

## Subprocess E. Indirect Budget and Cost Management

Indirect costs can be a meaningful portion of the total project cost, especially when projects are performed by a DOE M&O contractor whose indirect costs may encompass a wider range of activities than what is traditionally considered "overhead" to an industry construction project. Indirect infrastructure costs may be significant during a period of capital expansion and recapitalization efforts. DOE contractors also may have higher security costs than that traditionally is found on a private industry site. These indirect activities are carefully monitored by DOE federal oversight. DOE contractors, like large Defense contractors, typically have complex cost models and indirect allocation structures that may not be analogous to private industry construction firms, and those complex cost models are in part a result of significant federal legal, regulatory, and contract requirements related to managing and operating federal facilities. That does not exempt these indirect management processes and costs from scrutiny during an EVMS review, but it does mean that EVMS review teams should be careful to understand the DOE contractor's cost model and take advantage of existing DOE oversight expertise where available.

### Basic Financial Management Requirements

Since the EIA-748 EVMS standard has indirect budget and cost management expectations similar to existing legal, regulatory, or contract requirements applicable to DOE contractors, it is necessary to coordinate between those organizations responsible for EVMS implementation and oversight and those responsible for implementation and oversight of the contractor's broader business management processes and system approvals. Notable examples of indirect budget and cost management requirements related to those in the EIA-748 standard are:

- The Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law 97-255) requires Federal agencies to assess the effectiveness of internal management controls for all program, operational, and administrative areas and not just accounting and financial management. Internal management controls are the checks and balances that help program and financial managers achieve results and safeguard the integrity of their programs.
- Office of Management and Budget (OMB) Circular A-123, which defines federal agency management's responsibilities for internal controls. M&O contractors and certain other major DOE contractors are "integrated contractors," meaning their financial systems are integrated into DOE's book of accounts. M&O and major integrated contractors are required to meet the requirements of DOE's annual Enterprise Risk Management (ERM) and Internal Control guidance.
- OMB Circular No. A-25 contains requirements for pricing for non-federal entities doing work at DOE contractors.
  - See also DOE Order 522.1A, *Pricing of Departmental Materials and Services*
- FAR 52.230-3 Disclosure and Consistency of Cost Accounting Practices, which requires contractors to disclose in writing their cost accounting practices including all indirect cost pools and allocation bases, and consistently apply practices that are compliant with the Cost Accounting Standards.

- Cost Accounting Standards, 48 CFR Chapter 99, which establishes multiple requirements for consistency of cost accounting on major federal contracts.
  - CAS 401 contains requirements for consistency in estimating, accumulating, and reporting costs
  - CAS 406 defines the accounting period
  - CAS 410 contains requirements for allocation of G&A
  - CAS 418 contains requirements for allocation of direct and indirect costs (non-G&A)
- FAR 52.216-7 Allowable Cost and Payment, which requires annual final direct cost data to be submitted to the Contracting Officer (CO) for approval.
  - See also NNSA class deviation: *DEAR 970.5216-7(d) Allowable Cost and Payment (OCT 2021)(NNSA Class Deviation Feb 2022)*.
- The DOE Financial Management Handbook contains requirements for accounting and reporting for integrated contractors.
  - See in particular Chapter 15.1 – DOE Application of Contractor Cost Accounting Standards.
  - DOE Order 520.1B, *Financial Management and Chief Financial Officer Responsibilities*, establishes policies and responsibilities for DOE financial and accounting management officials in accordance with the CFO ACT of 1990 and Public Law 101-576.

## Indirect Costs and Disclosure Statement

Indirect costs are defined in the Cost Accounting Standards (CAS) as, “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))”. These may be general business management activities such as G&A, sitewide support activities such as road paving, or activities that support two or more specific projects or programs. DOE’s Financial Management Handbook (FMH) Chapter 15 further defines types of indirect cost pools used by contractors.

Disclosure of indirect costs and pools in the CAS DS are by section:

- IV.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).
- IV.G.2. General and Administrative - 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)).
- IV.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).
- IV.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)

Contractor management is required by CAS to classify types of cost as direct or indirect. This classification must apply to the business unit as a whole and cannot differ for specific cost objectives or individual projects. CAS also requires Contractors to disclose in writing the cost classification determinations in their CAS DS.

As stated in the DOE's FMH Chapter 15, "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 DS 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. The CFAO is designated consistent with the provisions of DOE Order 520.1B, Chg 1, Financial Management and Chief Financial Officer responsibilities."

