



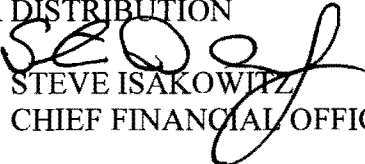
Department of Energy

Washington, DC 20585

June 10, 2009

MEMORANDUM FOR DISTRIBUTION

FROM:


STEVE ISAKOWITZ
CHIEF FINANCIAL OFFICER

SUBJECT:

Compliance with Cost Accounting Standards for
Un-compensated Overtime

This memorandum addresses issues raised by the Office of Engineering and Construction Management in their Earned Value Management System Certification reviews. DOE Order 413.3A, "Program and Project management for the Acquisition of Capital Assets" requires EVMS certification in order for construction projects to proceed beyond Critical Decision No. 2. The reviews have found Contractor's employees are working more than a normal work week without recording their uncompensated overtime hours (UCOT) for the purposes of indirect costs allocation. This raises concerns as to whether the allocation of indirect costs across projects is appropriate.

Consistent with prudent management practices and providing for greater transparency and accountability over the use of all funds, it is the policy of the Department that its contractors maintain compliance with Federal requirements, state laws, and other accounting regulations. The cost accounting standards (CAS) is a comprehensive body of cost accounting requirements for the measurement, assignment and allocation of costs. The purpose of CAS is to ensure that Federal contractors' practices used in estimating costs are consistent with cost accounting practices used in accumulating and reporting costs. Specifically, CAS 418, "Allocation of Direct and Indirect Costs", states that indirect costs shall be allocated to cost objectives in reasonable proportion to the beneficial or causal relationship. The Department's contractors perform a wide range of work for a number of customers both internal and external to the Department including non-profits and commercial entities. CAS, EVMS and prudent business practices dictate proper cost allocation across projects.

There has been no Departmental direction allowing deviation from compliance with the requirements of CAS. Therefore, contractors should be accounting for all of their time, including those hours worked beyond the 40 hour workweek. CAS does allow for some flexibility in compliance with CAS standards based upon materiality. Any contractor proposing to deviate from CAS must perform a materiality analysis. The primary objective of the analysis should be to determine whether the contractor time recording practices have a material cost impact on Departmental customers or other government customers as compared to a "record all hours" policy. The Contracting Officer (CO) will review materiality studies and in consultation with the responsible field CFO per DOE

Order 520.1A *Chief Financial Officer Responsibilities*, 5 c (3), authorize any exemptions. A copy of any study that results in an exemption should be provided to the Office of Financial Policy (CF-50) within 30 days of authorization of the exemption by the CO.

Field CFOs are asked to review contractor CAS compliance and report for each applicable contractor any deviations from CAS and either the support for continued deviation or the corrective actions being taken to bring the contractor into compliance. This information is due to the Office of Financial Policy by June 24, 2009. If you have any questions, please contact, Lois Jessup, Acting Director, Office of Financial Policy at (202) 586-3959.

DISTRIBUTION

David J. Armstrong, Vice President, Finance and Chief Financial Officer, BPA

Thomas C. Foley, Chief Financial Officer, CH

Marlys Kinsey, Acting Finance Team Leader, GFO

Christine Ott, Chief Financial Officer, ID

Floyd E. Boilanger, Jr., Acting Chief Financial Officer, NETL

William Stenseth, Chief Financial Officer, NNSA

NRLFO

Gregory A. Jones, Acting Assistant Manager, Administration, RL

Wayne W. Walton, RL

Joseph C. Poniatowski, Supervisory Contract Specialist, RL

Leon Jourolmon, Jr., Assistant Administrator for Finance and Marketing, SEPA

Sheldra Wormhoudt, Director, Planning and Financial Management, SPRO

Renee Alvis, Chief Financial Officer, SR

Gary L. Swartzlander, Assistant Administrator, Office of Corporate Services/CFO,
SWPA

Harrison G. Pease, Chief Financial Officer, WAPA

Wendy L. Miller, Director, Office of Finance and Accounting Service Center,
CF-11/GTN

Richard Loyd, Director, Office of Finance and Oversight, CF-12/GTN

Darryl W. McFarland, Assistant Director, Consolidated Business Center, Financial
Management, EM-3.3