

Chapter 4. Construction Fiscal Management

4-1. Purpose. This chapter outlines and establishes Construction Directorate policy for managing the Supervision and Administration (S&A) the construction accounts at the Huntsville Center and Resident Engineer offices, and establishes CEHNC procedures for managing the construction award current working estimate. This chapter does not serve as an HNC regulation.

4-2. Introduction. Construction Directorate, in formulating a contract administration plan, initially raised the question with RM and CH-SP regarding management of project construction contingencies. Realizing that it is necessary to establish procedures for commitment accounting in managing change orders, this chapter has been prepared to present an overview of the fiscal process and to reflect a funds management plan for construction.

4-3 References.

- a. ER 5-7-1 (FR), Project Management.
- b. ER 415-1-16, Construction Fiscal Management.
- c. ER 37-2-10, Financial Administration Accounting and Reporting.
- d. ER 37-345-10, Accounting and Reporting - Military Construction.
- e. CEHNDR 37-1-3, Financial Administration.

4-4. Construction Phase Management.

a. *The reference list is not complete.* However, this chapter only presents a working outline in order that the process can be better appreciated.

b. *As an aid* to understanding the process, a glossary is attached as exhibit 4*1.

c. *Funding for the Chemical Stockpile Disposal Program* is unique in relation to normal USACE MILCON programs or projects. Funding or income to support the construction mission comes from two basic sources: Military Construction Defense (MCD) and Procurement Ammunition Army (PAA – Re-designated APROC). Note that in the FY95 Authorization Act, funding previously in the Military Construction, Army (MCA) account was re-designated as MCD funds (ANCDF was pre-funded totally with MCA funds). Instructions from HQUSACE state that MCD rules are the same as MCA. Accordingly, these procedures follow MCA requirements. MCD funds will be used for the Systems Contract awarded for construction phases II and III, and PROC funding will be used for construction/Installation of equipment, Phase IV. The Program Manager for Chemical Demilitarization (PMCD) manages the overall PROC funding, and HQUSACE manages the MCD funding.

d. *Current Working Estimate (CWE) at construction contract award:*

(1) Since construction and acquisition/installation of equipment, Phases II, III, and IV, of the Systems Contract are firm fixed-price and only a part of the contract, the normal Corps management procedures are not entirely applicable. Examples of the exceptions are as follows:

(a) The IOC will award the contract using direct funding citations for the FFP phases. CEHNC-RM will coordinate with IOC for the funding of Phases II, III, and IV. CEHNC-RM will record the obligation in Corps of Engineers Financial Management System (CEFMS).

(b) CH-SP will manage the construction award CWE and has overall funds management responsibility.

(c) The IOC has responsibility for funds management for all CPAF contract work. CH-SP will ensure that the proper accounts are established and initiate purchase requests and commitment documents. The Director of CD will manage the S&A accounts.

(2) After contract award, CH-SP will manage and report the CWE, which is the most current estimate of the construction phase and associated markups defined hereafter. The required breakouts are needed in computer applications for requesting funds and for reporting progress.

(a) Life Cycle Breakdown: The CWE calculations for the project life cycle will conform to the breakdown as listed on the DD Form 1391, i.e.,

1 Estimated cost of construction (ECC) at award:

- Primary Facility
- Support Facility
- As-Built Drawings

2 Contingency: A fixed percentage of the ECC.

3 Miscellaneous of Direct Contract Price.

- As Built Drawings
- Training and Using Agency
- Surveys for Record Purpose
- Utility Cost
- Value Engineering During Construction

4 S&A. Use the S&A Flat-Rate percent of the sum of the ECC and contingency.

(b) Further Breakdown Requirements: The CWE breakdown is required for the following:

1 Funding Source. Each funding source must have its own breakdown. After the primary funding source line items are listed and totaled for the CWE for comparison with the program amount (PA), break down other funds using the same breakdown rules as the primary appropriation.

2 Contract. Under a funding source, use separate breakdowns if more than one construction contract exists. And if a construction contract will be funded with more than one appropriation, the contract costs will appear more than once under each funding source breakdown.

(c) Breakdown at bid opening and thereafter: As a minimum, the three categories of the CWE (ECC, Contingency, and S&A) will be broken down into the following categories, **IF** the category exists. This is especially critical since it defines how much the project cost estimate is over or under the line item specified in Congressional Committee Reports or the PA.

