

Reclamation Manual

Directives and Standards

SUPPLEMENT TO THE DEPARTMENT OF THE INTERIOR DEPARTMENTAL ACCOUNTING MANUAL

FILE: 07 CASH AND OTHER ASSETS
20 Property, Plant, and Equipment
10 Capitalization and Valuation

Subject(B)(12): Plant Accounting - Investigations and Development

Purpose: Establishes policy and documents procedures for valuation and accounting for investigations and development costs.

Authority: Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment (PP&E)*; U.S. Treasury Standard General Ledger (SGL); and the Financial Accounting Standards Board (FASB) Concept 6, *Elements of Financial Statements*.

Contact: Finance and Accounting Division (FAD), General Accounting and Technical Analysis Group (GATAG), by calling (303) 445-3430.

Scope. Reclamation property, plant, and equipment are classified as general PP&E in accordance with the FASAB, SFFAS No.6, *Accounting for Property, Plant, and Equipment*. Reclamation's general PP&E consists of land, construction in progress (CIP), buildings, other structures and facilities, data processing software, and equipment. Certain capital investigations costs defined in this policy are also included in Reclamation's PP&E.

12. Investigations and Development.

A. **Definition.** Reclamation's investigations and development costs represent funds appropriated by Congress that have been expended for such activities as general engineering studies and surveys.

B. Policy.

- (1) Reclamation's policy is to capitalize investigations and development costs which are expected to result in the construction of an asset, and that are incurred after the decision is made to pursue construction or after construction authorization. Accordingly, costs for investigations and development shall be expensed as a current period cost if they are not expected to result in the

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construction of an asset, or were incurred prior to the decision being made to pursue construction, or incurred before construction authorization.

- (2) Reclamation assets resulting from construction shall be capitalized as general PP&E. All general PP&E shall be recorded at cost. Cost shall include all costs incurred to bring the PP&E to a form and location suitable for its intended use. Investigations and development costs that meet the criteria for capitalization shall be included in the costs of the general PP&E.
- (a) **Expense.** (SGL 610A - Operating Expense/Program Costs)
Investigations and studies that are conducted during prefeasibility and feasibility phases of project development are generally expensed since they are usually conducted prior to authorization for construction, or before the decision is made to pursue construction. Below are some examples of types of investigations costs that should be expensed in the period incurred.
- Needs Assessments
 - Appraisals
 - Technical Assistance to States
 - Special Studies
 - Geographically Defined Programs, e.g., Montana Investigations Program
 - Environmental Inter Coord Activities
 - General Planning Studies
 - Drought Planning
 - New project features
 - Modification to existing structures
 - Safety of Dams
 - Title XVI (Water Reuse Project)
 - Rehabilitation and Betterment (R&B)
- (b) **Capitalize.** (SGL 199B - Investigations and Development or SGL 1720 - CIP)
- (i) Investigations and development costs incurred in the post-authorization (post-decisional) phase of project development are generally capitalized because they are expected to result in the construction of an asset, and are incurred after the decision is made to construct or after construction authorization is received. Some examples of these types of costs include:
- Advance Planning

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- Definite Plan Reviews
- Engineering Reviews
- Architectural Reviews
- Certain cultural resource or archaeological investigations or studies costs attributable to project construction

(ii) In some cases, investigations costs may be posted directly to the CIP account, such as when capital investigations costs are incurred after the criteria is met for transfer from the investigations and development account to CIP (2.d.). Investigations costs posted directly to the CIP account shall be recorded in the construction/plant account (main) and account component (sub), 001 92 00, specified for investigations and development costs.

C. Analysis of Investigations and Development Costs.

- (1) Regions are responsible for analyzing investigations and development costs on an annual basis to determine if:
 - The status of the project has progressed to such a point that costs should be transferred from investigations and development (SGL 199B) to CIP (SGL 1720), or
 - The status has changed and either construction is no longer planned or the project or feature has been deauthorized. In this case, the costs should be expensed (SGL 610A).
- (2) This analysis will be facilitated with the use of the *Investigations and Development Analysis Form* (Appendix A). This form will be prepared by the Regional Finance Office and will provide the status of each identified program or feature. The Program Manager may also provide the estimated date when the accounting program for CIP may be established, and/or other pertinent comments on the form. The status of each program or feature in SGL 199B will be documented on this form.
- (3) Attention should be given to any program or feature that is exhibiting signs that construction may not be undertaken. One factor that indicates that construction may not be undertaken is prior status on the analysis form, indicating that no construction activity has begun since the last review.

D. Process for Transferring Costs to CIP.

- (1) The key criteria for transferring costs from investigations and development (SGL 199B) to CIP (SGL 1720) is when:

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- It is definitely known that construction will take place, or
 - When funding is received to begin construction, or
 - When a final construction design alternative is selected.
- (2) As part of the annual review process, the Program Manager and Regional Finance Officer should jointly review accumulated investigations and development costs for each program or feature and when the criteria is met, move the appropriate costs from investigations and development to CIP.
- (3) A documentation package, prepared by the Regional Finance Office and containing support for the transfer, should be included with the standard/journal voucher accomplishing the transfer from investigations and development (SGL 199B) to CIP (SGL 1720). The vouchers and supporting documentation are designated for permanent retention in the region.
- E. Transferring Costs to Expense.** If a decision is made that construction will not be undertaken or the project is deauthorized by Congress, the accumulated investigations and development costs recorded in SGL 199B should be moved to expense (SGL 610A). The accumulated costs should be expensed as a current period cost in the year the decision is made not to construct or when the project or feature is deauthorized.
- F. Investigations and Development Costs Incurred After CIP Account has Been Established.** Once the criteria has been met for transfer from investigations and development to CIP (2.d.), all subsequent investigations and development costs attributable to project construction should be charged directly to the CIP account (SGL 1720). Investigations costs posted directly to the CIP account shall be recorded in the construction/plant account (main) and account component (sub), 001 92 00, specified for investigations and development costs.
- G. Related References.**
- Reclamation Manual (RM), *Plant - Responsibilities*, FIN 07-20-10(B)(1)
 - RM, *Plant - General Property, Plant, and Equipment*, FIN 07-20-10(B)(2)
 - RM, *Plant - Construction in Progress (CIP)*, FIN 07-20-10(B)(6)
 - RM, *Plant - Construction in Abeyance*, FIN 07-20-10(B)(8)
 - RM, *Plant - Non-Traditional Assets*, FIN 07-20-10(B)(9)
 - RM, *Reconciliation of Standard General Ledger*, FIN 03-20-20(B)
 - RM, *Standard General Ledger (SGL) Chart of Accounts*, FIN 04-20-10(A)