating an airplane are accumulated in one account and distributed or billed manually to users of the airplane based on a per hour usage.

Indirect Cost - Costs that are jointly or commonly used to produce two or more outputs but are not specifically identifiable with any of the outputs in an economically feasible way or through a reasonable allocation.

Examples of indirect costs: (for general guidance and clarification)

- ! A staffing specialist in a Regional Office who provides a service to the entire region. The specialist's time, training, travel and supplies are indirect costs.
- ! A secretary whose job is general receptionist, mail and file clerk, and administrative support for an area office in which there are a variety of projects and programs. The secretary's time, training, travel and supplies are indirect costs.
- ! A pool vehicle used solely by the administrative staff in general support of an entire office. All costs of the vehicle are indirect costs of the office.
- ! A building which only houses the general management and administrative support functions for an Area Office with many projects. The rent, maintenance, utilities and any other associated costs of the building are indirect costs to the Area Office.

Office Indirect Cost (OIC) - Indirect costs incurred for the benefit of most or all of the programs in a specific office or group of offices. OIC is primarily used by an Area Office or the Technical Groups in the Regional Office. Costs are charged to the Working Capital Fund (K12 or a specific Kxx fund) and distributed as a surcharge on the labor of all employees of that specific office.

Regional Indirect Cost (RIC) - Indirect Costs incurred for the benefit of most or all of the Region's programs. This primarily includes costs of the administrative services organizations (i.e., Financial Management, Public Affairs, etc.) in the Regional office and assessments from the RSC and the Department. Costs are charged to the Working Capital Fund (K12 fund) and distributed as a surcharge on the labor of all employees in the Region.

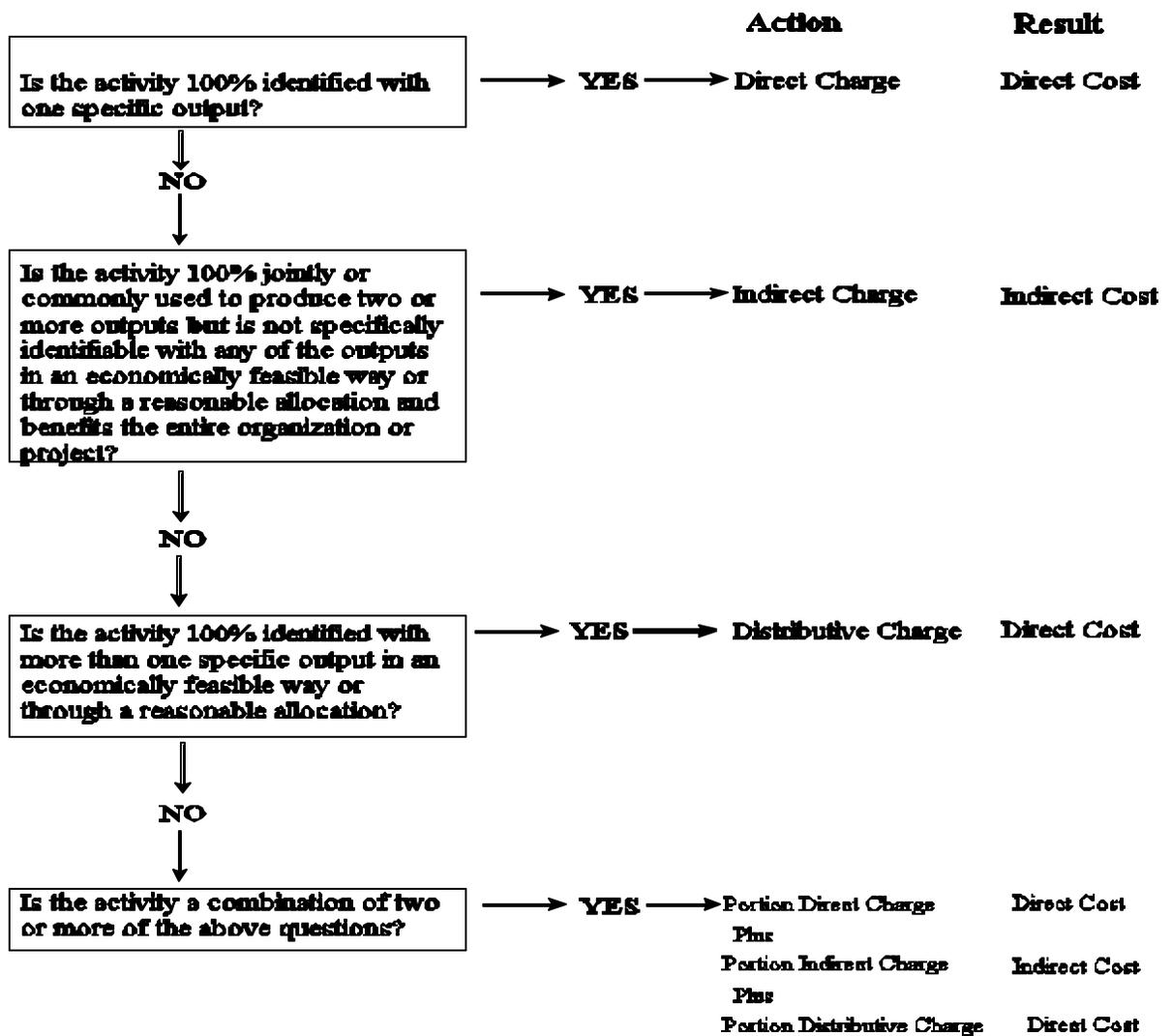
Policy and Administration - A separate appropriation provided by Congress to Reclamation: “For necessary expenses of policy, administration, and related functions in the Office of the Commissioner, the Denver Office, and offices in the five Regions of the Bureau of Reclamation.” (See **Appendix B**)

WHAT DO I CHARGE?

