

memorandum

DATE: NOV 24 1993

REPLY TO
ATTN OF: CR-45:Powers:3-7313

SUBJECT: Cost Accounting Standards Applicability to Management and Operating Contractors

TO: Distribution

The purpose of this memorandum is to provide guidance regarding the application of Cost Accounting Standards (CAS) to the Department's management and operating (M&O) contractors. The CAS were established to ensure that the accounting practices of contractors performing work on both commercial and Government contracts are consistently applied and costs are equitably allocated. The CAS have been recodified by the Cost Accounting Standards Board and are contained in 48 Code of Federal Regulations, Chapter 99.

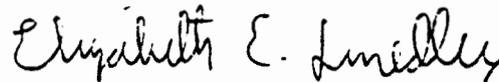
The CAS are applicable to the Department's M&O contractors except as delineated in the Attachment to this memorandum. The exceptions identified are based on the unique relationship between the Department and its M&O contractors, which results in certain standards not being applicable as the M&O contracts are currently structured. Therefore, M&O contractors are to follow CAS fully except as described in the interpretive guidance provided in this memorandum.

While all of the CAS standards not included in the Attachment are considered applicable in their entirety, specific situations may exist with certain M&O contractors which render other parts of the CAS inapplicable. Conversely, while we believe the standards in the Attachment are inapplicable to M&O contractors as described, there may be instances where they do apply. It is requested that you identify to us any current or future conditions which you or the M&O contractor believes causes noncompliance with CAS, conflicts with the exceptions identified in the Attachment, or renders other parts of the CAS inapplicable. This Office will evaluate these conditions and will issue clarifying guidance as deemed appropriate. A standard nonliability for CAS clause will be developed by the Office of Procurement, Assistance and Program Management for inclusion in M&O contracts. This clause will state that M&O contractors will not be liable for increased costs due to noncompliance with CAS if the Department (Government) issues directions that cause the noncompliance.

Conditions which preclude compliance with any provisions of CAS should be included in the contractor's disclosure statement. Guidance concerning disclosure statements will be included in separate correspondence which will augment/supersede guidance included in the March 17, 1993, Management Accounting and Pricing Division memorandum, subject: "Control and Management of Indirect Cost."

It is requested that you advise this office by January 31, 1994, of any conditions which you or the M&O contractor believes causes noncompliance with CAS, conflicts with the exceptions, or renders other parts of CAS inapplicable.

If you have any questions related to this guidance, please contact me or have your staff contact George Burkett or Colin Powers at (301) 903-5986.



Elizabeth E. Smedley
Acting Chief Financial Officer

Attachment

cc:

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INTERPRETIVE GUIDANCE FOR SELECTED COST ACCOUNTING STANDARDS (CAS)

CAS 403 - ALLOCATION OF HOME OFFICE EXPENSES TO SEGMENTS

This standard is inapplicable to management and operating (M&O) contractors because the Department of Energy (DOE) does not accept a routine allocation of home office expenses as an allowable expense merely because the costs were incurred at the corporate office. Department of Energy Acquisition Regulations (DEAR) 970.3102-1 states that the fee allowance for M&O contractors provides for the appropriate compensation for home office general and administrative (G&A) expenses. In addition, DEAR 970.5204-13(e)(5) states that central or branch office expenses are unallowable except as otherwise expressly stated. Based on the DEAR requirements cited above, this standard does not apply as the standard only provides for guidance on the allocation of home office expenses to segments. However, this does not preclude the Contracting Officer from approving specific home office expenses as allowable in accordance with DEAR 970.3101-1.

CAS 404 - CAPITALIZATION OF TANGIBLE ASSETS

This standard is inapplicable for all assets that fall under the DEAR clause 970.5204-21 as being property furnished by the Government. In these cases, there are no costs to which the standard can be applied. All property wherein the title vests with the Government is not contractor property and therefore would not fall under the CAS for application under the contract. There is inconsistency with this standard and current DOE requirements on the capitalization threshold, but it is not an issue because the property is Government owned, and the CAS does not apply to the Government. The guidance on capitalization threshold criteria as issued by the Department should be followed.

CAS 414 - COST OF MONEY AS AN ELEMENT OF THE COST OF FACILITIES CAPITAL

This standard is inapplicable to M&O contractors in accordance with DEAR 970.3001-2, which states that cost of money as an element of the cost of facilities capital is not recognized as an allowable cost under contracts subject to DEAR 970. Additionally, DEAR 970.3102-3 states cost of money is not present because the assets the contractor possesses are furnished by the Government. This standard has no costs to which it can be applied.

CAS 417 - COST OF MONEY AS AN ELEMENT OF THE COST OF CAPITAL ASSETS UNDER CONSTRUCTION

This standard is not applicable because of DEAR 970.3102-3, which states cost of money is not present because the assets the contractor is constructing are Government owned, not contractor owned. This standard has no costs to which it can be applied.

**CAS 420 - ACCOUNTING FOR INDEPENDENT RESEARCH AND DEVELOPMENT COSTS AND
BID AND PROPOSAL COSTS**

This standard becomes inapplicable because Independent Research and Development (IR&D) and Bid and Proposal (B&P) costs are unallowable costs in accordance with DEAR 970.5204.13 (e) & (21).² Laboratory Directed Research and Development (LDRD) activity, as provided for in DOE Order 5000.4A, is not the same as IR&D costs. The definition in CAS 420 for IR&D: "means the cost of effort which is neither sponsored by a grant, nor required in the performance of a contract," (emphasis added) reflects the difference between IR&D and LDRD. IR&D is unallowable unless authorized in the contract, and, if it is authorized in the contract, then it does not meet the definition included for IR&D in CAS 420 as noted above. Therefore, this standard does not apply to M&O contractors.