

DRAFT - REV. 8/29/01
U.S. Department of the Interior
Federal Power Act
Cost Accounting Procedures and Guidance

Purpose:

To establish consistent cost accounting practices for accumulating hydroelectric project licensing (includes re-licensing) costs for annual reporting to the Federal Energy Regulatory Commission (FERC).

Background:

Under the Federal Power Act (FPA), FERC is required to recover, through fees, the costs that the Federal government incurs for the costs of administering the FPA. Historically, FERC has requested a single cost figure for municipal and non-municipal projects, which the agencies have provided. FERC then allocated this amount to individual licensees based on a regulatory formula. Most agencies have not properly documented and certified their cost data to FERC.

Some licensees that have received billings from FERC have filed appeals, alleging that FERC has inadequate evidence to support the billings. The General Accounting Office issued a report in 2000 stating that Federal costs are not being recovered due to inadequate reporting guidance by FERC and inadequate supporting documentation by the agencies involved. Interior desires to correct this situation within its bureaus and accurately report documented and certified cost information to FERC in a timely manner.

The procedures and guidance provided in this document are based on the requirements of Statement of Federal Financial Accounting Standard Number 4 - *Managerial Cost Accounting Concepts and Standards for the Federal Government* (SFFAS #4) and Office of Management and Budget Circular A-25 *User Charges*.

Definitions:

Direct cost – The cost of resources directly consumed by an activity. Direct costs are assigned to activities by direct tracing of units of resources consumed by individual activities. A cost that is specifically identified with a single cost object. (Source: SFFAS #4) Examples of direct costs include labor and benefits, travel, utilities/communications and supplies directly consumed to provide a product or service.

Indirect cost – A cost that cannot be identified specifically with or traced to a given cost object in an economically feasible way. (Source: SFFAS #4) Examples of indirect costs include management direction and infrastructure costs in support all activities of the bureau and not directly attributable to an individual activity.

Cost object – An activity, output, or item whose cost is to be measured. In a broad sense, a cost object can be an organizational division, a function, task, product, service, or a customer. (Source: SFFAS #4)

Job Order Costing - A method of cost accounting that accumulates costs for individual jobs or lots. A job may be a service or manufactured item, such as repair of equipment or the treatment of a patient in a hospital. (Source: SFFAS #4)

Process Costing - A method of cost accounting that first collects costs by processes and then allocates the total costs of each process equally [or equitably] to each unit of output flowing through it during an accounting period. (Source: SFFAS #4)

Standard Costing - A costing method that attaches costs to cost objects based on reasonable estimates or cost studies and by means of budgeted rates rather than according to actual costs incurred. The anticipated cost of producing a unit of output. (Source: SFFAS #4)

Municipal - In the context of this document the term “municipal” includes all domestic non-Federal government entities such as states, cities, counties, etc. (Source: Office of Management and Budget memorandum 1999)

Procedures and Guidance:

Cost information is to be accumulated in the formal accounting/payroll systems to trace the direct hours worked on municipal and non-municipal hydroelectric licensing projects for annual reporting to FERC. The requirements below may be further enhanced by the bureau/office if desired, but at a minimum must satisfy the level of detail required by FERC:

1) Direct Costs:

A) *The preferred cost accounting method for recording hydropower licensing costs is by direct tracing. The payroll and accounting systems are to trace the number of direct hours charged by “Municipal” or “Non-Municipal” license request where cost effective to do so.*

Cost Account Title & Cost Object	Costing Method	Description
i) Hydropower Licensing/Re-licensing - Municipal [or by Specific Licensee]	Job Order Costing	Direct costs benefitting licensing activities traced specifically to municipal licensing activities.
ii) Hydropower Licensing/Re-licensing Non-Municipal [or by Specific Licensee]	Job Order Costing	Direct costs benefitting licensing activities traced specifically to non-municipal licensing activities.

iii) Hydropower Licensing/ Re-licensing - Common	Process Costing	Direct costs benefitting all licensing projects but not uniquely or directly attributable to “municipal” or “non-municipal” activities. These costs will need to be allocated between “municipal” and “non-municipal” for reporting purposes.
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B) *Alternative Approach - When Direct Tracing is not cost effective or practical:*

This approach is to be used when the annual licensing workload is small or insignificant, and thus establishing specific cost accounts to directly trace costs is not practical. Any anticipated common direct costs (similar to “process cost” described in 1) A) iii) above) can be factored into the standard cost rate or accounted for separately using a separate standard cost and then allocated between Municipal and Non-Municipal before reporting to the Department.

