

INTRODUCTION

OVERVIEW

The EPA Cost Recovery Process

Superfund, or the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA), authorizes EPA to clean up hazardous waste sites where a threat or potential threat of a release of a hazardous substance or of harm to human health and the environment exists. When possible, EPA negotiates with potentially responsible parties (PRPs) that may have caused the contamination at a site. EPA's main goal in these negotiations is to have the PRPs pay for and conduct the clean-up activities. If the PRPs are unwilling to clean up the site, EPA can order the parties to do so, or EPA can clean up the site using Superfund money. When EPA uses Superfund money to clean up a site, the Agency will later go to court to negotiate the recovery of the government's money. This process is known as cost recovery. A large portion of EPA's response costs consists of payments to response action contractors. In order for these costs to be adequately supported in cost recovery litigation against the potentially responsible party, a defensible, logical and supportable accounting methodology must be in place that can assign costs to specific sites.

The site-specific portion of the contract costs are accounted for by EPA on a site-specific basis. However, contractors' non-site-specific costs are accounted for in a general account and must be allocated to the sites in order to be recovered. This guidance provides a logical and equitable methodology for the distribution of these non-site-specific costs to specific sites. This effort is called Annual Allocation. Completion of Annual Allocation reports by the response action contractors will result in the inclusion of all appropriate costs in the cost recovery effort.

This document has been prepared by the (PCS) of the Office of Financial Management. It provides instructions to staff on how to perform the annual allocation. EPA recognizes that each contract may feature unique situations which may not necessarily be addressed in these instructions. In such cases, the contractor should contact PCS for guidance.

DEFINITION OF TERMS

Capital Equipment - Equipment with a unit cost of \$5,000.00 or more and with a useful life greater than 1 year.

Direct Site Costs - Costs which are attributable to a specific site.

End of Contract Costs - Costs incurred to shut down a contract - usually occur at the end of the contract. End of contract costs may include such items as equipment removal costs and maintenance.

Program Management - Contract specific costs and fees incurred for the management of the specific EPA contract as a whole.

Non-site Activities - Costs incurred for activities **not** charged to specific sites. Examples include training of state personnel, calibrating EPA-owned equipment, and participating in general meetings and/or conferences. Non-site activities are broken down into two broad categories: program-wide and site-support. (See definitions below.)

Pre-SSID Costs - Costs incurred in connection with particular locations at which a Site/Spill Identifier (SSID) has not been assigned. This is also known as Sites with SSIDs or "ZZ" costs.

Site-support Non-site Activities - Costs incurred for activities which support the overall Superfund program. The costs are global in nature and purpose and are not eligible for distribution to sites. Examples of program-wide activities include training given by the contractor for EPA employees, training to first responders, training of state personnel, and attendance at conferences held to discuss general Superfund issues.

SSID - Site/Spill Site Identifier - Specific two character alpha-numeric designation for each site within a region. The SSID number is used to track all costs incurred on the site.

Start-up Costs - Cost of efforts and activities incurred early in the contract term whose benefits extend for the entire contract period. Examples may include recruitment and relocation of staff, preparation of contract work plan, establishment of a quality assurance program and certain equipment purchases. Program Officials also refer to these costs at "Mobilization".

"00" Costs - Synonymous with "non-site-specific" costs. These are costs which are attributable to more than one site or the program. Examples include program management and fees, equipment, start-up costs, end-of-contract costs and all non-site activities.

GENERAL REQUIREMENTS

The Annual Allocation process results in the contractor allocating all program management costs; fixed, base and award fees; and some non-site activity costs to sites and activities the contractor worked on during the fiscal year. The contractor submits an allocation report, along with supporting attachments, to the (PCS) of the Office of Financial Management (OFM). The amount included in the annual allocation report is the sum of the invoices paid for work performed during the Federal fiscal year, i.e., October 1 - September 30. Indirect and other rate adjustments for prior years paid in this fiscal year should also be submitted with explanation of this fact. If these prior year costs are deemed material by PCS, the annual allocation report methodology would be modified to recover these costs only to the benefitting sites.

The Contractor shall provide PCS within 120 days after the end of the fiscal year the total amount of each invoice paid for the annual allocation period, separating Superfund, OPA and other non-Superfund costs. PCS will reconcile this payment history against the Agency's contract payment system and a letter (or e-mail) confirming the total amount paid for the annual allocation period will be sent to the contractor. The contractor should provide an allocation report within 60 days after the letter (or e-mail) confirming the invoice amounts are provided to the contractor. The format the contractor may elect to combine all costs for all prior years not already submitted separately on one allocation report. Otherwise, each fiscal year's costs should be allocated separately.

When the contract performance period ends at other than the end of the FY, the contractor shall provide the invoice listing 120 days after submission of the last invoice following contract expiration.

Draft and Final Reports

The contractor should first submit the draft reports to PCS. PCS will review the draft reports and notify the contractor of any necessary corrections and request submission of a final report. The contractor shall provide, as part of the final report, a signed statement certifying that the final report data accurately reflects the costs distributed to each site and is supported by the contractor's accounting records.

The annual allocation report submission includes the following:

Required Reports:

- Master Allocation Schedule (Attachment A)
- Statement of Allocation Methodology
- Listing of all invoices paid during the Federal fiscal year (with invoice numbers and amounts)
- Certification of Contractor's report (final report only)

Required, if applicable:

- Schedule of Start-up Costs (Attachment B)
- Schedule of Capital Equipment Depreciation (Attachment C)
- Schedule of Non-Site Activities (Attachment D)
- Task Order Funding Percentage (Attachment E)

Allocation Methodology

Annual Allocation is a multi-step process that distributes the costs of program management, regional management, base and award fees and other non-site specific expenses to sites and program-wide activities on a pro-rata basis. The distribution of costs is based upon benefits received or support provided by the activities.

