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# **COST ALLOCATION OPTIMIZATION**

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## **NATIONAL NUCLEAR SECURITY ADMINISTRATION** **Management and Budget**

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## **COST ALLOCATION OPTIMIZATION**

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1. **PURPOSE.** To ensure indirect cost allocations are optimized at National Nuclear Security Administration (NNSA) management and operating (M&O) contractor partners across the Nuclear Security Enterprise (NSE).
2. **AUTHORITY.**
  - a. This NNSA Policy (NAP) is written under 50 United States Code (U.S.C.) 2402(d), which gives the Administrator authority to establish NNSA-specific policies, unless disapproved by the Secretary.
  - b. Cost Accounting Standards (CAS), 48 CFR Chapter 99.
  - c. Federal Acquisition Regulation (FAR) Part 30, Cost Accounting Standards Administration.
  - d. FAR Part 31, Contract Cost Principles and Procedures.
3. **CANCELLATION.** NNSA Advance Change Directive (ACD) 530.1, *Indirect Cost Accounting On Line-Item Construction Projects In The National Nuclear Security Administration*, dated 10-06-2021.
4. **APPLICABILITY.**
  - a. **Federal.** Applies to all federal NNSA elements that conduct oversight of M&O contractor partners' allocation of indirect costs.
  - b. **Contractors.** Applies to M&O contractor partners that execute line-item capital construction or major item of equipment projects. Requirements for contractors are found in Attachment 1, Contractor Requirements Document (CRD).
  - c. **Equivalencies/Exemptions.**
    - (1) **Equivalency.** In accordance with the responsibilities and authorities assigned by Executive Order 12344, codified at 50 U.S.C. sections 2406 and 2511, and to ensure consistency throughout the joint Navy/DOE Naval Nuclear Propulsion Program, the Deputy Administrator for Naval Reactors (Director) will implement and oversee requirements and practices pertaining to this Directive for activities under the Director's cognizance, as deemed appropriate.
    - (2) **Exemptions.** None.

5. BACKGROUND.

One of the methods NNSA uses to revitalize the infrastructure of the NSE is to execute high-value projects such as line-item capital construction (LI) or major item of equipment (MIE) acquisitions through the site M&O contractor partners and their contracts. Existing M&O contracting regulations such as the FAR and CAS require the M&O contractor partners to ensure indirect costs are allocated to cost objectives, including LI and MIE projects, in reasonable proportion to the beneficial or causal relationship to the cost objective. As large portfolios and individual projects are executed, it is vital for federal oversight to ensure that cost allocation practices follow these requirements.

6. REQUIREMENTS.

- a. The M&O partner's Cost Accounting Standards (CAS) Disclosure Statements (DS) and cost allocation practices must be reviewed to ensure costs are allocated to cost objectives based on a beneficial or causal relationship when the M&O partner experiences a *significant change* in the nature of the business that would impact the equitable distribution of indirect costs. For this policy, a significant change results when any of the following conditions are met:
  - (1) Site is planning for or executing a single LI or MIE project with an estimated Total Project Cost equal to or exceeding \$500 million,
  - (2) The portfolio of LI and/or MIE projects planned or executed by the M&O contractor partner equals or exceeds \$500 million annually,
  - (3) The change in site projected annual total cost by 10% from the prior year due to a change in the LI or MIE portfolios,
  - (4) A significant change in acquisition strategy or project management approach for a project(s) or program(s) making up 10% or more of the site projected annual cost, or
  - (5) Any other factor or combination of factors that results in a reasonable belief by M&O partner management or federal oversight personnel that the existing cost model results in material inequities in the causal or beneficial relationship between indirect costs and cost objectives.
- b. The CAS DS and cost allocation practices of M&O contractor partners must have an Integrated Federal Review (IFR) performed when a significant change in the nature of the M&O's business affects the equitable distribution of indirect costs.
- c. The review must ensure M&O indirect cost are allocated to cost objectives based on a beneficial or causal relationship.
- d. Review of the CAS DS and cost allocation practices must be performed by an Integrated Federal Review Team (IFRT).

- (1) The IFRT must include personnel from:
  - (a) Management and Budget (NA-MB),
  - (b) Office of Partnership and Acquisition Services (NA-PAS),
  - (c) Office of Infrastructure (NA-90) or cognizant Project Office,
  - (d) The cognizant NNSA Field Office,
  - (e) Program office relying on LI or MIE, if applicable,
  - (f) Other stakeholders or subject matter experts as determined appropriate by the NA-MB IFRT lead.
- (2) The IFRT must be convened, and the review conducted as soon as practicable after the identification of a significant change in the nature of the business that would affect the equitable distribution of indirect costs, or during the Future Years Nuclear Security Program outyear planning for identified work priorities. Any changes to the CAS DS and cost allocation practices must be considered as early as possible in the project or program planning process and fully inform M&O contractor partner's and federal project or program cost estimates.
- (3) A written review report must be developed by the IFRT to include a description of recommended changes for cost allocations to the CAS DS and a list of the expected cost impacts to the programs and projects affected by the recommended changes.
- (4) The completed review report must be transmitted to the cognizant Administrative Contracting Officer for distribution to the M&O contractor partner.

