



U.S. DEPARTMENT
of **ENERGY**

Office of Critical Minerals
and Energy Innovation

Accounting System Requirements

The information in this presentation are the express views of the Department of Energy (DOE) and not necessarily the views of other Federal Agencies.

Accounting System Requirements

Table of Contents Page

<u>Pre-Selection</u>	3
<u>Post-Section: Accounting System Checklist</u>	4
<u>Acceptable Accounting System</u>	6
<u>Cost Allocation: Direct vs Indirect</u>	7
<u>Award Costs: Allowable</u>	8
<u>Award Costs: Reasonable & Allocable</u>	9
<u>Award Costs: Unallowable</u>	10
<u>Labor System: Timekeeping</u>	11
<u>Additional Information</u>	13

Pre-Selection

The DOE requires Recipients have a fully functional Accounting System to verify all project costs billed to the Government are reasonable, allocable and allowable.



It is highly recommended Recipients secure the services of a consultant or employee who is familiar with the Federal regulations applicable to their award, Government Accounting Standards (GAS) and the Defense Contract Audit Agency (DCAA)¹ auditing requirements under SF1408.

¹ FAR § 42.101(b) states, for contractors other than educational institutions and nonprofit organizations, the DCAA is the responsible Government audit agency.

Post-Selection: Accounting System Check

Recipients shall certify a Pre-award Information Sheet which includes some brief inquiries regarding the organizations Accounting System.

An adequate Accounting System should include the following criteria:

- a. Identification and accumulation of direct costs by project.
- b. A timekeeping system that identifies employees' labor by intermediate and final cost objective.
- c. Excluding costs which are not allowable under the Federal cost principles in 2 C.F.R. § 200, Subpart E or 48 C.F.R. § 31.
- d. Accumulation of costs under general ledger control.
- e. Interim determination of costs charged to a project through routine postings (at least monthly) to General Ledger accounts.
- f. Identification of costs by project line item (as if each line item were a separate project).

Post-Selection: Accounting System Check

Accounting System criteria (Continued) ...

Applicable when indirect costs are proposed on the DOE Award under a segregated billing rate:

- g. Segregation of direct costs from indirect costs.
- h. A labor distribution system that charges direct and indirect labor to appropriate cost objective.
- i. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives, such as the DOE award, internal projects or other direct activity of the Recipient.

!! Note !! Recipients that do not have an Accounting System meeting the criteria set forth are at risk of being fully or partially reimbursed.

Acceptable Accounting System

An acceptable Accounting System also complies with the criteria to provide reasonable assurance that:

- (i) Costs comply with applicable laws and regulations
- (ii) The accounting for project costs and cost data are reliable; and
- (iii) Risk of misallocation and mischarges are minimized.

The Accounting System must be able to accumulate and report all costs for DOE Award(s), which follows this logic:

- Direct costs of the award, plus
- Allocation of applicable indirect costs, less
- Unallowable costs

Cost Allocation: Direct vs. Indirect

An acceptable Accounting System requires identification and accumulation of direct and, if allocated, indirect costs by award.

- A **Direct Cost** is defined under 2 C.F.R. § 200.413 as ‘any cost that is identified specifically with a particular final cost objective, such as the Federal Award.’ Costs that directly contribute to an activity identified in the Statement of Project Objectives and do not support any other activity.
- An **Indirect Cost** is defined under 2 C.F.R. § 200.1 as ‘costs incurred for a common or joint purpose benefitting more than one cost objective.’ It cannot be readily contributable to any specific project activity. (Also reference 2 C.F.R. § 200.414).

Award Costs: Allowable

A cost is **allowable** only when the cost complies with the following requirements as defined under 2 C.F.R. § 200.403 and 48 C.F.R. § 31.201-2.

- Reasonable as defined under 2 C.F.R. § 200.404 or 48 C.F.R. § 31.201-3, for For-Profit entities.
- Allocable as defined under 2 C.F.R. § 200.405 or 48 C.F.R. § 31.201-4, for For-Profit entities
- Terms & Conditions of the Award
- DCAA Accounting System Criteria under SF 1408
- Generally Accepted Accounting Principles (GAAP)
- Generally Accepted Government Accounting Standards (GAGAS)
- Any limitation set forth in 2 C.F.R. § 200, Subpart E or 48 C.F.R. § 31.2

Award Costs: Reasonable & Allocable

A cost is **reasonable** if in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of business.

- If an initial review of the cost results in a challenge by the contracting officer or the DOE representative, the burden of proof shall be upon the Recipient to establish that such cost is reasonable.

A cost is **allocable** to the DOE award if it is (1) incurred specifically for the award; (2) benefits both the Federal award and other work, and can be distributed to them in a reasonable proportion to the benefits received; or (3) is necessary to the overall operation of the business, although a direct relationship to any particular award cannot be shown.

Award Costs: Unallowable

The Accounting System must exclude from costs charged to Federal awards any and all amounts which are not allowable under 2 C.F.R. § 200, Section E or 48 C.F.R. § 31, and other award provisions.

- Unallowable costs need to be identified and excluded from any billings, claims, and proposals applicable to a Federal award.
- Recipients need written policies to identify the procedures the organization's System uses to exclude unallowable costs.

Labor: Timekeeping and Tracking

The tracking of labor requires the following:

- A timekeeping system that identifies employees' labor by intermediate or final cost objectives. Labor hours are attributable to specific tasks associated with the DOE Award.
- Employees should fill out timesheet on a daily basis and include all hours worked including uncompensated overtime.
- Labor should be charged to the award based on a timekeeping document (paper or electronic timecards) and should be completed and certified by the employees and approved by the employees' supervisors.

Labor: Timekeeping and Tracking

Continued...

- Timekeeping documents cannot be retroactively adjusted.
- Total Time Accounting. All employees' time, direct and indirect, must be accounted for daily, by the work activity being performed. If the charges are indirect, they must be allocated in a logical and consistent manner.
- Labor cost distribution records should be reconcilable to payroll records; and labor distribution records should trace to and from a job cost ledger to general ledger accounts.

Additional Information: Common Deficiencies

DOE requires management reviews or internal audits of the accounting system to ensure compliance with the Recipient's established policies, procedures and accounting practices.

Common Deficiencies from review or audit include:

- Improper timekeeping
- Failure to properly segregate direct and indirect costs
- Failure to exclude unallowable costs
- Inconsistent billings or allocation of costs to the Award.
- Lack of written organizational policies and procedures (Operations Manual)
- Non-compliance with the DOE Award Terms & Conditions or reporting requirements (e.g. Annual Incurred Cost Proposals and Independent Audits)

Additional Information: DCAA Criteria

The DOE utilizes the Audit Standards identified by the Defense Contract Audit Agency (DCAA); therefore, if Recipients of a DOE Award identify as a for-profit or nonprofit corporate entity, and do not currently have a recognized Cognizant Federal Agency, it is recommended the Recipient review the Customer *Guidance and Checklist & Tools* under the DCAA Website at www.dcaa.mil.

Email inquiries regarding this information can be sent to:
CostPrice@ee.doe.gov



U.S. DEPARTMENT
of **ENERGY**

Office of Critical Minerals
and Energy Innovation