The preferred allocation method is the distribution of non-site costs based on a percentage of total costs. However, the contractor may request an alternative method, subject to approval by PCS.

In preparing each year's annual allocation reports, the contractor should determine whether any amounts received from EPA during the year relate to prior fiscal years; e.g., indirect cost adjustments. If the amount of such payments is material, the contractor should prepare a separate allocation schedule for those amounts.

ROLES & RESPONSIBILITIES

Contracting Officer/Program Officer (CO/PO)

The CO/POs are responsible for providing support to the AA process. CO/POs (Headquarters and Regional) answer queries from PCS and Superfund Accountants regarding costs subject to AA.

(PCS)

PCS is responsible to oversee the entire AA process. Staff ensures that contractors submit AA reports on a timely basis; review the reports for accuracy and completeness; and calculate the final rate. Staff maintains the SCORPIOS database for AA final rates applicable to the invoices/vouchers; and scans all documentation pertaining to the contract for regional use. PCS maintains all hard-copy contracts that have been reviewed and approved by PCS management. The Contract Clause that is included with contracts requiring Annual Allocation contains PCS contact information. A copy of this clause is found in Attachment E.

Regional Superfund Program Office and Superfund Accountants

Officials in the Regional Superfund Program Office and Regional Superfund (SF) Accountants are responsible for preparing cost packages for SF sites. They use the SCORPIOS database to prepare the packages. Part of the site costs includes SF contractors' clean-up costs. If those contractors have annual allocation costs, they will be included as an annual allocation rate – either a final rate based on a final report or a provisional rate based on either the “class” rate or the “prior-year” rate if the contract had a previous year's final report. SCORPIOS produces an

“itemized cost summary” for a given site which shows all contractor costs for that site by invoice with an annual allocation rate in another column to produce the combined site cost.

Research Triangle Park (RTP)

RTP provides a monthly listing of new contracts which have been let. PCS is to review this list for contracts with the contract class subject to the Annual Allocation process. PCS is responsible to enter the contract in to SCORPIOS and inform the regions that a new contract has been let (remember that AA report will not be required until the contract’s first year has expired and the invoice listing is due).

Contracts being let that are subject to the Annual Allocation process include the clause stating the contractor shall submit an annual allocation report. The Contract Officer shall inform PCS when a contract has been let that is subject to the Annual Allocation process.

SECTION II ANNUAL ALLOCATION OF NON-SITE COSTS

ANNUAL ALLOCATION PROCESS

This section describes EPA’s preferred annual allocation method. The examples included are designed to incorporate most situations. Certain contracts may not have all types of costs or activities listed. If so, enter N/A on the schedule and proceed to the next step.

The allocation package submitted by the contractor should provide the information shown on the Summary of Allocation Schedule along with the information in Attachment A, B, C, D, and E. Attachment A is the master schedule and summarizes information from the other attachments. Sufficient supporting documentation enabling EPA to verify the accuracy of the allocation must be submitted as required by the contract clause. Attachments B, C, D, and E of the instruction package provide examples of adequate supporting documentation.

The instructions provided below follow a format which flows from Attachment A to each of the supporting Attachments B, C, D, and E.

Step 1 - Reconciliation of Amount Paid

The first step in the annual allocation process is the determination of the amount paid for work performed during the government fiscal year.

For this step, assume EPA provides a paid amount of \$270,000. An example of the reconciliation is shown below:

EPA Provided Amounts:

<u>Invoice</u>	<u>Period of Performance</u>	<u>Paid Amount</u>	<u>Date Paid</u>
4	10/01/88 - 11/30/88	\$30,000	01/15/89

5	12/01/88 - 01/31/89	\$40,000	03/15/89
6	02/01/89 - 03/31/89	\$40,000	05/15/89
7	04/01/89 - 05/31/89	\$50,000	07/15/89
8	06/01/89 - 07/31/89	\$60,000	09/15/89
9	08/01/89 - 09/30/89	<u>\$50,000</u>	11/15/89
Total:		\$270,000	

Contractor Amounts:

		<u>Billed Paid</u>		
<u>Invoice</u>	<u>Period of Performance</u>	<u>Amount</u>	<u>Amount</u>	<u>Difference</u>
4	10/01/88 - 11/30/88	\$30,000	\$30,000	\$0
5	12/01/88 - 01/31/89	\$42,000	\$40,000	\$2,000
6	02/01/89 - 03/31/89	\$40,000	\$40,000	\$0
7	04/01/89 - 05/31/89	\$50,000	\$50,000	\$0
8	06/01/89 - 07/31/89	\$60,000	\$60,000	\$0
9	08/01/89 - 09/30/89	<u>\$50,000</u>	<u>\$50,000</u>	<u>\$0</u>
Total:		\$272,000	\$270,000	\$2,000

There are three important pieces of information in the above example. The first piece of information is the period of performance. It is the government fiscal year - October 1 through September 30. Note that the invoices provided represent work performed during the government fiscal year. When the phrase "amount paid for work performed" is used, the government fiscal year is the period of work performed.

The second important piece of information is the paid amount. EPA has paid \$270,000. The contractor amount shows \$272,000 billed to EPA, but only \$270,000 paid. There is a difference of \$2,000, which could represent fee holdbacks, suspensions, or disallowed payments. The annual allocation process only uses the amount paid for work performed, not the amount billed.

The third important piece of information is the date paid. Some of the payments occurred after the end of the government fiscal year. The annual allocation process uses the amount paid for the work performed during the government fiscal year.

Step 2 - Identification by Site-Specific Costs

The next step in the annual allocation process is the identification of the site-specific costs paid for work performed during the fiscal year. The site-specific costs include those sites with EPA SSIDs and those without EPA SSIDs. This information will be entered in Attachment A, *Master Allocation Schedule*.

