

# CHAPTER 7

## FINANCIAL MANAGEMENT

### WHAT ARE THE BASIC PRINCIPLES AND OBJECTIVES OF FINANCIAL MANAGEMENT?

1. The application of proper cost principles to the Department's Performance Based Management Contracts (PBMCs).
2. The proper obligation, control and disbursement of funds under the contract.
3. Ensuring that performance measures are reflective of existing financial tracking systems.

### WHY IS FINANCIAL MANAGEMENT IMPORTANT?

During a time when the Department is increasingly being asked to achieve more results with fewer financial resources, the financial management of DOE's Performance Based Management Contracts (PBMC) contracts is becoming progressively more significant.

Because of the precision required in the handling of costs and funds under Department contracts, the integration and close coordination of the various members of the contract administration team is paramount. Close coordination among the

contracting officer (CO), the project manager, Chief Financial Officer, Contracting officer's representative, attorneys and other members of the team is necessary for successful contract administration.

### WHAT IS A GENERAL DESCRIPTION OF THE PROCESSES UNDER FINANCIAL MANAGEMENT?

This chapter provides insight into the contract administration aspects of the mechanisms by which the Department and its PBMC contractors track and manage contractor costs, funds, finances and those systems under which they are controlled. Additionally, this chapter will detail the roles and responsibilities of the members of the contract administration team in the financial management area.

**Contract Cost Principles:** The cost principles under which PBMCs operate are basically a set of rules provided in the Federal Acquisition Regulation (FAR), Department of Energy Acquisition Regulation (DEAR), and the clauses within the contract itself. These references determine if and when costs incurred by contractors in the performance of their contract can be properly reimbursed under the (cost reimbursement type) contract. In cost reimbursement type contracts, the Department agrees to pay the contractor for all allowable and allocable costs incurred, to

the extent prescribed in the contract. In determining the reimbursement of costs, the following is considered:

(1) Allowability and reasonableness in accordance with FAR 31.201- 2(d) and 31.201-3, and DEAR 970.3101-3

(2) Allocability of costs to PBMCs in accordance with FAR 31.201-4. A cost is allocable if it is assignable or chargeable for work and performance of the contract in accordance with the relative benefits received or other equitable relationship;

(3) Application of generally accepted accounting principles and practices appropriate to identifying and measuring costs of performing the contract in accordance with FAR Subpart 31.2;

(4) All exclusions of and limitations of types and amounts of items of cost set forth in the contract;

(5) Approvals by the CO required under the contract terms; and

(6) Cost accounting standards ( 48 CFR Chapter 99), if applicable.

**Financial Systems:** This area addresses the Department's systems which bear upon the movement of costs and funds under the contract. Generally, contract clauses, which form the set of rules under which the contractor and Government operate in this area, cover:

- The maintenance, audit and control of the systems, accounts and records

employed by the contractor on the prime contract and subcontract;

- The control of obligated funds under the contract (including rigorous observance of the requirements of the Anti-Deficiency Act);
- The rules and procedures for payment of fee, offsets against fee, and payments of costs against advances of Government funds;
- Assignment of a contractor's rights to a third party;
- Treatment of revenues; and
- The maintenance of effective systems of management controls for the contractor's administrative and programmatic functions including quality assurance.

### **What are the Chief Financial Officer's responsibilities in financially managing DOE contracts?**

The Department of Energy has entered a new era in how it manages its contracts. Contract reform, new legislation and performance-based contracts have thrust the Department into new approaches to contract administration and contractor oversight.

For the Department's Chief Financial Officer (CFO) community, these changes have created a need to re-think traditional approaches to financial management and contract administration. Historical oversight processes--including compliance reviews and on-site financial inspections by field

office personnel--have been reduced in favor of performance-based contract reforms and initiatives.

In addition, Field Managers and the CFO community have been impacted by recently enacted laws that have placed more responsibilities on Field Managers and their Field Chief Financial Officers. For example, the Government Performance and Results Act (GPRA) of 1993, and the Government Management Reform Act (GPRA) of 1994 seek to make government more effective and responsive through improved financial planning and more meaningful customer oriented financial information.

Perhaps most importantly, the CFO community recognizes its critical responsibility to provide management at all levels with the financial information necessary to make sound decisions in a time of scarce resources and rapidly shifting mission priorities. Field Managers and other partners must have assurance that the Department's contractors' financial management practices, systems and results possess integrity, provide timely and relevant information, and can be relied upon.

