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CHAPTER 30

ACCOUNTING FOR COST SHARED PROJECTS

30-1. Purpose. The purpose of this chapter is to provide accounting guidance and procedures for non-Federal contributions toward the cost of project planning, engineering, design, construction, and operations and maintenance under the Water Resources Development Act of 1986, P.L. 99-662.

30-2. General.

a. The Water Resources Development Act (WRDA) of 1986, P.L. 99-662, has entered the Corps of Engineers into a new era of project financing through cost sharing with various non-Federal sponsors (public entities). Although the acceptance of funds from private parties is allowed under section 4, Rivers and Harbor Act (38 Stat. 1053; 33 U.S.C. 560) navigation authority, it is HQUSACE policy that funds shall be accepted only from duly appointed public entities. See ER 1165-2-30, paragraph 9 for further guidance.

b. Public Law 99-662 specifies that cost sharing provisions apply to all projects in the law unless otherwise specified. The law further states that cooperative agreements hereafter referred to as Project Cooperation Agreements (PCAs), for construction, operation and maintenance; and Feasibility Cost Sharing Agreements (FCSA) for General Investigation feasibility studies, must be executed between the Department of Army and the non-Federal sponsor prior to beginning work. Sample PCA, FCSA and escrow agreements may be found in ER 1165-2-131, ER 1165-2-120 and ER 1105-2-100. Finance and accounting (F&A) personnel must be familiar with the accounting procedures of this regulation and other cost sharing procedures referenced in appendix A.

c. Interdisciplinary teams led by the project manager are recommended by HQUSACE for development, negotiation and explanation of PCAs, FCSAs and escrow agreements. It is recommended that the team include a Resource Management (RM) representative. The RM representative must be familiar with the accounting procedures of this regulation and cost sharing procedures of all references in appendix A.

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* 30-3. General Investigation Programs Subject to Cost Sharing:

a. Feasibility Phase of Studies. The study cost sharing provisions of P.L. 99-662 are applicable to studies which were initiated after 17 November 1986. Feasibility studies are cost shared 50% Federal and 50% non-Federal. At least 50% of a non-Federal sponsor's share (25% of the total feasibility phase cost) will be in cash. The remainder of the sponsor's share (not to exceed 25% of the total feasibility phase cost) may be provided through in-kind products and/or services approved and accepted by the district commander. No credit may be given to the sponsor for work performed prior to the start of the feasibility phase or after completion.

(1) The project manager assigned to the feasibility study will coordinate actions with the RN representative prior to completion of the FCSA negotiations with the non-Federal sponsor. Coordination and accounting mechanisms will be established for: allocating and tracking non-Federal cash contributions; crediting the value of approved in-kind service contributions; and distribution of charges against the Federal and sponsor accounts. They will document the effective, departmental overhead and any other rates, and identify increases that would trigger an amendment to the FCSA, per the line item budget constraints imposed by the FCSA and Initial Project Management Plan (IPMP). (See ER 1105-2-100.)

(2) The project manager and RN representative will meet with the sponsor prior to signing the FCSA to describe the following to the sponsor: procedures for receipt and accounting of sponsor cash funds; establishment and handling of escrow accounts, if used; prohibitions pertaining to commingling of funds; the "One-Hour Rule" for recording direct labor cost; frequency of charges against the sponsor contributed fund accounts; crediting the value of approved in-kind contributions; the F&A reporting products and their interpretation; circumstances precipitating increases in effective and departmental overhead rates; partial reconciliation of the accounts for the sponsor and Federal end-of-year budgetary requirements; end of study reconciliation mechanisms; and the provision and maintenance of accounting records for inspection and audit by Federal or sponsor representatives.

b. Credits.

(1) These costs represent project work performed by the local sponsor during the feasibility study per Section 105(a) of P.L. 99-662, for which credit may be given and counted towards

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* the required local contribution. An IPMP is the basis for assigning tasks between the Corps and the local sponsor and for establishing the value of credit for in-kind services.

(2) The determination of the dollar value of in-kind products or services will be based on negotiation of a detailed government estimate and a sponsor proposal. The value of in-kind services will be stated as fixed fee amounts determined by applying applicable Federal regulations, including OMB Circular A-87. The dollar value of the in-kind services will be established prior to the initiation of the in-kind services. Acceptance of the product will be as described in the IPMP.