When determining what type of charge and cost an activity should be, use the flow chart shown below. As questions are answered, the flow chart will lead to the proper type of charge and whether the activity is a direct or indirect cost.

“The principle that underlies the use of this flow chart is that costs are to be equitably charged (allocated) to the beneficiary of the services that generate those costs.”

How to Charge It Flow Chart



GUIDELINES FOR CHARGING REGIONAL INDIRECT COSTS

The Regional Indirect Cost (RIC-K12) account consists of costs that benefit activities of the Region and that cannot be reasonably and economically charged elsewhere. Generally, the costs for Region-wide administrative services, RSC, and Departmental assessments are charged to this account.

In some cases this account is also used for the indirect costs of the technical divisions or groups in the Regional Office rather than having separate K12 accounts for those offices. Each Region will determine if it is economically feasible to maintain a separate K12 account for the technical groups in the Regional Office. The guidelines in this section, and references to Regions, also apply to Regions 8 and 9. (A flow chart for RSC charges is included as **Appendix C**).

Regional Office Administrative Services to RIC

Examples of administrative services included in the RIC are: information resources, property services, mailroom and general files, human resources, financial management, administrative and/or business services office, EEO, and public affairs. Acquisitions can also be included although much of their activities can and should be charged directly to specific agreements or contracts.

For some administrative type personnel, it may be difficult to project with any certainty what offices, projects, or programs will be served by those personnel in budget out-years. In these cases, Regions may determine that these administrative services should be budgeted for in RIC and included in the RIC labor rate surcharge. Under this scenario, these administrative personnel would charge the RIC account for normal and routine services, even if an output could be identified. The rationale for this approach: It is not necessarily reasonable nor economically feasible to direct charge these administrative expenses.

If services are considered significant, recurring, or are already appropriately budgeted, then these services could be charged directly to the specific office, project or program. In instances where it is appropriate to charge the office, project or program, and the work is not budgeted nor normally funded there, then the appropriate manager should be contacted in advance of the charge.

In addition to administrative services activities, other Region-wide activities that can be charged to RIC include:

- 1) Recruiting, travel and orientation costs of the Student Career Employment program.
- 2) Costs for a Region-wide instructor for such programs as Awareness of Sexual Harassment or Diversity Training. **Note:** An employee's time and travel for attending this training should be charged to the office's accounts where the employee works.

- 3) All costs of training except for those which are funded elsewhere.
- 4) Unemployment compensation costs.
- 5) Workmen's Compensation costs unless a Region determines it is reasonable and economically feasible to direct charge such costs.
- 6) Special activities as specified by Regional Leadership.

Resources and Technical Services Indirect Costs

Employees of these groups should direct charge their time to the greatest extent possible to direct appropriations, programs, and reimbursable customers. The indirect account should only be charged if work cannot be identified and charged to a specific activity.

Examples of activities that could be charged to an indirect account, when other funds are not available, include the following:

- 1) Non-labor costs required for general operation of the office such as space (rent), utilities, furniture, telephone, general office supplies/equipment/contract services, personal computers (PCs) (hardware and software). Labor costs associated with office moves and reconfigurations.
- 2) Managerial, supervisory and clerical administrative activities such as those related to employee performance and development; recruitment; staffing assignments; improvement of processes and management/business practices; timekeeping; mail handling; filing; phone coverage; training associated with these activities; etc.
- 3) Special administrative activities engaged in by employees of a temporary, discontinuous nature such as key workers and volunteers for Public Service Week, Combined Federal Campaign, Savings Bond Campaign, and special emphasis programs (e.g., Federal Women, American Indian, Black History), miscellaneous public service activities (e.g. science fairs, Citizens Against Crime, etc.), and participation on boards of survey.
- 4) Employee relations costs associated with EEO counselors and union officers/stewards, and employee grievances.
- 5) Costs associated with collateral duty safety officers, medical exams, preparation of emergency plans, job hazard analyses, health monitoring, professional safety consultation, safety training, and general safety program activities.
- 6) Employee moving expenses associated with a permanent change of duty station.

7) Activities associated with employee publications (e.g. newsletters) and officers of employee recreation associations.

8) PC/LAN support and coordination provided by non-information resources employees.

**EXAMPLES OF APPLYING THE “HOW TO CHARGE IT FLOW CHART”
AND FOR CHARGING COSTS**

Area Office Examples

1. An electrician at a powerplant attends a 1-hour meeting in observance of Secretaries Week.

ANALYSIS: This would fall under the category of **employee development**. This employee is a 100 percent powerplant employee so employee development costs benefit only one output--power and also one feature--the powerplant where the employee works. Since this can be identified with one specific output, the time should be charged to an account established under operation and maintenance of that powerplant. - Direct Charge, Direct Cost.

NOTE: Generally, employee development costs should be charged to that employee's outputs. So these costs for an employee who generally indirect charges his/her salary would be charged as an indirect cost also. Development costs for an employee who supports multiple outputs could either be an indirect charge or, if there is an account set up to distribute these costs to those multiple outputs, it would be a distributive charge.

2. A budget analyst in an Area Office responsible for multiple programs spends 5 hours researching and preparing a report on the power O&M costs of three powerplants for the Area Manager.