CAS DS Part IV. Indirect Costs' section instructions require contractors to individually list each indirect cost pool, stating major functions, activities, and elements of cost, as well as provide a description of the makeup of the allocation base. FAR outlines the process a contractor should use to change its accounting practices and update its DS. Indirect rates are not identified in the CAS DS. Rather contractors submit a Forward Pricing Rate (FPR) package to DOE on an annual basis that includes anticipated pool costs, projected allocation bases, and the resultant indirect rate percentages.

### **DOE Contractor Specific Considerations and Federal Oversight**

Indirect budgets for DOE contractors are typically managed at the corporate level. DOE contractors establish overhead budgets for each significant organizational component for expenses which will become indirect costs. DOE contractors should reflect in the project budgets, at the appropriate level, the amounts of indirect costs that are planned to be allocated to the project.

The project management staff charged with planning, executing, and delivering within scope, schedule, and budget objectives have a mutual relationship with those charged with establishing and managing organizational efforts tied to indirect cost objectives. The former incorporates indirect rates and indirect variance impacts into its project planning, budgeting, and forecasting processes to establish both realistic baselines and estimates at complete; the latter recognizes how indirect cost variances and indirect rate changes affect project cost objectives and take corrective action as necessary to address such indirect cost variances.

The DOE Office of Inspector General (OIG) are the cognizant federal auditors for DOE M&O contractors. The OIG is responsible for Incurred Cost Submission (ICS), including indirect rates, and CAS Disclosure Statement (CAS DS) audits. Unless a regulation, DOE Order, or contract requirement specifically requires CO approval for a process, procedure, or system, "approval" is contractor management approval at the appropriate level. This may be the CEO, CFO, or line

management for lower-level processes such as work assignments or resource execution. Specific considerations regarding oversight for CAG Objectives are:

E.1. Indirect Account Organization Structure: This attribute is directly related to EIA-748 guideline 4<sup>1</sup> (EIA-748d 2.1.d) - Identify the organization or function responsible for controlling overhead.

- Indirect Account Organizational structure is typically established at time of contract award. The organization's policies and processes are documented at this time.
- For DOE contracts, much of the tenets of indirect cost management embodied in EVMS standards are already captured in existing contract requirements, and are implemented before or immediately following contract award for multiple purposes to include EVMS compliance. Some processes may be subject to ongoing oversight by federal personnel, or even CO approval of the systems or processes.
- Care should be taken when conducting the review to assess how the existing systems, processes, and oversight fits into the EVMS model, even if not explicitly related to EVMS or presented in EVMS terms. EVMS reviews may rely on these existing systems, processes, and oversight determinations where appropriate.

E.2. Indirect Budget Management: This attribute is directly related to EIA-748 guideline 13 (EIA-748d 2.2.h) - Establish overhead budgets for each significant organizational component for expenses which will become indirect costs. Reflect in the program budgets, at the appropriate level, the amounts in overhead pools that are planned to be allocated to the program as indirect costs.

- Establishment of indirect cost pool budgets takes place in the planning phase of the indirect rate process. The resulting indirect rates from the planning phase are used by programs in establishing program and project estimated cost. Specifically, the indirect rates are used for budgeting by element of cost in establishment of the PMB (see attribute C.5) and for forecasting ETC (see attribute F.5).
- FPR's are based on each contractors unique CAS DS and are developed each FY by the DOE contractors in coordination with the annual and future years budget process and other resource planning.
- Indirect cost pool budgets are not managed with a project schedule or IMS.

E.3. Record/Allocate Indirect Costs: This attribute is directly related to EIA-748 guideline 19 (EIA-748d 2.3.d) - Record all indirect costs which will be allocated to the program consistent with the overhead budgets.

- Record/Allocation of indirect costs takes place in the execution phase of the indirect rate process.
- DOE contractors start the Fiscal Year (FY) with FPRs and monitor through the FY.
- While indirect rates are managed at the corporate level, the costs are applied to the contractor's operations, programs, and projects; it is not optional. If a category is

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<sup>1</sup> Owned by SAE International, formerly named the Society of Automotive Engineers. EIA-748 may also be referred to as SAE EIA 748 or SAE 748. <https://www.sae.org/standards/content/eia748d/>. The National Defense Industrial Association Integrated Program Management Division created the [Earned Value Management Systems EIA-748-D Intent Guide](#), July 19, 2018 to provide additional insight into the EIA-748 Standard for Earned Value Management Systems (EVMS). It is applicable to government or industry for the purpose of documenting how an EVMS complies with the 32 identified guidelines.

accumulated in the incorrect pool, the correction may be incorporated in a variance distribution or cost transfer.