Sites with EPA SSIDs

For sites assigned an EPA SSID, enter the following information by region and by site number on Attachment A, Line 1, Description:

- EPA SSID - The unique site/spill identifier number consisting of a two-digit region code (representing EPA Regions 01 - 10), and a two-digit site/spill number assigned by EPA.
- Site Name - The first twelve letters of the site name as it appears on EPA's SSID list.
- State - The two-letter State abbreviation.
- Amount Paid - Under Column A, the sum of the amounts directly reported for each site on each invoice or site-specific attachment submitted and paid for the annual allocation period. This includes any pre-SSID costs redistributed to the site during the year.

Sites without EPA SSIDs

For sites not assigned an EPA SSID, enter the following information by Region and by Site on Attachment A, Line 2, Description:

- Sites without SSIDs - The pre site/spill identifier number consisting of a two-digit region code (representing EPA Regions 01 - 10), and a two-digit pre-SSID number (ZZ) assigned by EPA.
- Amount Paid - Under Column A, the sum of the amounts reported for each pre-SSID site on each invoice or site-specific attachment submitted and paid for the annual allocation period. Pre-SSID costs are summarized by region.

The Attachment A example illustrates the procedures for entry of cost information for Sites with EPA SSIDs and without EPA SSIDs. For example, Region 1 Sites with EPA SSIDs show \$15,000 identified as costs for the Picillo site (0101) and \$25,000 for the Fletchers Paint Mill site (01A2). For Region 1 Sites without EPA SSIDs, there is an \$8,000 amount reported under the SSID "01ZZ". The costs for site reported under the "ZZ" identifier shall not include any preSSID costs which were previously redistributed to the sites during the year.

Subtotal Superfund Site Costs

In Column A, subtotal the amounts from Column A, Line 1 for Sites with EPA SSIDs and subtotal the amounts from Column A, Line 2 for Sites without EPA SSIDs.

Step 3 - Reassignment of Pre-SSID Costs

Note: If the contractor does not have this category of costs, note this on Attachment A and proceed to the next step.

The purpose of this step is to reassign any pre-SSID costs paid for work performed during the fiscal year that are not reflected in the Sites with EPA SSIDs costs identified in the previous step. For these costs, the redistribution will be identified on Attachment A, Column B. During the year, the contractor may have performed effort at sites which had not been assigned an EPA SSID. The costs for this effort were charged to the pre-SSID account during the year. In many instances, a unique SSID is subsequently assigned to these sites, and the cost of work initially performed and billed is properly re-assignable to a specific site.

In the Attachment A example, \$2,000 is being reassigned from the Region 1 pre-SSID amounts to two Region 1 sites. Based upon contractor records, \$1,000 was incurred and paid at each of these two sites before an EPA SSID was established. These amounts are not reflected in the Sites with EPA SSIDs totals from the previous step. In order to reflect the total site specific amount for these two sites, the \$1,000 per site needs to be re-assigned from the pre-SSID amounts to the site amounts.

On Attachment A, Line 2, Column B, a credit of \$2,000 is entered for that line item. The reassigned amounts of \$1,000 for each site are then entered on the appropriate lines in Line 1, Column B. After all reassignments are made,

sum the totals of Column A and Column B for each site and pre-SSID item and enter the sum on Attachment A, Column C for the respective site and pre-SSID amount.

Step 4 - Identification of Non-Site Costs

The purpose of this step is to identify the non-site costs and the types of activities they represent. The non-site costs can be classified into one of five major categories:

- 1) Program Management - Contract activities associated with the management and administration of the contract as a whole. For region specific contracts, there will be one category of Program Management. For Zone or National contracts, Program Management may be broken down into two subcategories - Regional Program Management and National Program Management. Program Management costs will be entered onto Attachment A in Step 5.
- 2) Start-up Costs - Activities incurred generally in the first year and associated with efforts benefiting the entire contract term; e.g., quality assurance plans. Start-up costs will be entered onto Attachment A in Step 6.
- 3) Capital Equipment - Equipment with a unit cost of \$5,000 and greater and a useful life of greater than one year. Capital equipment costs will be entered onto Attachment A in Step 7.
- 4) Non-Site Activities - Activities under the contract, other than program management, start-up, or end-of-contract, which are not site-specific. These activities can be broken down into two sub categories:
 - Site-Support Non-Site Activities - Payments for activities which relate to, support, and/or benefit the sites worked on by the contractor; or
 - Program-Wide Non-Site Activities - Payments for activities which support the overall Superfund program beyond the sites worked on under this contract; they are global in nature and purpose. These costs will not be allocated to sites in the annual allocation process.

Non-site activities will be entered on Attachment A in Step 8.

- 5) Non-Superfund Costs - Costs for contract tasks funded from EPA appropriations other than Superfund; e.g., Abatement, Control, and Compliance, Research and Development, or Lust monies. Non-Superfund costs are not included in this allocation.

The contractor should evaluate the types of non-site costs that were billed and paid for work performed during the fiscal year and place them in one of the five categories identified above. In the next five steps, these amounts will be identified on supporting schedules and entered on Attachment A as applicable. Once the costs have been entered onto Attachment A, the appropriate non-site costs will be allocated to sites and activities.

Description of Non-Site Activities

There is no comprehensive list of site-support non-activities and program-wide non-site activities. The determination of a site-support activity or a program-wide activity is based upon the purpose of the activity itself. A general definition with some examples will provide sufficient guidance for the contractor to identify which of the non-site activities represent site-support activities and program-wide activities.