ANALYSIS: The report benefits **one output** (power) and within power benefits **three powerplants**. It is likely the Area Office deals with the same three powerplants for many activities which would indicate there should be a reasonable and economically feasible way to distribute the costs. Accounts should be set up for accumulating administrative and support costs relating to power which is where this time should be direct charged. - Direct Distributive Charge

3. A manager in an Area Office responsible for multiple programs spends 2 hours preparing for employee evaluations.

ANALYSIS: If the manager supports only one output (e.g. power) or identifiable outputs (e.g. dams and reservoirs) that have a distributive account set up, the manager's time would be either a direct charge to the single output or a distributive charge to the multiple outputs. - Direct Distributive Charge

If the manager supports outputs not readily identifiable within the Area Office, there is likely not an economically feasible way to allocate this cost. The manager's **supervisory activities** would then be charged to the Area Office's indirect cost (K12) account. - Indirect Charge, Indirect Cost

4. A secretary helps prepare the O&M budget report for the Area Office. It takes her 16 hours. The O&M budget is 70 percent power with the balance allocated among associated programs, irrigation, and flood control.

ANALYSIS: The time benefits more than one output. This type of activity could be considered significant and recurring, and consideration might be given to setting up an account that would distribute these costs on a fixed percentage basis to the Area Office's O&M accounts. - Direct Distributive Charge

However, O&M accounts change from year to year, reimbursable O&M accounts are added and deleted and budget reporting occurs for all the Area Office's other activities. It is likely there is **not an economically feasible** way to charge this to an allocation account. The time should be charged to the Area Office's indirect cost (K12) account. - Indirect Charge, Indirect Cost

5. An Area Office operates a material and supply **warehouse** at a cost of \$100,000 per year. Eighty percent is in support of powerplant O&M and 20 percent is in support of irrigation O&M, associated programs, and some construction activities. Direct labor for the Area Office is charged approximately 70 percent to power O&M and 30 percent to the other activities.

ANALYSIS: This activity is identified with more than one output; there are several programs in the Office. It is also a recurring and significant cost, and appears that use can be feasibly and economically tracked. - Direct Distributive Charge

NOTE: In the above example, it is presumed that records of use are already maintained in a cost-efficient manner. However, if the administrative cost to keep the necessary records for maintaining a distribution is too high (not economically feasible), the total cost should be charged to the Area Office's indirect (K12) account. - Indirect Charge, Indirect Cost

6. An Area Office receives a charge for Reclamation Enterprise Maintenance Management System (**REMMS**) from the RSC or Regional Office.

ANALYSIS: All or the largest portion of their share of REMMS costs should be charged to power accounts with the balance being charged to the Area Office indirect (K12) cost account. - Direct Charge, Direct Cost **and** Indirect Charge, Indirect Cost

7. An Area Office with many programs owns and operates an **office building** for its staff.

ANALYSIS: The depreciation and costs of operating the building are identified with all the outputs of the Area office. The Area Office would determine if there is an economically feasible and reasonable way to distribute these costs to the Area Office programs. - Direct Distributive Charge

If part of the building can be identified to one output, say power, while the rest is identified to all the other outputs, there may be a reasonable allocation method for distributing to both direct (power) and indirect accounts. If there isn't, the costs should be charged to the Area Office indirect (K12) cost account. - Indirect Charge, Indirect Cost

Regional Office Examples

8. In the Regional Office an accounting technician spends 15 minutes preparing a complex annual bill to an irrigation district and an accountant spends 45 minutes reviewing it.

ANALYSIS: These Regional Office administrative services are insignificant and, accordingly, should be charged to Regional Indirect Cost. - Indirect Charge, Indirect Cost

NOTE: Generally, **Regional Office administrative employees** should direct charge to Area Offices **only** for significant and/or recurring work loads, with the agreement of the office to be charged.

9. Regional Office personnel specialists spend 2 days in the Area Office for powerplant union negotiations.

ANALYSIS: Unlike number 8 above, the service performed in this example is significant and the beneficiary is easily identified--power. Furthermore, it was agreed in advance that the work and travel were "significant" and that power should be charged. Therefore, the time and travel costs should be charged to an account that distributes to power. - Direct Distributive Charge

However, if the negotiations were for more than power employees, the time and travel would then likely be charged to the Area Office's indirect (K12) account. - Indirect Charge, Indirect Cost

10. A Technical Services Group (TSG) purchases \$12,000 worth of **office furniture**.

ANALYSIS: If this purchase were for one employee who charges to one specific program, office costs for that employee should be charged to that program. - Direct Charge, Direct Cost

Otherwise, this purchase benefits more than one output and should be charged to the TSG indirect charge (K12) account. - Indirect Charge, Indirect Cost

NOTE: Each Region may handle the **TSG indirect costs** differently. One Region may determine that it is not economically feasible to maintain a separate indirect cost account for TSG while another Region may determine it is economically feasible to maintain a separate K12 account for TSG. If there is not a separate K12 account for TSG then its indirect costs would be charged to the Region-wide indirect cost account.

11. A TSG employee is the **safety** representative for TSG and attends a Region-wide safety meeting at an Area Office.

ANALYSIS: The TSG safety costs would be charged to a specific program if related to a single output or more than one readily identifiable output. If it cannot be identified with a specific output then it should be charged to either the TSG indirect cost account (if there is a separate indirect account) or the Region-wide indirect cost account. - Indirect Charge, Indirect Cost.