- DOE M&O and Integrated non-M&O contractors review the consistency of indirect charges and are required to document key controls in DOE's AMERICA system<sup>2</sup> that are in place to mitigate cost and project management risks. Several cost and project management risks associate with improper cost charges or costs not recorded in accordance with the DS and company policy/guidance. The DOE contractor is required to test these controls and document the results of their testing in AMERICA in accordance with DOE annual ERM and Internal Control guidance.

E.4. Indirect Variance Analysis: This attribute is directly related to EIA-748 guideline 19 (EIA-748d 2.4.c) - Identify budgeted and applied indirect costs at the level and frequency needed by management for effective control, along with the reasons for any significant variances.

- Indirect variance analysis takes place in both the execution and final cost phases of the indirect rate process.
- Variances are allocated to cost objectives (including ending in-process inventory) at least annually. (48 CFR 9904.407 50(d)(1) and 48 CFR 9904.418-50(g)).
- Variance analysis (which may be based on defined thresholds) results in identification of causes of the variance and either corrective actions within the indirect cost pool budget elements and plans to maintain stable indirect rates, or changes in indirect cost pool budgets and rates.
- Reasons for indirect cost rate changes are promptly communicated to programs and projects.

As shown in Figure 5, the indirect budget and cost management subprocess consider four management attributes that collectively account for 55 of 1,000 (or 6%) of the 1,000 possible points of the maturity model at level 5. Of these, E.2 Indirect Budget Management is the highest weighted management attribute, as shown in Figure 6.

### **Program Specific Considerations**

While EVMS requires visibility into indirect costs and rates, existing DOE federal organizations and external auditors already provide significant oversight of indirect structures and costs. DOE has internal organizations that are responsible for accounting and financial oversight (e.g., EMCBC and NA-MB-63), or an auditing firm may audit specific indirect cost rates and/or the overarching accounting system for conformance with the organization's DS or other contract administration purposes. EVMS reviews should identify gaps in this oversight as opportunities for focused attention, while taking advantage of risk reduction afforded by existing oversight.

NNSA has adopted an oversight model where NNSA's Office of Management and Budget (NA-MB) conducts active, ongoing oversight of its contractors' financial systems, including indirect cost allocation processes and procedures to determine compliance with CAS, Contract requirements, and Departmental guidance. MB-60 performs regular oversight by reviewing

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<sup>2</sup> A-123 Management of Entity Risks and Internal Controls Application (AMERICA) is a DOE corporate business system that automates and streamlines the Department's management, reporting, and analysis of risks and controls in compliance with OMB Circular A-123.

recurring submissions such as CAS DS updates, FPR Packages, and ICS. This corporate level oversight model provides a level of assurance to support programmatic reviews and CO determinations regarding the health and acceptability of NNSA contractor financial structures and may also be considered a source of information or assurance for EVMS indirect rate application processes, even where the processes do not specifically refer to EVMS.

Since NA-MB-60 has the primary responsibility and expertise for accounting and financial oversight at its contractors, a representative from this organization will lead the indirect portion of its EVMS reviews at NNSA sites including EVMS certification/surveillance reviews and review of system descriptions in coordination with PM. PM will engage with other DOE Programs (or site representatives where applicable) with accounting and financial oversight responsibilities in a similar manner to ensure coordination and leverage existing DOE oversight expertise where available.

### E.1. Indirect Account Organization Structure

The purpose of this attribute is to identify the organization or function responsible for controlling overhead (indirect costs) (Table 36). From a cost accounting perspective overhead is synonymous with indirect costs. Ensure the contractor has an organization that is responsible for documenting, managing, and controlling indirect costs.

