

Reclamation Manual

Directives and Standards

Subject:	Plant Accounting - Investigations and Development
Purpose:	Establishes requirements and procedures for valuation of and accounting for investigations and development costs. The benefit of this Directive and Standard (D&S) is to properly record and value investigations and development in accordance with Generally Accepted Accounting Principles (GAAP).
Authority:	Federal Accounting Standards Advisory Board (FASAB), Statement of Federal Financial Accounting Standards (SFFAS) No. 6 - <i>Accounting for Property, Plant, and Equipment</i> ; U.S. Treasury Standard General Ledger (SGL); and the Financial Accounting Standards Board Concept 6, <i>Elements of Financial Statements</i> .
Approving Official:	Director, Management Services Office
Contact:	Business Analysis Division (BAD); Financial Policy, Compliance and Audit Team, 84-27410

1. **Introduction.** The Bureau of Reclamation property, plant, and equipment (PP&E) are classified as general PP&E in accordance with the 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 D&S are also included in Reclamation's PP&E.
2. **Applicability.** This D&S applies to all regional finance offices.
3. **Definitions. Investigations and Development Costs (Standard General Ledger (SGL 199B).** Costs incurred in the collection of data and the preparation of plans, estimates, surveys, maps, general layouts and reports in advance of construction for appraisal, feasibility, planning, and other general engineering and research.
4. **Responsibilities.**
 - A. **Regional Finance Officers.** Regional finance officers are responsible for:
 - (1) the proper accounting for the capitalized value of assets and for properly recording operating expenses in accordance with FASAB standards, which are recognized as GAAP for the Federal Government;
 - (2) ensuring compliance with laws and regulations related to repayment, cost allocation, and recovery of interest expense; and

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- (3) implementing policy and ensuring adequate procedures and controls are in place to ensure accurate and timely reporting of costs.

B. BAD. BAD is responsible for:

- (1) developing guidance and procedures to account for PP&E including depreciation of same;
- (2) oversight, to ensure that established policy and procedures are in place and adhered to; and
- (3) financial statement reporting and disclosures.

5. **Treatment.** Reclamation's practice 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 construction of an asset, or were incurred prior to the decision being made to pursue construction, or before construction authorization.

A. Capitalize (Investigations and Development, or Construction in Progress (CIP) - SGL 1720).

- (1) 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:
 - (a) advance planning;
 - (b) definite plan reviews;
 - (c) engineering reviews;
 - (d) architectural reviews; and
 - (e) certain cultural resource or archaeological investigations or studies costs attributable to project construction.
- (2) 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

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(see Paragraph 5.C.(2)). 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.

- (3) 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.

B. Expense (Operating Expense/Program Costs – SGL 610A). 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 are expensed in the period incurred:

- (1) needs assessments;
- (2) appraisals;
- (3) special studies;
- (4) geographically defined programs, e.g., Montana Investigations Program;
- (5) environmental inter coord activities;
- (6) general planning studies;
- (7) drought planning;
- (8) new project features;
- (9) modification to existing structures;
- (10) Safety of Dams;
- (11) Title XVI (water reuse project); and
- (12) rehabilitation and betterment (R&B).

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C. Analysis of Investigations and Development Costs.

(1) Analysis.

- (a) Regions are responsible for analyzing investigations and development costs on an annual basis to determine if:
 - (i) the status of the project has progressed to such a point that costs must be transferred from investigations and development to CIP, or
 - (ii) the status has changed and either construction is no longer planned or the project or feature has been de-authorized. In this case, the costs must be expensed.
- (b) 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.
- (c) Attention must be given to any program or feature that is exhibiting signs that construction may not be undertaken. One factor indicating that construction may not be undertaken is prior status on the analysis form showing that no construction activity has begun since the last review.

(2) Process for Transferring Costs to CIP.

- (a) Costs must be transferred from investigations and development to CIP when one of the following criteria is met:
 - (i) it is definitely known that construction will take place;
 - (ii) funding is received to begin construction; or
 - (iii) a final construction design alternative is selected.
- (b) As part of the annual review process, the program manager and regional finance officer must 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.

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- (c) A documentation package, prepared by the regional finance office and containing support for the transfer, must be included with the standard/journal voucher accomplishing the transfer from investigations and development to CIP. The vouchers and supporting documentation are designated for permanent retention in the region.
- (3) **Transferring Costs to Expense.** If a decision is made that construction will not be undertaken or the project is de-authorized by Congress, the accumulated investigations and development costs recorded in SGL 199B must be moved to operating expense. The accumulated costs must be expensed as a current period cost in the year the decision is made not to construct or when the project or feature is de-authorized.
- (4) **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 (see Paragraph 5.C.(2)), all subsequent investigations and development costs attributable to project construction must be charged directly to CIP account. 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.

6. Related References.

- A. RM D&S, *Reconciliation of Standard General Ledger*, FIN 03-20(B)
- B. Reclamation Manual (RM) D&S, *Standard General Ledger (SGL) Chart of Accounts*, FIN 04-20
- C. RM D&S, *Plant - General Property, Plant, and Equipment*, FIN 07-20 (formerly FIN 07-20B(2))
- D. RM D&S, *Plant - Construction in Progress*, FIN 07-24
- E. RM D&S, *Plant - Construction in Abeyance*, FIN 07-26