

Headquarters
United States Forces, Korea
Unit #15237
APO AP 96205-5237

United States Forces Korea
Regulation 37-2

10 August 2010

Financial Administration – Host Nation Support
REPUBLIC OF KOREA LABOR COST SHARING PROGRAM

***This regulation supersedes USFK Regulation 37-2, dated 18 July 2005.**

FOR THE COMMANDING GENERAL:

JOSEPH F. FIL, JR.
Lieutenant General, USA
Chief of Staff

OFFICIAL:



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Summary. This regulation establishes policies and prescribes procedures regarding the receipt, distribution and proper use of Labor Cost Sharing Program (LCSP) funds received from the Republic of Korea (ROK) Government.

Summary of Change. This document has been substantially changed. A full review of its contents is required.

Applicability. This regulation applies to all United States (U.S.) Forces and Department of Defense (DoD) activities stationed in the ROK that receive LCSP funding to pay for Korean National (KN) and Korean Service Corps (KSC) employees.

Supplementation. Issue of further supplements to regulation by subordinate commands is prohibited unless prior approval is obtained from the Resource Management (FKRM), USFK, Unit #15237, APO AP 96205-5237.

Internal Control Provisions. This regulation does not contain management control provisions.

Forms. USFK forms are available at <http://www.usfk.mil/usfk/>.

Records Management. Records created as a result of processes prescribed by this regulation must be identified, maintained, and disposed of according to AR 25-400-2. Record titles and descriptions are available on the Army Records Information System website at <https://www.arims.army.mil>.

Suggested Improvements. The proponent of this regulation is the RM (FKRM), USFK. Users are invited to send comments and suggested improvements on DA Form 2028 (Recommended Changes to Publications and Blank Forms) to the RM (FKRM-PB), USFK, Unit #15237, APO AP 96205-5236.

Distribution. Electronic media only (EMO).

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Glossary

1. Purpose

This regulation establishes policies and prescribes procedures regarding the receipt, distribution and proper use of Labor Cost Sharing Program (LCSP) funds received from the Republic of Korea Government (ROKG).

2. References

The following are related publications:

- a. Agreement Under Article IV Of The Mutual Defense Treaty Between The United States Of America And The Republic Of Korea, Regarding Facilities And Areas And The Status Of United States Armed Forces In The Republic Of Korea (U.S.- ROK SOFA), signed July 9, 1966;
- b. Agreement Between The United States Of America And The Republic Of Korea Concerning Special Measures Relating To Article V Of The Agreement Under Article IV Of The Mutual Defense Treaty Between The Republic Of Korea And The United States Of America Regarding Facilities And Areas And The Status Of United States Armed Forces In The Republic Of Korea, 15 January 2009 (Special Measures Agreement; SMA);
- c. Implementation Arrangement for Special Measures Agreement, 24 March 2009;
- d. 10 U.S.C. §2350(j) (Burdensharing Statute);
- e. DOD Financial Management Regulation 7000.14-R, Vol 12, Chapter 24;
- f. USFK Regulation 37-5, Special Measures Agreement Process.

3. Explanation of Abbreviations

Abbreviations used in this regulation are explained in the glossary.

4. Concept/Background

a. Based on the SOFA, special measures are agreed upon whereby the ROKG provides Host Nation Support (HNS) to the United States Government (USG). LCSP is a portion of the HNS. Specific conditions and the value of LCSP support provided by the ROKG are established in the SMA at reference (2b) or its successor agreement. Reference (2d) is the domestic authority to accept ROK cash contributions for the LCSP. This statute also provides authority regarding availability (compensation for DoD local national employees), and accounting rules that address such matters as where the contribution should be placed and the fact that a contribution will be available until expended. Host nation burden sharing funds should be treated as appropriations of DoD and merged with similar appropriations because burden sharing funds are offsets or replacements for the appropriations from Congress. Reference (2e) provides further detail on applicable accounting rules.

b. The Implementation Arrangement of the SMA (see reference (2c)) states that the labor contributions provided by the ROK shall be used solely to pay salaries and benefits for the USFK KN employees in the ROK. The Implementation Arrangement adds that the total amount of the ROK contribution shall be no more than 71 percent of the labor costs for USFK's Korean workforce.

c. LCSP is part of the host nation's burden sharing effort to help USFK finance Korean employees' pay and benefits. Reference (2d) does not permit use of LCSP funding, to pay for

other than the compensation for local national employees of the DoD. As such, the total KN and KSC payroll cost is identified in two parts: ROKG funded LCSP and USG appropriated funds.