**Table 1. Attribute E.1. Maturity Level Template**

LOW		MEDIUM		HIGH
1	2	3	4	5
Not yet started.	Some documented processes exist addressing the management and control of indirect rates/costs. The CAS disclosure statement has not been submitted.	Most documented processes addressing the management and control of indirect rates/costs are in place. The CAS disclosure statement has been submitted but not approved.	The function responsible for indirect account management is in place. Documented processes addressing the management and control of indirect rates/costs are in place and approved. The CAS Board disclosure statement has been approved.	Comprehensive management and control of indirect rates/costs are proactively addressed continually. The CAS disclosure statement is regularly monitored.
	Documented processes for the management of indirect rates do not exist. An “ad hoc” indirect account organization structure for the management of indirect costs exists, with several significant gaps. Accounting documents such as the CAS Board disclosure statement identifying some indirect cost pools exist but have not been submitted for stakeholder approval. Cost pools implemented are not consistent with the process or CAS Board disclosure statement. The organization has accounting documents such as the CAS Board disclosure statement that identify the treatment of indirect costs, but documents have not been submitted for approval.	Processes for the management of indirect rates are implemented, but not formally documented and approved. An indirect account organization structure for the management of indirect costs exists, with a few gaps that can be easily resolved. The accounting documents such as the CAS Board disclosure statement identifying each indirect cost pool have been submitted for approval by key stakeholders.	(E.1.1) Processes for the management and control of indirect rates are documented, approved, consistently implemented, and aligned with the accounting calendar. Problems are identified, logged, tracked, mitigated, corrected, and closed, giving management insight to make timely decisions.  An approved indirect account organization structure exists with those responsible for the management of indirect rates identified.  The approved accounting documents such as the CAS Board disclosure statement identify each of the indirect cost pools used by the project.	Accounting documents such as the CAS disclosure statement, indirect rates, and budgets are proactively monitored monthly to ensure they are consistent with the indirect cost pools. Responsibility, assignment, and authority are documented. The indirect account organization processes are consistently applied for resource assignment, budget establishment, and control of indirect costs. The indirect account organization structure is monitored to assess for management control as part of the EVMS health and integrity. Necessary corrective actions are implemented, completed, and recurring issues resolved. Routine surveillance results of the indirect account organization structure are fully disclosed to all key stakeholders. The indirect account organization structure and indirect cost management processes are continuously improved.



## Objective

*The function responsible for indirect account management is in place. Documented processes addressing the management and control of indirect rates/costs are in place and approved. The CAS Board disclosure statement has been approved.*

Visibility, control, and management of indirect costs is essential for the successful management of a project. It is important to have processes documented and organizations responsible to manage and control indirect costs. Federal cost-reimbursement contract awards require the contractor have an adequate accounting system prior to performance, and part of that system is a management structure that monitors and manages costs including indirect costs.

The requirement for an approved CAS DS differs across DOE Organizations and therefore if the government has not taken exception to the contractor's certified CAS DS for purposes of this requirement it is deemed approved.

**Note:** The term "indirect rates" as used in the below Effectiveness Criteria means the complete indirect budget and cost management process.

## Effectiveness Criteria

*(E.1.1) Processes for the management and control of indirect rates are documented, approved, consistently implemented, and aligned with the accounting calendar. Problems are identified, logged, tracked, mitigated, corrected, and closed, giving management insight to make timely decisions.*

*An approved indirect account organization structure exists with those responsible for the management of indirect rates identified.*

*The approved accounting documents, such as the CAS Board disclosure statement, identify each of the indirect cost pools used by the project.*

The primary corporate process documentation for major DOE contractors is the CAS DS. As stated previously, if the government has not taken exception to the contractor's certified CAS DS for purposes of this requirement it is deemed approved. The approval of the contractor's processes for indirect budget and cost management including indirect rates refers to internal contractor's management. The process documentation clearly defines the indirect cost pools and allocation bases.

DOE contractors are typically subject to CAS and are required to disclose their accounting practices under the requirement at 48 CFR (FAR) 52.230-3. The CAS DS is required to accurately identify and describe whether types of costs are classified as direct or indirect. CAS 406 requires a contractor to use a FY as the cost accounting period. The cost accounting period is the basis for the accounting calendar.

The rate planning and execution processes or sub-processes describe the responsibility at an organizational level for planning indirect costs in the pools, monitoring performance, performing variance analysis, and the timing of rate adjustments or distributions. Failure to disclose all indirect pools and allocation bases in Part IV, including those used for projects, is a failure to follow contract and regulatory requirements. If EVMS reviewers suspect projects are using

undisclosed indirect cost pools or allocation bases, reviewers should immediately seek expert assistance.

The process for indirect cost pool budget variance analysis may include specific thresholds or may rely on corporate level processes and practices; this reliance should be documented appropriately. For DOE contractors, rate planning, monitoring, and adjustment typically takes place at the corporate level due to the nature of the indirect costs. A recommended best practice is to include a method for identifying, logging, tracking, mitigating, correcting, and closing problems and issues to give management insight to make timely decisions.

The EVM system description and the indirect process documentation identify the organization, function, and positions that are assigned responsibility and authority for establishing, managing, and controlling indirect budgets, rates, and costs. Finance typically has responsibility for the monitoring and reporting indirect rates. Process documentation may provide for delegation to lower-level managers for direction of specific work scopes contained in a broader indirect pool. For example, an infrastructure pool manager may delegate separate managers for controlling repair, maintenance, and recapitalization portfolios. These delegations may be explicit or may be the result of the contractor's business management structure. This distribution of budget is considered a secondary control to help manage the indirect cost pool budget and is appropriate for some but not necessarily all functions or activities in a cost pool.

