

GAO Highlights

Highlights of [GAO-13-528](#), a report to the Ranking Member, Committee on Environment and Public Works, U.S. Senate

Why GAO Did This Study

The Corps spends billions of dollars annually on projects in its Civil Works program. Part of the cost of doing business with the Corps involves paying for overhead—costs that do not directly relate to a specific project or activity but more generally support agency operations. Overhead costs are included in the amount that Congress appropriates for specific Corps projects and the amount that customers pay for Corps' services. The Corps provides services to customers including other Department of Defense units, federal agencies, state and local governments, Indian tribes, and foreign governments. The Corps' Civil Works program is organized around its headquarters, 8 divisions, and 38 districts nationwide. Only district overhead is charged to projects; overhead for headquarters and divisions is not.

You asked GAO to review the Corps' process for building overhead costs into projects. This report examines (1) how the Corps builds overhead costs into its projects and (2) customers' views on overhead information. To accomplish this, GAO reviewed Corps' documentation of its overhead and billing processes, interviewed officials at Corps headquarters, 2 divisions, and 4 districts based on geographic location, and interviewed 16 of the highest paying federal and nonfederal Corps' customers in fiscal year 2012. The results of these interviews cannot be generalized to all customers but provided insights.

GAO is not making recommendations in this report. The Department of Defense did not provide comments.

View [GAO-13-528](#). For more information, contact Anne-Marie Fennell at (202) 512-3841 or fennella@gao.gov.

June 2013

U.S. ARMY CORPS OF ENGINEERS

Building Overhead Costs into Projects and Customers' Views on Information Provided

What GAO Found

The U.S. Army Corps of Engineers (Corps) uses a multistep process to build overhead costs into projects. At the foundation of this process, Corps policy establishes two categories of costs to calculate overhead—general and administrative overhead expenses associated with district administrative offices, such as resource management, and technical overhead expenses associated with district technical offices, such as engineering. Using these two categories as a starting point, the Corps next calculates overhead rates as part of its annual budget process. Specifically, each district administrative and technical office develops operating budgets with overhead estimates, which are then consolidated and routed through district and division management, resulting in a final division-wide operating budget and overhead rates. The Corps then bills projects for overhead costs based on the number of hours its staff charge to projects. Overhead charges are not applied to hours worked by contracted labor, which represent a substantial amount of work. The Corps reports that it contracts out most of its design work and all of its construction work to private sector entities, such as architectural and engineering firms and construction companies. Finally, the Corps periodically monitors overhead costs and makes any necessary adjustments such as changing overhead rates, reducing expenditures, or providing rebates to customers. The Corps is able to monitor overhead because it tracks overhead costs separately from other project costs in its financial management system through specific overhead accounting codes.

Corps customers' views varied on whether overhead information is accessible and understandable. Half of the 16 highest paying customers GAO interviewed said overhead information is generally accessible and understandable. For example, one federal customer said that the Corps provides overhead information in monthly bills, and the information is understandable. One of the 16 highest paying customers said overhead information is not accessible and understandable. For example, this nonfederal customer and the Corps could not agree on whether overhead information requested by the customer had been provided, leaving the customer unable to understand Corps costs, including overhead information. The remaining 7 highest paying customers had no opinion on accessibility and/or understandability. While offering no opinion on one aspect of overhead information, such as accessibility, they generally offered a positive opinion on the other aspect, understandability. For example, one federal customer had no opinion on whether the information was accessible but said that the information was understandable because the Corps explains how it builds overhead into its projects during project meetings. Conversely, a nonfederal customer told GAO that he has requested and received overhead information from the Corps—stating that overhead information is accessible, but he offered no opinion on understanding it. Among customers GAO interviewed, there were common views about overhead information. Specifically, some customers indicated that overhead information is important, but that overall project costs are more important than overhead costs. They also said that good communication is important to understanding overhead information.