

ABCs OF DOE INTEGRATED CONTRACTORS



What we will cover in this presentation:

- Accounting
- Audit and Oversight

INTEGRATED CONTRACTOR DEFINITIONS

- DOE accounting integration is a home office/branch office accounting relationship.
- An IC is a contractor
 - that works for DOE;
 - has little financial risk;
 - that uses DOE funds to finance operations under a cost reimbursement contract;
 - that maintains a separate set of accounts and records for recording and reporting all business transactions under the contract in accordance with DOE accounting practices and procedures;
 - that maintains accounts integrated with DOE; and
 - that reports data in the DOE format in the Standard Accounting and Reporting System (STARS) and payment and collection activity on the monthly Summary of Cash Activity (SOCA).

INTEGRATED CONTRACTOR DEFINITIONS

- This integration of accounts avoids duplication, because the contractor maintains the only set of detailed accounting records in a branch office accounting relationship.
- Reciprocal accounts (inter-entity receivables/payables and transfers), which are eliminated in consolidation, provide the means to efficiently and effectively move cost and payments between parties.

INTEGRATED CONTRACTOR DEFINITIONS:

- A non-IC is one
 - that performs work for DOE;
 - that receives DOE funds in reimbursement of operations;
 - that maintains an accounting system for the recording and reporting of all business transactions under the contract; and
 - whose accounts are not integrated with DOE.

OPERATIONAL RELATIONSHIP WITH DOE

- The relationship of ICs with DOE is unique. They typically operate, maintain, and support DOE-owned or DOE-controlled research, development, special production, or testing establishments within the following framework:
 - DOE retains responsibility for overall program management and project technical direction, whereas the contractor is responsible for the day-to-day management of the work.
 - DOE and the IC have a common interest in the mission being pursued.
 - The parties maintain a close, long-term contractual relationship.
 - The IC supports DOE functions by executing programs on behalf of the Department.
 - DOE is ultimately responsible for security, health, and safety and the proper use of public funds.

INTEGRATED CONTRACTOR

USUAL CIRCUMSTANCES OF INTEGRATION

- Ordinarily, a contract is integrated when the onsite contractor's organization and operations are essentially self-sufficient and dependence on home office support services and management is at a minimum.
- The accounting relationship between the contractor and DOE is similar to that of a decentralized division or branch office.
- The onsite accounting function is independent of the home office.

NON-INTEGRATED CONTRACTOR USUAL CIRCUMSTANCES

- Some contractors use considerable home office resources to augment the team assigned to the plant site. The financial staff at the contractor's local office will most likely be smaller and have less financial expertise if the contract is not integrated due to greater reliance on the contractor's home office and the Field Office.
- Home office support usually includes a relatively high degree of management attention, extensive computer services, and contributions from service groups.
- An accounting staff may be utilized at the plant site; however, it is not a stand-alone function. Basic accounting for costs is in the home office. This approach does not lend itself to integration.

INTEGRATED CONTRACTOR PROPERTY

- Contractors must establish property controls and detailed property records with or without integration.
- ICs submit property data monthly as part of the normal STARS submission.
- Plant and equipment accounting is more efficient if the contractor records and reports all changes, including depreciation.
- ICs responsible for the annual FIMS to STARS reconciliation.
- ICs responsible for reporting on and recording Internal Use Software.

INTEGRATED CONTRACTOR PAYMENTS

- ICs are financed through a payments cleared financing arrangement (checks-paid letter of credit) via the Automated Standard Application for Payment (ASAP 1031)
- ~~The letter of credit method~~ *This type* of financing provides for the immediate reimbursement of to the contractor on the day payments are made from the contractor's financial institution account. ~~money is actually utilized.~~
- ICs record their drawdowns (payments) in their monthly STARS file and on the SOCA.

NON-INTEGRATED CONTRACTOR PAYMENTS

- Payment is normally made based on a voucher submitted by the contractor.
- The use of vouchers for reimbursing contractors results in a cost of money to the contractor.
- Payment entries are recorded by DOE and processed through Treasury.
- Some non-ICs utilize ASAP for payments, but the payments are recorded in STARS by the STARS ASAP interface.

INTEGRATED CONTRACTOR STATEMENT OF COST INCURRED AND CLAIMED

- At fiscal year end, an IC summarizes its accounting for costs incurred during the year on the Statement of Cost Incurred and Claimed (SCIC).
- The SCIC is the contractor's accounting for all DOE funds disbursed by the contractor.