Site-Support Activities - Activities undertaken for the purpose of specifically assisting in, or supporting the contractor's site response actions, are considered site-support activities. Listed below are some activities which are generally considered to be site-support activities:

- Project planning costs for a multi-site work assignment
- OSHA safety training for site employees
- Site equipment training
- Development of CERCLA site standard operating procedures (SOPs)
- Development of CERCLA site quality assurance plans
- Review of CERCLA site sampling procedures

Program-Wide Activities - Activities which are general in nature and are performed for reasons other than supporting site actions are considered program-wide activities. If the activity benefits the Superfund, or EPA as a whole, it should be considered a program-wide activity. A few examples of program-wide activities are provided below:

- Review of EPA sampling procedures
- Preparation of SOPs for CERCLA and Clean Water sites
- Preparation of the Annual Allocation Report
- Attendance at a General Superfund Environmental Conference
- CERCLA Title III evaluations
- End of contract activities

The examples given above are certainly not an exhaustive list. However, to summarize the general guidelines and concepts of the examples listed above; if the activity supports or benefits the site response actions worked on under the contract, the activity should be considered a site support activity; if the activity benefits the Superfund or EPA as a whole, the activity should be considered a program-wide activity.

Step 5 - Program Management Costs

The purpose of this step is to enter program management costs onto Attachment A, Master Allocation Schedule. In Step 4, the amount of program management costs was identified. Depending on the area of coverage of the contract, there may only be one category of program management. For Zone or National contracts, there may be two categories - regional and national program management. Enter the amount of national program management or contract program management identified in Step 4 on Attachment A, Line 3, Columns A and C. If the contractor has regional program management, enter the amount of regional program management, by region, on Attachment A, Line 4, Columns A and C.

In the Attachment A example, \$25,000 has been identified as national program management as indicated in Line 3, Columns A and C. Attachment A also shows regional program management of \$10,000 and \$7,000 for Regions 1 and 2, respectively, in Line 4, Columns A and C.

Step 6 - Start-Up Costs

Note: If there are no start-up costs associated with this contract, note this on Attachment A and proceed to the next step.

Start-up costs consist of the cost of efforts and activities incurred and paid for whose purposes and benefits extend for the entire contract period. Examples may include the recruitment and relocation of staff, preparation of the contract work plan, establishment of a contract quality assurance program, and calibration of equipment. Start-up costs typically will have been charged to the contract as program management.

Any start-up costs incurred during this annual allocation period were identified in Step 4. In Step 6, the total start-up costs applicable to this period will be identified and incorporated into the annual allocation process.

Attachment B, Schedule of Start-Up Costs, is the schedule used to determine startup costs applicable for this annual allocation period. The information on this schedule will be used for all annual allocation periods. The following information should be entered on the schedule:

- A) Schedule Heading - Complete the heading for this schedule by entering the fiscal year of the annual allocation, contractor name, and contract number.
- B) Fiscal Year Incurred - Enter the Federal fiscal year for this annual allocation period.
- C) Start-Up Costs - Enter the amount of start-up costs incurred and paid by each annual allocation period (fiscal year) of the contract. Also enter the amount of start-up costs incurred and paid this annual allocation period on Attachment A, Line 5, Column A.
- D) Number of Years Allocated - Enter the number of years over which the startup costs will be allocated (amortized). Generally, this represents the number of years remaining on the contract. The amortization should be based upon a straight-line or percentage of level-of-effort basis. In this example, a straight-line amortization of five years (the life of the contract) is used for illustrating amortization.
- E) Amount Authorized Each Year - The amount of start-up costs amortized in this annual allocation period, by fiscal year. This fiscal year amount (straight-line method) is determined by dividing the amount identified in the Start-Up Costs column by the amount in the Number of Years Allocated column.
- F) Total Amount to be Allocated This Annual Allocation Report - The total of all costs in the column, Amount Amortized Each Year. Enter this amount on Attachment A, Line 5, Column C.

In the Attachment B example, the contract began in FY 1987. During FY 1987, the contractor incurred and was paid \$25,000 of start-up costs. These start-up costs will be amortized over the five-year life of the contract on a straight-line basis. To complete this schedule, the FY 1987 start-up costs of \$25,000 are entered on the first line of the schedule in accordance with Steps BE above. For FY 1988, no start-up costs were incurred or paid. A zero is entered in the start-up costs column. In the current year, FY 1989, there was no start-up costs incurred or paid. A zero is entered in the start-up costs column. For this annual allocation period, \$5,000 of start-up costs is being amortized and included in the annual allocation. The \$5,000 represents the amortized portion of the startup costs incurred and paid in FY 1987. This amortized portion is entered on Attachment A, Line 5, Column C.

Step 7 - Equipment

Note: If there are no equipment costs, please note this in Attachment A and proceed to the next step.

Cost-reimbursed equipment represents capital equipment with a unit price of \$5,000.00 or greater and a greater than 1 year useful life. The cost of this capital equipment should not be allocated to sites during a one-year period, but rather, depreciated over its useful life. The preferred depreciation basis is an actual usage basis or straight-line method. If the contractor has another accepted accounting method of equipment depreciation, that procedure may be substituted for the straight-line or actual usage basis.

This schedule applies only to non-site-specific capital equipment. Expendable equipment or capital equipment purchased and consumed at a site (and paid as a site-specific cost by EPA to the contractor) should not be included on this schedule.

Any new capital equipment costs incurred during this annual allocation period were identified in Step 4. In this step, the capital equipment costs purchased during this annual allocation period will be entered on Schedule C, Schedule of Capital Equipment Depreciation, and the total capital equipment depreciation applicable to this period will be identified. The total capital equipment depreciation applicable to this period includes the depreciable amount of capital equipment purchased this annual allocation period plus the applicable depreciation of capital equipment purchased in previous annual allocation periods.

