

**CHAPTER 15.1**  
**DOE APPLICATION OF CONTRACTOR COST ACCOUNTING STANDARDS**

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## I. INTRODUCTION

### I.A. Purpose and Scope

This chapter provides Department of Energy (DOE or Department) policy for the specific application of certain aspects of Cost Accounting Standards (CAS) for contractors, as codified in 48 Code of Federal Regulations (CFR) Chapter 99.

This chapter does not provide a comprehensive overview of CAS. The chapter only discusses aspects of cost accounting for which DOE-specific implementation guidance is needed to apply CAS in a manner consistent with DOE-specific laws, regulations, contract provisions, and business operations. DOE contractors shall comply with CAS not discussed explicitly in this chapter consistent with contract provisions.

Cost accounting guidance for Laboratory, Plant, and Site, Directed Research and Development (LDRD), (PDRD), and (SDRD) is contained in Chapter 15.2 of the *Financial Management Handbook*.

### I.B. Applicability

#### I.B.1. General Applicability—All Content in the Chapter

DOE Management and Operating (M&O) contracts and other contracts with the DOE Acquisition Regulation (DEAR) clause 970.5232-3, *Accounts, records, and inspection*, or successor clause. Departmental Elements may determine the applicability of this policy to other site/facility management contractors.

#### I.B.2 Specific Applicability for Section II.D

This section applies to contracts for which DOE has a contractual obligation to reimburse the contractor for actual payments made to pension plans in the current period.

#### I.B.3. Specific Applicability for Section II.F

Section II.F provides guidance for DOE contractors and Departmental Elements regarding cost accounting practices for safeguards and security (S&S) costs. It also provides related guidance to Departmental Elements regarding the preparation of the Congressional Budget Request for S&S costs.

#### I.B.4. Specific Applicability for Section III

Section III provides guidance to DOE offices and contractors on resolving pension plan curtailments and applies to any request to DOE for reimbursement by a contractor as a result of a pension plan curtailment.

### I.C. Basic Requirements

#### I.C.1. Contractor Responsibility

Contractors are responsible for compliance with CAS and for

maintaining adequate documentation to demonstrate compliance, consistent with contract requirements, including the Federal Acquisition Regulation (FAR) clause at FAR 52.230-2 (48 CFR 52.230-2), *Cost Accounting Standards*.

### **I.C.2. Disclosure of Cost Accounting Practices**

The purpose of the Disclosure Statement is to establish a clear understanding of the cost accounting practices that the contractor uses to measure, assign, and allocate costs. CAS covered contractors and subcontractors are required to disclose in writing and consistently follow their cost accounting practices per 41 USC 422 (Public Law 100-679). Disclosure Statement requirements are governed by 48 CFR 9903.202. The CAS Disclosure Statement required by 48 CFR 9903.202-9 includes a requirement for the contractor to certify the accuracy and completeness of the disclosed practices.

The Cognizant Federal Agency Official (CFAO) for CAS administration is responsible for issuing determinations of adequacy and compliance of the Disclosure Statement, consistent with the provisions of FAR Part 30, including FAR 30.202-7 (48 CFR 30.202-7). The CFAO is designated consistent with the provisions of DOE Order 520.1B, Chg 2 (LtdChg), *Financial Management and Chief Financial Officer Responsibilities*.

### **I.C.3. Application of DOE Policy**

This financial management policy provides application guidance for DOE contractors in accordance with DOE-specific laws, regulations, contract provisions, and guidance received from the CAS Advisory Board.

As specified by DOE acquisition regulations, contractors are not liable for any practice deemed to be noncompliant with CAS if the deemed noncompliance is caused by the contractors' compliance with published DOE financial management policies and procedures or other requirements established by the Department's Chief Financial Officer (CFO) or Senior Procurement Executive (48 CFR 970.5232-5, *Liability with Respect to Cost Accounting Standards*).

## **II. COST ALLOCATION POLICY AND REQUIREMENTS**

### **II.A. Changes to the Indirect Cost Allocation Model**

#### **II.A.1. Determining When Changes are Needed**

Changes may be required to a contractor's indirect cost model to maintain an equitable allocation of costs to final cost objectives when significant changes occur that affect the indirect cost model. As specified in FAR 31.203(e) (48 CFR 31.203(e)), *Indirect Costs*, such changes may include "the nature of the business, the extent of

subcontracting, fixed-asset improvement programs, inventories, the volume of sales and production, manufacturing processes, the contractor's products, or other relevant circumstances.”