All of these forces have produced the need for a comprehensive approach for effective financial management of the Department's contractors. To address these issues and opportunities, the DOE Financial Management Guiding Principles Task Team was chartered with developing guiding principles for effective financial management of the Department's contractors. Two primary objectives of the team in crafting the guiding principles were:

- Developing processes and methods of evaluating contractor financial management performance which satisfy the spirit and intent of the Department's Contractor Performance-Based Business Management Process, and
- Ensuring that the guiding principles satisfy the Department's legally mandated responsibilities related to responsive, economical, efficient, and effective financial administration

### **What are the guiding principles that constitute effective financial management?**

#### *Principle 1 - Evaluate and Assess Effectiveness of Financial Planning*

Field Managers rely upon their Field CFOs for assuring that resources are available to meet DOE mission requirements. Therefore, budgets must be formulated with programmatic insight, resulting in justifiable requests for resources to satisfy mission needs. The financial community must partner with functional and program managers to ensure that limited financial resources are allocated in order of priority and that these resource allocations are used for their intended purposes.

#### *Principle 2 - Manage Resources to Accomplish Program Goals*

To assure that program priorities are achieved within provided funding levels, systems must be in place that provide management with timely insight into trends and financial results. Therefore, the CFO monitors budget execution, including

monitoring projects, tasks, program accomplishments, and the overall financial health of its operations to ensure that plans and priorities are achieved.

*Principle 3 - Provide Accurate and Relevant Financial Reporting to Customers*

It is paramount that all levels of DOE management have current, accurate and relevant financial data for sound decision making. In addition, this information must be presented in a useful format that addresses the needs of individual managers. Financial information is essential to planning, real-time decision making, and assessing program performance.

*Principle 4 - Assess Adherence to Laws Regulations and Financial Contract Clauses*

Over the years, Congress has enacted several laws making Departmental officials accountable for financial integrity, performance and stewardship. Therefore, the Department has the responsibility to ensure that all applicable laws and regulations are carried out to ensure responsible use of taxpayer dollars and protection of the Department's assets against fraud, waste, abuse, and mismanagement.

*Principle 5 - Assess Effective and Efficient Use of Government Resources*

A main CFO responsibility is to ensure that scarce resources are being utilized economically and efficiently. Oversight efforts and analyses should focus on high impact areas. These high impact areas should be determined through the use of risk assessments that identify the degree of probability of loss, exposure, or detriment to

the Department as a result of ineffective, inefficient, or noncompliant processes.

Emphasis should be placed on identifying deficiencies during infancy stages of projects and processes in order to take timely corrective actions. There should also be emphasis on identifying and implementing commercial best business practices that includes modernization of systems, re-engineering, decentralized control, application of modern quality principles, and implementation of electronic commerce. Consistent with these concepts should be the design and management of business processes which balance the risk of loss or exposure with the cost of control and compliance activities.

**Where can I go for more information on how these guiding principles are implemented by CFOs and other members of the contract administration team?**

The document, "Guiding Principles for Effective Financial Management of Department of Energy's Contractors," is available through the CFO's web page at which is also listed in Appendix B:

<http://www.cfo.doe.gov/progliaison/finovsit/index.htm>.

**Where can I go for a discussion of the various Federal laws and Office of Management and Budget (OMB) circulars pertinent to financial management?**

Appendix B of the above “Guiding Principles for Effective Financial Management of Department of Energy’s Contractors” (which may be accessed at the above web address) contains a discussion of the various laws and OMB circulars pertinent to good financial management.

The General Accounting Office’s “Principles of Appropriations Law” may be accessed through the CFO’s Office of Financial Budget at the following web page which is also listed in Appendix B:

<http://www.cfo.doe.gov/budget/>

The CFO’s organization is cognizant over issues regarding the budget, financial policy, program liaison and financial analysis, financial control and reporting as well as certain other areas pertinent to financial management. All members of the contract administration team should coordinate issues over which the CFO has cognizance with their local CFO representative.

**How do financial systems relate to performance and cost incentives?**

The systems that track, control and report on costs incurred by contractors -- and the flow of funds -- must be accurate, responsive, and have the level of detail sufficient to meet the requirements of the contract and the program. This is true for both contractor and the Government systems.

It is extremely important in employing performance measures and incentives under the contract, that the existing systems track costs at a level of detail sufficient to accurately measure cost performance under the contract. Before any incentive requiring cost tracking is approved and implemented, existing systems should be reviewed to ensure that the system can track costs at the level required to adequately measure cost performance.

As the Department moved to performance-based contracting, concerns were raised regarding the ability of the Department to track costs related to performance incentives. As a result, Field CFOs were tasked with conducting a review to determine the adequacy of accounting Systems to track such costs. During this review, it was determined that systems generally have the ability to track the necessary cost information. The review report recommended that Field CFOs should have a more active role in performance-based contracting to ensure that incentives are structured in a manner that facilitates the tracking of costs.

