

# Accounting System Requirements

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# 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 an accounting consultant or employee who is familiar with Federal Government Accounting Standards.

# Post-Selection: Accounting System Checklist

Recipients shall complete a Pre-award Survey which includes an **Accounting System Checklist**. The Checklist identifies items required for an adequate Accounting System, as applicable, and include:

- a. Segregation of direct costs from indirect costs.
- b. Identification and accumulation of direct costs by project.
- c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives, such as the DOE award, internal project or other direct activity of the Recipient. Defined under 2 CFR 200.44 and 2 CFR 200.60.
- d. Accumulation of costs under general ledger control.
- e. A timekeeping system that identifies employees' labor by intermediate and final cost objective.
- f. A labor distribution system that charges direct and indirect labor to appropriate cost objective.

# Post-Selection: Accounting System Checklist

## Continued...

- g. Interim determination of costs charged to a project through routine postings (at least monthly) to General Ledger accounts.
- h. Excluding costs which are not allowable in terms of 2 CFR 200, Section E, 48 CFR 31.205, or other provisions.
- i. Identification of costs by project line item (as if each line item were a separate project).

**Note:** If Recipients do not have an Accounting System that meets requirements, the DOE may not reimburse costs until the Recipient implements an adequate Accounting System.

# Acceptable Accounting System

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

- (i) Applicable laws and regulations are complied with; \*
- (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

\* Reference 2 CFR 200 and 48 CFR Federal Acquisition Regulations (FAR) for For-Profit Entities.

# 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 CFR 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 CFR 200.56 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 CFR 200.414).

# Award Costs: Allowable

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

- **Reasonable** as defined under 2 CFR 200.404 or 48 CFR 31.201-3, for For-Profit entities.
- **Allocable** as defined under 2 CFR 200.405 or 48 CFR 31.201-4, for For-Profit entities.
- Terms of the Award
- Generally Accepted Accounting Principles (GAAP)
- Generally Accepted Government Accounting Standards (GAGAS)
- Any limitation set forth in 2 CFR 200, Subpart E or 48 CFR 31.201



# 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.

Reference: 2 CFR 200.404 and 200.405, 48 CFR 31.201-3 and 31.201-4 for For-Profit Entities

# Award Costs: Unallowable

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The Accounting System must exclude, from costs charged to Federal awards, any and all amounts which are not allowable under 2 CFR 200, Section E or 48 CFR 31.205, 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 System: Timekeeping

The tracking of labor within the Accounting System 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.
- A labor distribution system that charges direct and indirect labor to the appropriate cost objectives. All employees' time, direct and indirect, must be accounted for daily, by the work activity being performed. If the charges are to indirect, they must be allocated in a logical and consistent manner.

# Labor System: Timekeeping

- Labor should be charged to intermediate and final cost objectives based on a timekeeping document (paper or electronic timecards) and should be completed and certified by the employees and approved by the employees' supervisors. Timekeeping documents cannot be retroactively adjusted.
- Employees should fill out timesheet on a daily basis and include all hours worked including uncompensated overtime.
- 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:

- Failure to properly segregate direct and indirect costs
- Improper timekeeping
- Failure to exclude unallowable costs
- Failure to make interim determination of costs charged to Federal awards through routine posting to accounts
- Non-compliance with the DOE Award Terms & Conditions or reporting requirements

(e.g. Annual Incurred Cost Proposals and Independent Audits)

# Additional Information: DCAA

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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 non-profit corporate entity, and do not currently have a recognized Cognizant Federal Agency, it is recommended the Recipient review the *Guidance and Checklist & Tools* under the DCAA Website at [www.dcaa.mil](http://www.dcaa.mil).