### **II.A.2. DOE Process for Assessing Potential Changes to the Cost Allocation Model**

When significant changes occur at a DOE laboratory or site, the contractor should examine its indirect cost allocation model to assess whether changes are appropriate to maintain cost accounting practices that result in an equitable allocation of indirect costs to the final cost objectives.

Additionally, DOE policy allows the Designated Financial Officer or the CFAO for CAS administration the discretion to establish an integrated review team—including both Federal and contractor staff—to review potential changes to the contractor's indirect cost allocation model. Any changes proposed by the integrated review team must be processed as specified in section II.A.3 of this chapter and relevant contract provisions.

Attachment 15-1 of this chapter provides guidance for more detailed options for addressing inequitable cost allocation practices.

### **II.A.3. Processing Changes**

Both administrative changes for clarification and proposed changes to cost accounting practices as defined by 48 CFR 9903.302-2 should be processed consistent with the provisions of FAR 52.230-6 (48 CFR 52.230-6), Administration of Cost Accounting Standards. While the FAR clause specifies a minimum of 60 days' notice of proposed changes in cost accounting practices, additional time may be needed for review, acceptance, and implementation of significant cost accounting changes. The CFAO should specify to contractors the appropriate timeline for submitting significant accounting practice changes for DOE review.

DOE policy (this chapter) requires that any proposed cost accounting change be accompanied by a cost impact statement unless waived by the CFAO. When the DOE contract represents a separate business unit (cost accounting segment), DOE policy (this chapter) requires that cost impact statements show the effects of the proposed changes to the final cost objectives, not to the overall contract cost.

## **II.B. Construction**

### **II.B.1. General Requirements**

Unless otherwise approved in advance by the CFAO, construction projects must be treated like other final cost objectives for purposes of cost allocation. Allocation rates must be the same for operating and construction cost objectives unless there are cost centers or

costs that are material and do not have a causal/beneficial relationship to construction projects.

Special allocations, when warranted, apply to individual final cost objectives and contractors should not charge a special allocation of indirect costs or develop separate rates for construction as a category or class of project. For additional requirements regarding special allocations refer to II.E of this chapter.

### **II.B.2. Allocation of Laboratory Directed Research and Development (LDRD)**

In accordance with DOE Order 413.2C, *Laboratory Directed Research and Development*, line-item construction is excluded from the operating and capital equipment budgets used to establish LDRD funding levels and accrue LDRD funding. This exclusion applies only to line-item construction projects and does not apply to minor construction.

For additional information on cost accounting for Laboratory, Plant, and Site Directed Research and Development see Chapter 15.2 of the *Financial Management Handbook*.

## **II.C. Managing Indirect Cost Pool Variances**

### **II.C.1. General Requirements**

CAS 418-50(g) specifies requirements for managing preestablished indirect rates throughout the fiscal year and addressing variances between indirect rate allocations and actual costs incurred from the associated indirect cost pool. Additionally, DOE policy requires contractors to actively manage indirect cost rates by adjusting rates as needed during the year to minimize end-of-year variances (DOE Order 520.1B, Chg 2).

### **II.C.2. Dispositioning Variances**

#### **II.C.2.i. CAS Guidance—Techniques for Application**

As part of active management of preestablished rates for indirect costs, contractors must follow the provisions of CAS 418-50(g). In particular, CAS 418-50(g)(4) indicates that when variances are material, the variances “shall be disposed of by allocating them to the cost objectives in proportion to the costs previously allocated to these cost objectives by use of the preestablished rates.”

#### **II.C.2.ii. Determining Materiality**

DOE policy (this policy) defines materiality for the purpose of dispositioning indirect cost pool variances by assessing impacts on the total cost assigned to each final cost objective.

When defining materiality, contractors should consider

the materiality factors defined in 48 CFR 9903-305. Consistent with the intent of 48 CFR 9903-305(f), when the administrative cost of processing the adjustment exceeds the amount of the adjustment, DOE does not deem the amount to be material.

DOE policy (this policy) requires that materiality be expressed as both a percentage of the overall cost of each final cost objective and a maximum nominal amount that can be considered an immaterial variance for each final cost objective.