The Chief Financial Officer signed a memorandum to the Managers of the Field/Operations Offices, on October 30, 1998, initiating the implementation of the report recommendations by conveying the expectation that all Field CFOs should play an active role in the formulation and tracking of performance incentives in Departmental contracts. That memorandum stated the expectation that Field CFOs would be involved in actions associated with the formation and administration of performance incentives, cost incentives, and Cost Reduction Incentive Programs. The

specific expectations mentioned in the memorandum appear later in this chapter in the section on Major Roles and Responsibilities.

(See Appendix B for the general CFO web site. The above mentioned memorandum is currently available through the Office of Program Liaison and Finance (CR-30) and will be available in the future at that office's web address:

<http://www.cfo.doe.gov/progliaison/finovsit/index.htm>.)

## WHAT ARE MY MAJOR ROLES AND RESPONSIBILITIES IN THE AREA OF FINANCIAL MANAGEMENT?

On the following pages are the major roles and responsibilities of members of the contract administration team. Key sections of documents have been summarized for ease of reference. Please bear in mind that the referenced documents themselves are controlling and should be consulted for a complete discussion of the various roles, responsibilities and requirements. Additionally, other documents, not listed here, may contain other roles and responsibilities.

Note: Various responsibilities on the following pages are marked with an asterisk (\*). This signifies that the responsibility is not specifically assigned to this individual by a clause, regulation, or procedure. It is suggested because:

(1) The responsibility is necessary to perform Government contract administration responsibilities; and is either commonly performed by this individual or reflects "good business practice."

(2) The responsibility is stated in the reference as a DOE/Government responsibility; and is either commonly performed by this individual or reflects "good business practice."

Local guidance may determine who specifically is obligated to perform the responsibility.

### Regarding Contract Cost Principles

#### COUNSEL

\* Provide advice to the CO on whether or not Government should authorize contractor to participate in any legal proceedings including proceedings before administrative agencies against the contractor arising out of performance of the contract.

\* Provide advice to the CO on whether or not Government should issue written authorization to the contractor for the initiation of litigation against third parties.

**[DEAR 970.5204-31]**

\* Advise the Head of the Contracting Activity (HCA) and the CO on immunities or exemptions from state and local taxes to which DOE is entitled under the Federal Constitution or state laws **[DEAR 970.2902]**.

\* Provide to the CO, when requested, advice on the allowability of costs.

## **PROCUREMENT EXECUTIVE**

Determine if certain costs, identified in the clause “Cost Prohibitions Related to Legal and Other Proceedings,” were incurred as a result of compliance with a specific term or condition of the contract, or specific written direction of the CO.

**[DEAR 970.5204-61]**

## **HEAD OF THE CONTRACTING ACTIVITY**

With the advice of legal counsel, take all necessary steps to preclude payment of any taxes for which DOE is entitled to immunities or exemptions under the Federal Constitution or state laws.

**[DEAR 970.2902]**

As necessary, authorize advance payments.

**[DEAR 970.3202(a)]**

## **CONTRACTING OFFICER**

If submissions of cost accounting changes and the associated cost impact proposal are not submitted within the specified time withhold an amount of funds until the required documents have been provided.

**[FAR 52.230-6]**

When appropriate, direct the contractor to provide information and expert advice to members of legislative branches of governments and their staff.

**[DEAR 970.5204-17]**

When appropriate and \*after consulting with legal counsel, issue written authorization to the contractor for the initiation of litigation against third parties.

After evaluation and \*consultation with legal counsel, as appropriate, authorize the contractor to participate in any legal proceedings including proceedings before administrative agencies against the contractor arising out of performance of the contract.

**[DEAR 970.5204-31]**

\* After consultation with the Office of Contract and Resource Management (MA-53) and evaluation, approve in writing, if appropriate, the contractor to procure and maintain bonds and insurance.

\* After consultation with the Office of Contract and Resource Management (MA-53) and evaluation, approve in writing, if appropriate, the contractor’s use of a self insurance program.

**[DEAR 970.5204-31; DOE Order 350.1, Chapter 7]**



\* In consultation with legal counsel, determine the allowability of contractor submitted litigation costs, including counsel fees, judgments and settlements.

**[DEAR 970.5204-31; DEAR 970.5204-61; FAR 31.205-47]**

\* Review and evaluate the report of the contractor's identification of those conditions which it believes could give rise to a liability, etc. under the "Preexisting Conditions" clause.

Direct the contractor to take any corrective action associated with preexisting conditions.

**[DEAR 970.5204-75]**

\* When necessary make determination of allowability/non-allowability of costs.

