



— BUREAU OF —
RECLAMATION

**Standard Process of Costing (SPOC)
Business Practices**

July 2021

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INTRODUCTION

Both internal and external pressures drive the need for the Bureau of Reclamation to employ a common set of business practices for defining, costing, and charging direct and indirect costs. Reclamation's managers are held accountable for the costs of doing business within their programs and need to have a reference on 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 (O&M) 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 the 1990s, Reclamation's regions began changing business practices in response to customer needs with one region's changes inspiring another's. Changes included optimizing direct charges and costs to the benefitting function, defining what was indirect versus direct, and initiating a single indirect cost account for the regional office. Recognition of these improvements inspired Reclamation to address the issue corporately.

In response, the Director of Operations, by memorandum of June 7, 1999, requested budget and finance representatives (the original team) from each region and the Reclamation Service Center (now referred to as the Denver Office) form a team 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 the preparation of a written proposal for a single, uniform set of business practices for use by all regions. On September 30, 1999, the original team issued the Reclamation Standard Processes of Costing (SPOC) Business Practices guidance.

In 2020, the Chief Financial Officer's (CFO) Council (CFOC) tasked the Mission Support Organization (MSO) with instituting a new team (2020 Team) to review and update Reclamation's SPOC guidance as necessary. The 2020 Team was formed and completed the review and update as requested. The information contained in this document outlines current SPOC guidance.

APPROACH

Reclamation's SPOC guidance provides:

- a common definition within Reclamation for indirect cost,
- consistency amongst regions and offices in charging costs,
- a standard business practice that recognizes and accommodates valid and justifiable differences between offices,
- flexibility for unique operations that result from project legislation and organizational differences, and
- knowledge and tools for managers 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 original 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 original 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 original team preserved the hard-won lessons of many years of experience while continuing to improve and refine Reclamation's business practices.

The original team's objective was:

“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.”

The original team also identified a goal and subsequent benefit of the business practices:

“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 original team also recognized that indirect costs are a part of doing business and, accordingly, are appropriate and justified. The original 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 original 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 original team concluded that if all activities are correctly and consistently charged following the procedure outlined in the “How to Charge It Flow Chart,” 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.

DEFINITIONS

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

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). Typically, each output is assigned to a work breakdown structure (WBS) or a group of WBSs. An output can be a project, feature, job, or task. For example, a work order can be associated with multiple WBSs.

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.

Examples of direct costs:

- 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.
- 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.

Distributive Direct Charge – A reasonable and economically feasible allocation of direct costs which can be specifically and readily identified with two or more outputs. Direct charging and distributive direct charging results in a direct cost. Distributive direct charging goes straight to a holding WBS (sender WBS), but then divides and distributes cost among multiple authorized Project beneficiaries (receiver WBS).

Examples of distributive direct costs:

- 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 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 – A method to distribute direct charges. For the purpose of this document, it is the process of initially charging costs to a WBS and distributing them to benefiting Projects or activities via separate WBSs. The allocation of costs is based upon a justifiable method (e.g., full time equivalent (FTE), square feet of a building/office space, etc.) and is accomplished either through manual or automated processes.

The term cost allocation used in this guidance is not to be confused with the project final cost allocation as described in Reclamation Manual Directive and Standard, *Project Cost Allocations* ([PEC 01-02](#)).

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.
- The regional office gathers charges for cell phones to the WCF and then allocates to the specific

projects using a manual VA journal voucher.

- The Appraisal and Valuation Services Office (AVSO) exists to provide real estate services for the Department of the Interior. Costs charged to Reclamation are paid by the WCF and then allocated to the direct beneficiaries of those services based upon actual services provided as detailed by AVSO. Any remaining costs are then allocated to the beneficiaries based upon the ratio of use.

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:

- 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 to the programs the office supports.
- 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.
- Assessments through office indirect cost (OIC) rates against program labor and benefits to pay for area office services are indirect costs to the program.