Attachment C, Schedule of Capital Equipment Depreciation, is the schedule used to determine capital equipment costs applicable for this period. The information on this schedule will be used for all annual allocation periods. The following information should be entered on the schedule:

- A) Schedule Heading - Complete the heading for this schedule by entering the fiscal year of the annual allocation, contractor name, and contract number.
- B) Date Charged to Contract - Enter the month and year the equipment was charged to the contract for all equipment items depreciated this annual allocation period.
- C) Capital Equipment - Enter the name of each capital equipment item.
- D) Purchase Price - Enter the amount charged to the contract for each capital equipment item. For equipment items purchased this annual allocation period, compute and enter the total amount billed and paid and enter that amount on Attachment A, Line 6, Column A.
- E) Useful Life - Enter the useful life of the equipment. If the straight-line depreciation method is used, enter the useful life in number of years. If an actual usage basis is used, enter the actual usage unit; i.e., number of hours, number of days, etc. The useful life may extend beyond the term of the contract.
- F) Beginning Balance - Enter the amount of undepreciated equipment costs. For equipment purchased in previous fiscal years, this amount will be the Ending Balance (See H) in the previous year's annual allocation report. For equipment purchased this fiscal year, the amount will be the purchase price.
- G) Depreciation Amount - The depreciation amount to be allocated this annual allocation period. This amount represents the purchase price (D) divided by the useful life (E). For this report, assume no residual or salvage value.
- H) Ending Balance - Enter the amount of undepreciated equipment cost. This amount represents the Beginning Balance (F) less Depreciation Amount (G). This amount is carried over to the next allocation report.
- I) Total Amount to be Allocated in this Annual Allocation Report - Sum the amounts entered into the Depreciation Amount Column (G). Enter that sum on Attachment A, Line 6, Column C.

In the Attachment C example, the straight-line depreciation method was used for all equipment items. In the example, there are three capital equipment items, each purchased in a separate fiscal year and initially reported in a separate annual allocation period.

Entries for items A - D are self-explanatory. In this example, Step D results in the entry of equipment purchased during this annual allocation period on Attachment A, Line 6, Column A.

The entry for Useful Life (E) may be somewhat difficult to determine. The contractor's own experience should be used in setting the useful life. However, the contractor may rely on manufacturer estimates or specifications. If the manufacturer does not publish useful life figures or a standard industry useful life has not been established, use the standard IRS depreciation tables for useful life.

The entries for the Beginning Balance (F) represent the remaining balance of depreciation at the beginning of the annual allocation period. The Gas Chromatograph has a purchase price of \$80,000 and a beginning balance of \$48,000. The gas chromatograph was purchased in FY 1987. The current annual allocation period is for FY 1989. There have been two annual allocation reports prior to this year. The difference between the purchase price and the beginning balance of \$32,000 represents the depreciation included in the two prior years' annual allocation reports. The same holds true for the mobile lab. The mobile lab was purchased in the prior annual allocation period. Therefore, the beginning balance represents the purchase price less one year's depreciation amount. The third item shown, Tractor, was purchased in this annual allocation period. The purchase price and beginning balance are the same.

The Depreciation Amount (G) represents the purchase price (D) divided by the Useful Life (E). In this example, number of years was used. Also in this example, there is no prorating of the depreciation amount for purchases made during the fiscal year. As an example, the Tractor was purchased in November 1988. It was used for eleven months of this annual allocation period. The depreciation for this annual allocation period is one-third of the total purchase price, or one of the three years' useful life, not 11/36 of the purchase price. If the contractor chooses to depreciate the equipment based upon the number of months available during the fiscal year that is an acceptable practice. However, this example uses the full year basis.

The Ending Balance (H) represents the Beginning Balance (F) less Depreciation Amount (G). For the FY 1990 annual allocation report, this amount would be entered into the Beginning Balance column (F) for all equipment items depreciated during the FY 1990 annual allocation period.

Attachment C provides the total amount to be allocated for this annual allocation period in Step I. The amount is the sum of the amounts entered into the Depreciation Amount (G) column. Total the amounts entered in this column and enter the amount on Attachment A, Line 6, Column C.

This example shows the straight-line depreciation method for equipment depreciation. If the contractor has another acceptable accounting procedure for depreciation, that procedure can be used. The resulting schedule may appear in a different format than presented in the example. However, the basic information should still be presented.

Step 8 - Non-Site Activities

Note: If there are no no-site activities, please note this in Attachment A and proceed to the next step.

Non-site activities represent efforts and activities which either support contractor site response actions or support the Superfund program as a whole. The non-site activities can be efforts generated by separate contractual instruments (Work Assignments, Technical Directive Documents, Delivery Orders, etc.) or general components of the general non-site portion of the contract.

Attachment D, Schedule of Non-Site Activities, is the schedule used to identify and list the activities by site-support activities or program-wide activities. In Step 4, these activities were identified. Activities should be grouped and listed by allocability type and area of applicability.

A) Schedule Heading - Complete the heading for this schedule by entering the fiscal year of the annual allocation, contractor name, and contract number.

B) Determination of Allocability - Enter the allocability determination for each identified activity as either site-support or program-wide.

C) Area of Applicability - Enter the sites, or grouping of sites, over which the costs will be allocated; i.e., Region 1 sites, all sites, or not allocable. For region specific contracts, all sites would be entered for site-support costs.

D) Description of Activity - Enter the description of the non-site activity. The description should provide for a complete description of the activity.

E) Amount of Activity - Enter the amount of the non-site activity.

F) Amount to be Allocated This Annual Allocation Report - Sum the non-site activities by Area of Applicability (C) and by Determination of Allocability (B). For site-support activities, enter the amount on Attachment A, Line 7, Column A and Column C. For program-wide activities, enter the amount on Attachment A, Line 8, Column A and Column C.

In the Attachment D example, there are examples of the two types of non-site activities. First, there is \$55,000 of site-support costs. These site-support costs are further broken down into regional activities; \$25,000 of Region 1 site-support activity and \$30,000 of Region 2 sitesupport activity. These amounts are entered onto Attachment A, Line 7, Columns A and C, for each respective region. Second, there is a total of \$22,000 of program-wide activities and these costs are identified as not allocable. This amount is entered onto Attachment A, Line 8, Columns A and C.

