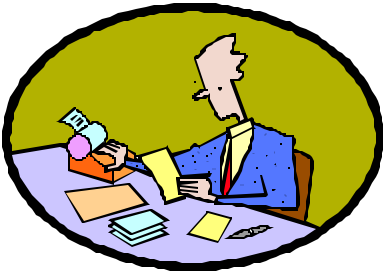


Indirect Cost Rate Administration



Guiding Principle

Establishing final indirect cost rates provides:

- uniformity of approach with a contractor when more than one contract, agency, or awarding office is involved;
- economy of administration; and,
- timely settlement and closeout of contracts.

References

- FAR 31.
- DEAR 931.
- FAR 42.7.
- DEAR 942.7.
- Title 10 CFR 600, DOE Financial Assistance Rules.
- OMB Circular A-21, Cost Principles for Educational Institutions.
- OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.
- OMB Circular A-122, Cost Principles for Nonprofit Organizations.

Overview

This section discusses the Department's procedures for the administration of contractor overhead costs, general and administrative expenses, and rates for DOE awarded contracts and financial assistance instruments.

Terminology

The following terminology is used in the day-to-day administration of indirect cost rate issues.

Predominant Financial Interest - A term used to determine which Federal agency has the largest Federal involvement with an organization, and therefore, is normally responsible for establishing indirect cost rates applicable to all Federal awards. Predominant financial interest can be determined on the basis of an unliquidated contract dollar amount or the largest dollar value of all awards, or any other method that identifies the agency with the predominant Federal interest.

Cognizant Federal Agency (CFA) - Normally, the agency having the predominate financial interest in the organization. The CFA is responsible for performing a designated function on behalf of all Federal agencies, such as the establishment of indirect cost rates and indirect cost determinations.

Cognizant DOE Office (CDO) - Normally, the contracting activity having the predominant financial interest in the contractor organization will be designated the CDO. The CDO is assigned lead office responsibility for all DOE indirect cost matters relating to a particular organization receiving DOE contract and financial assistance awards.

Cognizant Contracting Officer (CCO) - The person delegated the DOE decision making authority on indirect cost rate matters for a specific organization receiving DOE contract and financial assistance awards.

Direct Cost - Any cost which is identified specifically with a particular final cost objective, e.g., material purchased for contract use.

Indirect Cost - Any cost not identified specifically with a single final cost objective but with two or more final cost objectives, e.g., heat, light, and power.

Indirect Cost Rate - The percentage or dollar factor that expresses the rate of indirect expenses incurred in a given period to direct labor, manufacturing cost, or other appropriate base for the same period. Such rates may be in the form of:

Billing Rates - These indirect cost rates are established temporarily for interim reimbursements of incurred indirect costs and are adjusted as necessary. Billing rates are "forecasted" or "estimated" rates and are based on previous audits or experience, information resulting from recent review, or similar reliable data or experience of other contracting activities. OMB Circulars A-21, A-87, and A-122 refer to this type of indirect cost rate as a "provisional" rate.

Final Indirect Cost Rates - These rates are established and agreed upon by the Government and the awardee for the purposes of determining allowable indirect costs under existing cost-type awards. Final indirect cost rates reflect actual cost experience for the covered period.

Predetermined Final Indirect Cost Rates - Predetermined final indirect cost rates may be established under cost reimbursement research and development awards placed with educational institutions. These rates are applicable to a specified current or future period and are estimates of the costs to be incurred during the period. Such rates are established when there is a reasonable assurance, normally based on experience and a reliable projection of an institution's probable level of activity, that the rate agreed to will approximate the institution's actual rates.

Fixed Rate With Carry Forward - This type of rate has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.

Forward Pricing Rates - These cost rates are used to price indirect expenses during specified fiscal years and are used in developing contract negotiation objectives and

negotiating contract prices. The rates may, when deemed appropriate, be incorporated into a written forward pricing rate agreement and may include indirect cost rates, labor hour rates, material and labor variances, material handling rates, efficiency factors, etc. These rates may also be used as interim billing rates under cost-reimbursement type contracts, unless the contracting officer determines that changed conditions have invalidated part or all of the agreement.