#### **II.C.2.iii. Required Disclosure**

Contractors must document any relevant materiality threshold, and practices for resolving both material and immaterial variances, in both their CAS disclosure statement and their supporting policies and procedures.

#### **II.C.2.iv. Review and Acceptance**

DOE policy (this policy) requires that materiality thresholds be reviewed and accepted by the CFAO for CAS administration. The CFAO may request review of the proposed threshold by the cognizant contract auditor.

### **II.C.3. Final Cost Objective Closeout**

#### **II.C.3.i. General Requirement**

Closeout practices, including the determination of the cost assigned to a final cost objective for a specific cost accounting period (the DOE fiscal year for DOE contractors), should ensure compliance with CAS, including CAS 418-50(g)(4) which provides policy regarding the disposition of material variances, and the materiality provisions contained in section II.C.2 of this chapter.

#### **II.C.3.ii. Cost Accounting Closeout Prior to Year End**

If a contractor's cost accounting practices allow for a final determination of the costs accrued to a final cost objective before year end rates are determined, the contractor must demonstrate that the practice has no material effect on the costs allocated to final cost objectives. The contractor's process for evaluating materiality (including thresholds) must be documented in the contractor's CAS disclosure statement.

#### **II.C.3.iii. Rate Adjustments After Year End**

Indirect rates will not be adjusted after year end close. As noted in II.C.3.i, adjustments having a material impact on

the costs accrued to a final cost objective must be made prior to year end close.

#### **II.C.3.iv. Disallowed Indirect Costs Related to Prior Cost Accounting Periods**

Questioned costs can arise from audits or other evaluations and assessments that occur after the close of a cost accounting period. The Contracting Officer determines whether questioned costs are allowable under the terms of the contract and the applicable provisions of FAR.

If a Contracting Officer disallows indirect costs from a prior cost accounting period, the indirect rates from that prior period will not be adjusted. Recoveries of these disallowed costs should be returned to Treasury as miscellaneous receipts when these recoveries cannot be associated with a specific funding source.<sup>1</sup> See also section 4 of Chapter 13.2 of the Financial Management Handbook, *Collections*.

When the need for a change in cost accounting practices is identified as a result of an audit or other evaluation or assessment, those changes should be made prospectively unless otherwise directed by the CFAO.

### **II.D. Pension Plan Contributions**

#### **II.D.1. General Policy**

When specified in the contract, DOE reimburses M&O and certain site/facility management contractors for pension costs based on amounts contributed to the pension fund trust for the fiscal year in which pension plan contributions are made. Contributions are allocable to the contract in the year in which the plan contributions are made.

The Department reimburses contractors for at least the minimum required contributions under the Employee Retirement Income Security Act (ERISA) as amended. The Department may also reimburse the contractor for contributions made in excess of the ERISA minimum when approved by the Contracting Officer.

DOE policies regarding pension plan contributions defer to DOE specific contract provisions, consistent with instructions received by the CAS Advisory Board staff on how apply the requirements of CAS 412 to DOE contracts.

#### **II.D.2. DOE Role in Contractor Pension Plans**

The Department's contracts include language that defines the pension funding requirements in the terms and conditions. Consistent with the Department's contracts, DOE assumes the

responsibility for guaranteeing or underwriting the contractor's cash flow needs for meeting the ERISA funding requirements.

Upon contract termination, the pension plan's assets and liabilities transfer to the successor contractor. DOE assumes the responsibility for reimbursing its contractors for contributions required under ERISA and making plans sufficient in the event of a plan termination.

### **II.D.3. Determining Cost Allowability for Pension Plan Contributions**

Chapter 30.201 of the DOE Acquisition Guide provides direction to contracting officers on reimbursing contractors for pension contributions consistent with the "Employee Compensation: Pay and Benefits H-Clause (known as the H-Clause)" or other applicable contract provisions in the contracts for M&O and site/facility contractors. The Department will not disallow costs or penalize a contractor for CAS noncompliance due to the contractor's compliance with DOE direction.

The H-Clause or other applicable contract provisions contained in DOE contracts require contractors to maintain the tax-qualified status of pension plans consistent with ERISA requirements and the Internal Revenue Code. The H-Clause or other applicable contract provisions describe the approval process when contractors request approval for alternative funding strategies above the minimum required contributions.