12. The same TSG employee above attends a **Reclamation-wide safety** meeting as the Region's safety representative.

ANALYSIS: Costs associated with Reclamation wide safety activities should be charged to the Region-wide indirect cost account. - Indirect Charge, Indirect Cost

NOTE: Examples 11 and 12 are meant to show the distinction between similar safety activities where one benefits a specific office (the TSG) and the other is of a Reclamation-wide benefit. In the first instance, TSG is the primary beneficiary and in the second instance, the Region is the primary beneficiary. In either case, it is an indirect cost.

13. A Region receives a charge from the RSC Finance and Accounting Services (FAS) for the reconciliation of the **Movable Property System** to the Federal Finance System.

ANALYSIS: This activity benefits all the offices in the Region. If a Region's share of this cost is significant, that Region should determine if it would be economically feasible to distribute these costs to each of its offices based on number of equipment items. - Direct Distributive Charge

Otherwise this should be charged to the Region-wide indirect (K12) cost account. - Indirect Charge, Indirect Cost

NOTE: Generally, **assessments from the RSC** to each Region for FAS and automated data processing systems are included in Region-wide indirect costs.

Reclamation Service Center Examples

14. The Reclamation Finance Officer travels to and attends an Interior-wide Team meeting.

ANALYSIS: This is identified with **Reclamation management activities** and both the time and travel should be charged to the Policy and Administration program. - Direct Charge, Direct Cost

15. The Reclamation Finance Officer holds a weekly staff meeting with his supervisors.

ANALYSIS: This is identified with all the FAS Operations (more than one output) which are assessed to the Regions as distributive charges. An additional distributive account is available for accumulating administrative costs of operating FAS which is where the Reclamation Finance Officer and his supervisors should charge their time. - Direct Distributive Charge (for FAS); Indirect Charge, Indirect Cost (to Regional accounts)

16. FAS employees reconcile the Movable Property System (MPS) to the Federal Financial System.

ANALYSIS: This is identified with all Reclamation offices and a distributive account has been set up to distribute costs to each office based on number of equipment items in the MPS. - Direct Distributive Charge (for FAS); Direct Distributive Charge, Direct or Indirect Cost (to Regional accounts)

17. The RSC operates and maintains the REMMS software for Reclamation.

ANALYSIS: **Reclamation-wide software costs** should be charged to distributive accounts. - Direct Distributive Charge

HOW DO I DISPLAY AND EXPLAIN COSTS?

Explaining our costs and how we go about paying for them is critical to the relationships we share with our customers. In most cases, customers and higher levels of Reclamation's management are primarily interested in the bottom line: how much money was spent and what did it get us. Knowing this, we can determine if the work or activity performed was a good value. If the value is questioned, additional details are then needed to determine if there were any places where time, energy and costs could have been saved.

How we convey more detailed information is really dependent upon the specific customer and the circumstances of the request for the information. The following questions may help determine the level of detail to be provided:

What is this customer's level of interest?

What is their level of involvement?

What do they want to know?

What do they need to know?

What is their level of comfort with and confidence in our organization?

Using the answers to the above questions, we can then formulate the information and the level of detail necessary to answer the customer's questions or concerns. It is crucial to present this information in a manner that is useful and understandable.

NOTE: Reclamation's accounting and cost system is very complex and very detailed almost to the point of only financial professionals being able to understand the reports generated by the system and the processes used for processing financial transactions. While the detailed financial reports contain all the right information, these reports may not be the best way to show and explain costs to customers.

Financial information can be presented in many ways but is, in many cases, customized to a particular need. One example is "Tool Man," a pictograph (**Appendix E**) which illustrates how much of our monies were expended for a facility by general category and what those expenses covered.

Two sample formats are also attached on the following pages. In the first format, charges can be displayed by reflecting the costs of each Office (Area Office, Regional Office and RSC) while indicating the type of charges: direct, distributive, and indirect charge. In the second format, charges can be displayed by reflecting costs for labor, travel, transportation, etc. while again indicating the type of charges: direct, distributive, and indirect charge. In both formats, additional details can be provided as needed.

In presenting indirect cost information, it is suggested that indirect costs be explained as a percentage of total costs of the activity. This is a traditional approach to explaining these types of costs and widely used in the private sector. Although a labor surcharge is the method for allocating indirect costs, the labor surcharge rate should only be used internally to Reclamation. **The labor surcharge is only a mechanism for collecting revenue and is not a true indicator of the percentage of indirect costs assessed on the total cost of a project or activity.**

TOTAL COST MATRIX - SUMMARY

	DIRECT COSTS		INDIRECT COSTS	TOTAL COSTS
	Direct Charge	Distributive Charge	Indirect Charge	
Area Office				
Direct Activities	XX	XX		
Indirect Activities			XX	
Regional Office				
Direct Activities	XX	XX		
Indirect Activities			XX	
RSC				
Direct Activities	XX	XX		
Indirect Activities			XX	
Total Costs	A	B	C	A+B+C

TOTAL COST MATRIX - DETAIL

		DIRECT COSTS		INDIRECT COSTS	TOTAL COSTS
		Direct Charge	Distributive Charge	Indirect Charge	
Labor/Benefits	1xxx				
Travel	21xx				
Transportation	22xx				
Rent/Comms/Util.	23xx				
Printing	24xx				
Other Services	25xx				
Supplies	26xx				
Equipment	31xx				
Land/Structures	32xx				
Grants/Coop Agree.	41xx				
OIC**	8128				
RIC**	8126				
TOTAL COSTS		A	B	C	A+B+C

****Indirect Costs** may be shown as a lump sum by their indirect object codes (8128, 8126, as shown here) or broken down by their originally charged object codes such as labor, travel, etc. and placed in the indirect charge/cost column. Regional Finance personnel can help trace costs back to their source. The extent to which you break the charges down depends on how much detail you and your customers want and need.

