



## Department of Energy

Washington, DC 20585

March 9, 2006

### MEMORANDUM FOR DISTRIBUTION

FROM:

  
DEAN G. OLSON

DIRECTOR, OFFICE OF FINANCIAL POLICY

SUBJECT:

Supplemental Guidance on Cost and Accruals

It is the policy of the Department of Energy to record accrued cost estimates on a monthly basis for all financial instruments with certain limited exceptions such as inter-entity work orders. Attachment A to this memorandum presents the Department's policy and procedures on the use of the automated accrual process and how it is applied monthly to different types of procurement instruments with the results communicated to approving officials or their proxies. It should be noted some of the procedures outlined in the attachment may not be fully available at the time of this writing. However, it is anticipated roll-out schedules for full implementation will be available shortly after issuance of this policy. The attachment also outlines requirements for reporting certain cost and accrual information from program and field offices separate from the automated process. Attachment B provides additional analysis data supporting the policy.

The accuracy of the Department's cost information is of paramount importance not only to those in the financial community, but it is also crucial for effective program management and accurate performance reporting both within the Department and to our external stakeholders. This supplemental policy capitalizes on new technologies available with the deployment of the Standard Accounting and Reporting System (STARS); provides greater opportunity for invoice approving officials to improve the accuracy of costs recorded for their programs and activities and in turn, more accurate reporting of uncosted obligation balances; and streamlines and strengthens the overall cost and accrual process. The changes in the procedures do directly affect the responsibilities of invoice approving officials in both the program and staff offices and should be read carefully.

Questions concerning this supplemental policy guidance can be addressed by Lois Jessup of my staff on (202) 586-3959. Technical questions concerning the automated accrual process can be addressed by Geoffrey Smith in the Office of Financial Oversight at (301) 903-2729.

Attachments



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cc:

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## Supplemental Guidance on Cost and Accruals

### I. Definitions

*Cost* represents the dollar value of invoices or other evidence from a supplier indicating goods or services have been received. Cost is typically recorded when invoices are approved by the cognizant approving official or when other clear evidence of receipt is made available. Actual costs are recorded on a cumulative basis and are not reversed.

*Accrued Cost* is the estimated dollar value of costs incurred for goods and services received, but for which an invoice has not been received. Reporting accrued costs is required by Federal accounting standards and is absolutely necessary for accurate financial reporting and program management. Accrued cost entries are typically reversed on the first business day of the following month in anticipation of invoice receipt or vendor cost reports.

*Purchase Order* is an all-encompassing STARS accounting term that includes any financial instrument created by obligation, including but not limited to contracts; financial assistance awards; travel and training authorizations; blanket purchase orders; interagency agreement awards; reimbursable work orders; and employee payments. Typically, a unique Purchase Order number is established in the accounting system to represent each obligation event such as signing of a contract or request for training.

### II. Guidelines

The following guidelines describe how costs and automated accruals are processed each month against uncosted obligation balances and how the results are then communicated to program officials through the Department's Vendor Invoice Approval System (VIAS). See Section III for important information regarding exclusions.

#### 1. Non-Integrated Contracts, Interagency Agreements, and other Non-Financial Assistance Awards

- A. The Energy Finance and Accounting Service Center (EFASC) processes cost information for its customers throughout the month, as invoices are approved through VIAS and as cost reports are received for manual processing.
- B. Automated accruals are recorded monthly for all instruments with an uncosted obligation balance, with certain exceptions discussed below. The automated accrual program currently excludes reimbursable work activity, inter-entity activity, and property, plant and equipment activity. However, these areas are still under consideration and may be included in future enhancements.
- C. Invoice approving officials and proxies are notified monthly through a VIAS e-mail of any instrument with an uncosted obligation balance in excess of \$1 million for which they are the identified approving official. A review of the adequacy of this threshold will be undertaken periodically by the Office of Financial Policy to

determine whether adjustments are necessary. The notifications include a default accrual amount for each instrument that may be adjusted for each line of financing. The default accrual amount is accepted, or overridden with a different amount by the approving official or proxy, and the resulting accrual is recorded in STARS prior to month-end closing. An annual evaluation of the default accrual calculation is performed by the Office of Finance and Oversight.

- D. It is important to note that the option to adjust or accept the default accrual will be available to all approving officials through VIAS for any instrument, regardless of the uncosted balance amount. However, only those approving officials for an instrument with an uncosted obligation balance greater than \$1 million will receive the VIAS e-mail notification, and adjustment or acceptance of the default accrual for instruments with an uncosted balance below \$1 million will not be mandatory.

## **2. Financial Assistance Awards (Grants and Cooperative Agreements)**

- A. The cost of grants and cooperative agreements with award values of \$750,000 or less will be recorded at the time of obligation. Where subsequent procurement actions raise the award value of a below-threshold instrument above the threshold, the subsequent obligation will also be fully costed if the subsequent action is less than \$750,000. An evaluation will be conducted periodically by the Office of Financial Policy to determine if any adjustment to the \$750,000 threshold is necessary.
- B. Grants and cooperative agreements with award values greater than \$750,000 and paid using the U.S. Treasury Department's Automated Standard Application for Payment (ASAP) system are costed as they are paid using an ASAP interface to STARS. *It is critical, when grants and cooperative agreements exceeding the threshold are entered in ASAP, that the agreement is flagged for ASAP automated costing.* Because ASAP payments may not reflect actual costs incurred (as evidenced by supplemental cost reports or other documents), it may be necessary to adjust costs by submitting the supplementary cost information to EFASC for manual processing. Accruals must be 'trued-up' at a minimum annually to reflect actual costs.
- C. For both ASAP and VIAS financial assistance awards exceeding the \$1 million uncosted obligation balance, invoice approving officials or their proxies are notified through VIAS e-mail of their uncosted obligation balances. The notification also identifies any costs that have been recorded automatically or by manual entry, and identifies the default accrual amount. The default accrual amount may be adjusted or overridden with a more accurate amount by the approving official. The amount will then be recorded in STARS prior to month-end closing.