The H-Clause or other applicable contract provisions require the contractors to submit annual Pension Management Plans (PMPs) containing both a schedule showing the ERISA minimum required contributions and another schedule showing an alternative funding strategy of funding above the minimum. In these schedules, the contractors provide projected contributions for the current fiscal year and the next six future fiscal years. The Contracting Officer must approve contributions made above the ERISA minimum amount in the fiscal year in which the contribution occurs.

## **II.E. Special Allocations**

### **II.E.1. DOE Requirements**

There should be limited use of special allocation CAS provisions per DOE policy (this policy). Special allocations may be used to resolve situations where equitable allocation of General and Administrative (G&A) costs and other indirect costs cannot be achieved by other methods, including the methods described in sections II.A and Attachment 15-1 of this policy. Requirements related to a special allocation of G&A are specified in CAS 410-50(j) and requirements relating to special allocations for other indirect costs are specified in 418-50(f).

A special allocation is appropriate only when a single final cost

objective in relation to other final cost objectives receives significantly more or less benefit from a G&A or other overhead pool when compared to the current allocation received. A special allocation should not be applied to certain categories of costs or a class of projects (e.g., a lesser allocation rate for construction projects in general).

### **II.E.2. Disclosure and Cost Impact**

The contractor must provide a cost impact statement for any proposed special allocation of G&A or indirect costs.

A special allocation represents a change in cost accounting practices. See section II.A.3 for requirements relating to processing changes to cost accounting practices.

## **II.F. Safeguards And Security**

### **II.F.1. General Requirement**

DOE pricing policy (DOE Order 522.1A) requires full cost recovery for materials and services provided to non-DOE organizations and agencies. Full cost recovery includes site safeguards and security (S&S) costs; thus, DOE must recover an applicable share of site S&S expenses from non-DOE customers, including the Department of Homeland Security.

DOE appropriations provide separate funding for DOE's portion of sites' S&S costs. DOE's Congressional Budget Requests disclose DOE's practice of recovering an allocable share of S&S costs from non-DOE customers.

### **II.F.2. Application to Cost Accounting Practices**

- II.F.2.i. DOE contractors must establish cost accounting structures that accommodate both the expenditure of direct funding from DOE appropriations for S&S and charge an allocable share of the site's base S&S expenses to non-DOE customers. Expending directly appropriated funds and recovering costs from non-DOE customers are not like circumstances, thus the required DOE practice does not conflict with the requirements of CAS 402, *Consistency in Allocating Costs Incurred for the Same Purpose*.
- II.F.2.ii. Designated Financial Officers may determine that anticipated recoveries of S&S costs from non-DOE customers are not material for a particular site, and thus the site is not required to recover S&S costs from non-DOE customers. Such materiality determinations must be disclosed by the Departmental Element in its section of the Congressional Budget Request.
- II.F.2.iii. Non-DOE customers will be charged for S&S expenses incurred over and above normal site S&S activities.

### **II.F.3. Required Disclosure**

Contractors must document their methodology for allocating S&S costs to non-DOE customers in the CAS disclosure statement.

## **II.G. Contractor Fee**

### **II.G.1. General Policy**

- II.G.1.i. Fees due for performance by the M&O contractor, including fixed fees, award fees, and incentive fees, represent a cost to DOE. Under the M&O contract model, the fees earned by the M&O contractor are normally payable by the M&O contractor to the contractor's corporate parent(s).
- II.G.1.ii. The fee amount accrued in the current period (see II.G.2.ii of this policy) should be reported separately from contract costs included in the contractor's incurred cost submission.
- II.G.1.iii. The fee amount to be allocated shall be directed by the Contracting Officer consistent with the provisions of 48 CFR 970.1504-103.

### **II.G.2. Application to Cost Accounting Practices**

#### **II.G.2.i. Separate Pool for Fee Allocations**

DOE contractors must establish a separate pool for allocation of fee. The pool(s) established to accumulate the fee(s) must only be used to accumulate the fee. Contract costs must not be comingled in the fee pool. The contractor should establish separate pools when the contract includes different types of fees. This will facilitate the process of confirming that the correct amount of each type of fee is included in the contract and that these are being allocated equitably to each benefiting program, whether DOE or non-DOE.