Since indirect costs are part of a project's total cost, the contractor PM should know who is responsible for authorizing indirect cost pool budgets and controlling indirect costs.

### **Impact of Ineffectiveness**

Since indirect costs are a component of total project costs, failure to provide written procedures that clearly define the indirect cost processes and to identify those responsible may lead to ineffective management and control of indirect costs which may result in significant cost impacts for the project.

### **Special Considerations**

None

## **E.2. Indirect Budget Management**

The purpose of this attribute is the establishment of budgets for each significant component contained in an indirect cost pool (Table 37). The amounts in overhead pools that are planned to be allocated to the programs are included in the PMB at the appropriate level for visibility. Budgets for indirect costs are established and approved consistent with the indirect processes.



**Table 2. Attribute E.2. Maturity Level Template**

LOW		MEDIUM		HIGH
1	2	3	4	5
Not yet started.	Some indirect budgets are planned annually or consistent with approved pools. Indirect rates are not updated or consistently incorporated into the PMB.	Most indirect budgets are consistent with approved pools and associated rates but may be inconsistently implemented. Indirect rates are not adjusted after the initial establishment each year.	Indirect budgets are established annually by cost element and consistent with pools. Indirect rates are adjusted at least once annually if needed, such that the PMB represents a realistic baseline plan.	Indirect budgets are proactively established and managed. Indirect budgets are consistent with prior year experience, and rates are reviewed/changed more frequently, such as quarterly, to prevent large year-end adjustments.
	Indirect budgets are inconsistently managed and allocated across the project. Indirect budgets are not projected into the future, and corresponding indirect rates are not adjusted annually. Forward pricing rates or rate forecasts are not available to the project resulting in a PMB that does not represent a realistic baseline plan for all authorized work.	Indirect budgets and indirect rates are established annually but management's forecasting focus is on the near term (1 year, for example) and little, if any, emphasis is placed on future years. Indirect budget performance reviews are conducted intermittently and thus there are no mid-year rate adjustments based on analysis of performance where applicable, potentially resulting in a PMB that does not represent a realistic baseline plan. Indirect budget management is coordinated with the change control and analysis and management reporting subprocesses.	(E.2.1) The project implements documented and approved processes defining the indirect budgeting process monthly.  At the end of the accounting year, all indirect expenses are allocated. Indirect budgets or indirect rates are forecast for the entire project period of performance ensuring the PMB represents a realistic baseline plan. Problems are identified, logged, tracked, mitigated, corrected, and closed, giving management insight to make timely decisions.  Indirect budgets are managed by regular reviews ensuring each project receives its fair share of indirect costs. The most current indirect rates are used to develop and update the baseline (such as approved, provisional, or proposed). Indirect budget management is integrated with the change control and analysis and management reporting subprocesses.	A formal monthly business rhythm has been implemented by the contractor ensuring indirect budgets are effectively managed by comparing to actual indirect expenses. Indirect budget data are monitored and automatically tested to assess system health and integrity. Necessary corrective actions are implemented, completed, and recurring issues resolved. The indirect budget process is robust and consistent with the disclosure statement. Routine reports and surveillance of budget status are provided monthly and are fully disclosed to all key stakeholders, who maximize their use. Metrics are tracked allowing trends to be identified documenting over/under allocation of indirect expenses, disclosing issues immediately, and providing real-time information to the project. Monitoring and updating provisional/booking rates as warranted ensures the PMB reported to the customer each month contains the most current rates, represents a realistic baseline plan, and prevents large year-end adjustments.

## Objective

*Indirect budgets are established annually by cost element and consistent with pools. Indirect rates are adjusted at least once annually if needed, such that the PMB represents a realistic baseline plan.*

Contractors establish indirect budgets for each significant organizational component of indirect cost pools at the beginning of the FY. CAS requires indirect rates be adjusted at least annually. Indirect rates in the EVMS budgeting tool should reflect indirect rates in the accounting systems, such that the PMB represents a realistic baseline plan.

By comparing actual indirect expenses to established indirect budgets, the management can determine if established budgeted amounts need to be adjusted which could potentially also result in indirect rate revisions. Contractor indirect cost and rate reviews are conducted regularly (monthly, quarterly, etc.) to ensure effective control and management of the indirect expenses and indirect budgets.