APPENDICES

APPENDIX A

COST ALLOCATION METHODS

Costs are allocated when they are not 100 percent specifically and readily identifiable with one output.

Cost Allocation - is the process of distributing costs from an intermediary holding account (clearing account) to the benefitting indirect or direct cost accounts. Many allocations flow through one or more clearing accounts before being charged to the cost account. A complete analysis of the components of costs and their source is often required to respond to inquiries. Finance personnel can help trace costs back to their source.

Each clearing account must have a method for allocation. The method for allocation is the support or justification for allocating the costs accumulated in the intermediary account.

Labor Surcharge - is the allocation method used for K12 accounts and is a mechanism for collecting revenues to fund an office's indirect cost. Every direct labor dollar is assessed a percentage. The percentage or rate is determined by dividing indirect costs by direct labor costs. **Indirect costs will only be allocated using the labor surcharge method.** The labor surcharge rate should not be confused with the percentage of indirect cost to total project cost.

Examples of Indirect Cost Allocations:

- ! An Area Office has projected indirect costs of \$190,000, direct labor costs of \$1,000,000 and a total budget of \$2,800,000. The Area Office's direct labor surcharge to pay for its indirect costs is 19%. For every dollar of direct labor charged, 19 cents is assessed to pay the indirect costs of that Area Office. The Area Office's indirect costs are 6.79 % of the total Area Office budget.
- ! A Regional Office has projected indirect costs of \$6,000,000, direct labor costs of \$30,000,000 and a total Regional budget of \$150,000,000. The Regional direct labor surcharge to pay for its indirect costs is 20%. For every dollar of direct labor charged, 20 cents is assessed to pay the Regional indirect costs. The Regional indirect costs are 4% of the total Region's budget.

Direct Distributive Costs can be allocated by three methods (all of the examples in this section will be based on the following scenario):

- ! A Regional Office engineer is working on the design of a new trash rack that will be used by three different Area Offices. The engineer's time, travel and supplies are direct costs allocated (a distributive charge) to each office.

Object Code-to-Object Code - is the allocation method used when distributing costs to other benefitting accounts using the same object codes used when the costs were originally charged.

Example of an Object Code-to-Object Code Allocation:

- ! The engineer's labor costs show up in the benefitting account as object code 11/12xx, travel costs as object code 21xx and supplies as object code 26xx.

NOTE: This example assumes the engineer is not from TSC and is not charging a billable rate.

Single object code distribution - is the allocation method used when the intent is to differentiate a billable rate or use rate activity by creating a unique object code. RSC Finance creates all unique object codes.

Examples of Single object code Allocation:

- ! A unique object code, 253O, was created to identify all costs associated with Reclamation helicopters.
- ! A unique object code, 253V, was created to identify all costs associated with drill crews.

Use rates - are rates developed to recover operational costs based on increments of use (i.e. hours, miles, etc.) Working Capital Fund activities, excluding K-12, utilize use rates as a means of cost recovery.

Examples of Use rates:

- ! The engineer uses a Reclamation helicopter for an overflight of the dam sites. The helicopter cost is recovered by the number of flight hours used.
- ! The engineer uses a pool vehicle to visit a dam site. The vehicle cost is recovered by the number of miles driven.

NOTE: Within Direct Distributive Cost Allocations, two methods may be in use simultaneously.

Example of two methods in use simultaneously:

- ! A Reclamation helicopter's costs are allocated as a Use Rate and delineated by the use of a Single Object Code Distribution.

APPENDIX B

POLICY AND ADMINISTRATION FUNDS

This information was gathered from existing documents and should not be considered as policy guidance for charging to Policy and Administration. However, it is consistent with existing practices on use of Policy and Administration funds.

The Policy and Administration (P&A) appropriation provides non-reimbursable financing for essential management functions of Reclamation which should not be charged to specific projects or program activities.

Public Law 105-245 (Fiscal Year 1999 Appropriation Act) states:

“For necessary expenses of policy, administration, and related functions in the Office of the Commissioner, the Denver Office, and offices in the five regions of the Bureau of Reclamation, to remain available until expended, \$47,000,000, to be derived from the Reclamation Fund and be non-reimbursable as provided in 43 U.S.C. 377: Provided that no part of any other appropriation in this Act shall be available for activities or functions budgeted as policy and administration expenses.”

Funding for P&A is authorized as a separate appropriation for performing various management activities of the Bureau of Reclamation. Charges are considered direct costs because P&A activities are considered a single output (activities which Reclamation is committed to perform under general Reclamation law).

Charges to P&A are primarily personnel related; i.e., salary and benefits, travel (including relocation expenses when determined appropriate for charging to P&A), training, etc. Expenses such as supplies and services are allowable when identified specifically for the benefit of P&A.

Examples of activities which should be charged to P&A:

- ! **Personnel and related services for the Commissioner, Directors, Regional Directors, and immediate secretarial assistance.**

- ! **Positions organizationally a part of the Commissioner’s Office which are located in Washington D.C.** Exceptions are expenses incurred for the specific benefit of a foreign government under Reclamation's International Affairs program and recoverable under reimbursable agreements and the Native American Affairs Division.

- ! **Personnel and related services for Deputy Regional Director, Regional Liaisons , and immediate secretarial assistance, and other Regional Office personnel performing functions properly chargeable to this appropriation.**

P&A expenses related to the following activities generally relate to policy formulation and general management functions of those activities, not to the conduct of the actual activities themselves. If any of these activities can be identified to a specific project, the costs should not be charged to P&A, but should be charged to that specific project.