Review and approve, only as appropriate, the incurrence of those costs indicated in "Allowable Costs," clauses requiring CO approval or direction.

Review, evaluate and negotiate an advance agreement on personnel costs (personnel appendix), and any changes thereto, as described in more detail in Chapter 3, "Contractor Human Resources Management," of this Reference Book.

**[DEAR 970.5204-13, DEAR 970.5204-14]**

Once notified by the contractor of any State or local tax, fee, or charge levied or purported to be levied on or collected from the contractor with respect to contract work, determine, in consultation with counsel, if such tax is applicable and valid and would otherwise be an allowable cost. If so, authorizes in writing the payment of such tax, fee, or charge.

**[DEAR 970.5204-23]**

After evaluation and consultation with counsel, to the extent indicated, authorize the contractor to:

- Take such action as may be required to cause any State or local tax, fee or charge which would be an allowable cost to be paid under protest;
- Take such action as may be required to seek recovery of the payment(s); and
- To institute litigation to recover any such payment or if a claim or suit is filed against the contractor for collection of a tax, fee, or charge.

**[DEAR 970.5204-23]**

In consultation with legal counsel, review and approve, only as appropriate, the incurrence of those costs indicated in DEAR 970.5204-61.

While any proceeding, covered by DEAR 970.5204-61 paragraphs (b) and (f), is pending, generally withhold payment and not authorize the use of funds advanced under the contract for the payment of such costs except as provided in the clause.

**[DEAR 970.5204-61]**

Review, evaluate and approve or deny, as appropriate, the contractor's requested transfer of the contract or interest therein or claim thereunder.

**[DEAR 970.5204-28]**

Provide a letter of identification, as necessary, so Contractor employees can make use of all travel discounts offered to Federal travelers [contracted airlines, discount air fares, hotel's and motel's lodging rates and car rentals).

Ensure that any contractor cost proposals make reasonable use of travel discounts available to Federal employees.

**[DEAR 952.251-70]**

Evaluate and to the extent appropriate grant approval of contractor requests for foreign travel.

**[DEAR 952.247-70, Acquisition Letter 94-9, DEAR 970.5204-13, DEAR 970.5204-14]**

Negotiate, to the extent applicable, an equitable adjustment if any change required by the Government necessitates a change in the contractor's accounting practices.

Execute an equitable adjustment with the contractor if the contractor or a subcontractor fails to comply with Cost Accounting Standards.

**[FAR 52.230-2]**

If the examination of a voucher or invoice raises a question regarding the allowability of a cost:

- Hold informal discussion with the contractor as appropriate.
- Issue a notice (letter, memo, etc.) to the contractor advising of cost disallowed or to be disallowed and advising the contractor that it may:
  - (i) Submit a written claim as to why the cost should be reimbursed--if in disagreement with the disallowance.
  - (ii) File a claim under the disputes clause, which will be processed in accordance with disputes procedures in the event disagreements cannot be settled.
- Process the voucher or invoice for payment and advise the finance office to deduct the disallowed cost when scheduling the voucher for payment.

**[FAR 52.242-17],DEAR 942.803]**

When auditor reports or other notifications question cost or consider them unallowable, follow up such reports and resolve all such cost issues promptly by determining, through discussions with the contractor and/or auditor within six months of the audit report date, or date of receipt if a non-Federal audit.

**[DEAR 942.803]**

## **CONTRACTOR**

Submit to the CO a description of any cost accounting practice change.

After a cognizant Federal agency official determination of materiality, submit a cost impact proposal in the form and manner specified by the CO.

**[FAR 52.230-6]**

Agree to appropriate contract and subcontract amendments to reflect adjustments established. For all subcontracts subject to the clauses at FAR 52.230-2, 52.230-3, or 52.230-5 include the substance of this clause

**[FAR 52.230-6]**

Refrain from charging certain costs associated with political activities, and providing information and expert advice to members of legislative branches of governments and their staff unless directed to do so by the CO.

Advise the CO as soon as possible of any provision of information or expert advice to members of legislative branches of governments and their staff.

**[DEAR 970.5204-17]**

With the written authorization of the CO, initiate litigation against third parties.

Give immediate notice, including all pertinent papers, to CO of any legal proceedings including proceedings before administrative agencies against the contractor arising out of performance of the contract.

Except as otherwise provided in the clause, procure, maintain and obtain CO approval of bonds and insurance, as required by law or approved in writing by the CO.

**[DEAR 970.5204-31]**

Charge that reasonable portion of the costs allocable to the contract for (1) required bonds and insurance, and (2) liabilities and reasonable incidental expenses, in accordance with the provisions of DEAR 970.5204-31.