1 Award ECC has five possible categories:

- Contract Cost
- Support Contracts
- Support Direct Labor
- Service Orders.
- As-Built Drawings

2 Contingency (total to date):

- Committed, obligated, or expended
- Uncommitted
- Management reserve
- Un-funded

3 Award Engineering During Construction (EDC).

4 S&A.

5 Miscellaneous Construction Cost.

(d) The proceeding categories are described as follows:

1 Award ECC:

- Contract Cost: Actual contract cost at award for all funds to be paid to the primary contractor and the primary contractor's subordinates whether obligated at time of award or obligated later. Line item breakouts include the following:
 - Primary Facility
 - Support Facilities
 - Additive/optional/alternate bid items

Use the full scope package combination prior to award. Include known changes (contract options to be exercised with construction funds after award of the basic contract).

Changes, other than options, must be separately considered in establishing the contingency.

- Support Contracts: Actual award costs for support contracts (work orders) anticipated at time of award. List separately. Some examples include GFM, utility contracts, surveys, and unusual specialized testing required for construction.
- Support Direct Labor. Estimated labor costs (subject to S&A) at time of award. This will include all in-house (labor) costs (not covered under S&A or EDC) that are subject to S&A anticipated at time of the award of the primary construction contract including the preparation of as-built drawings and other support labor.
- Service Orders: Labor, other organizations. Examples, telephone connections, etc.

2 Contingency (Total to Date): This amount (normally 5 percent of the award ECC) funds unforeseen changes such as criteria and customer changes, differing site conditions, and design deficiencies. After award, the contingency will be broken down into the following categories - **IF** the category exists. The intent of the contingency is to manage the contract as awarded. Consider criteria and customer changes outside this intent separately.

- Contingency committed, obligated, or expended. These are funds set up to pay for pending/actual changes and are subtracted from the below contingency categories.
- Contingency Uncommitted (normally 2 percent of the ECC at award). These are funds under the control of HNC that have not been committed.

- Management Reserve (normally 3 percent of the ECC at award). The Management Reserve may or may not be allocated to HNC at the time of award. These funds are normally controlled by the customer or HQUSACE and will not be used without specific approval of the customer or HQUSACE as appropriate.
- Contingency Un-funded. These are funds required to replace the contingency account should the anticipated changes exceed the total contingency to date established at HQUSACE or PMCD.

3 Award Engineering during Construction (EDC). This category (also considered as support direct labor, but not subject to S&A) will include preparing and reviewing plans and specifications for changes to the awarded contract and reviewing the engineering and design effort by the construction contractor where construction specifications are expressed in terms of performance standards with certain design details left to the contractor. Normally, a standard rate of 0.5 percent of the ECC plus contingency will be used for this line item. All award EDC will be listed under the contingency breakdown. **The EDC for criteria and customer changes after award must be a part of the estimated cost for increased funding.**

4 S&A. This is the S&A flat rate times the sum of the ECC (MCA/MCD), plus contingency. This represents an established Corps rate for managing all activities associated with project construction funds (ECC and contingency). After award, the amount needs to be divided between the rate on HNC-controlled funds and uncontrolled funds, i.e., Management Reserve, AE construction support services (Title II), and S&A support contract costs will be included as part of this flat rate. The closeout S&A will be the S&A flat-rate times the expended ECC.

As outlined above, S&A income is from two sources, MCD (MCA) and PROC. Management agreements have previously established a ratio of ± 60 percent MCD and ± 40 percent PROC for the total S&A. This ratio is used for budgeting and CWE reporting, and is reflected in the example hereafter. While the S&A (MCD) is set at the established rate, the S&A (PROC) is set at a negotiated amount.

4-5. Amounts not part of the CWE.

There may be appropriations related to the CSDP listed on the DD Form 1391, but not included in the PA. These funds will be displayed separately using the same CWE format.

4-6. MILCON CWE Breakdown. Exhibit 4*2 is an example of a detailed MILCON CWE breakdown.