Step 9 - Non-Superfund Costs

Certain Superfund response action contractors may perform efforts other than Superfund activities. These efforts are paid from other than the Superfund appropriation. The annual allocation process deals with Superfund monies only. Do not include non-Superfund monies in this annual allocation report.

Step 10 - Summary of Amounts

Sum all of Attachment A, Column A, and enter that total on Attachment A, Line 9, Column A. This amount should equal the amount identified in Step 1. If it does not, please re-check your figures. In the Attachment A example, this amount equals \$270,000.

Sum Attachment A, Column C, and enter that total on Attachment A, Line 9, Column C. This is the universe of costs used in this annual allocation period, including site specific amounts, PreSSID amounts, and amounts eligible for allocation. In the Attachment A example, this amount equals \$268,000.

With these final entries, the annual allocation process can begin. The next four steps provide an illustration of the annual allocation process for each of the allocable costs: program management, start-up costs, equipment, and site-support activities.

Step 11 - Allocation of Program Management Costs

Program management costs are allocated to all sites with and without EPA SSIDs, non-site activities, and other non-Superfund efforts. The allocation should be based upon a method which equitably reflects the benefits provided by the program management.

In this example, a modified cost base is used for the allocation of program management costs.

Also, two types of Program Management costs are included in this example - National Program Management and Regional Program Management. All contracts may not have both types of program management, but this instruction document is designed for all types of contracts and may have examples or illustrations which do not apply.

Program management is allocated to the sites and activities based upon the percentage of the particular site or activity's costs to the total cost of all sites and activities. Please note that equipment is not included in the allocation base. Generally, equipment does not receive the same level of support that sites and other activities receive. Because the support provided would not reflect the causal/beneficial relationship, equipment is excluded.

An example is provided below on the allocation to and EPA SSID site. The allocation to other sites and activities is performed in the same manner.

Program Management Allocation Formula:

Program Management	X	<u>Site or Activity Amount</u>	=	Allocable	Amount
Allocation Cost Base		Share			

Allocation of Costs:

\$25,000	X	<u>\$16,000</u>	=	\$1,951
		\$205,000		

In the example shown above, the Program Management amount of \$25,000 is identified in Attachment A, Line 3, Column C. This is the amount to be allocated.

The site or activity amount, in this example the SSID amount for the Picillo Site (0101), equals \$16,000; the amount shown in Attachment A, Line 1, Column C. This amount includes the \$15,000 of site costs plus the \$1,000 of pre-SSID costs reassigned to the site in Step 3.

The allocation cost base of \$205,000 (the total shown in Column C of \$268,000 less the \$25,000 of Program Management Costs and the \$38,000 of Equipment Costs) represents the sites and activities which receive a portion of allocated program management. The allocable share of \$1,951 is entered on Attachment A, Line 1, Column D, for this site. Repeat this calculation for all other sites and activities. The allocable share for each site or activity is entered on Attachment A, Column D, on the corresponding line. Enter a credit to the Program Management amount in the amount of \$25,000 on Attachment A, Line 3, Column D.

Step 11a - Allocation of Regional Program Management Costs

The allocation of regional program management costs is similar to the allocation of program management costs shown above, except it is on a regional level. The regional program management costs are allocated to all sites and activities in that region.

Regional Program Management Allocation Formula:

Regional Program	X	<u>Site or Activity Amount</u>	=	Allocable
Management Amount		Total Regional Cost Base		Share

Allocation of Costs:

\$11,200	X	<u>\$17,951</u>	=	\$2,455
		\$81,903		

In the example shown above, Region 1 Program Management amount of \$11,220 represents the sum of the Regional Program Management identified on Attachment A, Line 4, Column C, of \$10,000 plus the \$1,220 allocable share of Program Management costs identified in Column D.

The site or activity amount, in this case the SSID amount for the Picillo Site (0101), equals \$17,951. The SSID amount includes the \$16,000 shown on Attachment A, column C, plus the allocable share of Program Management costs of \$1,951.

The total regional cost base of \$81,903 represents all sites and activities in Region 1. This amount includes the total amount of site costs both with SSIDs (\$17,951 for Picillo and \$29,171 for Fletchers Paint Mill) and pre-SSIDs (\$6,732) and the Region 1 site-support costs (\$28,049), including any previous allocations of costs (Program Management Costs). If there were regional start-up costs, these amounts would also be included in the total regional cost base. In this example, start-up costs are considered contract-wide costs. Regional program management costs are allocated to region-specific costs only. From the calculation above, the allocable share for Site 0101 is \$2,459 and is entered on Attachment A, Line 1, Column E, for this site. Repeat this calculation for all other sites and activities. The allocable share for each site or activity is entered on Attachment A, Column E, of the corresponding line.

Step 12 - Allocation of Start-up Costs

The allocation of start-up costs proceeds in the same manner as program management costs. The start-up costs are allocated to all sites and activities which receive a benefit from the start-up costs.

In this example, start-up costs are allocated to all sites and activities, excluding equipment. The contractor may be able to identify start-up costs to specific sites, regions, equipment, or activities. If the contractor has kept records in such a manner, the start-up costs should be allocated in accordance with the benefits provided by the start-up costs. The example below provides the basis for allocating the start-up costs to all sites and activities, excluding equipment.

Start-up Cost Allocation Formula:

Start-up Cost Amount	X	<u>Site or Activity Amount</u> Allocation Cost Base	=	Allocable Share
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Allocation of Costs:

\$5,610	X	<u>\$20,410</u> \$224,390	=	\$510
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In the example shown above, the start-up cost amount of \$5,610 represents the sum of Columns C, D, and E, of Line 5 (\$5,000, \$610, and 0, respectively). The site or activity amount, in this example the SSID amounts for the Picillo Site (0101), equals \$20,410; the sum of the amounts shown in Columns C, D, and E, of Line 1 (\$16,000, \$1,951, and \$2,459, respectively). The Total Cost Base is \$224,390 which represents all costs from Column C of \$268,000 (because start-up costs are allocated to all sites and activities, excluding equipment) less the start-up cost amount of \$5,610 and equipment of \$38,000. The allocable share of \$510 for site 0101 is entered on Attachment A, Line 1, Column F, for this site. Repeat this calculation for all other sites and activities. The allocable share for all sites and activities is entered on Attachment A, Column F, on the corresponding line.