Separately identify, differentiate and account for litigation costs, including counsel fees, judgments and settlements.

**[DEAR 970.5204-31]**

Immediately notify the CO of any suit or action filed or claim made against the contractor the cost for which may be reimbursable to the contractor and the risk of which is uninsured or is insured for less than the amount of the claim.

**[DEAR 970.5204-31]**

Inspect the site and facilities and timely identify to the CO those conditions which it believes could give rise to a liability, etc. under the "Preexisting Conditions" clause.

Take any corrective action, associated with preexisting conditions, directed by the CO or as required elsewhere in the contract.

**[DEAR 970.5204-75]**

Charge only those costs to the contract which are allowable and reasonable.

**[DEAR 970.5204-13, DEAR 970.5204-14, FAR 31.201-2, FAR 31.201-3, DEAR 970.5204-61]**

Review, evaluate and negotiate an advance agreement on personnel costs (personnel appendix), and any changes thereto, as described in more detail in Chapter 3, "Contractor Human Resources Management," of this Reference Book.

Demonstrate to the CO that, for civil fines and penalties only, the criteria for allowability has been met pursuant to the "Allowable Costs" clauses.

**[DEAR 970.5204-13, DEAR 970.5204-14]**

Notify the CO of any State or local tax, fee, or charge levied or purported to be levied on or collected from the contractor with respect to contract work. Refrain from paying any such tax, fee or charge unless authorized in writing by the CO.

Take such action as may be required or approved by the CO to cause any State or local tax, fee or charge which would be an allowable cost to be paid under protest and to take such action as may be required or approved by the CO to seek recovery of the payment(s).

Institute litigation, as directed by the CO, to recover any such payment or if a claim or suit is filed against the contractor for collection of a tax, fee or charge.

**[DEAR 970.5204-23]**

Obtain written authorization of the CO prior to assigning or transferring the contract or interest therein or claim thereunder.

**[DEAR 970.5204-28, FAR 32.802]**

Use the lowest available commercial airfare, hotel and motel lodging rates and car rentals for all necessary travel under the contract, except when such accommodations are not reasonably available.

**[DEAR 970.3102-17]**

Request approval of foreign travel approximately 45 days prior to planned departure including any required notification of travel to Soviet-Bloc.

**[DEAR 952.247-70]**

Comply with Cost Accounting Standards, disclose accounting practices and follow disclosed, and established cost accounting practices consistently.

Negotiate an equitable adjustment, to the extent applicable, with the CO, if any change required by the Government necessitates a change in the contractor's accounting practices.

**[FAR 52.230-2, FAR 52.230-5]**

Agree to an equitable adjustment with the CO if the contractor or a subcontractor fails to comply with Cost Accounting Standards.

Insert these clauses in all negotiated subcontracts in excess of \$500,000, except that this requirement shall not apply to negotiated subcontracts otherwise exempt from the requirement to include the Cost Accounting Standards clause.

**[FAR 52.230-2, FAR 52.230-5]**

Comply with the requirements of the “Interest” clause for paying interest on all amounts that become payable by the Contractor to the Government under the contract.

**[FAR 52.232-17]**

Comply with the requirements of the “Bankruptcy” clause in providing written notification of the bankruptcy to the CO responsible for administering the contract.

**[FAR 52.242-13]**

## **CONTRACTING OFFICER’S REPRESENTATIVE**

\* Inspects contractor’s work as necessary.

## REGARDING FINANCIAL SYSTEMS

### CHIEF FINANCIAL OFFICER

Ensure that an integrated contractor's accounting practices and system conform with generally accepted accounting principles and the standards of the Cost Accounting Standards Board.

**[DOE Order 534.1; "DOE Accounting Handbook," pages 4-1 through 4-2, section 2, "Accounting Structure; DEAR 970.5204-9]**

\* Use its best efforts to obtain the appropriation of funds.

**[DEAR 970.5204-15]**

May, through financial plans or other directives issued to the contractor, establish controls on the costs to be incurred and commitments to be made in the performance of the contract work, and may amend or supplement such plans and instruction from time to time.

**[DOE Order 534.1, pgr.5b; DEAR 970.5204-15]**

Advise CO on the amounts owed to the Government by the contractor, including any amounts owed for disallowed costs under the contract.

**[DOE Order 534.1; "DOE Accounting Handbook," pages 4-4, paragraph 2d(2)(b)2]**

Advise CO on whether the bank account balance exceeds contractor's current needs.