5. Responsibilities

a. Assistant Chief of Staff, Resource Management (FKRM), USFK. Serves as the executive agent for program management of the ROK LCSP contributions. Responsibilities include:

(1) Coordination of LCSP distribution and payments with the 175th Financial Management Center (FMC) and all USFK units participating in the ROK LCSP Program;

(2) Assessment of LCSP utilization by participating units;

(3) Preparation of status reports to the USFK Chief of Staff (USFK CoS) as requested;

(4) Production of an Annual Execution Report to the ROK Ministry of National Defense (ROK-MND). This execution report is to be signed by the USFK Chief of Staff prior to submission to ROK-MND.

b. Organizations receiving LCSP payments. Ensure that funds are used exclusively for the payment of appropriated funds KN and KSC salaries and benefits IAW reference (2d) and the pertinent SMA. Use of LCSP payments for other than KN payroll and associated benefits is not permitted. Organizations must provide an LCSP distribution audit trail report on a quarterly basis that documents on-board strength, total KN annual payroll estimates, actual obligations, disbursements and LCSP funds received in Won as shown in the format at Appendix A-1. LCSP is provided only to those USFK units/organizations that reflect a clear LCSP distribution audit trail. Conversely, LCSP contributions will be discontinued for any USFK unit/organization that fails to provide an auditable report.

c. USFK, Internal Review or equivalent auditing organization. Conducts audits as needed to ensure LCSP is used in accordance with the SMA, the SMA Implementation Arrangement and this regulation.

d. USFK, Assistant Chief of Staff, J5 (FKJ5). Responsible for the conduct of SMA negotiations and publication of resulting agreements. Performs oversight of the SMA program.

(1) Establishes policy and procedures for the SMA process as a whole and conducts oversight of the SMA Program.

(2) Hosts the SMA General Officer Steering Committee and USFK Commander Final Decision meetings.

(3) Notifies the LCSP Program Manager of the value of SMA funds that will be available for LCSP payments in a given calendar year.

6. Policy

This regulation provides overarching policy guidance to USFK Component Service and DoD activity recipients of LCSP funds. A joint review of accounting and disbursing policy resulted in the development and implementation of the following guidance to resolve policy and procedural issues. This guidance is to document LCSP policy and procedures under one regulation.

a. Exchange rate for collecting, maintaining and disbursing ROK-contributed funds. LCSP funds received by USFK Component Service and DoD activities shall use the current Fiscal Year (FY) Budget Rate established by the Office of the Secretary of Defense (OSD). The USFK, Eighth Army, U.S. Air Force Korea (USAFK) and U.S. Naval Forces Korea (USNFK) servicing payroll organizations shall maintain a Korean Won-denominated "Restricted" account to receive, hold and disburse Won received from the ROK to the extent possible. Both receipt and disbursement of LCSP funds shall be accomplished by electronic funds transfer. All funds will remain in the restricted account until fully disbursed.

b. Software updates to disbursing systems. The current USAFK system accounts for LCSP funds received at the "Command Rate" (also known as the Market Rate) versus the published OSD "Budget Rate". This software limitation will continue until the Air Force approves and provides software that enables the valuation of Won accounts at the budget rate. Until then, USAFK must continue using the command rate. This regulation allows USAFK an indefinite exemption to the use of the command rate of Won valuation until the Air Force provides updated software so LCSP funds received can be accounted for at the budget rate.

c. Disbursing officers' cash on hand. No labor cost sharing cash is kept on hand. Funds are kept on deposit at Community Bank, a military community bank (MCB) and valued at the budget rate; funds are received and disbursed at the budget rate, eliminating fluctuation for Army and Navy accounts.

d. Treatment of funds posted to recipient organization's account. Since LCSP funds are kept on deposit at Community Bank in a restricted account earmarked specifically for KN civilian payroll, all funds are electronically transferred to KN civilian employees without any currency conversion taking place. Won-based payments originally received from ROK-MND are deposited and disbursed as Won, creating zero fluctuation.

e. When the Won balance in the restricted account is insufficient to cover the entire KN payroll, USG appropriated funds in the amount necessary to satisfy the payroll will be transferred from the "Entity" account to the restricted account. Funds transferred from the entity account will be converted to Korean Won and accounted for using the command rate.

7. Procedures

The overarching LCSP Policy guidance specified above recognizes the unique mission requirements and the specific procedures inherent in each USFK Component Service accounting activity. This policy respects the sufficiency of each USFK Component Service accounting activity's own regulatory requirements, oversight, and LCSP internal accounting procedures in support of funds accountability within their own organization.

a. For 2009 through 2013, the ROK-MND will deposit the LCSP funds directly to each component service's restricted account three times per year IAW the US-ROK SMA Agreement (reference (2b)). These deposits will occur on 1 April, 1 June and 1 August. The SMA Implementation Arrangement specifies that the ROK's contribution to the SMA LCSP Program shall be no more than 71% of the total USFK KN annual calendar year payroll. The USG contribution in appropriated funds shall be no less than 29% of the total USFK KN annual calendar year payroll.