## Effectiveness Criteria

*(E.2.1) The project implements documented and approved processes defining the indirect budgeting process monthly.*

*At the end of the accounting year, all indirect expenses are allocated. Indirect budgets or indirect rates are forecast for the entire project period of performance ensuring the PMB represents a realistic baseline plan. Problems are identified, logged, tracked, mitigated, corrected, and closed, giving management insight to make timely decisions.*

*Indirect budgets are managed by regular reviews, ensuring each project receives its fair share of indirect costs. The most current indirect rates are used to develop and update the baseline (such as approved, provisional, or proposed).*

*Indirect budget management is integrated with the change control and analysis and management reporting subprocesses.*

Indirect budgets are planned and established annually for the current FY consistent with the organization policies and procedures per attribute E.1. A recommended best practice is to time-phase these annual FY budgets, typically monthly consistent with reports of actual expenditures from the accounting system, for managerial control and decision-making.

Indirect rate allocation at the end of the accounting year is addressed in attribute E.3. Indirect budgets or indirect rates are forecasted on an annual basis; outyear rates are typically forecasted with less fidelity. These indirect rates are used for budgeting by element of cost in establishment of the PMB (see attribute C.5) and for forecasting ETC (see attribute F.5).

There are regular periodic reviews between finance and the projects to review the rate status and forecast impacts. These reviews may be more frequent in the latter portion of the FY. During comprehensive annual project EACs, the projects query finance about the latest rate assumptions. These efforts support effective project EAC and impact assessments by the project to enhance the EAC accuracy.

Indirect budget management is integrated with subprocess F - Analysis and Management Reporting and subprocess G - Change Control (see Section 3.2).

## Impact of Ineffectiveness

Indirect budgets play an important role in budgetary control and management. Without this budgeting requirement, the PMB would not accurately measure the total cost to the government based on contractor performance/progress and could misrepresent the PMB as a realistic baseline plan.

## Special Considerations

None

### E.3. Record/Allocate Indirect Costs

The purpose of this attribute is to record all indirect costs to be allocated to the project or final cost objective (Table 38). Ensure all indirect costs are properly recorded and correctly allocated in a consistent manner according to disclosed practices.

**Table 3. Attribute E.3. Maturity Level Template**

LOW		MEDIUM		HIGH
1	2	3	4	5
Not yet started.	Some documented processes are in place to ensure indirect costs are properly and correctly recorded and allocated to projects/ programs.	Most processes are in place to ensure indirect costs are properly and correctly recorded and allocated to projects/programs, but they are not approved.	All processes are designed, documented, and approved to ensure indirect costs are properly recorded and correctly allocated to projects/programs.	Indirect costs are accurately recorded and allocated. This allows management to effectively and proactively control indirect costs.
	The project lacks the documented processes required to ensure indirect costs are properly and correctly recorded and allocated to projects/programs. The project is unable to verify whether indirect costs are charged to the appropriate indirect cost pool.	The project implements processes designed to ensure indirect costs are properly and correctly recorded and allocated to the project. However, the processes are not yet approved. Misapplied and unallocated indirect costs are identified and corrected periodically. This adversely impacts projections of project Estimate at Completion (EAC). Most indirect costs are charged to the appropriate indirect cost pool. Indirect cost reports documenting the current year's indirect budget by cost element, indirect charge numbers, and cost collection account structure. This results in indirect costs not being properly aligned with indirect budgets.	(E.3.1) The project implements documented and approved processes designed to ensure indirect costs are properly and correctly recorded and allocated to the project. Management responsibility and authority are clearly defined in the processes. Misapplied and unallocated indirect costs are identified, tracked, and corrected immediately, no later than the following accounting period, giving management insight to make timely decisions. All indirect costs are charged to the appropriate indirect cost pool and correctly allocated to the applicable project. Indirect costs are monitored each month ensuring they are consistent with the budgets. Any mischarges are corrected immediately, no later than the following month. This allows accurate variance analysis and EAC projections.	The project proactively monitors indirect costs each month to ensure they are accurately recorded and allocated. This allows the project to immediately disclose issues and provide the customer with real-time information. A formal monthly business rhythm ensures incurred indirect costs are consistent with the budgets and promotes variance analysis resulting in successful cause/impact/corrective action. Metrics are collected and documented automatically ensuring trends are immediately identified, disclosed to the customer, and corrected allowing the project to achieve and maintain cost targets. Indirect cost allocation is continuously optimized such that the project does not experience significant year-end adjustments.

Indirect costs are charged to the appropriate indirect cost pool, which is then allocated across the appropriate bases as described in the CAS DS and other procedures. Indirect rates should be consistent with the anticipated final rates for the FY.