**[DOE Order 534.1; "DOE Accounting Handbook," pages 6-10 through 6-12, paragraph 7; DEAR 970.5204-16]**

Advise the CO regarding promptly paying the contractor unpaid balances of allowable costs and fixed fee upon termination, expiration, or completion of work upon contractor's compliance with DOE's patent clearance requirements and receiving appropriate assignments, statements, accounting, and releases.

**[DOE Order 534.1; "DOE Accounting Handbook," pages 21-1 and 21-2, paragraphs 2, 3, and 4; DEAR 970.5204-16]**

Determine and advise the CO whether the systems of controls employed by the contractor are satisfactory.

**[DOE Order 534.1; DOE Accounting Handbook," Chapter 4; DEAR 970.5204-20]**

Review and approve, if appropriate, any deviations from the language of all standard DEAR clauses with financial management implications.

**[Acquisition Letter 93-2]**

Participate actively in the formulation of performance incentives negotiated with DOE contractors to ensure sound cost-related considerations are incorporated.

Assist the Contracting Officer with fee pool negotiations and the related cost incentive considerations.

Participate actively in any groups that have a role in validating costs related to incentives, allocating award and incentive fees and recommending the fee amounts to be paid to DOE contractors.

Ensure that costs related to performance incentives are adequately tracked.

Ensure that as the Department incorporates incentives in contracts that cover multiple fiscal years, adequate administrative funds controls exist to preclude violations of budgetary and legal requirements.

Inform Headquarters Chief Financial Officer of any significant financial management or budgetary problems concerning performance incentives

Field Chief Financial Officers will evaluate contractor accounting system capabilities to ensure they are optimized and understood by program managers with respect to tracking costs related to performance-based incentives.

Be actively involved to the same degree in any Cost Reduction Incentive Program efforts as in the Performance-Based Incentive activities and to inform Headquarters Chief Financial Officer of any significant financial management or budgetary problems concerning Cost Reduction Incentives.

**[Chief Financial Officer Memorandum of October 30, 1998]**

## **HEAD OF THE CONTRACTING ACTIVITY**

Ensure that contractors establish and maintain internal controls concerning travel costs and enforce contract requirements by establishing appropriate oversight mechanisms to review contractors operations.

**[Acquisition Letter 94-9]**

## **CONTRACTING OFFICER**

When requested by the contractor, arrange for an audit of subcontractor's costs by a cognizant audit agency.

**[DEAR 970.5204-9]**

Require the contractor to deliver to the government or dispose of records as determined in consultation with the appropriate office cognizant over those records [i.e., GC, EH, DP, EM, etc.).

**[DEAR 970.5204-9]**

Require the contractor to deliver reports and schedules, financial and cost reports, and other reports concerning the work under the contract as the CO may from time to time require in consultation with the DOE office cognizant over those reports.

**[DEAR 970.5204-9]**

\* Provide written notice to the contractor of unilateral increase in obligated amount.

**[DEAR 970.5204-15]**

\* Unless the parties otherwise agree, excuse the contractor from further performance (except such performance as may become necessary in connection with termination by the Government).

**[DEAR 970.5204-15]**

\* May, through financial plans or other directives issued to the contractor, establish controls on the costs to be incurred and commitments to be made in the performance of the contract work, and may amend or supplement such plans and instruction from time to time.

**[DEAR 970.5204-15]**

\* Determine whether fixed-fee payments and/or base fee and award fee pool amount earned payments shall be made by direct payment or withdrawn from funds advanced or available under the contract.

\* May offset against fee payment, the amounts owed to the Government by the contractor, including any amounts owed for disallowed costs under the contract.

**[DEAR 970.5204-16]**

\* Provide written approval prior to fixed-fee payment or base fee or award fee pool amount earned payment withdrawal against the letter-of-credit.

**[DEAR 970.5204-16]**

Reach agreement with the contractor as to extent to which payment shall be made.

Provide written approval for payments for other specific items.

**[DEAR 970.5204-16]**

\* In consultation with the Chief Financial Officer, determine whether the bank account balance exceeds contractor's current needs.

**[DEAR 970.5204-16]**

\* Approve contractor submitted voucher, for the total of net expenditures accrued (i.e., net costs incurred), in consultation with Chief Financial Officer and following audit and appropriate adjustments of the voucher.

**[DEAR 970.5204-16]**



\* In consultation with the Chief Financial Officer, promptly pay the contractor unpaid balances of allowable costs and fixed fee upon termination, expiration, or completion of work upon contractor's compliance with DOE's patent clearance requirements and receiving appropriate assignments, statements, accounting, and releases.

**[DEAR 970.5204-16]**

\* Prescribe supporting documents and justification for claims of credit against funds advanced for payment.