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 technical groups in the regional office. Costs are charged to a WCF (indirect cost activity or a specific WCF service activity). The WCF activity recovers its costs through assessments by rate against the office's benefitting programs' labor and benefits.

Regional Indirect Cost (RIC) – Indirect costs incurred for the benefit of most or all the region's programs. This primarily includes costs of the administrative services organizations (e.g., financial management, public affairs, etc.) in the regional office. Costs are charged to the WCF RIC activity. The WCF RIC activity recovers its costs through assessments by rate against the office's benefitting programs' labor and benefits.

Bureau Indirect Cost (BIC) – Indirect Costs incurred for the benefit of most or all of Reclamation's programs. BIC activities include Reclamation Data Program, Human Resources Division/Civil Rights Division Activities, Information Technology (IT) Operation and Maintenance, MSO, and Policy & Programs Activities. Costs are charged to the WCF BIC activities. The BIC activities recover costs through assessments by rate against the benefitting programs' labor and benefits.

Interior Indirect Cost (IIC) – Indirect Costs incurred for services the Department provides benefitting all Reclamation. Examples of IIC services are the CFO financial statement audit, Department-wide training, electronic records management, and information technology security. The IIC pays for

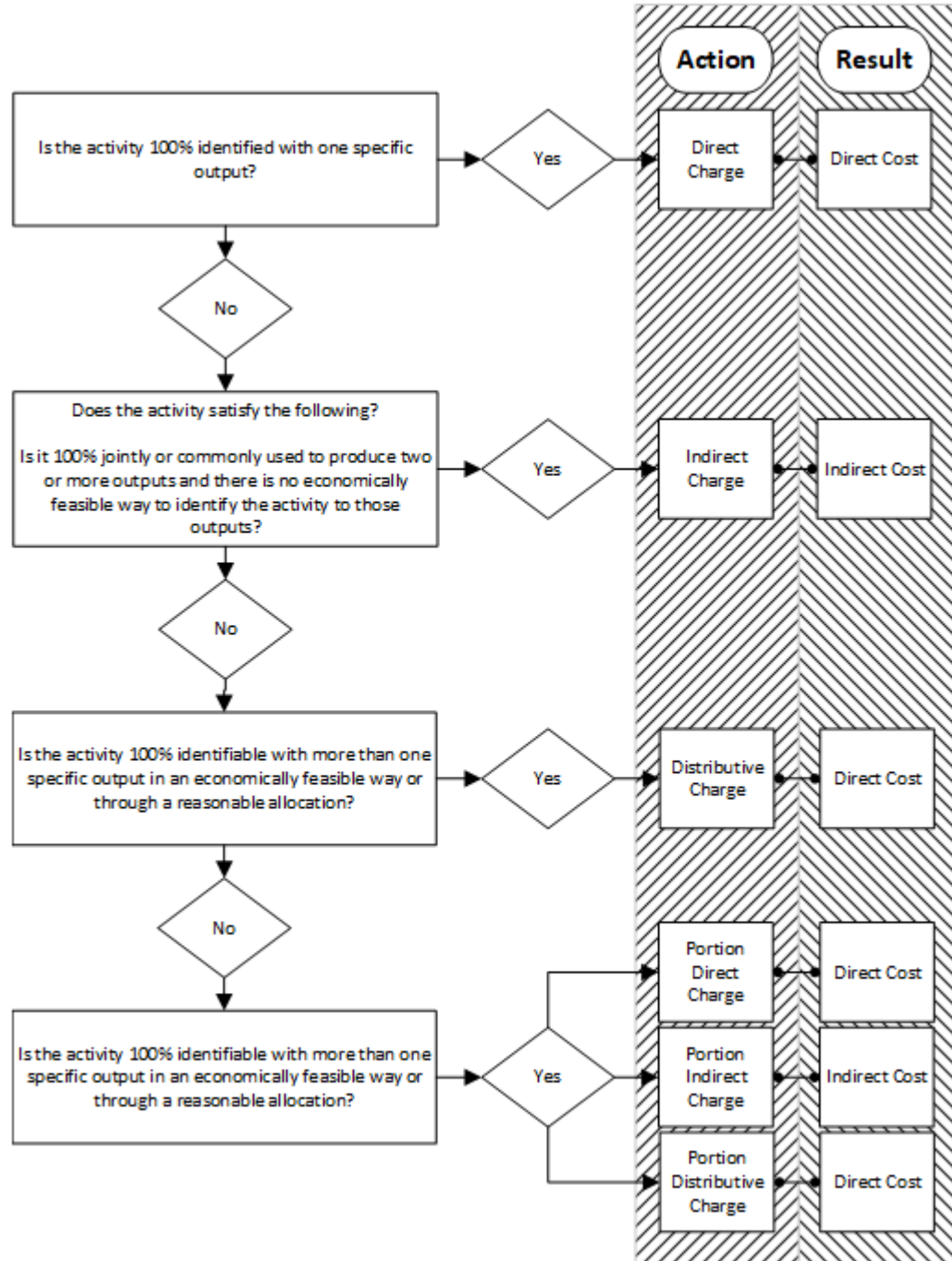
approximately half the costs posting to it with WCF fund balance. The IIC recovers costs for Department services it funds through assessments by rate against Reclamation's labor and benefits. It allocates the other half to beneficiaries through both automated and manual processes.