- ! **Review and Control:**

- A-76 reviews.

- Management control reviews and corrective actions when the subject of the review is not covered by a separate funding authority.

- Reviews and analyses to determine compliance with established personnel and EEO policies and regulations.

- Financial management compliance reviews.

- Review and management of water repayment contracts on completed projects when separate funding authority has not been provided.

- Management reviews of concessionaires and other entities operating on inactive Reclamation projects where separate funding authority has not been provided.

- Contract and procurement procedural compliance reviews.

- ! **Development, Review, and Updating of Technical and Statistical Publications :**

- Development, review, and publication of technical policies, methods, and procedures.

- Update of Reclamation Instructions and manuals, statistical data, design standards, and publications used in the planning, design, construction, and operation of water resource activities.

- Research, evaluation, and determination of the appropriate standards, methods and procedures, and development of supporting documentation and studies leading to final publication.

- ! **Special Inquiries, Analyses, and Activities:**

- Responses to inquiries and special reports for the Congress, General Accounting Office (GAO), Office of Management and Budget (OMB), Office of Inspector General, or other such regulatory organizations.

- Responses to Freedom of Information Act requests which are not funded by the customers.

- Costs incurred for orientation tours for members of Congress and others for review of proposed, in-progress, and operating facilities.

- Costs incurred in connection with compact commission activities.

- Special studies of a P&A nature as directed by the Commissioner, committees, and work groups.

- Bureau-wide task forces, workgroups, teams, and committees pertaining to policy and general management

! **Interagency Activities:**

Coordination and technical support to other Federal, State, and local agencies.
Liaison with pertinent Federal, State, local, university, and research staffs.
Review and comment on reports or documents of other agencies as requested.
Attendance at general coordination meetings with other agencies.
Review of licensing applications and permits.
Review of power repayment studies for adherence to laws, policies, and regulations.
Liaison work with agencies having primary responsibility for required programs such as the National Environmental Policy Act Occupational Safety and Health Administration, Federal Energy Regulatory Commission, minority business/procurement activities, etc.
Title transfer activities not previously budgeted or reimbursed by customers.
Border issue coordination.

! **Legal Matters:**

Involvement of Reclamation personnel in proceedings and meetings dealing with legal activities such as water rights litigation.
Reclamation positions on controversial issues.
Witness selection.
Consultation with Solicitor in preparing and/or reviewing legislation affecting water resource activities, etc.

! **Professional Activities:**

Preparation for and attendance at meetings of technical societies and professional groups.
Preparation for and participation in interagency and international seminars.
Maintaining liaison with engineering societies.
Integrated Resources Management Workshop.

! **Public Involvement:**

General requests for information not specific to a project.
Responding to news media and others requesting general Reclamation information.
Participating in water users conferences, engineering conferences, and other general meetings not related to specific projects.
Gathering, preparing, and disseminating information of a general Reclamation-wide nature.
Activities related to the development, review, and management of policy for public involvement programs within Reclamation, or general interaction with the news media on the overall Reclamation program.

! **Managerial Training:**

Includes all costs for training in the managerial programs such as:
Senior Executive Service Candidate Development Program
Departmental Manager Development Program
Executive Seminars
Women's Executive Leadership Program
Other training will be charged to the appropriate operating account

! **Supplies, Services, and Acquisitions:**

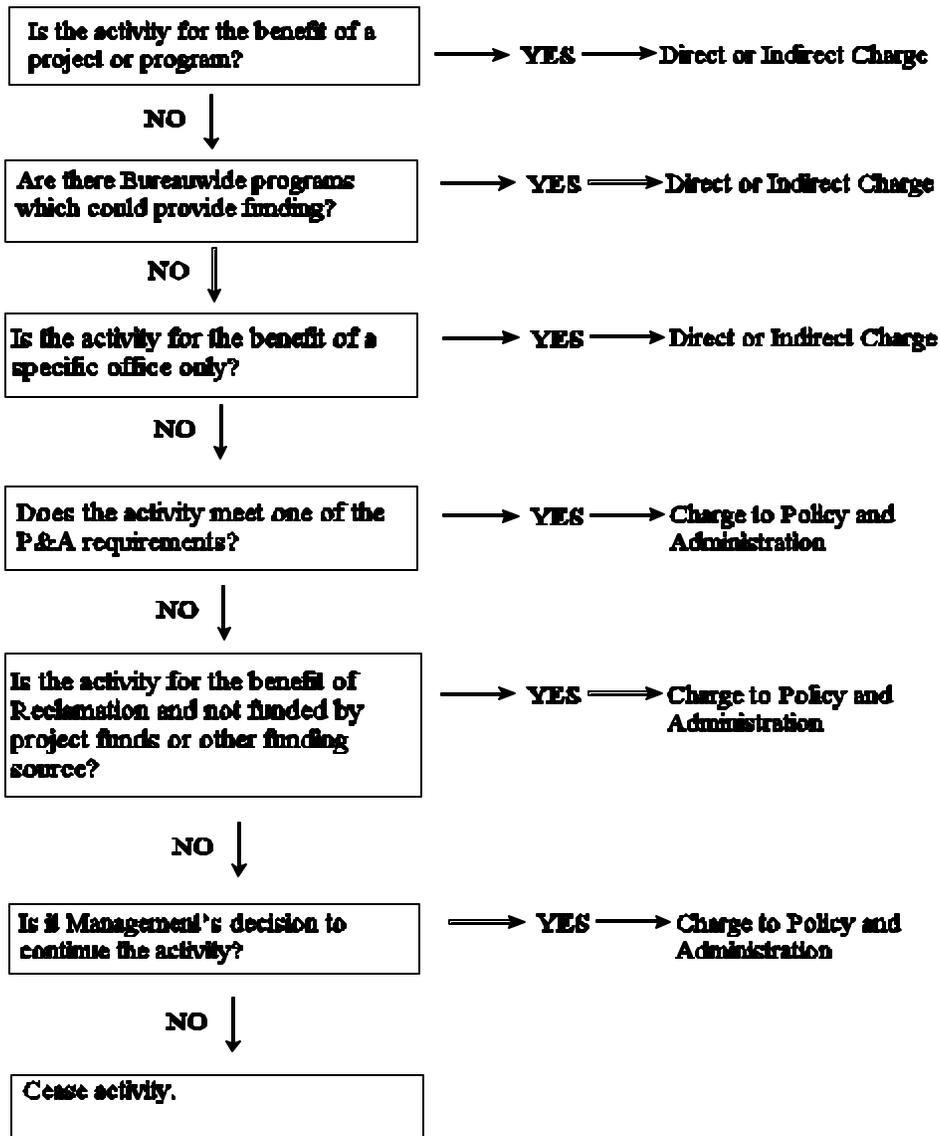
Includes all direct costs for supplies, services, and acquisitions for the specific benefit of P&A activities.