b. LCSP funds will be accounted for using the budget rate (established annually at the beginning of each fiscal year by OSD). The restricted account for the Army and Air Force is with Shin-Han Bank credited to the account of Community Bank and is used solely for

disbursement of KN payroll. The Navy's restricted account is with Woori Bank and is also used solely for disbursement of KN payroll.

c. Approval Authority. The USFK Chief of Staff is the final authority to approve any addition or deletion of units/organizations for participating in the LCSP Program based on an affordability assessment by the FKRM.

d. Programming and Budgeting of LCSP. USFK units receiving LCSP are responsible for properly programming and budgeting the LCSP funds provided to them to ensure that the amounts of LCSP will not exceed their total KN or KSC pay program for a given Calendar Year (CY). In the event LCSP exceeds their total KN or KSC pay program for a given CY, the units will identify the amount of excess LCSP funds and turn back the excess funds to FKRM as soon as possible but not later than 7 days prior to the close of the CY (31 December). FKRM will then notify FKJ5 of the existence of excess funds and their value and take proper steps to redistribute the excess LCSP funds IAW the authority stated in references (2d) and (2e) and in coordination with FKJ5. The possibility of redistributing the excess funds to other SMA cost sharing categories (ROK Funded Construction and Logistics) should be considered.

e. Determination of Amount. Monthly on-board strength reports from DHRM are used to determine the average KN strength for a calendar year (CY). The CY (and not the FY) is used in order to correspond with the ROK- MND's FY period (January through December). Each organization's average KN strength is used to determine a percentage of the command's total KN strength. This percentage becomes the basis for determining the amount of the total LCSP payment an organization will receive. Each organization will submit accurate annual KN pay projections on a quarterly basis on the Audit Report provided in Appendix A-1. (Instructions are in the Appendix of this regulation). These payroll estimates and the monthly on-board strength report will become the basis for judgment in determining the amount of total LCSP payment an organization will receive.

f. Organizational end strength must be coordinated through the LCSP Program Management Office and documented on the Component Activity Requirement Plan (CARP) annual budget data call NLT 31 March. The final LCSP figure for a given calendar year will be decided as part of the SMA GOSC and approved by the USFK Commander. The total value of the LCSP annual increase will be determined by the USFK-J5 Policy point of contact through a coordinated effort with FKRM.

g. Methods of Payment. Three times a year, USFK receives funds for LCSP from the ROKG to cover the labor cost of KN and KSC employees of the USG. The LCSP contributions from the ROK are directly deposited in Won to a "Restricted Account" of each USFK Service Component. For USFK, Eighth Army and Navy payroll servicing organizations, these funds are collected and accounted for using the budget rate set by OSD at the beginning of the fiscal year. These funds are distributed to units/organizations IAW a USFK LCSP distribution memo by crediting the organizations' lines of accounting via an SF 1080, Voucher for Transfers between Appropriations and/or Funds using the DoD Budget Rate. For USAFK, these funds may be collected and accounted for using the command rate. To support Air Force mission requirements and processes, USAFK has the option of collecting and accounting for LCSP funds using the budget rate set by OSD at the beginning of the fiscal year.

h. Restrictions. Under no circumstance, will LCSP funds be budgeted to exceed the total KN or KSC pay program for any USFK unit/organization in a given CY. The USFK CoS has determined that (paragraph 7(c)) Indirect hire Korean employees (Contractors), Non-Appropriated Fund (NAF),

Defense Working Capital Fund activities and reimbursable employees are excluded from the SMA Program. Exceptions to policy must be approved by a USFK CoS memorandum.

i. The official Defense Finance and Accounting Service (DFAS) accounting reports should reflect the amount of LCSP, either reimbursement or negative adjustments, for KN or KSC pay. This change eventually reduces the unit's "Direct" budget requirements appropriated by Congress for the ensuing year. For example, the LCSP contributions applied to Eighth Army U.S. Army units are offset by HQDA through the reduction of direct work-year costs (average salaries) for KN and KSC personnel. Accordingly, the "Direct" funds used to support the KN and KSC personnel for the ensuing year are reduced.

8. Reporting Requirements

a. The Eighth Army, other U.S. Army organizations on the Korean Peninsula, USAFK, USNFK, MARFOR-K and DoD activities that receive LCSP funds will provide a quarterly expenditures report to FKRM not later than (NLT) the 17th working day of January, April, July and October for each preceding quarter. Reported amounts should be in Korean Won in the format shown at Appendix A-1.

(1) A practice worksheet and instructions on how to complete the audit report are provided in Appendix A-2 and A-3 of this regulation.