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 Program and Budget Handbook.)

WHERE DO I CHARGE?

When determining what type of charge and cost an activity should be, use the flow chart on the next page. As questions are answered, the flow chart leads to the proper type of charge and whether the activity is a direct or indirect cost. The principle behind using the flow chart is to equitably charge costs to the beneficiary.

HOW TO CHARGE IT FLOW CHART



GUIDELINES FOR CHARGING RIC AND OIC

The RIC and OIC accounts consist 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, the Denver Office, and Departmental assessments are charged to these accounts.

In some cases, these accounts are also used for the indirect costs of the technical divisions or groups in

the regional office rather than having separate indirect cost accounts for those offices. Each region will determine if maintaining a separate indirect cost account is economically feasible for the technical groups in the regional office. The guidelines in this section, and references to regions, also apply to the Denver and Washington Offices. (A flow chart for Denver Office charges is included as Appendix A).

Regional Office Administrative Services to RIC and OIC

Examples of administrative services included in the RIC and OIC are:

- information resources,
- property services,
- mailroom and general files,
- human resources,
- financial management,
- administrative and/or business services office,
- Equal Employment Opportunity (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 the RIC or OIC and included in the RIC or OIC labor rate surcharge. Under this scenario, these administrative personnel would charge the RIC or OIC account for normal and routine services, even if an output could be identified. If the region determines the charges are significant or recurring, direct charging should apply (when economically reasonable and feasible). The rationale for this approach is it is not necessarily reasonable or 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, examples of other region-wide activities that can be charged to RIC or OIC include recruiting and union negotiations.

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 include:

- 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, 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, 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/local area network support and coordination provided by non-information resources employees.

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

The following are only examples. Contact your local budget or finance office for unique circumstances to which the examples do not apply.

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. Because this can be identified with one specific output, the time should be charged to an account established under O&M 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 charges an indirect account his/her salary would be charged to an indirect account 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 account.

- Indirect Charge, Indirect Cost

- 4) A secretary helps prepare a specific 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

- 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 account.

- Indirect Charge, Indirect Cost

- 6) An area office with many programs operates an office building for its staff.

ANALYSIS: The 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 costs can be identified to one output, such as 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 is not, the costs should be charged to the area office indirect cost account.

- Indirect Charge, Indirect Cost

Regional Office Examples

- 7) In the regional office, the land resource management (LRM) program manager who is a 100% LRM FTE spends one full day working directly on land management oversight activities that benefit the entire region. The next day, the program manager spends four hours completing non-LRM required online training in DOI Talent (i.e., travel card training, No FEAR Act, etc.).