DOE Procedures

The Office of Procurement and Assistance Policy (ME-61) develops and maintains policies and procedures for the establishment and administration of indirect cost rates for commercial and noncommercial organizations. This office also interacts with OMB where CFA assignments are designated to the DOE, and coordinates with OMB when changes to DOE CFA assignments are necessary.

Heads of Contracting Activities establish local written procedures for designating CCOs that will be responsible for establishing and approving indirect cost rate(s) and for distributing rate agreements within DOE and to other Federal agencies. HCAs also designate the CCO responsible for indirect cost rate matters affecting DOE awards placed with a specified organization when the HCA has been assigned CDO responsibility for that particular organization. CDO assignment changes are requested by the HCA, as appropriate.

Each awarding office designates a CDO for those organizations awarded a contract and/or financial assistance instrument that requires establishment of indirect cost rates or indirect cost determinations. Such designations are based on predominant DOE financial interest (the largest dollar balance of active and inactive DOE awards requiring allowable indirect cost determinations) in the organization.

The CDO cognizant contracting officer determines whether the DOE has CFA responsibilities. This can most easily be accomplished by asking the awardee to identify which Federal agency they have the most business with (the predominant financial interest), and contacting the agency for the purpose of establishing the CFA.

When the Department is identified as the Cognizant Federal Agency, the DOE office designated as the CDO establishes the indirect cost rates required for the administration of all Federal contract and assistance awards, including DOE awards, made to that organization.

When DOE is not the Cognizant Federal Agency, the Department will accept and use the indirect cost rates established for the respective organization by the Cognizant Federal Agency or another Federal agency, provided any required adjustments are made to reflect DOE-specific cost principles.

When CFA responsibilities are transferred from DOE to another Federal agency (i.e., the predominant financial interest has shifted to another Federal agency, or another agency

wishes to assume the CFA responsibilities even though DOE has the predominant financial interest), the change is agreed to by both the DOE and the other Federal agency. The Office of Procurement and Assistance Policy (ME-61) will notify the other Federal agency, and, if applicable, OMB so that publications that list the CFAs can be changed.

When determining allowable costs under DOE contracts and financial assistance instruments awarded to that organization, all DOE contracting officers use the same indirect rate(s) established for that organization.

The contracting activity designated as the CDO for a particular organization serves as the lead office responsible for all DOE indirect cost matters relating to the organization. The designation remains until all affected DOE awards placed with the organization are retired or another DOE office is assigned the CDO function.

Heads of contracting activities may request changes to CDO assignments for a particular organization. Redesignation requests are coordinated between the current CDO and the successor organization. They are jointly agreed to by the two affected contracting activities.

Upon agreement of a redesignation, the relinquishing office will forward appropriate summary information concerning negotiated billing rates, final rates, and forward pricing rates to the new designee. Detailed file documentation on negotiations will remain at the activity that negotiated the rates. Further, the relinquishing activity will notify all other awarding activities of the CDO change so that they can revise the CDO designations.

The CDO normally serves as the DOE focal point for that organization's corporate general and administrative expense distributions, if applicable.

CCOs perform the following tasks:

Determine whether DOE or another Federal agency is responsible for negotiating or determining required indirect cost rates for each assigned organization.

Where DOE has responsibility for negotiating rates, the CCO will perform the following tasks:

Negotiate advance understandings on particular indirect cost items, when appropriate.

Establish forward pricing rate agreements for all Federal agencies, when appropriate, as CFA and for the DOE when awards are only from the Department.

Establish billing rates or provisional rates, as required, for interim reimbursement of incurred indirect costs for all Federal awards when assigned CFA responsibility and for the DOE when awards are only from the Department.

Monitor the organization's actual indirect cost rates and initiate appropriate actions to revise billing rates that are significantly at a variance with expected final rates.

Assist other contracting officers, as necessary, when temporary billing rates are required in accordance with DEAR 942.704(b).