The contractor's fee must not be included in the G&A pool. While CAS 410-50(c) provides some flexibility for insignificant non-G&A expenses to be included in G&A under certain circumstances, DOE policy does not allow this flexibility regarding fee.

#### **II.G.2.ii. Allocation Methodology**

Contractor fee should be allocated equitably to each benefiting DOE program and non-DOE customer. The methodology for allocating the fee should be disclosed (see I.C.2 of this policy).

## **II.H. Inter-Contractor Work for Transactions between Integrated Contractors**

### **II.H.1. General Policy**

Per Chapter 12 of the Financial Management Handbook, *DOE Internal Reimbursable Transactions*, Inter-Contractor Work (ICW) represents a transaction in which one DOE integrated contractor obtains goods or services from another integrated contractor on a reimbursable basis.

While ICW is not considered a subcontract process,<sup>2</sup> indirect cost allocations generally follow the same practices as are followed for subcontracts.

## **II.H.2. Application to Cost Accounting Practices**

### **II.H.2.i. Requesting Contractor**

The requesting contractor should burden costs from the performing contractor consistent with its disclosed practices for subcontract costs.

The requesting contractor should not apply its LDRD, PDRD, or SDRD rate to ICW. LDRD, PDRD, or SDRD rates should only be applied once to the same contract costs, and these rates are applied to ICW by the performing contractors.

### **II.H.2.ii. Performing Contractor**

ICW is treated the same as other contract work for purposes of indirect cost allocation. The performing contractor should apply indirect rates to the costs incurred in a manner consistent with its disclosed cost accounting practices.

The indirect rates applied should include an equitable allocation of LDRD, PDRD, or SDRD costs, as applicable.

## **III. PENSION PLAN CURTAILMENTS**

### **III.A. Contractor Requirements**

Consistent with CAS requirements, contractors must send a copy of the request for payment due under CAS 413 for a pension plan curtailment<sup>3</sup> and the supporting documentation for the request to their Administrative Contracting Officer (ACO).<sup>4</sup>

When the ACO is not a DOE Contracting Officer, the contractor should provide a courtesy copy of the request to the appropriate DOE procurement office.

### **III.B. DOE Responsibilities**

Payment requests received by DOE, either directly from the contractor or from the ACO, should be forwarded to the Head of Contracting Activity, the Office of Management, and the Office of the Chief Financial Officer (OCFO). When multiple programs are involved, the program with the greatest share of the request for payment as determined by the OCFO will take the lead (herein referred to as the Lead Contracting Officer).

### **III.C. DOE Evaluation of Contractor Request**

The request must be evaluated by the Department's in-house actuaries within the Office of Management and the OCFO for an opinion on whether the request is reasonable. The Department's actuaries will provide a recommendation of whether: 1) payment is recommended and no concerns have been identified regarding the accuracy of the amount requested; 2) the request is unreasonable, and the Department should reject the payment request; or 3) the Department has an obligation to reimburse the contractor for the curtailment, but the accuracy of the amount in the request cannot be confirmed.

If there is an obligation to pay, but the Department's actuaries cannot confirm the amount, the Department may seek assistance from its actuarial consultants as appropriate and may utilize the consultants to assist in negotiating a proposed amount with the contractor and the contractor's actuaries.

### **III.D. Payment**

After the appropriate payment amount is determined, the Department's OCFO will determine how the amount will be allocated to affected DOE Departmental Elements. OCFO will coordinate with program budget offices and the Office of General Counsel as needed to resolve questions regarding the appropriate funding source for required payments.

The Office of Management and the Office of General Counsel will review the payment details for policy or legal concerns. Identified concerns should be resolved by the Lead Contracting Officer in coordination with affected offices. After resolution of any concerns regarding the payment, the Lead Contracting Officer will determine procedures for payment and contractor notification.

## **V. DEFINITIONS**

### **V.A. Actual Costs**

An amount determined on the basis of cost incurred (as distinguished from forecasted cost), including standard cost properly adjusted for applicable variance (CAS 401-30(a)(2)).

### **V.B. Allocation Base**

The population of cost objectives over which an indirect cost pool is allocated.