Step 13 - Allocation of Capital Equipment Costs

Capital equipment costs are allocated to those sites and activities which receive a benefit from the equipment. The preferred method of allocating capital equipment costs to sites and activities is on a direct usage basis; i.e., as capital equipment is used on each site or activity, those costs are captured and identified with that specific site or activity. This method would result in the most equitable cost accounting treatment of capital equipment costs. However, other allocation procedures may be used if they provide a sound cost accounting treatment of capital equipment costs. The allocation of capital equipment costs should be based upon a procedure which results in the equitable allocation of costs and is based upon information from the contractor's accounting system. For this example, the straight-line depreciation method is used.

Capital Equipment Cost Allocation Formula:

Capital Equipment	X	<u>Site or Activity Amount</u>	=	Allocable
Cost Amount		Total Cost Base		Share

Allocation of Costs:

\$38,000	X	<u>\$20,920</u>	=	\$3,456
		\$230,000		

In the example shown above, the capital equipment cost amount of \$38,000 represents the sum of the Capital Equipment line item, Columns C, D, E, and F (\$38,000, \$0, \$0, and \$0, respectively, because capital equipment does not receive any allocations). The site or activity amount, in this example the SSID amount for the Picillo Site (0101), equals \$20,920; the sum of the amounts shown in Columns C, D, E, and F (\$16,000, \$1,951, \$2,459, and \$510, respectively). The Total Cost Base amount equals \$230,000 and represents all costs of \$268,000 (because in this example capital equipment costs are allocated to all sites and activities) less the capital equipment cost amount of \$38,000. The allocable share of \$3,456 for site 0101 is entered on Attachment A, Line 1, Column G, for this site. Repeat this calculation for all other sites and activities. The allocable share for all sites and activities is entered on Attachment A, Column G, on the corresponding line.

Step 14 - Allocation of Site-Support Costs

Site-support costs represent those activities which support site response actions in the aggregate, but by their nature cannot be accounted for on a site-specific basis. In this example, all sitesupport costs are region specific costs. Site-support costs may also be contract-wide costs; i.e., allocated to all sites on the contract. The allocation of site-support costs is shown below.

Site-Support Cost Allocation Formula:

Site Support	X	<u>Regional Site Amount</u>	=	Allocable
Cost Amount Total		Regional Cost Base Share		

Allocation of Costs:

\$38,089	X	<u>\$24,376</u>	=	\$12,696
		\$73,130		

In the example shown above, the Region 1 site-support cost amount of \$38,089 represents the sum of the Site-Support line item, Columns C, D, E, F, and G (\$25,000, \$3,049, \$3,842, \$797, and \$5,401, respectively).

The Regional Site Amount, in this example the SSID amount for the Picillo Site (0101) equals \$24,376; the sum of the amounts shown in Columns C, D, E, F, and G (\$16,000, \$1,951, \$2,459, \$510, and \$3,456, respectively).

The Total Regional Cost Amount is \$73,130 and represents all Region 1 site costs; sites with EPA SSIDs (\$24,376 for Picillo and \$39,613 for Fletchers Paint Mill) and pre-SSID costs (\$9,141), including any allocations incorporated in Columns D, E, F, and G. The allocable share of \$12,696 for site 0101 is entered on Attachment A, Line 1, Column H, for this site. Repeat this calculation for all Region 1 sites and activities. The allocable share for other sites is entered on Attachment A, Column H, on the corresponding line. Repeat these same calculations for Region 2 until all site-support costs are allocated to sites.

Step 15 - Completion of Master Allocation Schedule

The purpose of this step is to complete Attachment A, Master Allocation Schedule, by summarizing the allocation. Attachment A is completed by adding the amounts entered in Columns D, E, F, G, and H for each site and activity and entering the sum in Column I. These amounts represent each site and activities total share of allocated costs. The Column I site totals are then forwarded to the Summary Allocation Schedule.

All amounts shown on Attachment A, Master Allocation Schedule, are whole dollars. Because the amounts are shown in whole dollars and there are numerous calculations, some rounding differences will occur.

Step 16 - Summary of Allocated Amounts

The purpose of this step is to summarize the amounts allocated to site response effort (Sites with EPA SSIDs and Pre-SSID Costs) on the Summary of Allocation. The allocated amounts represent the entries in Column D through H on the Master Allocation Schedule.

The Summary of Allocation should be completed as follows:

1) Identify sites by region

- SSID - The unique site/spill identifier number consisting of a two-digit region code (representing EPA Regions 01 - 10) and a two-digit site/spill number which is assigned by EPA.
- Site Name - The first twelve letters of the site name as it appears on EPA's SSID list.
- State - The two-letter State abbreviation.

2) Within the region, list the sites with EPA SSIDs; numbers first, then letters.

3) After the identification of the Sites with EPA SSIDs, enter the Pre-SSID "ZZ" line item.

4) Enter the summary amount of allocated dollars by site from Column I on the Master Allocation Schedule onto the Summary of Allocation.