**[DEAR 970.5204-16]**

\* Determine whether or not the contractor is taking, and affording the Government the advantage of, all known and available cash and trade discounts, rebates, allowances, credits, salvage, and commissions is in the best interest of the Government.

**[DEAR 970.5204-16]**

\* Provide written notice to the contractor when the government elects to pay directly all amounts due.

**[DEAR 970.5204-16]**

\* Coordinate with the Chief Financial Officer and/or Inspector General on bringing the contractor's systems into compliance if the systems of controls employed by the contractor are not satisfactory.

**[DEAR 970.5204-20]**

## **CONTRACTOR**

Annually, and at other agreed upon times, conduct internal audits and examinations, satisfactory to DOE, of the records, operations, expenses, and the transactions with respect to costs claimed to be allowable.

Maintain system of accounts satisfactory to DOE in accordance with generally acceptable accounting principles.

Deliver reports as required by the CO.

Allow inspection and audit of records at proper facilities.

**[DEAR 970.5204-9]**

Conduct audit of subcontractor's costs or arrange for such audit through the CO.

Deliver records to DOE or dispose of records upon direction by CO. (See also DEAR 970.5204-79)

Include provisions similar to DEAR 970.5204-9 in all subcontracts.

**[DEAR 970.5204-9]**

In situations where prime contract contains a “Defective Cost or Pricing Data” clause, include an “audit” clause in all subcontracts when provisions similar to 970.5204-9 are not included but contains a “defective cost or pricing data” clause.

**[DEAR 970.5204-9]**

Accept unilateral increase in obligated amount with written notice from DOE. Either agree or disagree with increase or decrease in obligated amount.

Notify DOE in writing whenever the unexpended balance of funds is sufficient to cover continuance of contract operations only for the time specified in the contract.

**[DEAR 970.5204-15]**

Immediately notify DOE when the unexpended balance of funds is sufficient only to liquidate outstanding commitments and liabilities or is equal to zero, and make no further commitments or expenditures (except to liquidate existing commitments and liabilities).

Promptly notify DOE in writing, whenever it has reason to believe the authorized financial levels of costs and commitments will be exceeded or substantially underrun.

**[DEAR 970.5204-15]**

Reach agreement with the CO as to extent to which payment shall be made under the contract. Withdraw funds advanced, pursuant to a letter of credit or made by check payable to the contractor.

**[DEAR 970.5204-16]**

If CO determines that the balance on such bank account exceeds the contractor’s current needs, dispose of excess in the account as the CO may direct.

Deposit revenues in the Special Bank Account.

Prepare and submit annually a voucher for the total of net expenditures accrued for the period covered by the voucher.

Comply with DOE’s patent clearance requirements and provide appropriate assignments, statements, accounting, and releases.

**[DEAR 970.5204-16]**

Provide supporting documents and justification for claims of credit against funds advanced for payment.

Take and afford the Government the advantage of all known and available cash and trade discounts, rebates, allowances, credits, salvage, and commissions.

**[DEAR 970.5204-16]**

Maintain a baseline quality assurance program.

Maintain effective systems of management controls.

Periodically review the management system and internal controls.

**[DEAR 970.5204-20]**

## **INSPECTOR GENERAL**

\* Has the right to inspect and audit at all reasonable times.

**[DEAR 970. 5204-9]**

\* Inspects contractor's work as necessary.

**[DEAR 970. 5204-9]**

\* Determines if contractor conducted internal audit and examination of the records, operations, expenses, and the transactions with respect to costs claimed to be allowable are satisfactory to DOE.

**[DEAR 970.5204-9]**

\* Determines and advise the CO whether the systems of controls employed by the contractor are satisfactory.

**[DEAR 970.5204-20]**

Conduct financial related audits to determine whether:

- financial information is presented in accordance with established or stated criteria,
- the entity has adhered to specific financial compliance requirements, or
- the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