### **V.C. Business Unit**

Any segment of an organization with separate cost accounting practices, or an entire business organization that is not divided into segments (CAS 410-30(a)(2) and DOE clarification). For DOE site/facility management contracts, the DOE contract is generally a separate business unit or segment (DOE clarification).

**V.D. Cost Objective**

A function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost to processes, products, jobs, capitalized projects, etc. (CAS 410-30(a)(4)).

**V.E. Direct Costs**

Any cost which is identified specifically with a particular final cost objective (product, service, or project). CAS 418-30(a)(2),

**V.F. Final Cost Objective**

A cost objective which has allocated to it both direct and indirect costs and, in the contractor's accumulation systems, is one of the final accumulation points (CAS 410-30(a)(5). For DOE contractors, activities with a discrete funding source represent a final cost objective (DOE clarification).

**V.G. Indirect Costs**

Any cost not directly identified with a single final cost objective but identified with two or more final cost objectives or with at least one intermediate cost objective (CAS 418-30(a)(3)).

Types of indirect cost pools used by contractors include:

**V.G.1. Overhead**

Pools of indirect costs, other than general and administrative (G&A) expenses, that are allocated to final cost objectives without any intermediate allocations (CAS Form DS-1, Section 4.1.0).

**V.G.2. General and Administrative (G&A)**

Any management, financial, and other expense which is incurred by or allocated to a business unit, and which is for the general management and administration of the business unit as a whole (CAS 410-30(a)(6)).

**V.G.3. Service Centers**

Departments or other functional units which perform specific technical and/or administrative services primarily for the benefit of other units within a reporting unit. Examples of service centers are data processing centers, reproduction services, and communications services (CAS Form DS-1, Section 4.3.0).

**V.G.4. Expense Pools**

Pools of indirect costs that are allocated primarily to other units within a reporting unit. Examples of expense pools are use and occupancy pools and fringe benefit pools (CAS Form DS-1, Section 4.3.0).

**V.H. Indirect Cost Pool Variance**

The difference between a preestablished measure and an actual measure (CAS 407-30(a)(9)). Variances may represent either an over or under collection from actual funding requirements in an indirect cost pool (DOE clarification).

**V.I. Intermediate Cost Objective**

A cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives (2 CFR Part 200.1).

**V.J. Line-Item Construction Project**

Construction projects with a cost that exceeds the minor construction threshold (defined in Chapter 2.3 of the Financial Management Handbook). Line-item construction projects are funded as a separate program, project or activity within the DOE budget structure.

**V.K. Preestablished Indirect Rates**

Indirect rates, based on either forecasted actual or standard cost, used in allocating an indirect cost pool (CAS 418-50(g)(1)). For consistency purposes, DOE is using the term “preestablished indirect rate” in its policy guidance.

**VI. REFERENCES**

- Public Law 100-679, Office of Federal Procurement Policy Act Amendments of 1988, which established the requirements for a CAS board and standards.
- Public Law 93-406, *Employee Retirement Income Security Act (ERISA) of 1974*, that establishes minimum standards for pension plans in private industry.
- 41 USC 422 *Cost Accounting Standards Board*, which established the Board within the Office of Federal Procurement Policy
- CFR Title 48 *Federal Acquisition Regulations System*
- 48 CFR Part 30 *Cost Accounting Standards Administration*, that describes policies and procedures for applying CAS Board rules and regulations to negotiated contracts and subcontracts.
- 48 CFR Part 31 *Contract Cost Principles and Procedures*, that contains cost principles and procedures for (a) The pricing of contracts, subcontracts, and modifications to contracts and subcontracts whenever cost analysis is performed; and (b) The determination, negotiation, or allowance of costs when required by a contract clause.
- 48 CFR Part 52 *Solicitation Provisions and Contract Clauses*, that (a) gives instructions for using provisions and clauses in solicitations and/or contracts; and (b) Sets forth the solicitation provisions and contract clauses described by this regulation.

