

CERM-FP Engineer Pamphlet 37-1-4	Department of the Army U.S. Army Corps of Engineers Washington, DC 20314-1000	EP 37-1-4 10 April 1992
	Financial Administration COST OF DOING BUSINESS	
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DEPARTMENT OF THE ARMY
U. S. Army Corps of Engineers
Washington, D.C. 20314-1000

EP 37-1-4

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Pamphlet
No. 37-1-4

10 April 1992

Financial Administration
COST OF DOING BUSINESS

1. Purpose. This pamphlet explains the unique manner in which Corps District and Operating Division Offices 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 HQUSACE/OCE elements, major subordinate commands, districts, laboratories, and field operating activities (FOA) who do or anticipate doing business with Federal and non-Federal Agencies.

3. Funding of Corps District and Operating Division Offices. Unlike other elements of the Department of the Army and the Federal Government at large, Corps Districts and Operating Division Offices are primarily funded on a project-by-project basis. With the exception of funds provided by reimbursable orders and funds to accomplish specific missions such as master planning, the only funds these offices receive are those appropriated by Congress for accomplishment of specific projects.

4. Basic Operating Concept. The manner in which Corps District and Operating Division Offices are funded by Congress dictates that these offices operate on a cost distribution concept. Under this concept, general and/or 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. While this concept was foreign to the Department of Defense community at large until recently, it has been widely employed in the private sector for many years. Project costs accumulated under this concept are all inclusive and portray the true cost of a given project.

5. Types of Costs Charged to Direct Funded and Reimbursable Projects. Project costs fall into two basic categories: direct costs and distributive costs.

EP 37-1-4
10 Apr 92

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 include the cost of contracts, equipment, in-house labor, travel, etc., directly related to the accomplishment of the project.

b. Distributive Costs. Distributive costs are those costs which cannot be identified to a specific project as they are incurred. Distributive costs include two cost categories commonly referred to as departmental overhead costs and general and administrative overhead costs.

(1) Departmental Overhead. Departmental overhead costs are those costs incurred within the technical divisions (Engineering, Construction, Operations, etc.) of Corps Districts and Operating Divisions which either cannot be identified or are not readily chargeable to a specific project. This distributive cost category includes, but is not limited to, the labor of section, branch and division chiefs and their administrative staffs (secretaries, clerks, typists, etc.) 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, preparation of state pamphlets, revision of regulations, etc. As appropriate, administrative expenses (training, communications, furniture, equipment, supplies, etc.) incurred by the technical divisions are also included in this category.

(2) General and Administrative Overhead Costs. General and administrative overhead costs include all administrative and/or support costs incurred in the day-to-day operation of Corps Districts and Operating Divisions. This distributive, cost category includes all labor expended by personnel assigned to administrative functions (personnel, legal, procurement and supply, resource management, administrative services, etc.) and various other administrative and support costs (office rental, equipment, office supplies, etc.) incurred by administrative offices. General and administrative overhead costs are continuously reviewed to ensure that they are fair, reasonable and necessary to effective operations.

6. Accumulation of Distributive Costs. Departmental overhead and general and administrative 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 or Operating Division. Accumulated costs remain in these accounts until they are ultimately distributed to the various projects in which the District or Operating Division is actively involved.

7. Distribution Rates. Departmental overhead and general and administrative overhead costs accumulated in organizational cost accounts are distributed to projects through the use of predetermined rates established by the applicable commander at the beginning of each fiscal year. The rates are computed by using standardized formulas and methodologies. 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. The rates established at the beginning of the fiscal year are periodically reviewed and adjusted to ensure that all incurred costs are recovered without incurring a significant "profit or loss" for the fiscal year.

8. Cost Distributions. Once determined, current departmental and general and administrative overhead rates are programmed into the applicable Finance and Accounting Data Base. Thereafter, indirect costs are automatically distributed to a given project based on the direct labor charged to the project. Hence, distributive costs charged to each project are directly proportionate to the amount of effort (direct labor of technical personnel) involved in accomplishment of a particular project. While the manner in which the departmental overhead and general and administrative costs are distributed to projects is essentially the same, there is one major difference in the actual distribution of the two categories of distributive costs.

a. Since only those projects being performed, in whole or in part, within a given technical division benefit from the indirect costs incurred within that division, departmental overhead costs are only distributed to those projects in which the technical division is actively involved. Accordingly, departmental overhead costs incurred within engineering divisions are distributed to projects which involve direct labor of engineering division personnel, departmental overhead costs incurred within construction divisions are only distributed to projects which involve direct labor of construction division personnel, etc.

EP 37-1-4
10 Apr 92

b. General and administrative overhead costs on the other hand benefit all projects in which a District or Operating Division Office is actively involved and are therefore distributed to all projects regardless of the particular technical division(s) actually involved in project execution.

9. Variations in Rates Between Corps Activities. Even though all overhead rates are computed using standardized formulas and methodologies, rates vary widely between Corps activities. These variations are the result of many independent factors over which a particular District or Operating Division 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 Corps District or Operating Division. Obviously, it costs more to operate an office in a high cost area such as New York City than it does to operate a similar office in Vicksburg, MS or to operate an office staffed by senior level employees than it does to operate an office staffed by junior level employees. Hence, rate variations between Corps activities are unavoidable.

10. Major Exception - Projects Subject to Uniform Military Construction Supervision and Administration (S&A) Rates. The basic business concepts discussed above apply to all services provided by the Corps except supervision and administration of military construction projects subject to the uniform rates procedure. Under this procedure, all direct and distributive construction supervision and administration costs related to uniform rate projects on which a given Corps District or Operating Division is working are collected into consolidated S&A accounts. Costs are charged from the appropriate consolidated account to the individual projects at the appropriate Corps-wide uniform rate based on work placed. At the end of each month, the "loss or gain" in the accounts, i.e., the difference between costs incurred and costs applied at the uniform rates, is transferred to (or from) central accounts maintained by HQUSACE. The business goal is to operate the central accounts on a "break-even" basis.

11. 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

EP 37-1-4
10 Apr 92

are distributed 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.

FOR THE COMMANDER:

A handwritten signature in black ink that reads "Milton Hunter". The signature is written in a cursive style and is followed by a long horizontal line that extends to the right.

MILTON HUNTER
Colonel, Corps of Engineers
Chief of Staff