(2) The USKORCOM Financial Manager's Handbook provides the same instructions as found in Appendix A-3 and is located in Chapter 21 of the handbook under LCSP Standard Operating Procedure (SOP). The SOP is located at the following link:

<https://8army.korea.army.mil/G8/bt/Shared%20Documents/KORCOM%20-%20RM%20SOP/USKORCOM%20Financial%20Management%20Handbook%20v1.0.docx>

b. Organizations that receive LCSP funds are responsible for properly programming and budgeting the LCSP funds they receive to ensure that the amounts of LCSP will not exceed 71% of their total KN or KSC payroll for a given calendar year. In the event LCSP exceeds an organization's total KN or KSC pay program for a given CY, the LCSP recipient organization must identify the amount of excess LCSP funds and turn back the excess funds to FKRM as soon as possible but not later than 7 days prior to the close of the CY (31 December).

c. All LCSP participating activities will provide current and the next budget year's KN and KSC labor cost requirements to FKRM on an annual basis by submitting a LCSP Component Activity Requirement Plan (CARP). FKRM sends out this annual budget data call every year NLT 31 Mar to organizations that currently receive LCSP funding.

d. The USFK Civilian Personnel Directorate (DHRM) will provide a copy of their monthly on-board KN Strength report to the FKRM, NLT the 10th day of each month.

e. The USFK Civilian Personnel Directorate, will provide a quarterly Korean Employees Payroll Cost report (by organization/activity, in Korean Won) to FKRM, NLT the 27th day of January, April, July and October.

f. USFK-RM will provide an Annual LCSP Execution Report to the ROK MND, Programming and Budget Bureau NLT 1st March for the previous CY activities.

a. The intent of this worksheet is to provide LCS Program Management insight on the status of CUMULATIVE LCS funds received and spent so calendar year-to-date monitoring can be accomplished by both LCS Program Management and the LCS recipient organization to remain within the 71% SMA established limit on payroll.

b. Fill in the following columns to complete Labor Cost Sharing (LCS) Audit Trail Quarterly Report

(1) COLUMN A: ORGANIZATION or ACTIVITY. Enter your organization's name (self explanatory).

(2) COLUMN B: DATE LCS RECEIVED. Enter the date your organization received LCS funds. Repeat the entry for each of the three LCS

(3) COLUMN C: KN & KSC ON-BOARD STRENGTH. Enter the number of Korean National or Korean Service Corps employees your organization employs. This can be identified on your organization's current year Component Activity Requirement Plan (CARP).

(4) COLUMN D: ANNUAL KN & KSC PAY ESTIMATES (IN WON). List the total amount of annual pay your organization expects to pay in Won in the current calendar year. This can be identified on your organization's current year Component Activity Requirement Plan (CARP).

(5) COLUMN E: KN & KSC ACTUAL CUMULATIVE, YEAR-TO-DATE OBLIGATIONS IN WON. List the amount of LCS in Won the organization obligated (spent on KN & KSC payroll) through this calendar quarter.

(6) COLUMN F: CUMULATIVE LCS RECEIVED IN WON THROUGH THIS CY QUARTER. List the cumulative, year-to-date amount of LCS in Won the organization received through this calendar quarter.

(7) COLUMN G: % LCS KN & KSC. To calculate the percentage of LCS funds received, divide the quarterly number in COLUMN F by the quarterly number in COLUMN E. Enter the answer in COLUMN G. This is the percentage of LCS funds as a total of all the funds obligated (or spent) on your organization's payroll for this calendar year.

(8) COLUMN H: EXCHANGE RATE USED. Enter the exchange rate used if you converted US Government Appropriated Funds to Won in order to pay for KN and KSC payroll.

c. Important: Update this quarterly report every time your organization receives LCS funds. The USFK-RM requires you to send your organizational quarterly report to the LCS Program Manager NLT 17 working days after each audit trail data call. If the audit trail quarterly report IS NOT RECEIVED from your organization, additional LCS funds will be withheld from your organization until the quarterly report is received.

Note: For additional information or if you have any questions, please check the LCS SOP listing within the G8 Portal or call Capt David Kim, USFK LCS Program Manager, at DSN: 723-2083 or Sonni Howard, LCS Program Analyst, at DSN: 723-3449.

Glossary
Abbreviations

FKRM	Assistant Chief of Staff, Resource Management
CY	Calendar Year
DFAS	Defense Finance and Accounting Service
DoD	Department of Defense
FY	Fiscal Year
HNS	Host Nation Support
KN	Korean National
KSC	Korean Service Corps
LCSP	Labor Cost Sharing
MND	Ministry of National Defense
NAF	Non-Appropriated Fund
NLT	No Later Than
OSD	Office of the Secretary of Defense
ROK	Republic of Korea
SMA	Special Measures Agreement
SOFA	Status of Forces Agreement
SOP	Standard Operating Procedure
USAFK	United States Air Forces, Korea
U.S.C.	United States Code
USFK	United States Forces Korea
USNFK	United States Naval Forces, Korea