INTEGRATED CONTRACTOR STATEMENT OF COST INCURRED AND CLAIMED

- Field Office runs the STARS SCIC report and provides to the IC. The report includes:

FUNDED COST BY SGL	
SGL	Account Description
61000000	Operating Expenses/Program Costs
61009900	Integrated Contractor Cost Overruns and Undistributed Costs
63300000	Other Interest Expense
6500F000	Cost Of Goods Sold - Budgeted (B&R Wn And Cb)
88020100	Purchases Of Capitalized PP&E
88020500	Financing for Previously Unfunded Capital Lease PP&E
88030200	Purchase of Capitalized Inventories
88030300	Purchase of Funded Inventory
88040900	Purchase of Other Assets

(Cost that affects the Undelivered Orders Amount SGL 48010000)

INTEGRATED CONTRACTOR STATEMENT OF COST INCURRED AND CLAIMED

- Field Office reconciles the SCIC to STARS.
- Field Office coordinates and ensures the appropriate signatures are obtained:
 - Contractor Management
 - Field Office CFO
 - Contracting Officer
 - OIG
 - DOE Site Manager

INTEGRATED CONTRACTOR MONTH-END CLOSING

- ICs submit the SOCA by noon local time on the 1st workday.
 - Field Office assists HQ's with any SOCA reconciliation issues.
- ICs submit STARS data by noon local time on the 2nd workday of each month.
 - Field Office verifies that the "AP Invoice in File" amount minus the "AP Credit Memos in File" equals the 57900400 amount on the ICs SOCA on the IC interface "Validation Completed" email notification. If multiple files were sent in the month add all the files together.
 - Oak Ridge reconciles the ASAP and DOE-PAC information to the ICs SOCA.
- Under a DOE integrated contract, the actual costs and accruals through the end of the current month are reported.

NON-INTEGRATED CONTRACTOR MONTH-END CLOSING

- Non-ICs may be required to submit monthly cost reports which are due by the 20th of each month.
- The current report contains actual cost for the previous month, estimated cost for the current month, and subsequent month.
- This lag in costing provides less timely information for DOE program managers and places a greater burden on them to properly manage cost underruns and overruns.

INTEGRATED CONTRACTOR COST/ACCRUALS

- An integrated accounting system reduces the administrative burden on the federal financial organization for complex contracts with numerous funding sources and program values.
- All accounts are recorded and maintained by the contractor. The IC provides cost data in the STARS format which is much more efficient than the use of cost reports.

NON-INTEGRATED CONTRACTOR COST/ACCRUALS

- The contractor provides information in a cost report format and then the cognizant office converts that information, through multiple entries, to the STARS format.
- A contract that has multiple program values and fund types is very labor intensive for the federal financial organization to maintain from a cost report.
- In a non-IC scenario, the data is being maintained twice – by the contractor and by DOE.

INTEGRATED CONTRACTOR FINANCIAL REPORTING

- IC maintain a separate set of accounts and prepare financial statements, financial statement analyses, and supporting documentation at June 30 and September 30 to facilitate the preparation of DOE financial statements and schedules.
- IC report on subsequent events, non-monetary losses, and the Institutional Cost Report.
- Field Office provides the IC with the June and September financial statements from iPortal, highlighting the lines that the IC must provide explanation for the significant balance change.

INTEGRATED CONTRACTOR FINANCIAL REPORTING

- Field Office consolidates the footnotes and loads onto iPortal by the established deadline.
- Field Office sends SF2108 reports to IC for comments in June and July.
- Field Office consolidates the footnotes and loads onto iPortal by the established deadline.

NON-INTEGRATED CONTRACTOR FINANCIAL REPORTING

- Federal employees prepare financial statements and schedules for its direct operations.
- The financial data is included in the Field Office financial statements, with information provided by the non-IC if necessary, for the preparation of the DOE financial statements and schedules.

INTEGRATED CONTRACTOR ACCOUNTS RECEIVABLES

- ICs can bill and collect directly from other federal agencies and non-federal entities.
- It is much more efficient for the contractor to maintain the costing, receivables, and non-federal advances instead of the federal financial organization.
- Financing and accounting for costs of work performed by one DOE office or site/facility management contractor for another is processed through DOE-PAC which eliminates the movement of cash.

INTEGRATED CONTRACTOR DOEPAC

Phase	Description	Invoices	Amount
I	IC to DOE	23,564	\$1.5 B
II	DOE to IC	6,132	\$458 M
III	IC to IC	77,611	\$1.5 B

**As of June 2014, since inception –
107,307 invoices
\$3.5Billion**

NON-INTEGRATED CONTRACTOR ACCOUNTS RECEIVABLES

- The cognizant Field Office records the monthly cost reports and HQ EFASC does the billing and collecting from other agencies.
- Non-federal customers send reimbursable work advances directly to HQ and the advance is recorded by EFASC.
- The cognizant Field Office is responsible for ensuring that the data is reconciled.
- Additional federal accounting staff is required to accommodate the increased workload of recording cost report information and maintaining accurate accounts receivables.