Examples of activities which should NOT be charged to P&A:

Responses to Regional budget calls
Project-specific adjudication activities
Contract administration for funded projects
Staff meetings other than those of the Regional Director
Geographic Information System activities
Any activities which can be identified to a specific project

On the following page is a flow chart showing the decisions/steps necessary to help determine if an activity should be charged to Policy and Administration.

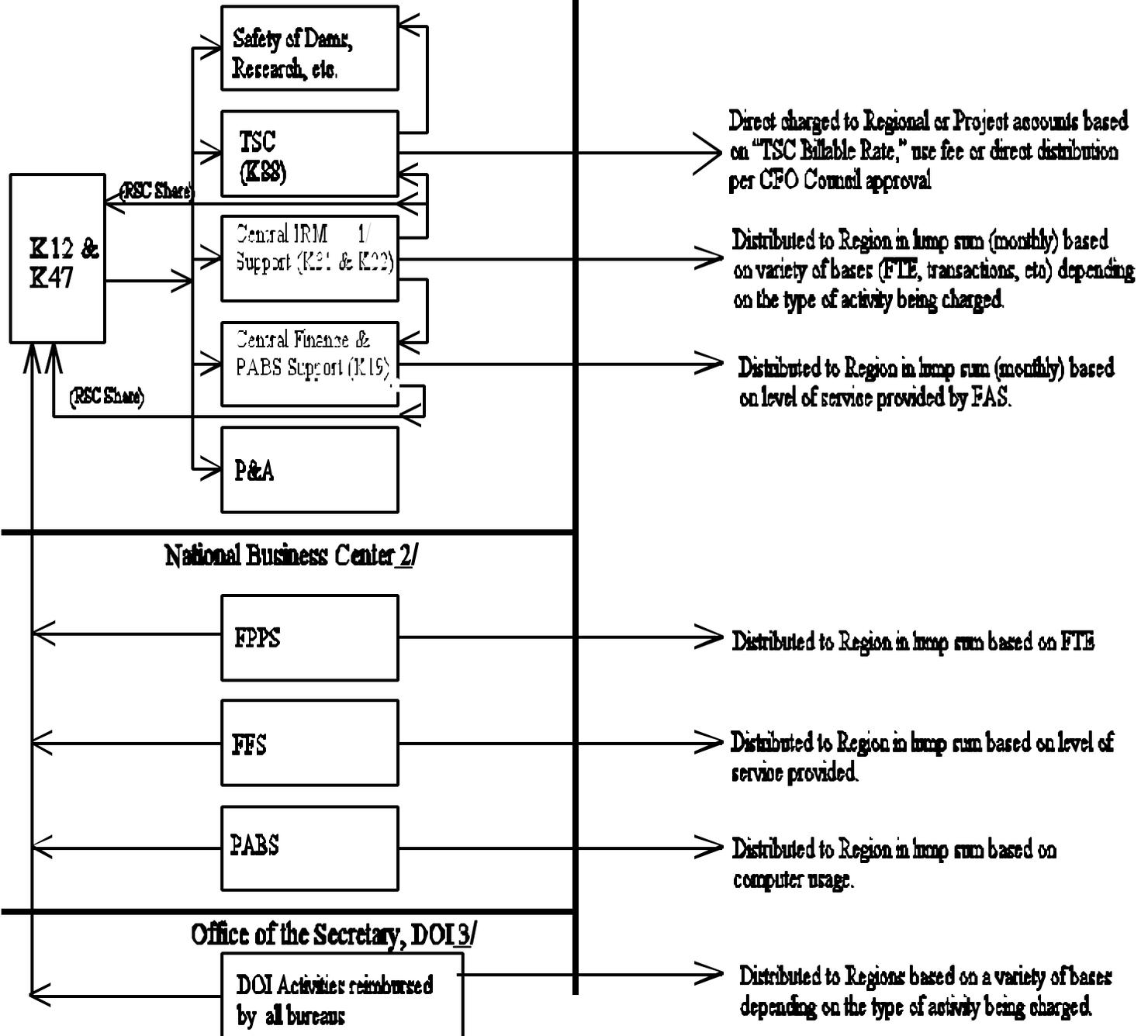
Policy and Administration Flow Chart



APPENDIX C

Reclamation Service Center

Regional Programs and Activities



FOOTNOTES -- Flow Chart of Reclamation Service Center Costs

1/: K31 and K22 includes the following activities:

REDS (formerly REO), EDRS, and ARMS
FEDSTRIP
FFS
Corporate Data Warehouse/TIDB
IDEAS (Procurement Desktop)
REMMS
TAAS/RITA
RIS
FIRM
MPS
PC Dirt
Application Management
ADP/Non-ADP Depreciation
Oracle Software
Undefined Capitalized Development/Depreciation
TIRC (includes K13 TIRC)
K22 - Data Communications (includes TIRC)

2/: ASC Costs include:

PABS
FFS
Payroll-PayPers (FPPS)
Labor Cost
Employee Express
Quarters
FIRS (download of FFS data)
Microfiche Output

3/: DOI Office of the Secretary assessments include:

Unemployment Compensation
OWCP
Salute to America - Office of Communications
Office of Planning and Performance Management
Diversity Council - Office for Equal Opportunity
Special Emphasis Program - Office for Equal Opportunity
Recruitment and Outreach - Office of Cooperative Activities
Consolidated Federal Fund Report - Acquisition and Property Management
NTIA - Information Resources Management
DOI Homepage - Information Resources Management
Year 2000 - Information Resources Management
Webmaster - Information Resources Management
PIR/Bureaus/National Archives and Records Administration
DOI/U.S. Department of Agriculture - Information Resources Management
E-Mail Central - Information Resources Management
IT Architecture - Information Resources Management
OMB/GSA/Federal Information Technology - Information Resources Management
FINANCENET - Financial Management
OPM Federal Employment Services - Personnel Management

APPENDIX D

REFERENCE MATERIALS

“Managerial Cost Accounting Concepts and Standards for the Federal Government,” Statement of Federal Financial Accounting Standards Number 4 (recommended by the Financial Accounting Standards Advisory Board; jointly adopted and issued by the office of Management and Budget and the GAO, July 31, 1995)

OMB Circular A-11 “Preparation and Submission of Budget Estimates,” Office of Management and Budget, July 12, 1999

OMB Circular A-122, “Cost Principles for Non-Profit Organizations,” revised June 1, 1998, Office of Management and Budget

“Cost Accounting Standards,” Cost Accounting Standards Board, Office of Management and Budget, Federal Acquisition Regulations System Title 48, Chapter 99, Part 9904

Code of Federal Regulations, Title 18, Chapter 1, Federal Energy Regulatory Commission, Subchapter C, Part 101, “Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act,” revised April 1, 1999

Department of Interior Accounting Manual, Chapter 6, “Cost Accounting,” January 20, 1995

“Consistency in Regional and Area Office Accounting for Direct and Indirect Costs,” Stephen V. Magnussen memorandum to the Regional Directors, June 7, 1999

Reclamation Manual¹ 473.10, “Indirect Costs,” July 15, 1991

Reclamation Manual 452.5, “General Administrative Expenses”, October 9, 1991

“Working Capital Fund Guidebook,” Bureau of Reclamation, revised September 30, 1997

“Financial Management Procedures Course Manual - Desk Reference,” Bureau of Reclamation, revised August 1998

¹Based on the Commissioner’s November 1, 1993 Blueprint for Reform, Reclamation Instructions were sunsetted at the end of fiscal year 1995. The current Reclamation Manual is comprised of policy statements and implementing instructions, which provide managers with an appropriate degree of discretion in accomplishing their duties. Since the Reclamation Instructions provide historical perspective, however, and since much of the information remains applicable, they were used for reference purposes.

“Annual Costs of Bureau of Reclamation Project Operation and Maintenance for Fiscal Years 1993-97,” Bureau of Reclamation, September 1998

“Labor Rate Analysis Report” (LRAT Report), Draft, April 1997

“Total Cost of Doing Business Report,” October 1989

“Indirect Overhead Cost Allocation Study,” Transmittal Letter dated September 26, 1988, signed by Commissioner C. Dale Duvall

“Replacements Book - Units, Service Lives, and Factors,” jointly compiled by the Bureau of Reclamation and Western Area Power Administration, updated July 1995

“Regional K12 Guidelines,” Pacific Northwest Region, October 1996

“Budgeting and Accounting for Indirect Costs,” Pacific Northwest Region, October 1, 1990

**O&M Costs for the Fryngbar-Arkansas Project
October 1, 1998 -- March 31, 1999**

100%	\$ 601,318.00	
2%	\$ 18,700.00	Stream-gauging
2%	\$ 17,844.00	Training, Physicists & Travel
2%	\$ 14,182.00	Heavy Equipment
8%	\$ 72,160.00	Building Maint. & Office Supplies
		(ALSO RENT, PHONE, UTILITIES, JANITORIAL SVCS SAFETY, HEATING & EQUIP FUEL, VENDOR REFUNDS)
2%	\$ 21,199.00	Vehicles
4%	\$ 34,912.00	Vehicle, Bldg & Equip. Depreciation
12%	\$ 143,982.00	Capitalized & Non-Cap Equip. (ADP)
22%	\$ 190,952.00	RIC + PGE (Indirect)
8%	\$ 44,219.00	Other Direct (TSC)
38%	\$ 343,176.00	Direct Labor + Benefits (ALSO PRE-DISTRIBUTED 800)