SECTION III

EXAMPLES OF ANNUAL ALLOCATION SCHEDULES

EXAMPLES OF ANNUAL ALLOCATION SCHEDULES Attachment A – Master Allocation Schedule

Master Allocation Schedule												
Attachment A												
Fast Clean-Up Company												
Contract No. XX-XX-XXXX												
FY 2000												
Line/Column				A	B	C	D	E	F	G	H	I
							Allocation of					
	Description			Amount Paid	PreSSID Adj.	Allocation Amount	Program Mgmt.	Regional Program Mgmt.	Start-Up Costs	Equipment Costs	Site Support Costs	Total Allocated Amounts
1	Sites with EPA SSIDs											
	SSID	Site Name	State									
	0101	Picillo Farm	RI - R1	\$ 15,000	\$ 1,000	\$ 16,000	\$ 1,951	\$ 2,459	\$ 510	\$ 3,456	\$ 12,696	\$ 21,073
	0142	Fletchers	NH - R1	\$ 25,000	\$ 1,000	\$ 26,000	\$ 3,171	\$ 3,996	\$ 829	\$ 5,617	\$ 20,632	\$ 34,245
	0003	Caldwell	NJ - R2	\$ 33,000		\$ 33,000	\$ 4,024	\$ 2,945	\$ 999	\$ 6,769	\$ 24,691	\$ 39,429
	03CH	Sayerville	NJ - R2	\$ 22,000		\$ 22,000	\$ 2,683	\$ 1,963	\$ 666	\$ 4,512	\$ 16,461	\$ 26,286
	Sites with SSID Subtotal:			\$ 95,000	\$ 2,000	\$ 97,000	\$ 11,829	\$ 11,363	\$ 3,005	\$ 20,354	\$ 74,481	\$ 121,033
2	Sites without EPA SSIDs											
	00ZZ		R1	\$ 8,000	\$(2,000)	\$ 6,000	\$ 732	\$ 922	\$ 191	\$ 1,296	\$ 4,761	\$ 7,902
	00ZZ		R2	\$ 3,000		\$ 3,000	\$ 366	\$ 268	\$ 91	\$ 616	\$ 2,245	\$ 3,586
	Sites w/out SSID Subtotal:			\$ 11,000	\$(2,000)	\$ 9,000	\$ 1,098	\$ 1,190	\$ 282	\$ 1,912	\$ 7,006	\$ 11,487
	Site Total			\$106,000	\$ -	\$106,000	\$ 12,927	\$ 12,553	\$ 3,287	\$ 22,266	\$ 81,487	\$ 132,520

3	Program Management			\$ 25,000		\$ 25,000	\$(25,000)					\$0
4	Regional Program Mgnt.											
		Region 1		\$ 10,000		\$ 10,000	\$ 1,220	\$ (11,220)				\$0
		Region 2		\$ 7,000		\$ 7,000	\$ 852	\$ (7,852)				\$0
5	Start-Up Costs			\$ -		\$ 5,000	\$ 610		\$(5,610)			\$0
6	Equipment			\$ 45,000		\$ 38,000			\$ (38,000)			\$0
7	Site-Support Costs											
		Region 1		\$ 25,000		\$ 25,000	\$ 3,049	\$ 3,842	\$ 797	\$ 5,401	\$ (38,089)	\$0
		Region 2		\$ 30,000		\$ 30,000	\$ 3,659	\$ 2,677	\$ 909	\$ 6,153	\$ (43,398)	\$0
8	Program-Wide Activities			\$ 22,000		\$ 22,000	\$ 2,683		\$ 617	\$ 4,180		\$ 7,480
9	Total			\$ 270,000		\$268,000	\$ (0)	\$ 0	\$ (0)	\$ 0	\$ (0)	\$ 140,000

Attachment B – Start-up Costs Schedule

					Attachment B
<p>A →</p> <p>Schedule of Start-up Costs Fiscal Year 1989 Clean-up, Inc. Contract No. 68-01-xxxx</p>					
B		C		D	E
↓		↓		↓	↓
FY Incurred	up Costs	Allocated	Number of Years Start-	Amount Amortized Each	
			Year		
FY 1987	\$ 25,000		5	\$ 5,000	
FY 1988	\$ -		0	\$ -	

FY 1989	\$	-	0	\$	-
Total Amount to be Allocated This Annual Allocation Report				\$	5,000
F→				Enter this amount on Attachment A, Line 5, Column C	

Attachment C – Capital Equipment Depreciation Schedule

Schedule of Capital Equipment Depreciation							Attachment C
A → Fiscal Year 1989 Clean-up, Inc. Contract No. 68-01-xxxx							
B	C	D	E	F	G	H	
↓	↓	↓	↓	↓	↓	↓	
Date Charged to Contract	Capital Equipment	Purchase Amount	Useful Beginning	Depreciation	Price Life Balance	n Ending Balance	
January 1987	Gas Chromatograph	\$80,000	5 Years	\$48,000	\$16,000	\$32,000	
October 1987	Mobile Lab	\$49,000	7 Years	\$42,000	\$7,000	\$35,000	
November 1988	Tractor	\$45,000	3 Years	\$45,000	\$15,000	\$30,000	
Total Amount to be Allocated This Annual Allocation Report				<u>\$ 38,000</u>			
F→				Enter this amount on Attachment A, Line 1 Column C			

Attachment D – Non-Site Activities Schedule

Attachment D			
Schedule of Non-Site Activities Fiscal Year 1989 Clean-up, Inc. Contract No. 68-01-xxxx			
A →			
B	C	D	E
↓	↓	↓	↓
Determination of Allocability	Area of Applicability	Description of Activity	Amount of Activity
Site-Support	Region 1 Sites	Worker safety, training for regional personnel	\$25,000
		SUBTOTAL REGION 1 SITES	\$25,000
Site-Support	Region 2 Sites	Worker safety, training for regional personnel	\$28,000
	Region 2 Sites		\$2,000
Site-Support		NPL Training	\$30,000
		SUBTOTAL REGION 2 SITES	
Program Wide	Not Allocable	Training of First Responders	\$10,000
ProgramWide	Not Allocable	Review State Agency Safety Requirements	\$12,000
		SUBTOTAL NOT ALLOCABLE	\$22,000