AUDIT AND OVERSIGHT

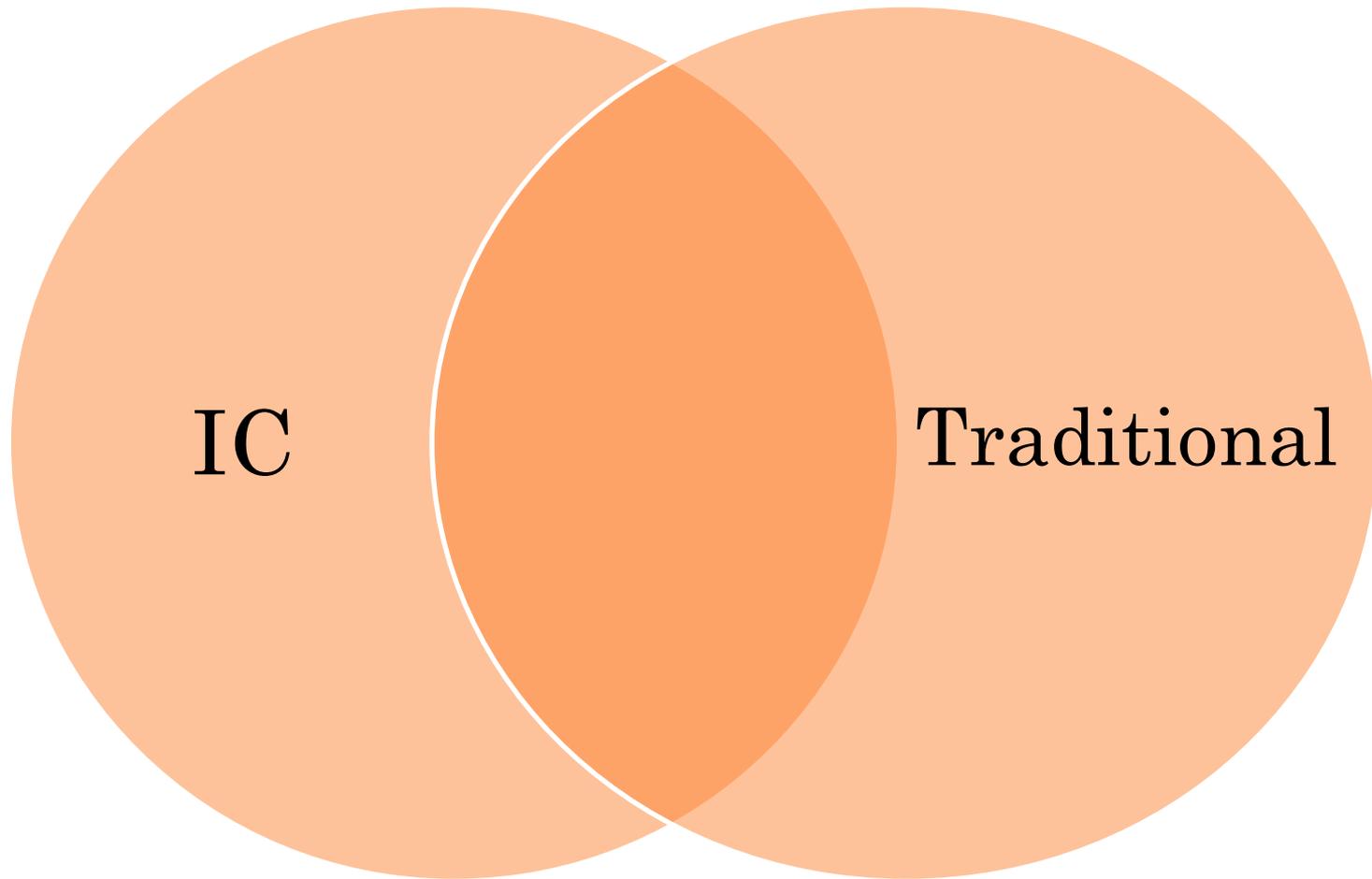
WHAT WE PLAN TO DISCUSS

IC

vs.