30-4. Preconstruction Engineering and Design (PED).

a. Projects specifically authorized under WRDA 1986 for Planning, Engineering and Design only. P.L. 99-662 specifies the cost sharing for projects authorized in the WRDA 1986 for only Planning and Engineering (Sec. 105(b)) and Design (Sec. 105(c)). Sponsors must contribute 50% of the cost of Planning and Engineering during the period of Planning and Engineering. Projects authorized for Design only shall be shared in the same percentage as the project purpose. Unlike Section 105(a), 105(b) and (c) do not authorize or permit any in-kind services to meet a portion of non-Federal contributions.

(1) Planning and Engineering Section 105(b). The costs included herein are all costs of work necessary to produce a feasibility report.

(2) Design Section 105(c). The costs included herein are all costs incurred prior to construction funding of the General Design Memorandum or equivalent, the Feature Design Memorandums, and detailed Plans and Specifications.

b. All Other PED. These costs may be incurred under several classes below: All PED costs incurred subsequent to the feasibility study, other than costs under paragraph a(1) and (2) above, are considered a part of, and included in, the total project cost to be cost shared and included in the PCA. The PED costs are to be treated as a component of the first year construction costs and included in the sponsor's first year cash requirements (see ER 1165-2-131, para 4e and Appendix B).

(1) Continuing Planning and Engineering. All such costs are subject to cost sharing, if incurred on or after 1 October 1985.

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- * (2) PED (projects not fully authorized).
- (3) Advance Engineering and Design.
- (4) PED (projects fully authorized).

30-5. Construction. The project manager will coordinate actions with the RM representative prior to completion of PCA negotiations with the non-Federal sponsor. Coordination and accounting mechanisms will be established for: allocating and tracking non-Federal cash contributions; crediting the value of authorized and approved Lands, Easements, Rights-of-Way, Relocations, and Dredged Material Disposal Areas (LERRD), Section 104/215 and other authorized credits to the sponsor*s cost share; and distribution of charges against the Federal and sponsor accounts. They will document the effective, departmental overhead and any other rates, and will identify increases that must be reported to the sponsor under the provisions of the PCA and Project Management Plan (PMP). Reference ER 1165-2-131.

a. Non-Federal contributions of Project Cost. The non-Federal cost sharing and project financing responsibilities contained in P.L. 99-662 for construction are summarized in ER 1165-2-131, Appendix F; Appendix B provides specific guidance on the Federal/non-Federal allocation of funds and Appendix G provides additional guidance on computing cost sharing for navigation projects. The non-Federal sponsor has flexibility to determine whether to make the total estimated non-Federal share of construction cost available prior to the start of construction or incrementally over the period of construction. The specific policy is outlined in ER 1165-2-131, paragraph 9.

b. Federal Financing.

(1) For commercial navigation projects, Section 101(a)(1) of P.L. 99-662 provides that a portion of the non-Federal sponsor*s share will be paid during construction. Section 101(a)(2) requires an additional 10 percent of the cost of general navigation features to be paid by the non-Federal sponsor over a period not to exceed 30 years at an interest rate determined pursuant to Section 106. Interest During Construction (IDC) does not apply for Section 101(a)(2).

(2) In special circumstances (see ER 1165-2-131, para 9d) where local sponsors request, local financing may be deferred under Sections 101 and 103 if approved by the Assistant Secretary of the Army (Civil Works) (ASA (CW)). In such an instance, the Federal Government will finance the construction costs from

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- * Federal appropriations, and the local sponsors will repay their share over time, plus interest at a stated rate. When this approach is taken, Interest During Construction (IDC) will be assessed, as well as interest during the repayment phase, since the Federal Government is incurring an interest cost in financing the non-Federal share. All interest will be recorded in the Federal project account as miscellaneous receipts funds returned to the U.S. Treasury. Interest methodology is defined in ER 1165-2-131, appendix I. This methodology will be followed for all projects subject to provisions of P.L. 99-662, but will not be retroactively applied to projects when construction was begun under previous legislative authorities.