#### Objective

*All processes are designed, documented, and approved to ensure Indirect costs are properly recorded and correctly allocated to projects/programs.*

The process for consistent recording and reporting of indirect costs, an important aspect of business management and project reporting, is covered under attribute E.1. Implementation of these processes is to ensure indirect costs are correctly recorded and allocated.

## **Effectiveness Criteria**

*(E.3.1) The project implements documented and approved processes designed to ensure indirect costs are properly and correctly recorded and allocated to the project. Management responsibility and authority are clearly defined in the processes.*

*Misapplied and unallocated indirect costs are identified, tracked, and corrected immediately, no later than the following accounting period, giving management insight to make timely decisions.*

*All indirect costs are charged to the appropriate indirect cost pool and correctly allocated to the applicable project. Indirect costs are monitored each month ensuring they are consistent with the budgets. Any mischarges are corrected immediately, no later than the following month. This allows accurate variance analysis and EAC projections.*

Documented processes per attribute E.1 are used to record and allocate indirect costs. While various terms may be used to refer to indirect allocation (such as rate allocation or cost allocation), indirect costs are recorded and accumulated in indirect cost pools within the contractor's accounting system and indirect rates then allocate indirect costs to programs and projects. Indirect rate changes should flow from the accounting system into the EVMS budgeting tool. The indirect rate will be used to determine total project costs within the contractor's EVMS budgeting tool.

All costs should be settled at the end of the accounting period, including disposition of variances so that each contractor operation, program, and project receives the appropriate allocation of actual indirect cost consistent with the Disclosure Statement. Monthly reporting may reflect interim adjustments as described in the system documentation.

## **Impact of Ineffectiveness**

Incorrectly recording and allocating indirect costs would result in projects not accurately reporting the actual total project cost and would result in a noncompliance with Cost Accounting Standards and/or the corporate Disclosure Statement.

## **Special Considerations**

None.

## **E.4. Indirect Variance Analysis**

Actual indirect costs are regularly compared to indirect budgets to identify, analyze, and report variances and corrective actions (Table 39). Ongoing indirect variance analysis provides visibility into potential indirect cost overruns or underruns and the opportunity to develop and implement management action plans to meet both corporate and project objectives. Indirect rates are managed at the corporate level, any associated mitigating actions should be coordinated at that level.

**Table 4. Attribute E.4. Maturity Level Template**

LOW		MEDIUM		HIGH
1	2	3	4	5
Not yet started.	Some documented processes are in place to address the establishment of thresholds and the performance of indirect variance analysis.	Most of the processes are in place to address the establishment of indirect variance thresholds and the performance of indirect variance analysis.	All processes addressing the establishment of thresholds and performance of indirect variance analysis are implemented. All indirect cost variances are identified and analyzed regularly to inform project/ program EAC.	Indirect variances are managed proactively to implement corrective actions and mitigate the impacts of identified issues, where practical.
	The project lacks the documented processes required to ensure thresholds are established and indirect variance analysis is conducted. Indirect variance analysis results, if conducted, are infrequently used to inform project Estimates at Completion (EACs), and seldom result in corrective actions or adjustments to rates. Some indirect thresholds or indirect cost variances and associated corrective actions are identified and reviewed for insight into their impact on overall project cost performance. Typically, indirect variance analysis or corrective actions are only developed when performance significantly deviates from the indirect plans, and decisions regarding rate adjustments and rate forecasts are made impacting the EAC.	The project implements documented processes to ensure thresholds are established and indirect variance analysis and corrective actions are conducted, but the processes are not yet approved. Most of the indirect cost thresholds and variances are identified, documented, and reviewed for insight into their impact on overall project cost performance. Some corrective actions including rate adjustments are implemented to address identified issues. However, not all indirect cost variances are identified or reviewed which limits management's ability to forecast future indirect cost performance as well as develop corrective action plans intended to regain project objectives. The impact of indirect variances is sometimes addressed at the project level within analyses and EACs. The indirect variance analysis is coordinated with the analysis and management reporting subprocess.	(E.4.1) The project has documented and approved processes to ensure thresholds are established and indirect variance analysis and corrective actions are developed regularly. The indirect organization provides pending rate changes quarterly. All of the indirect cost thresholds are reviewed regularly by the indirect category, and variances and corrective actions are identified and reviewed for insight into their root cause and impact on overall cost performance. This facilitates management's ability to forecast future indirect cost performance as well as develop corrective action plans intended to regain project objectives. Indirect corrective action plans, which may include rate adjustments, are implemented, tracked, and resolved expeditiously. The impact of indirect variances is identified and addressed at the project level and within CA variance analyses and EACs. Problems are identified, logged, tracked, mitigated, corrected, and closed, giving management insight to make timely decisions. The indirect variance analysis is integrated with the analysis and management reporting subprocess.	Indirect variance data are routinely monitored and used for management control and are automatically tested to assess system health and integrity. Necessary corrective actions are implemented, completed, and recurring issues resolved. The indirect organization provides pending rate changes monthly. Routine surveillance results of indirect variance are fully disclosed to all key stakeholders, including senior management and the customer, who maximize their use. Senior management is actively engaged in the ongoing indirect cost analysis, which enhances their ability to forecast future indirect cost performance. Management also monitors corrective action plans at the organizational indirect cost center levels to regain or mitigate impacts to project objectives. Indirect rate analysis is integrated with risks and the EAC update process and can monitor the overall impact on the project EAC. The indirect variance process is continuously improved and optimized.