Assure an organization's final indirect cost rate proposal is submitted when due. (Cost allocation plans in the case of state and local governments.)

Establish final indirect cost rates, predetermined rates, or fixed rates with a carry forward provision, as required, for all Federal awards and for the DOE when awards are only from the Department.

Make determinations regarding the allowability of indirect costs suspended or disapproved when a written appeal has been received.

Request advisory audit services when warranted. Audit requests flow through the cognizant Federal audit agency (e.g., the Defense Contract Audit Agency or the Department of Health and Human Services). When requesting audits, the CCO requires the auditor to identify the percent of Government participation in each expense pool (i.e., the Federal Government allocated share).

Coordinate indirect cost rate negotiation activities, including prenegotiation objectives, and the review and approval of statewide central service allocation plans, etc., with other affected DOE offices and Federal departments or agencies.

Enter into indirect cost rate agreements with the contractor or financial assistance recipient.

Before finalizing indirect cost rate agreements when the DOE is the CFA: obtain management approval at two levels above the CCO when the Federal Government allocated share of the indirect cost pool exceeds \$500,000 in a fiscal year; and approval of Headquarters, Office of Management Systems (ME-62), when the DOE allocated share of indirect costs exceeds \$5,000,000 or more in a fiscal year.

Document actions taken in a formal negotiation memorandum and retain in the work paper files supporting the negotiations.

Promptly distribute the indirect cost rate agreement, negotiation report, or summary, as appropriate, to all affected DOE and other affected Federal contracting activities, including the audit office which performed the audit review. (For noncommercial organizations, distribute agreements to the Department of Health and Human Services for Government-wide distribution).

Assist other contracting officers, as necessary, when quick closeout procedures at FAR 42.708 are applied.

Where the DOE has no direct responsibility for the negotiation of rates with the organization in question, the CCO performs the following tasks:

Collect DOE contract information and identify all DOE awards with the specific organization.

Notify the CFA of all DOE awards placed with the organization in question.

Coordinate with and assist the CFA or cognizant Federal activity (cognizant Federal negotiator), as necessary, in the negotiation of required indirect cost rates with the organization, or a segment thereof, such as a home office, when it is not otherwise assigned to a DOE contracting activity.

Obtain and review all indirect cost rate agreements established by the CFA and assure that such indirect cost rates affecting DOE awards are in compliance with DOE regulations and policies (e.g., DOE unique cost principles).

Provide all affected DOE activities with the necessary indirect cost rate information required for making awards, administering payments, and determining allowable costs.

Monitor the organization's actual indirect cost rates and initiate appropriate actions with the CFA to revise billing rates when they significantly vary with expected final rates. Assist other contracting officers, as necessary, when temporary billing rates are required in accordance with DEAR 942.704(b).

Obtain copies of the organization's final annual indirect cost rate proposal(s) when due.

Assist other contracting officers, as necessary, when the quick closeout procedures at FAR 42.708 are applied.

DOE Contracting Officers perform the following tasks:

Prior to award, coordinate with the CCO regarding forecasted indirect cost rates and applicable billing rates to ensure that a consistent Department-wide approach is maintained.

Require awardees, in the award document, to submit indirect cost rate proposals directly to DOE's CCO when DOE is the CFA, or to the appropriate designated CFA activity. When DOE is not the CFA, the awardee is only required to submit an information copy of the proposal to DOE's cognizant contracting officer.

Notify the cognizant contracting officer of applicable awards and request that current forward pricing rates, billing rates, and final indirect cost rates be provided henceforth.

Ensure the billing rates and final indirect cost rates provided by the cognizant contracting officer are properly reflected in the awardee's payment requests.

When rates are not available from the CCO, the DOE contracting officer performs the following tasks:

Establish temporary billing rates pursuant to DEAR 942.704(b), when necessary to do so.

Establish appropriate final indirect cost rates when the quick closeout procedure at FAR 42.708 is applied.

Inform the CCO of such actions taken.