30-6. Flood Control and Coastal Emergencies.

a. Cost-sharing provisions under natural disaster procedures specified in ER 500-1-1, paragraph 5-1 require that 20% of the cost to rehabilitate non-Federal levees be provided by local sponsors. This contribution may be cash or in-kind services provided during the period of construction.

b. In certain circumstances, notably for construction of wells to provide emergency drinking water, any construction of wells by USACE will be paid by the applicant. USACE may construct wells only when commercial or other sources cannot construct it within a reasonable time. The purpose of the well will be for human and livestock consumption only. Reference ER 500-1-1, paragraph 6-4.

30-7. Inland Waterways Transportation. Projects authorized under Section 102 of P.L. 99-662 are to be financed in part through transfer appropriation 96-20X8861 (Inland Waterway Trust Fund). The Inland Waterway Trust Fund will be used to pay 50% of total construction cost. The term "construction" as used in Section 102 includes planning, designing, engineering, surveying, the acquisition of all lands, easements, and rights-of-way necessary for the project, including lands for disposal of dredged material, and relocations necessary for the project.

30-8. Operation. Maintenance. Repair. Replacement and Rehabilitation (OMRR&R). The non-Federal cost of OMRR&R of projects constructed pursuant to P.L. 99-662 shall be in accordance with project purposes following the guidance provided in ER 1165-2-131, paragraph 13 and appendix F.

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* 30-9. Reimbursement For Advance Non-Federal Construction of Authorized Federal Harbors and Inland Harbor Improvement.

a. Section 204(e) of P.L. 99-662 provides authority to reimburse a non-Federal sponsor for construction of an authorized Federal harbor or inland harbor improvement or separable element thereof.

b. A model agreement, the Federal share of reimbursement and the projects eligible under Section 204(e) are provided in ER 1165-2-120. Reimbursement would be subject to the approval of ASA (CW) and the availability of appropriations as set forth in ER 1165-2-120.

30-10. Lands. Easements. Rights-of-Way. Relocations and Dredged Material Disposal Areas (LERRD).

a. In addition to cash requirements, non-Federal sponsors are required, under Sections 101 and 103 of P.L. 99-662, to provide all lands, easements, and rights-of-way, and to perform or assure performance of relocations (see para c below) and provide dredged material disposal areas (LERRD) or bear the costs of such work if performed by the Corps. (See ER 1165-2-131 and ER 405-1-12.)

b. The non-Federal sponsor shall receive credit toward its share of total project costs for the fair market value of the lands, easements and disposal areas it provides for the project. Such value shall be determined by an appraisal which has been prepared by a qualified appraiser who is acceptable to both the government and the sponsor. The appraisal shall be reviewed and approved by the Government. (See ER 1165-2-131 and ER 405-1-12.)

c. The specific policy for performing and cost sharing of relocations, removal or alteration of highway bridges, railroad bridges, utilities and certain structures may be found in ER 1165-2-131.

30-11. Method for Providing Non-Federal Funds.

a. Direct Payment. For projects involving a single contract to be completed in one fiscal year or a project that will be completed in one fiscal year, the local sponsor shall provide their full cash requirement prior to awarding the contract. The check will be delivered to the F&A Officer for deposit in the U.S. Treasury. (See para c below.)

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* b. Escrow Accounts.

(1) Non-Federal sponsors of water resource projects, especially those projects that will be constructed over a period of years, may wish to provide their required contributions in an interest bearing escrow account. The escrow account provides a means for the non-Federal sponsor to earn interest on its funds and ensures the Corps that funds are available for use immediately when needed. Funds are not available for obligation purposes by the Corps until withdrawn from the sponsor's escrow account and deposited into the U.S. Treasury. Usually, funds in escrow will be withdrawn by the district Commander or another designated official for deposit into the U.S. Treasury in increments as needed. Approval from HQUSACE (CECC-G) is required only when escrow agreements differ from the model escrow agreement. Further discussion is provided in ER 1165-2-30 and ER 1165-2-131. The model escrow agreement found in those ERs has been modified. The revised model is located at the following internet address:
<http://www.hq.usace.army.mil/cecc/ccpca.htm>. *