Indirect costs are a portion of a project's total cost and variances associated with indirect budgets need to be understood, monitored, analyzed, controlled, and integrated at the corporate level regarding planning, reporting, forecasting, and decision-making.

It is the role and responsibility of management assigned to oversee indirect budgets and actual costs, to engage in recurring analysis, and to communicate potential indirect rate changes and associated variances to the appropriate project personnel. PMs, CAMs, and others are responsible for knowing and integrating the results of management's indirect variance analysis into project planning, control, and decision-making.

The indirect variance analysis is integrated with subprocess F - Analysis and Management Reporting for project level variance analysis and reporting.

## Objective

*All processes addressing the establishment of thresholds and performance of indirect variance analysis are implemented. All indirect cost variances are identified and analyzed regularly to inform project/ program EAC.*

Documented processes per attribute E.1 are used for indirect cost pool budget variance analysis and may include specific thresholds or other corporate level processes and practices.

The overall value to the contractor is visibility into the indirect costs that cannot be directly applied to a final cost objective. Monitoring indirect costs frequently enables the contractor to adjust rates promptly to complete an accurate EAC for individual projects and inform final cost objectives. Project management understands that ongoing indirect cost analysis provides visibility into potential indirect cost overruns or underruns when developing and analyzing the ETC and provides the opportunity to develop and implement management action plans.

## Effectiveness Criteria

*(E.4.1) The project has documented and approved processes to ensure thresholds are established and indirect variance analysis and corrective actions are developed regularly. The indirect organization provides pending rate changes quarterly.*

*All of the indirect cost thresholds are reviewed regularly by the indirect category, and variances and corrective actions are identified and reviewed for insight into their root cause and impact on overall cost performance. This facilitates management's ability to forecast future indirect cost performance as well as develop corrective action plans intended to regain project objectives. Indirect corrective action plans, which may include rate adjustments, are implemented, tracked, and resolved expeditiously.*

*The impact of indirect variances is identified and addressed at the project level and within CA variance analyses and EACs. Problems are identified, logged, tracked, mitigated, corrected, and closed, giving management insight to make timely decisions.*

*The indirect variance analysis is integrated with the analysis and management reporting subprocess.*

Documented processes per attribute E.1 are used for indirect cost pool budget variance analysis and may include specific thresholds or other corporate level processes and practices. Pending rate changes, if any, are reported promptly.

Indirect cost management variances are identified based on comparison of indirect actual costs with corresponding budgets per the documented corporate policies and procedures. Variance analysis is performed at both the level the budget is established and corporate level to mitigate variance at the pool level. Cause analysis, impact analysis or corrective action plans would be performed if deemed appropriate to mitigate the variance or to adjust indirect cost pool budgets or indirect rates to meet corporate and project objectives.



Since indirect rates can be significant drivers of overall project costs, indirect rate management is crucial to meeting project cost objectives. One of the benefits of indirect analysis is gaining an understanding of the potential impacts to project level EACs. Project Management is responsible for implementing rate changes from the accounting system to the EVMS budgeting tool to ensuring that changes in indirect costs are accurately reflected in project planning and reporting metrics, and ensuring the project will meet objectives.

Indirect budget management is integrated with subprocess F - Analysis and Management Reporting and subprocess G - Change Control (see section 3.2).

#### **Impact of Ineffectiveness**

Failure to integrate indirect analysis with project level EAC analysis can significantly understate or overstate total project costs. Management would not have visibility into potential indirect cost underruns/overruns which could impact project objectives.

#### **Special Considerations**

None