### **3. Blanket Purchase Orders**

- A. All organizations are encouraged to maximize their participation in electronic commerce (ECWEB) and the Small Purchase System (SPS) to maximize single-source entry via automated obligations. Costs related to these instruments are posted at the time of invoice approval through VIAS.
- B. Blanket purchase orders are accrued automatically by STARS at month end. The accrual is reversed immediately in the next month so that actual cost can be distributed. There are no e-mail requests for accrual adjustment on these instruments unless the uncosted obligation balance is greater than \$1 million.

### **4. Credit Card Orders for Miscellaneous Activity**

- A. After the credit card financial institution is paid in its entirety and after credit card bills are approved for payment, costs related to credit card activity (ECWEB, SPS, training, and miscellaneous purchases) are recorded and reported through VIAS.
- B. Miscellaneous purchase orders or training paid by credit card are processed through the STARS automated accrual program. The accrual will be reversed immediately in the next month so actual cost can be recorded. There is no e-mail request for accrued cost adjustment on these instruments.

### **5. Documentation**

Documentation supporting automated accruals or any manually adjusted accruals must be safeguarded and maintained to support internal reviews as well as the annual financial statement audit.

## **III. Exclusions**

### **1. Purchase Orders for which your office is regularly submitting manual cost reports.**

If these reports may already contain accrued costs, the related Purchase Orders shall be excluded from the automated accrual program to avoid double-costing. E-mail these purchase order numbers, along with a justification, to [PO-Exclusions@hq.doe.gov](mailto:PO-Exclusions@hq.doe.gov) and they will be included in a table of accrual-exempt purchase orders. E-mails must be submitted by the 20<sup>th</sup> of each month. Purchase orders can be removed from this table if you no longer wish to submit cost reports and the automated accrual calculation meets your organization's needs.

### **2. Integrated Contracts**

This guidance does not apply to integrated contracts. Costs and accruals related to these instruments are executed in accordance with current contract requirements and are recorded

separately through an interface to STARS.

### **3. Payroll, Inter-Office Work, Reimbursable Work, and Property, Plant & Equipment.**

Costs and accrued costs for these activities are processed in accordance with other policies and procedures and require no additional input from program or field offices. However, these areas are subject to review and may be included in future enhancements to the automated program.

### **4. Travel and Training**

Costs for travel and training are processed automatically through interfaces. Automated accruals will be calculated and recorded for these instruments. However, no additional input from program or field offices is necessary as these accruals will be immediately reversed in anticipation of actual cost received and recorded from the feeder systems.

## Supplemental Information

### 1. Analysis/Justification of Non-Integrated Financial Instrument Threshold (\$1 Million) Based on December 2005 STARS Information

Total Number of DOE Integrated Financial Instruments	30
Total Number of DOE Non-Integrated Financial Instruments	22,630
Total Number of DOE instruments (excludes travel and training)	22,660
Uncosted Balances on 30 Integrated Instruments	\$ 6.12 Billion
Uncosted Balances on 22,630 Non-Integrated Instruments	\$ 5.50 Billion
Total Uncosted Balances	\$11.62 Billion

The number of non-integrated instruments exceeding \$1M is 587, or 3% of all financial instruments. Total uncosted obligation balances related to these 587 instruments is approximately \$4.37B. This amount represents 80% of the total uncosted obligation balances on all non-integrated instruments. When combined with the total for integrated contractor instruments, this threshold captures over 90% of the Department's uncosted obligation balances.

IMPORTANT: Although the \$1M threshold will be used to trigger VIAS e-mail notifications, the automated accrual program will be applied across all financial instruments with the exceptions noted in Section III of the guidance. Default accruals on instruments under the threshold, can be reported to each field office or program office upon request. These may be helpful when reconciling internal systems with official STARS accounting records.

### 2. Analysis/Justification of Financial Assistance Award Threshold of \$750K Based on December 2005 STARS Information

Total number of Cooperative Agreements	1,629
Total number of Grants using VIAS payment	3,910
Total number of Grants using ASAP payment	2,030
Total Number of Financial Assistance Awards	7,569
Total Uncosted Balances on 7,569 FAAs	\$1.51B

The number of financial assistance awards exceeding \$750K is 2,439 or 33% of all financial assistance awards. Total uncosted balances related to these 2,439 awards are approximately \$1.23 billion. This amount represents 82% of the total uncosted balances on all financial assistance instruments. Any awards under the \$750K threshold will be fully costed at the time of obligation.

## V. Contact Information

If you have any specific questions related to this attachment, please contact Geoffrey Smith, Oversight and Evaluation Division Director (CF-12.2), at (301) 903-2729.