(2) Escrow accounts must meet certain criteria. The financial institution must be financially secure. The financial institution that holds the escrow account must hold a national charter (i.e., be a member of the federal Reserve) or at least be insured by the Federal deposit Insurance Corporation (FDIC). In addition, the deposit of funds must be irrevocable. The sponsor must not be able to withdraw the funds until the Corps has certified that no additional funds will be needed. The funds will not be used for speculative investment. Any investment by the financial institution must be a direct obligation of the Federal Government (e.g., Treasury bills) or obligations of Federal agencies guaranteed by the Federal Government (e.g., certificates issued by the Government National Mortgage Association).

c. Letter of Credit. The local sponsor may wish to provide An irrevocable letter of credit for its share of project costs. A letter of credit is similar to an escrow account. With a letter of credit, a financial institution guarantees to the Federal Government that funds are available upon request from the local sponsor to meet the required cash outlays. The letter of credit must be approved by HQUSACE (CECC-G).

d. Deferred Payments. Deferred payments by non-Federal sponsors are covered in ER 1165-2-131, appendix I.

e. There are occasions when local sponsors may wish to meet their cost sharing responsibilities at least in part with funds

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- * they have received from the Federal Government. As a general rule, non-Federal shares of project cost are to be satisfied through the use of non-Federal funds. Federal funds may not be used to meet the local sponsor*s share of project costs under P.L. 99-662 unless the expenditure of such funds is expressly authorized by statute as verified in writing by the granting agency. (See ER 1165-2-131, para 9b.)

30-12. Accounting Procedures.

a. General. The cost sharing and financing concepts of P.L. 99-662 require adherence to the highest accounting standards. All costs must be recorded, documented and verifiable. The F&A office must be responsive to the non-Federal sponsors and project managers by understanding the requirements of the FCSA or PCA and providing the following:

(1) Current and accurate financial reports as required in the PCA, FCSA, IPMP, and PMP to the project manager for provision to the local sponsor at least quarterly, if not required on a semi-annual basis in accordance with the WRDA of 1988.

(2) All values of approved credits (in-kind services and LERRD) performed by the sponsor are properly reflected in the official accounting records.

(3) Timely notification to the project manager of local funds needed for the coming fiscal year.

(4) All revolving fund distribution rates are consistently and uniformly applied to cost shared projects and Federal projects alike.

(5) All costs subject to cost sharing are reported to project managers through the official accounting records (COEMIS F&A).

b. Non-Federal contributions of Project Cost. During the FCSA or PCA negotiating process, available non-Federal contribution options must be explained by the project manager to the local sponsor. Signed copies of the FCSA or PCA must be maintained in the F&A office. Except for ASA (CW) approved deferred payments, the FCSA or PCA shall provide that prior to the obligation of Federal Funds, the local sponsor shall have either paid directly to the Government their share of the estimated total project costs or placed those funds without control of the project sponsor in an escrow account deemed

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* acceptable to the Government or otherwise provided some irrevocable commitment or payment. Non-Federal funds will be deposited in the U.S. Treasury prior to any obligation of funds by the Government unless the deferred method of financing is approved by the ASA (CW).

c. Contributed Funds.

(1) The guidelines for the ASA (CW) to accept required cash contributions or advanced funds from the sponsor are in ER 1165-2-30, paragraph 4.

(2) Unless specifically called for in the authorization legislation, administrative action by the ASA (OW) is not needed for "Required Contributed Funds" after the execution of the PCA or FCSA. See ER 1165-2-30, paragraph 5 for explanation terminology of types of Contributed Funds.

(3) Contributed Funds appropriation 96X8862 will be used in accounting for the non-Federal required cash share of the cost of: feasibility studies, preconstruction planning, engineering and design, construction and operation and maintenance. Obligations will not be incurred until funds are deposited in the U.S. Treasury under Trust Fund Receipt account symbol 968862, Rivers and Harbor Contributed and Advanced Funds, Corps of Engineers. Appropriation 96X8862 is authorized by Congress to the Corps of Engineers for expenditure of Trust Fund Receipts. Funds deposited to Trust Fund Receipt accounts are immediately available for obligation in appropriation 96X8862 without any further action by Congress or HQUSACE. All charges made to these accounts will be for costs which result in a cash transaction, such as, accounts payable for contractor's earnings or intra-district transfer "no check drawn" between contributed funds and the Federal project. Project account numbers for contributed funds projects must be assigned as a minimum, on a one-to-one basis with the federal project unless otherwise mutually agreed upon in writing with the sponsor. However, if separate contributions are made for separate portions of a project, such as, flood control and recreation, separate project accounts will be established to avoid any appearance of commingling the funds. Extreme care must be taken to ensure compliance with the "one-hour rule" in recording labor costs (see para 6-11(3) of this regulation). Departmental overhead and other revolving fund distribution rates will be consistently and uniformly applied to cost shared projects as with Federal projects. Installations do not have authority to establish