ANALYSIS: The full day of costs associated with the land management oversight activities would be charged directly to the LRM bureau-wide program.

- Direct Charge, Direct Cost

The four hours of DOI Talent training is chargeable to land resource management type activities because the program manager is 100% dedicated to LRM.

- Direct Charge, Direct Cost

Note: If the program manager is not 100% dedicated to LRM, the 4 hours of non-program related training would be charged to an indirect cost account or a distributive cost account.

- 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 RIC.

- Indirect Charge, Indirect Cost

NOTE: Generally, regional office administrative employees direct charge to projects only for significant and/or recurring workloads, with the agreement of the office to be charged. Regions may have a more/less stringent practice depending on the number of projects and their customers' needs.

- 9) Regional office human resources 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, power, is easily identified. 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 account.

- Indirect Charge, Indirect Cost

- 10) An employee is the regional safety representative and attends a region-wide safety meeting at an area office.

ANALYSIS: The 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, it should be charged to either the indirect cost account (if there is a separate indirect account) or the region-wide indirect cost account.

- Indirect Charge, Indirect Cost.

- 11) The same employee above attends a bureau-wide safety meeting as the region's safety representative.

ANALYSIS: Costs associated with bureau-wide safety activities should be charged to the region-wide indirect cost account.

- Indirect Charge, Indirect Cost

NOTE: Examples 10 and 11 are meant to show the distinction between similar safety activities where one benefits a specific office and the other is of a bureau-wide benefit. In the first instance, a specific office is the primary beneficiary and in the second instance, the region is the primary beneficiary. In either case, it is an indirect cost.

Denver Office Examples

- 12) The manager of MSO, Financial Policy and Programs Division hosts a quarterly CFOC meeting.

ANALYSIS: This is a Reclamation management activity. The manager charges time (and any travel) to the policy and administration program.

- Direct Charge, Direct Cost

- 13) The budget officer in MSO, Budget Services Branch (BSB) prepares a proposal for IIC, BIC, and leave rates to present to the Assessment Rate Group.

ANALYSIS: This is a service to the bureau. The budget officer charges time to the MSO BIC activity.

- Indirect Charge, Indirect Cost

14) The MSO BSB budget officer prepares budgets for MSO costs.

ANALYSIS: This is a service to MSO. The budget officer charges time to the MSO OIC activity.

- Indirect Charge, Indirect Cost

15) The Information Resource Office (IRO) oversees the purchase, ongoing maintenance, and support for all of Reclamation's Enterprise software and licenses.

ANALYSIS: IRO oversees the investment on behalf of Reclamation and charges its costs to the IRO BIC activity.

- Indirect Charge, Indirect Cost

The purchase of software and licenses that can be aligned directly to a program are paid for by the benefitting program.

- Direct Charge, Direct Cost

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 or other stakeholders. In most cases, customers and Reclamation's management are primarily interested in the bottom line: how much money was spent and what benefits did it provide to Reclamation's customers and stakeholders?