- 48 CFR Chapter 99 - *Cost Accounting Standards Board*, which prescribes policies and procedures for applying CAS to negotiated contracts and subcontracts. Part 9903 *Contract Coverage* and Part 9904 *Cost Accounting Standards* are key parts of Chapter 99.
- 48 CFR 970.5232-3 *Accounts, records, and inspection*
- DEAR 970.3102-370 *Home office expenses*, establishes if the Contractor is allowed to claim Home Office Expenses.
- DEAR 970.5232-3 *Accounts, records, and inspection*, that requires the contractor to maintain a separate and distinct set of accounts, records, etc. for the contract and that all accounts and records related to the contract shall be subject to inspection and audit by DOE or its designees, according to the provisions of contract clauses.
- DEAR 970.5232-5 *Liability with respect to cost accounting standards*, which establishes that Contractors are not liable for any practice deemed to be noncompliant with CAS if the deemed noncompliance is caused by the contractors' compliance with published DOE financial management policies and procedures or other requirements.
- DOE Order 413.2C – Change 1 (Min Chg) - *Laboratory Directed Research and Development (LDRD)*, that establishes DOE requirements for LDRD while providing the laboratory director broad flexibility for program implementation.
- DOE Order 520.1B Change 2, *Financial Management and Chief Financial Officer Responsibilities*, establishes policies and responsibilities for DOE financial and accounting management officials. The order establishes internal controls and financial management oversight requirements including active rate management by DOE contractors. The order also defines the Cognizant Federal Agency Official (CFAO).
- DOE Order 522.1A Change 1, *Pricing of Departmental Materials and Services*, establishes requirements for establishing prices and charges for materials and services sold or provided to external organizations, other Federal agencies, and the private sector either directly or through the Department's site/facility management contracts.
- DOE Acquisition Guide Chapter 30.201, *DOE's Oversight of Certain Contractor Defined Benefit Pension Plans and Its Effect on Contracts, Cost Accounting Standards Compliance, and Audit*, that provides guidance regarding CAS and DOE's oversight of defined benefit pension plans sponsored by DOE contractors under M&O contracts and any other non-M&O major site and facility management contracts where work had previously been performed under a DOE M&O contract.
- Financial Management Handbook Chapter 12 *DOE Internal Reimbursable Transactions*, explains that Inter-Contractor Work (ICW) represents a transaction in which one DOE integrated contractor obtains goods or services from another integrated contractor on a reimbursable basis.

- Financial Management Handbook Chapter 15.2 *Laboratory, Plant, and Site Directed Research and Development*, that provides financial implementation policy for these types of research and development.

## VII. ACRONYMS

ACO	Administrative Contracting Officer
CAS	Cost Accounting Standards
CFAO	Cognizant Federal Agency Official
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
DEAR	DOE Acquisition Regulation
DOE	Department of Energy
ERISA	Employee Retirement Income Security Act
FAR	Federal Acquisition Regulation
G&A	General and Administrative
LDRD	Laboratory Directed Research and Development
M&O	Management and Operating
OCFO	Office of the Chief Financial Officer
PDRD	Plant Directed Research and Development
S&S	Safeguards and Security
SDRD	Site Directed Research and Development
USC	United States Code

## **ATTACHMENT 15-1**

### **SUPPLEMENTAL DOE GUIDANCE: OPTIONS FOR ADDRESSING INEQUITABLE COST ALLOCATIONS<sup>5</sup>**

#### **A. Options for Addressing Inequitable Distribution of G&A Costs**

##### **A.1. Purification of the G&A Pool**

CAS 410 identifies fundamental requirements for the allocation of business unit G&A expenses to final cost objectives. For an expense to be classified as G&A, it must be incurred for managing and administering the whole business unit, as defined by CAS 410-30(a)(6). Consistent with the requirements of CAS 410, management expenses more directly measured by a base other than the business unit as a whole should be removed from the G&A expense pool and included in a separate overhead pool.

While CAS permits non-G&A costs to be included in the G&A cost pool in certain circumstances (CAS 410-40(d)), this practice increases the overall size of the G&A cost pool and thus increases the G&A rate that is applied to final cost objectives. A higher G&A rate increases the significance of the G&A allocation base chosen by the site (see section A.2 of this attachment).

Removing non-G&A costs from the G&A cost pool (“purifying” the cost pool) will result in a smaller overall G&A cost pool and a lower G&A rate, which could facilitate a more equitable distribution of G&A costs, depending on site-specific circumstances.

##### **A.2. Changes to the G&A Allocation Base**

###### **A.2.i. Principles for Choosing the Appropriate G&A Allocation Base**

The G&A allocation base must represent the total activity of the contractor except for LDRD (See Chapter 15.2 of the *Financial Management Handbook*, “Laboratory, Plant and Site Directed Research and Development”).