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- * special rates unless prior approval is granted by HQUSACE (CERM-F). See appendix B of this regulation for pro-forma entries for recording Contributed Funds.

(4) District commanders are authorized to return unused portions of "Required Contributed Funds" and "other non-Federal funds" as a part of the final settlement of non-Federal sponsor*s requirements and relocation contracts for the ASA (CW). However, non-Federal contributions must not be returned until the final accounting report (appendix E) is complete. See appendix B of this regulation for pro-forma entry for return of Contributed Funds.

d. Advanced Funds. Acceptance of advances from local interests usually involves the initiation of construction of a new project or the advance of a project element scheduled for future years. Such advances will not be accepted unless directed or approved by the Appropriation Committees of the Congress and after coordination with and approval by the ASA (CW). If approval is granted by HQUSACE (CECW-L) and acceptance of the advance funds is made, a journal entry (Corps of Engineers Management Information System (COEMIS) "VE" transaction) to debit general ledger 138.1 or 162.0 and credit 143.0 must be made (see appendix B, para 5). Once the project is approved for construction the journal entry must be reversed. See ER 1165-2-30, paragraph 10 for further explanation of advance funds.

e. Escrow Accounts. Escrow account statements will be furnished monthly by the escrow agent to the local sponsor and the project manager. The project manager will provide a copy to the installation F&A Officer. The account statement must reflect deposits, disbursements and account balance. The F&A Officer will reconcile the monthly account statements with any deposit correspondence by the local sponsor and withdrawal request by the Corps. Any deposits or withdrawals must reconcile with other COEMIS accounting records. The F&A Officer and the project manager must ensure that a balance is maintained in the escrow account to meet future requirements as stated in the agreement. The monthly reconciliations will be maintained for audit and verification purposes. Copies of signed escrow agreements and letters of credit must be maintained in the F&A office. See appendix C of this regulation for establishing escrow accounts in the COEMIS F&A data base.

f. Credits. Costs of approved project work or other work including provisions of LERRD, performed by the local sponsors which is counted towards the local cost sharing requirements will be recorded in the following feature project accounts:

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* General Investigation 96X3121 or 96X3112 Feature 99 General ledger 138.1.

Construction 96X3122 or 96X3112 Feature 99 General ledger 138.1.

Operation and Maintenance 96X3123 or 96X3112 Feature 80.26 General ledger 162.0.

Flood Control and Coastal Emergencies 96X3125 Feature 99 General Ledger 138.1.

(1) Accounting entries for approved credit (in-kind services and LERRD) will be the same as those for "transfer of cost of property". See sample accounting entries for recording credits in appendix D of this regulation.

(2) Credits for project work by sponsors reflect actual project costs and affect requirements for both the Federal appropriations and cash contributions from local sponsors. All parties concerned will maintain thoroughly documented basis for sponsors* non-cash credits for audit purposes. Credits will be entered in COEMIS by F&A with direct input from the project manager. Finance and Accounting and the project manager must ensure credits for land, easements and right-of-way (LER) agree with actual appraised/credit values. Entries should be made when they occur, when possible, but will be made at least quarterly. Accounting records should also be adjusted monthly, but at least quarterly for land acquired by the non-Federal sponsor but not used for the project where the acquisition has occurred to carry out terms of a PCA, but ownership is no longer needed as a result of project changes made by the Federal government. In those instances, credit will be reduced by an amount equal to the value of the marketable interest the sponsor may have in the property. Project managers may request the services of internal review/contract audit personnel, if they desire any verification.

g. Contract Cost. Normally the contract pay estimate will be split between the applicable Federal and non-Federal percentages and costed to the Federal and Contributed Funds project. Project managers may request that the total contract cost be reflected in the Federal project. Manual transfer of contract cost from the Federal to the Contributed Funds project will be required if this method is used. However, funds must be available in the U.S. Treasury when the contracting officer signs the contract and the applicable percentage of non-Federal sponsor*s share must be obligated in the Contributed Funds project.