**[Web Site for the Office of the Inspector General (See Appendix B)]**

## WHERE CAN I GO FOR MORE DETAILED INFORMATION ON FINANCIAL MANAGEMENT?

### On Contract Cost Principles

1. DEAR 942.803, “Disallowing Costs After Incurrence”
2. DEAR 952.251-70, “Contractor Employee Travel Discounts”
3. DEAR 952.247-70, “Foreign Travel”
4. DEAR 970.2902, “State and Local Taxes”
5. DEAR 970.3102-17, “Travel Costs”
6. DEAR 970.5204-13, “Allowable Costs and Fixed Fee (Management and Operating Contracts)”<sup>1</sup>
7. DEAR 970.5204-14, “Allowable Costs and Fixed-Fee (Support Contracts)”<sup>2</sup>
8. DEAR 970.5204-17, “Political Activity Cost Prohibition”
9. DEAR 970.5204-23, “Taxes”
10. DEAR 970.5204-28, “Assignment”
11. DEAR 970.5204-31, “Insurance--Litigation and Claims”
12. DEAR 970.5204-61, “Cost Prohibitions Related to Legal and Other Proceedings”
13. DEAR 970.5204-75, “Preexisting Conditions”
14. DOE Acquisition Guide, Chapter 70, “DOE Management and Operating Contracts,” Section on “Entertainment, Gift & Recreation Costs”
15. Acquisition Letter 94-9, “Travel Costs”
16. DOE Order 350.1, Chapter VII, “Risk Management and Liability Programs”
17. FAR 31.201-2, “Determining Allowability”
18. FAR 31.201-3, “Determining Reasonableness”
19. FAR 31.205-47, “Costs Related to Legal and Other Proceedings”
20. FAR 42.903, “Solicitation Provision and Contract Clause”

---

<sup>1</sup>The Department is processing a proposed rule-making to delete DEAR 970.5204-13 and -14. When completed the rule-making will replace these allowable costs clauses with the FAR Part 31 cost principles. Any special DOE requirements beyond what FAR Part 31 covers would be addressed in DEAR 970.31.

<sup>2</sup>The Department is processing a proposed rule-making to delete DEAR 970.5204-13 and -14. When completed the rule-making will replace these allowable costs clauses with the FAR Part 31 cost principles. Any special DOE requirements beyond what FAR Part 31 covers would be addressed in DEAR 970.31.

21. FAR 52.230-2, “Cost Accounting Standards”
22. FAR 52.230-5, “Cost Accounting Standards - Educational Institutions”
23. FAR 52.230-6, “Administration of Cost Accounting Standards”
24. FAR 52.232-17, “Interest”
25. FAR 52.242-13, “Bankruptcy”
26. FAR 52.242-17, “Notice of Intent to Disallow Costs”

## On Financial Systems

27. DEAR 970.0407, “Record Retention Requirements”<sup>3</sup>
28. DEAR 970.0901, “Management Controls”<sup>3</sup>
29. DEAR 970.1508, “Price Negotiation,” paragraph (c)<sup>3</sup>
30. DEAR 970.15404-4, “Fees for Management and Operating Contracts.
31. DEAR 970.30, “Cost Accounting Standards”
32. DEAR 970.32, “Contract Financing”
33. DEAR 970.3202, “Advance Payments”
34. DEAR 970.3270, “Clauses”<sup>3</sup>
35. DEAR 970.3271, “Special Bank Account Agreement”<sup>4</sup>
36. DEAR 970.5204-9, “Accounts, Records, and Inspection”
37. DEAR 970.5204-15, “Obligation of Funds”
38. DEAR 970.5204-16, “Payments and Advances,”
39. DEAR 970.5204-20, “Management Controls.”
40. DEAR 970.5204-44, “Flowdown of Contract Requirements to Subcontracts”
41. DOE Acquisition Guide, Chapter 70, “DOE Management and Operating Contracts,” Section on “Cooperative Audit Strategy”
42. DOE O 130.1, “Budget Formulation”
43. DOE O 135.1, “Budget Execution - Funds Distribution and Control”
44. DOE Order 534.1, “Accounting” (includes the DOE Accounting Handbook available on the Office of Financial Policy home page at [www.cfo.doe.gov/policy/](http://www.cfo.doe.gov/policy/))
45. Chief Financial Officer Act of 1990
46. Acquisition Letter 93-2<sup>5</sup>

---

<sup>3</sup>This reference will be changed as a result of the rule making establishing financial management clauses.

<sup>4</sup>This clause will be deleted as a result of the rule making establishing financial management clauses.

<sup>5</sup>Modifies the provisions contained in DEAR 970.5204-9, “Accounts, Records, and Inspection,” DEAR 970.5204-15, “Obligation of Funds,” DEAR 970.5204-16, “Payments and

47. Proposed Rule, RIN 1991-AB02; FR Vol. 63, Pages 64024-64031, Nov. 18, 1998<sup>5</sup>
48. Chief Financial Officer Memorandum of October 30, 1998
49. Chief Financial Officer Document “Guiding Principles for Effective Financial Management of Department of Energy’s Contractors”
50. FAR 32.8, “Assignment of Claims”

**DO YOU HAVE ANY COMMENTS OR SUGGESTIONS FOR  
IMPROVING THIS CHAPTER OR THE BOOK? IF SO, PLEASE  
CONTACT US AT:**

**[editor@pr.doe.gov](mailto:editor@pr.doe.gov)**

---

Advances,” and DEAR 970.5204-20, “Management Controls.”