When selecting the G&A allocation base, the base that best reflects total business activity and thus results in the most equitable allocation of G&A expense across all final cost objectives should be selected. The selection of the best base involves judgments on whether inclusion of certain base costs (e.g., materials, subcontracts) cause “distortions” in allocating G&A to some final cost objectives. The specific circumstances of the business unit should be considered in determining which base best represents total activity.

###### **A.2.ii. Total Cost Base**

In accordance with CAS 410-50(d)(1) and (2), a total cost base is generally acceptable as an appropriate measure of the total activity of a business unit except when the inclusion of material or subcontract costs would significantly distort the allocation of G&A

expenses in relation to benefits received. For example, if a certain final cost objective funds large subcontracts that do not bear the same relationship to G&A as other cost elements, a total cost input base may apply an inequitable amount of G&A to that final cost objective.

#### A.2.iii. Value-Added Cost Base

A value-added base is used where the inclusion of material and subcontract costs would significantly distort the allocation of G&A expenses in relation to benefits received, and where costs other than direct labor are significant measures of total activity.

#### A.2.iv. Single-Element Cost Base

A single-element base may be used when it produces equitable results. However, a single-element cost input base is inappropriate where that element is an insignificant part of the total cost of some of the final cost objectives.

### **B. Special Allocations**

Special allocations of G&A and indirect costs may be appropriate to address inequitable cost allocations in limited circumstances (see sections II.A and II.E of this policy). Special allocations must be compliant with CAS and the provisions of this policy.

### **C. Use of Service Centers for Indirect Cost Allocation**

The allocation of costs for services or products provided to internal customers may be improved by the development and application of internal rates for service centers. Service Center costs are charged to customer programs commensurate with customer use, frequently on a “per unit” basis of output (items, tests, service periods, etc.). Service center costs are subject to the same requirements as indirect cost pools specified in CAS 418-40 and 418-50.

While service centers may provide a more precise cost allocation method for some support activities, they may also increase administrative costs and the complexity of the contractor’s cost accounting structure. Before creating service centers, the cost and complexity of maintaining service centers should be weighed against any projected improvement to the overall accuracy of cost allocation practices.

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<sup>1</sup> Recoveries of disallowed costs must come from the contractor’s corporate funds, such as contractor fee or payment from the prime contractor’s corporate parents.

<sup>2</sup> See the Office of Acquisition Management, PF 2026-12 Revision of DOE Financial Management Handbook, Chapter 12 DOE Internal Reimbursable Transactions

<sup>3</sup> A pension plan curtailment occurs when future service or benefits in a pension plan are significantly reduced or eliminated, such as when a plan is frozen and no longer provides new benefits. A settlement occurs when a significant percentage of liabilities is irrevocably transferred outside of the plan, such as a lump sum window that cashes out the benefit for plan participants or a group annuity purchase that transfers all future obligations to an insurance company.

<sup>4</sup> DOE does not generally define a separate ACO for M&O contracts. For non-M&O contracts, the ACO may be part of the Defense Contract Management Agency or another Federal agency.

<sup>5</sup> This section is DOE’s guidance for more detailed options for addressing inequitable cost allocation practices. It does not establish new policy requirements beyond those in CAS.

**SUBJECT: MAY 2026 UPDATE TO CHAPTER 15.1, *DOE APPLICATION OF COST ACCOUNTING STANDARDS***

1. EXPLANATION OF CHANGES: These changes add language on the application direct and indirect costs under Inter-Contractor Work (ICW) and add a reference to Financial Management Handbook Chapter 12, *DOE Internal Reimbursable Transactions*.
2. LOCATIONS OF CHANGES: Added section II.H. Inter-Contractor Work for Transactions between Integrated Contractors and reference to Financial Management Handbook Chapter 12, *DOE Internal Reimbursable Transactions*.

<b>Page</b>	<b>Section</b>	<b>Section Title</b>	<b>Summary</b>
15.1-11	II.H.	Inter-Contractor Work for Transactions between Integrated Contractors	Added language on the application of direct and indirect costs under Inter-Contractor Work (ICW).
15.1-16	VI.	References	Added reference to Chapter 12, <i>DOE Internal Reimbursable Transactions</i> .