4-7. Management Accounts.

a. *ER 37-345-10*, Financial Administration, Accounting and Reporting - Military Activities, establish Corps policy and procedures for financial administration and reporting Revolving Fund Activities. The S&A cost related to the MILCON flat rate are accumulated into a separate Revolving Fund Account, RF 65. Income is generated by applying the applicable flat rate to direct construction costs (work placement) as contract payments are made. CEHNC-RM must establish appropriate management accounts.

b. Typical accounts are as follows:

(1) MCD:

RF 65 MILCON Construction/Revolving Fund
RF 64 Resident Office/Indirect Expenses
RF 61 Construction Directorate/Departmental Overhead Account
-- EDC
-- Contingency

(2) PROC:

[To be determined.]

4-8. Account descriptions and activities for uniform charging procedures of construction S&A.

a. Pre-award Activities. Includes activities performed before construction contract award. These activities are a function of Construction Directorate and include conducting site visits for bidders, conferences of construction staff to establish construction sequence, and estimation of contract duration.

b. Post-award Activities. Includes managerial, technical and administrative activities, and costs which are performed/incurred after the award and are also performed by Construction Directorate. Examples include contract administration, QA Activities, and labor-related items. Also included are support by others (Engineering Directorate, Title II support), when the work requested is an extension of Construction Directorate's activities.

c. Resident Office Operations. Includes all activities and costs for operating construction field offices. Examples include all indirect expenses which cannot be identified with the specific project, transportation of things, communications, equipment maintenance, expendable items under \$5000 (items over \$5000 may not be purchased with S&A funds), utilities, and permanent change of station.

d. Construction Directorate Departmental Overhead. Includes all activities and costs at the Directorate level not identifiable to a specific project or other account. Examples include departmental overhead, Directorate General and Administrative (G&A), overhead apportioned to Construction Directorate, and labor burden.

e. EDC. Includes all activities and costs for engineering and design during construction. Examples include extensions of design, preparation of plans, specifications and cost estimates for change orders, review of contractor submittal by the designer when required to verify design assumptions, value-engineering costs which are not offset by savings, design-related visits to the construction site during construction by design personnel.

f. Contingencies. This is the amount held in reserve for use by the Resident Office/Huntsville Center to fund unforeseen changes such as criteria and customer changes, differing site conditions, quantity variations, and design deficiencies.

4-9. Funding sources. The flow diagrams, Exhibits 4*4 and 4*5 (under development), depict the funding sources for the CSDP systems contract and the structure of the award CWE. The CWE after award is also shown to indicate management and control of the following accounts:

a. Contingency. As indicated above, the contingency account is established to fund unforeseen changes, differing site conditions, quantity variations, and design deficiencies.

b. Contingency and Fund Control. Commitment accounting is required to control all funds. A Purchase Request and Commitment Document (PR&C) for each category of the contingency must be created, approved, and certified in CEFMS. The Construction Project Manager is the Site Fiscal Manager and is responsible for preparing and approving PR&C documents in CEFMS. RM certifies all PR&C documents in CEFMS, thus committing funds. All change order packages will contain a copy of the certified PR&C document.

c. S&A.

The Director of Chemical Demilitarization Construction Directorate is the fiscal manager for the S&A account and will establish a PR&C for each of the following accounts:

MCD:

- RF 65, MILCON Construction/Revolving Fund
- RF 64, Resident Office/Indirect Expenses
- RF 61, Construction Directorate Departmental overhead Title II Support (see Exhibit 4*3)

PROC:

- PROC Construction.
- Construction Directorate Departmental overhead Title II Support (see Exhibit 4*3)

d. Award EDC. The site PM is the fiscal manager for the EDC Account.

4-10. Financial Management of the construction function:

a. The project manager (CH-SP) and the Director of Construction Directorate are responsible for control and financial management of the construction CWE related to the CSDP.

b. Commitment accounting is required to control all funds.

c. The Director of the Construction Directorate is the organization manager responsible for managing the CSDP S&A accounts.

d. CH-SP and CD will send funding reports to the Contracting Officer (IOC), PMCD, and HQUSACE as necessary.