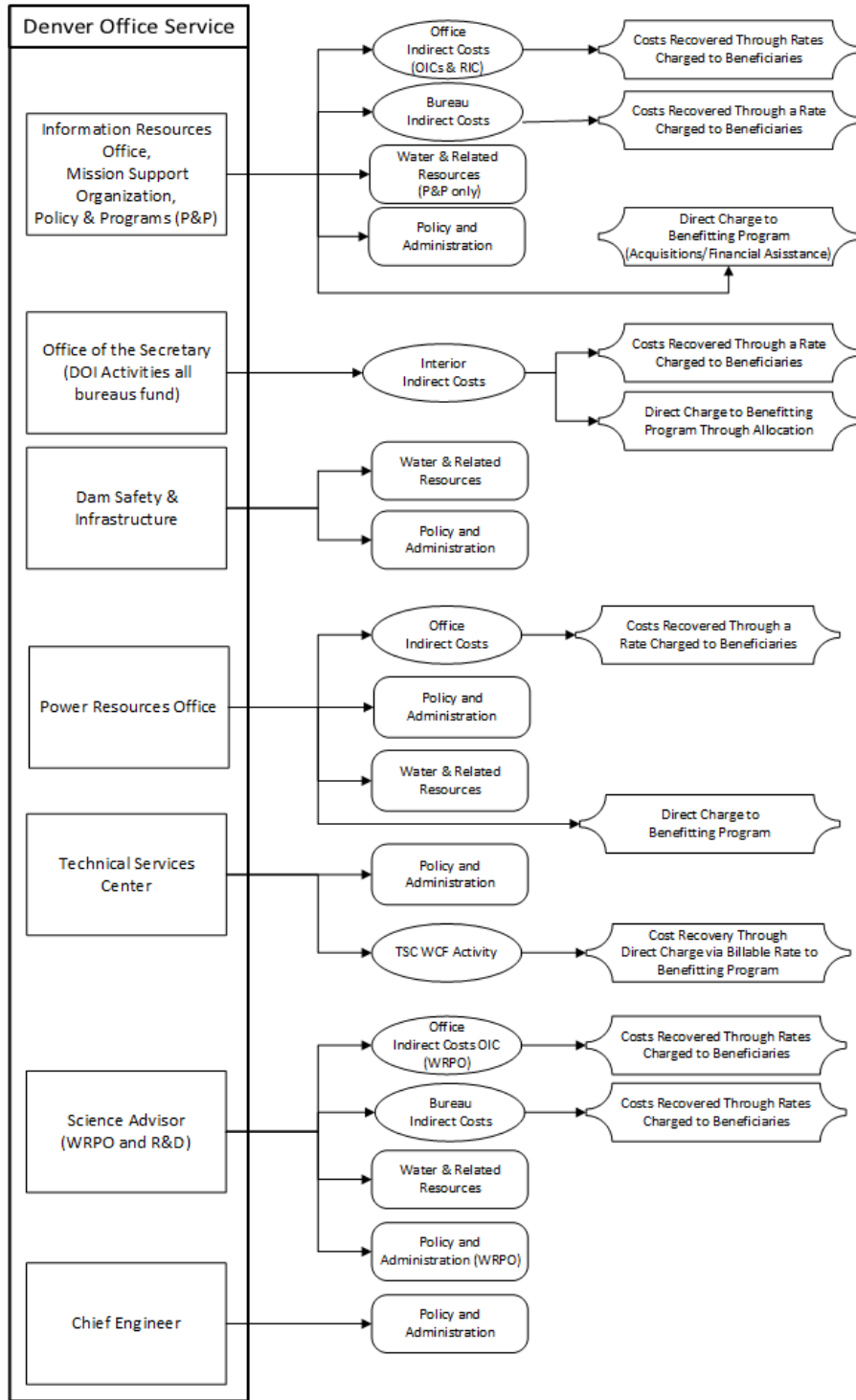
How we convey more detailed information is dependent upon the specific customer and the circumstances of the request for the information. The following questions may help determine the level of detail to be provided:

- What is this customer's level of interest and involvement?
- What do they want to know versus 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.

Financial information can be presented in many ways, but is, in many cases, customized to a need. Contact your budget or finance office for assistance in developing pertinent reports.

APPENDIX A
Denver Office/Regional Programs & Activities Flow Chart



APPENDIX B
References

Federal Accounting Standards Advisory Board, Statement of Federal Financial Accounting Standards 4, [*Managerial Cost Accounting Concepts and Standards for the Federal Government*](#)

Office of Management and Budget Circular A-11, [*Preparation and Submission of Budget Estimates*](#),

2 CFR Part 230, [*Cost Principles for Non-Profit Organizations*](#) (OMB Circular A-122)

48 CFR 99 Part 9904, [*Cost Accounting Standards*](#)

Department of the Interior, [*Accounting Handbook*](#), Chapter 8, “Managerial Cost Accounting”

Bureau of Reclamation, [*Working Capital Fund Handbook*](#)