Cost Object	Costing Method	Description
i) Estimated Municipal - Common	Standard Costing	The standard cost is to be calculated based on FTE (staff hours) and non-labor costs anticipated to be performed to accomplish hydropower licensing tasks for “municipal” clients. These duties are to be adjusted to “actual” (more appropriately a refined estimate based on actual performance) and certified as accurate at end of the report period.
ii) Estimated Non-Municipal - Common	Standard Costing	The standard cost is to be calculated based on FTE (staff hours) and non-labor costs anticipated to be performed to accomplish hydropower licensing tasks for “non-municipal” clients. These duties are be adjusted to “actual” (more appropriately a refined estimate based on actual performance) and certified as accurate at end of period.

2) Indirect Costs:

A) Bureaus will have to determine the rate for bureau and sub-bureau levels of indirect costs that are appropriate to be applied to the direct costs captured. **Cautionary Note:** Be sure to apply the below Departmental indirect rate to the indirect labor amounts before calculating the resulting Bureau indirect rate.

B) The rate for Departmental indirect cost based on direct labor is 16.8%. This rate may periodically change (no more frequently than annually). Should the rate change, the Office of Policy Analysis will notify the bureaus.

3) Cost Calculations:

Using the following worksheet example, calculate the cost of performing FPA activities subject to annual reporting to FERC. Use the calculation method(s) appropriate for your bureau.

Example:

Element	Municipal	Relevant details necessary for calculation	Non-Municipal	Relevant details necessary for calculation	Total
1)A)i) and ii) Job Order respectively and 1)B)i) and ii) resp. Standard Costing	\$3,000,000	Labor & benefits \$2.9M based on actual project hours charged and Non-Labor \$.1M	\$2,000,000	Labor & benefits \$1.9M based on actual project hours charged and Non-Labor \$.1M	\$5,000,000
1)A)iii Process Costing	600,000	Labor & benefits \$.5M based on actual project hours charged and Non-labor \$.1M; (50/50 allocation assumed for example)	600,000	Labor & benefits \$.5M based on actual project hours charged and Non-labor \$.1M (50/50 allocation assumed for example)	1,200,000

2)A) Applied Bureau indirect	200,000	5.9% applied to \$3.4M combined direct labor and benefits (Assumed: Labor & benefits, .280M.; .047M applied Dept indirect & non-labor .015M = .342M for bureau indirect allocation)	142,000	5.9% of \$2.4M combined direct labor & benefits (Assumption to the left applies)	342,000
2)B) Applied DOI indirect	571,000	16.8% of direct labor of 3.4M	403,000	16.8% of direct labor of 2.4M	974,000
Totals	\$4,371,000		\$3,145,000		\$7,516,000

Bureau reports are to be certified as accurate by the bureau-level Chief Financial Officer (see item 5. below) and all related records/documents for a complete audit trail are to be maintained for 7 years. The certified reports are to be submitted to the **Office of Financial Management** (PFM) MS-5412 MIB **no later than May 1st** of the year after the report year in order that sufficient time is available to combine individual bureau data into a single report for the Department.

4) Transition Year:

Fiscal Year 2001 will be the transition year. The above detailed cost information may not be available for FY 2001, however, the Department will begin the process of combining the reports into one Departmental submission to FERC.

5) Report Format To Be Prepared and Submitted by the Bureaus Beginning with the FY 2001 report:

Bureau: _____

Fiscal Period Covered: _____

Municipal Costs: \$ (in whole dollars)

Non-Municipal Costs: \$ (in whole dollars)

Certification:

I certify that the above costs were incurred by my bureau for administering its responsibilities under Part I of the Federal Power Act for the fiscal period cited. This information was accumulated in accordance with Statement of Federal Financial Accounting Standard #4 and Office of Management and Budget Circular A-25.* The detailed documents to support these costs are available for review.

Signature: _____

Name: _____

Title: Chief Financial Officer Phone Number: __ (____) _____

Date: _____

(* For the transition year only, the bureau may substitute the following wording in lieu of the sentence preceding the “*”: The reported information is the best estimate available at the present time. The Department has established new accounting standards that will be implemented in FY 2002 to fully comply with SFFAS #4 and OMB Circular A-25 requirements.)

6) Departmental Annual Report Submission to FERC:

PFM will coordinate the final report and subsequent inquiries related to the FERC report with the Departmental Hydropower Coordinator. The annual report will be submitted to FERC by May 15th of the year after the report period to:

Federal Energy Regulatory Commission
ATTN: Division of Financial Services
888 First Street NW
Washington, DC 20426

7) Contact:

Any questions or additional information required regarding this document should be directed to the Office of Financial Management (PFM), Bill Webber, on (202) 208-5684. Should there be any inquiries regarding the Department’s report to FERC, they should also be directed to the Office of Financial Management.