GLOSSARY

As-Built Drawings	Funds must be reserved in order that a record set of as-built drawings can be prepared at the completion of the construction phases or the construction project. Must determine the specific requirements for each project.
Construction Directorate	Technical Directorate's indirect Departmental Overhead expenses - should charge departmental overhead when an expense is not identifiable to a specific project or other account.
Construction Project	A single undertaking to produce a complete and usable facility and/or a complete usable improvement to an existing facility. It includes all construction work, land acquisition, supervision, inspection, and procurement and/or installation of specific types of build-in (installed) equipment necessary to make a facility complete and usable.
Commitment	An administrative reservation of funds which authorize the creation of an obligation without further recourse to the official responsible for ensuring that funds are available. A commitment certification provides that (1) funds are available for obligation in the amount stated on the commitment request, (2) funds are appropriate for the purpose stated on the document, and (3) the proposed obligation time period is appropriate for the appropriation cited.
Contingencies	This is the amount (usually 2%) for use by the Resident Engineer, plus the Management Reserve (usually 3%) held in reserve at HQUSACE. If additional funds are required then CH-SP asks for the money.
CWE	<p>Current Working Estimate. The official value used to establish total project cost during construction (design funds not included). Prior to construction contract award, the reported CWE is the most current estimate of the full scope of the military construction authorization act (MILCON) line item as defined by the DD Form 1391.</p> <p>After construction award the reported CWE is the most current estimate of the construction amount and associated markups. This is critical since it defines how much the project construction cost estimate is over or under the line item amount specified in Congressional Committee Reports or the Program Amount (PA).</p>
ECC	Estimated cost of construction at award.

EDC	Engineering During Construction. These are expenses incurred by Engineering after the project has entered the construction cycle to perform design-related activities. For example, review of shop drawings, which are extensions of design and design changes, but not shop drawing reviews, which are extensions of Construction Directorate's mission.
Estimated Earnings	The normal pay estimates are a result of the contractor and the Resident Engineer jointly agreeing on the percent completion of the contract for the payment period. This is a date agreed upon between the contractor and Resident Engineer. If required, Construction may submit an estimate to RM in order to record earnings from any date. This should be done quarterly and must be done at year end.
Expense	Commonly used term to describe the cost accumulated in the RF65 Account. Could be RF61 accounts also and others.
Flat Rate	Sometimes called uniform flat rate accounts (RF65). The purpose is to charge all CONUS customers the same rate where by the larger projects make some money and they offset the smaller project losses. (The ChemDemil Program has an established rate higher than the uniform rate.)
Fund Cites	Sometimes called direct fund cites. The customer has control of his own money.
Income	S&ARate X Direct Construction costs, i.e., work placement as contract payments are made.
Management Reserves	This usually equates to 3% of the contract award amount which is held at HQUSACE on MCD until the Division supplies justification that it is required.
MCA	Military Construction, Army.
MCD	Military Construction, Defense.
MILCON	Military Construction; designates any congressionally appropriated new construction for DOD.
Obligation	An act, which legally binds the Government to make a payment, if, the performer subsequently delivers the goods or services.
Omaha Account	Formerly located in Baltimore, this is the central clearing house for the S&A to assure that the income (placement) is on target with the projections as are the associated expenses.

Exhibit 4*1. Glossary

PCO	Procuring Contracting Officer
Placement	The amount of construction contract earnings recorded in the official accounting records.
S&A	Supervision and Administration (S&I plus Overhead)
S&A Rate	The established rate charged CONUS wide for flat rate work. Projects such as the ChemDemil may have a different rate when agreed to by the customer.
S&A Target	This is furnished by HQUSACE based on the type of placement scheduled for the FY at the Division.
S&I	Supervision and inspection costs for Construction Directorate expenses plus field office expenses.
Slippage	Term used to describe the failure to maintain the projected placement on a monthly basis.
SAFE	
RFI's	Requests for information.
ECP's	Engineering change proposed.
PQAP	Participant quality assurance plan.
GFE	Government furnished equipment.