Traditional

REALITY



KEY FINANCIAL CLAUSES

- 970.3270 Standard financial management clauses for IC contracts
 - (1) 970.5232-2, Payments and Advances.
 - (2) 970.5232-3, Accounts, records, and inspection.
 - (3) 970.5232-4, Obligation of funds.
 - (4) 970.5203-1, Management controls.
 - (5) 970.5232-5, Liability with respect to Cost Accounting Standards.
 - (6) 970.5232-6, Work for others funding authorization.
 - (7) FAR 52.230-2, Cost Accounting Standards.
 - (8) FAR 52.230-6, Administration of Cost Accounting Standards.

KEY FINANCIAL CLAUSES

- Standard clauses in all contracts with integrated accounting systems:
 - (1) 970.5232-7, Financial management system.
 - (2) 970.5232-8, Integrated accounting.



DIFFERENCES BETWEEN TRADITIONAL AND IC CONTRACTS

- Review of CAS Disclosure Statement
- Accounting System Requirements
- Financial Related Assurances
- Audit Coverage
- Determining Allowable Cost
- Other Financial Oversight Reviews

CAS DISCLOSURE STATEMENT

IC	Traditional
Generally speaking, IC contractors are subject to full CAS coverage because the contract award is \$50 million or more (see 48 CFR 9903.201-2(a)(2))	Subject to CAS only if they do not meet one of the exemptions in 48 CFR 9903.201-1(b)
Field CFO reviews CAS Disclosure Statement and provides recommendation to the CO as provided for in DOE Order 520.1A <i>Chief Financial Officer Responsibilities</i>	Cognizant Federal Auditor reviews CAS Disclosure Statements and provides recommendation to the CO
The CO approves CAS Disclosure Statement and resolves CAS non-compliances	The CO approves CAS Disclosure Statement and resolves CAS non-compliances
Certain CAS standards <u>may not</u> be applicable (such as CAS 403, 404, 409, 420)	Must comply with all standards if subject to full CAS coverage

ACCOUNTING SYSTEM

IC	Traditional
Financial records are integrated into the Departmental accounting system with all financial activities captured in the Reciprocal / SGL accounts.	Financial system is maintained by the contractors and cost is captured by DOE primarily through invoices.
Policies and procedures should ensure compliance with the DOE Financial Management Handbook. Accounts included in DOE consolidated FS audit	Contractor not required to comply with DOE Financial Management Handbook unless provided for in the contract. Accounts not included in DOE FS audit.
Major changes to financial management systems/subsystems must be approved by DOE.	Accounting system must be adequate for accumulating cost on a government contract (FAR 16.301-3).

FINANCIAL RELATED ASSURANCES

IC	Traditional
Contractually required to maintain management controls (DEAR 970.5203-1)	Contractor will have books and records audited in accordance with the requirements of the entity (publicly traded company will have audited FS)
DOE requirements for FMFIA and OMB Circular A-123 are pushed down to contractor level; must perform annual Financial Management Assurance and Entity Assessment based on DOE guidance	Contractor is responsible for internal controls of the company and may be subject to Sarbanes-Oxley.

AUDIT COVERAGE

IC	Traditional
Audited as a part of DOE Financial Statement Audit.	Contractor responsible for obtaining independent audit of financial statements.
Contractor must maintain an Internal Audit activity. DOE Field CFO supports CO by reviewing IA implementation design plan, annual work plan, audit reports, etc.	No reporting requirements to DOE regarding Internal Audit activities. Contractor responsible for maintaining adequate internal controls.
Contractor prepares a Statement of Costs Incurred and Claimed (SCIC) each FY; IA conducts allowable cost review; OIG reviews the SCIC and verifies adequacy of the IA function.	Contractor required to submit a Final Indirect Cost Rate Proposal to the ACO and the Cognizant Federal Auditor (generally DCAA).

DETERMINING ALLOWABLE COST

IC	Traditional
<p>CO responsible for determining allowability of cost in accordance with FAR 31.2 supplemented by DEAR 970.31 (ref. DEAR 970.5232-2(j))</p>	<p>CO responsible for determining allowability of cost in accordance with FAR 31.2 supplemented by DEAR 931.2 (ref. FAR 52.216-7 and DEAR 952.216-7)</p>
<p>Rely on audits from OIG and IA in accordance with Cooperative Audit Strategy (see DOE Acquisition Guide Chapter 70.4, DEAR 970.5203-1 Management Controls, DEAR 970.5232-3 Accounts, Records, and Inspecting.</p>	<p>Rely on audits from DCAA (or other auditors such as KPMG). Final rates established by the ACO are applicable to all contracts, including DOE contracts.</p>