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* h. Distribution of Cost Shared Cost.

(1) COEMIS program 203P555K has been developed to automatically distribute cost to appropriation 96X8862 or 20-96X8861 from the performing Federal appropriation. The 203P555K program will generate COEMIS "PZ" transactions based on the option selected on the input data cards. The program must be run monthly, since only the current month field of the data base is extracted. The 203P555K program should be run in the next to the last cycle of the month. The generated "PZ" transactions will then be input in the last cycle of the month. Cost codes for the distribution must be on the data base prior to running the program. The last ten digits of the workcode will be the same for both the Federal and non-Federal projects. Position eleven of the Federal cost code is used to designate multiple Contributed Fund "FW" projects tied to one Federal project. The following two options are available using COEMIS program 203P555K:

(a) Option 1: The program will search accounting element (A/E) 226 through 351, excluding A/E 284, and generate "PZ" entries for each A/E in the Federal project, breaking out each A/E by the input distribution percentage.

(b) Option 2: The program will summarize Federal project costs A/E 226 through 350, excluding A/E 284, then generate a "PZ" entry based on the input distribution percentage. The entry will debit A/E 398 (cost-shared in-house costs distributed) and credit A/E 396 (in-house costs distributed credit). Option 2 will summarize project costs for A/E 351 and generate a "PZ" entry based on the input distribution percentage. The entry will debit A/E 399 (cost-shared in-house overhead distribution) and credit A/E 397 (in-house overhead distribution credit). Accounting elements (A/E 284) is excluded by the 203P555K program since the contract is split manually when obligated. Care should be exercised to ensure monthly miscellaneous obligation documents (MODs) are input in order to eliminate COEMIS rejects of the "PZ" transactions.

(2) Manual distributions of cost to appropriations 96X8862 and 20-96X8861 will be made with a COEMIS "PZ" transaction. MODs must be input in order to eliminate COEMIS F&A rejected transactions. Care must be exercised to ensure total cost transferred from the Federal project to the sponsors contributed funds account use the correct percentage.

(3) If sub-projects are used in the Federal appropriation, manual distribution of cost must be made.

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* COEMIS 203P555K is not programmed to update with sub-projects. Care must be exercised to ensure cost at the sub-project level is reconciled to the total cost at project level.

i. Collections.

(1) Direct up-front cash contributions are addressed in paragraphs 30-1i and 30-12c above.

(2) All interest collected on deferred payments will be treated as miscellaneous receipts (funds returned to the U.S. Treasury).

(3) Deferred payment. When approved by ASA (CW) this category will be applicable to construction under Sections 101 and 103 of P.L. 99-662, when cost share recovery is financed by Federal appropriations and is paid back over time with interest by the local sponsor. The general concept is non-Federal sponsors provide their share of funds for cost shared work prior to initiation of that work. However, P.L. 99-662 does make limited provisions for deferral of certain non-Federal payments, at the discretion of the ASA (CW). The specific guidance of payment deferrals is discussed in ER 1165-2-131, appendix I.

(4) Disposition. Ensure collections received for payment under the deferred payment plan are properly classified. Proper accounting classification is necessary to ensure that appropriations are not improperly augmented. Where appropriations made by Congress to the Corps include an amount to cover sponsor*s deferred payments, and reimbursements are made by the sponsor, all such repayments including interest will be treated as miscellaneous receipts (funds returned to the U.S. Treasury). Where appropriations made by Congress to the Corps do not include an amount for or the sponsor*s deferred payments, repayments by the sponsor will reimburse the Corps' appropriation from which the deferred payments were made. Any interest will be treated as miscellaneous receipts.

j. Final Accounting Report. Appendix E of this regulation contains preparation instructions and sample formats for the final accounting report to be provided the non-Federal sponsor as required by both the FCSA and PCA upon study/project completion. The final accounting report format may also be used as a worksheet for determining cost by purpose to be manually distributed to the non-Federal sponsor*s Contributed Funds account. Cost should be transferred monthly but must be transferred at least quarterly.

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