Exhibit 4*1. Glossary

	CWE	CWE AT AWARD	CWE AFTER AWARD
AWARD ECC			
Award Primary	\$97,145,000	\$90,000,000	\$90,000,000
Award Support	29,462,000	20,000,000	20,000,000
Award Option			
As-Built Dwgs			
Award Serv. Orders			
Award ECC Total	<u>126,607,000</u>	<u>110,000,000</u>	<u>110,000,000</u>
CONTINGENCY, TOTAL TO DATE			
Contingency Oblg			
Prim Contr Mods			1,000,000
EDC Additional			500,000
Management reserve			
Transfer to Div			1,000,000
Cntrl Pend Mods			
Total Known Changes			2,500,000
Contingency Uncmt	6,330,350	2,200,000	
Division controlled		112,200,000	
Management Rsrv		3,300,000	2,300,000
Contingency Total	<u>6,330,350</u>	<u>5,700,000</u>	<u>5,700,000</u>
(Award ECC+cont)	132,937,350	115,700,000	115,700,000
AWARD EDC			
(0.5% Awrd ECC+Cont)		578,500	578,500
S&A			
6%Div Cntrld)			
(AwardECC+Cont)	7,976,241	6,025,480	6,942,000
Management Reserve		416,520	416,520
TITLE II			
		500,000	500,000
S&A TOTAL			
	<u>7,976,241</u>	<u>6,942,000</u>	<u>6,942,000</u>
HNC CONTRL CWE-----137197071138197071			
HQ CWE			
	140,913,591	140,913,591	140,913,591

Exhibit 4*2. Example MILCON CWE

TITLE II SUPPORT

1. Most people understand this reference since the term has been used for a long time. However, there is no legal significance to the term. A better term to use is Construction management support services (reference Construction Bulletin No. 95-13, dated 11 July 1995). Notwithstanding, and since the term Title II has been used in contract documents, the term will be used in this context. Title II services and costs are included as part of the S&A account managed by the Director of the Construction Directorate. In the CSDP, Title II services may come from two principle sources:

- a. *The Ralph M. Parsons Company (Parsons)*
Contract DACA87-86-C-0084
Criteria Development and Design Services for the Chemical Demilitarization Facilities
[Option for Title II]
- b. *Teledyne Brown Engineering*
Contract DACA87-95-D-0035
Engineering Service Support Contract [ESSC]
[Negotiated Delivery Orders]

2. The Ralph M. Parsons Company. This contract is managed by ED-SY-C and has pre-negotiated options for services to support the CSDP. These options are identified as Tasks/Subtasks for each site as follows:

- a. *Task BB - DOCUMENTS AND DRAWING REVIEWS*

The purpose of this task is to identify the various types of documents and drawings reviews that shall be performed by the AE.

(1) Subtask BB-A: Document reviews of GFE Acquisition. This task is PROC funded and is usually not applicable for construction management.

(2) Subtask BB-B: Document reviews of SC support. This task is PROC funded and related to PROC activities, Phase IV of Construction.

(3) Subtask BB-C: Document reviews of MCA construction support. This task is MCD (MCA) funded.

- b. *Task BF - ENGINEERING DESIGN*

This task is to provide engineering design services during procurement, construction, equipment installation, and checkout of the facilities. As design deficiencies are identified during these phases, the AE shall be responsible for evaluating the problem and proposing design modifications. In addition, the AE shall provide engineering services for the preparation of change orders to be issued to the contractors. These engineering design services will be predominantly from the AE's home office staff to solve engineering problems. Each design task is broken down in to subtasks for each site. For example, ANCDF Task BF-3 has the following subtasks:

Exhibit 4*3. Title II Services

TITLE II Services - continued

- (1) BF3A - Modifications during procurement.
- (2) BF3B - Modifications during construction. Subtask BA - Modifications during PROC funded construction.
- (3) BF3C - Modifications during equipment installation.
- (4) BF3D - As-Built Facility modifications
- (5) BF3E - As-Built Equipment Modifications

c. Task BG-Field Office

The purpose of this task is to establish field offices to provide engineering support during initial procurement, construction, equipment installation and checkout activities at each site. A specific site is a subtask, for example, ANCDF BG-3. Field office will not exceed 34 months after award of construction contract and an overall average of 8 people during this period. Additionally, systemization coverage will not exceed 18 months following the completion of construction and an overall average of two people during this period.

3. Teledyne Brown Engineering (TBE). This contract is managed by CH-SP in coordination with the Director of Construction Directorate. The objective of the contract is to provide CEHNC with technical and engineering support services with respect to the construction and contract administration responsibilities for the CSDP. The contract is a one, five-year (basic year plus four option years) services contract and includes ordering capability (via fixed-priced delivery orders) for a range of technical and engineering studies, cost estimation, QA, technical support, construction management and valve engineering. All costs for services requested by construction are chargeable to the S&A Account (MCD (MCA) or PROC).