7. RESPONSIBILITIES.

a. Head of NNSA Field Element.

- (1) Notifies the Director, Financial Performance (NA-MB-60) when any of the conditions in 6.a., above, have occurred.
- (2) Assigns qualified personnel to participate in the IFRT.

b. Manager, M&O Contracting Branch (NA-PAS-211).

- (1) Notifies Director, Financial Performance, when any of the conditions in 6.a., above, have occurred.
- (2) Assigns qualified personnel to participate in the IFRT.

c. Manager, M&O Construction Contracting Division (NA-921).

- (1) Notifies Director, Financial Performance, when any of the conditions in 6.a., above, have occurred.
- (2) Assigns qualified personnel to participate in the IFRT.

d. Associate Administrator for Management and Budget (NA-MB-1).

Ensures NA-MB organizations have sufficient resources with appropriate expertise necessary to meet the requirements under this NAP.

e. Director, Financial Performance (NA-MB-60).

- (1) Maintains awareness of issues that may affect cost accounting practices across the NSE.
- (2) Ensures NA-MB-60 has sufficient resources with appropriate expertise necessary to meet the requirements under this NAP.
- (3) Determines whether an IFR is appropriate, based on the nature and extent of the change in the work assigned to the M&O partner, and how recently an IFR was conducted.
- (4) If an IFR is appropriate, notifies the Administrative Contracting Officer, and designates the IFRT Lead.
- (5) Approves the IFRT review report and recommendations for issuance to the cognizant Contracting Officer.
- (6) Provides cost accounting subject matter experts to assist NNSA program office and field office personnel with questions and concerns on cost allocations and cost models.

f. Integrated Federal Review Team Lead.

- (1) Convenes the IFRT composed of qualified personnel assigned from stakeholder organizations.
- (2) Leads the IFRT review to determine whether the M&O partner's cost allocations are appropriate.
- (3) Drafts a written report of the IFRT's findings, including recommendations for changes to the M&O partner's cost allocations.
- (4) Develops and implements a communication plan for the IFRT's findings and recommendations.

- (5) Supports the Contracting Officer in negotiations for revisions to the M&O partner's CAS DS.

g. Contracting Officer.

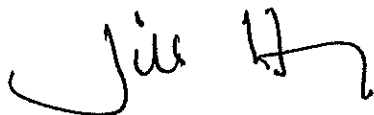
- (1) Incorporates the Contractor Requirements Document (CRD) into M&O contracts.
- (2) Notifies NA-MB-60 when the M&O contractor partner has informed them that one of the items in the CRD's paragraph b. has occurred.
- (3) Authorizes the IFRT Lead to communicate with and request information from the M&O contractor partner to the extent necessary to complete the IFR.
- (4) Reviews the IFRT report and recommendations. Takes appropriate action in accordance with FAR 52.230-6, *Administration of Cost Accounting Standards*, or equivalent/successor contract clause that governs changes to the M&O contractor partner's CAS DS.

8. ACRONYMS/ABBREVIATIONS.

- a. CAS – Cost Accounting Standards
- b. CAS DS – Cost Accounting Standards Disclosure Statement
- c. CFR – Code of Federal Regulations
- d. FAR – Federal Acquisition Regulation
- e. IFR – Integrated Federal Review
- f. IFRT – Integrated Federal Review Team
- g. LI – Line-Item Capital Construction
- h. M&O – Management and Operating
- i. MIE – Major Item of Equipment
- j. NSE – NNSA Nuclear Security Enterprise.

9. CONTACT. Management and Budget, Financial Performance, NA-MB-60,  
bethany.belice@nnsa.doe.gov

BY ORDER OF THE ADMINISTRATOR:

A handwritten signature in black ink, appearing to read "Jill Hruby", with a stylized flourish at the end.

Jill Hruby  
Administrator

Attachment 1: Contract Requirements Document



**ATTACHMENT 1: CONTRACTOR REQUIREMENTS DOCUMENT  
NNSA NAP 530.1, COST ALLOCATION OPTIMIZATION**

1. INTRODUCTION.

- a. This Contractor Requirements Document (CRD) establishes the requirements for NNSA management and operating (M&O) contractor partners for cost allocation optimization when the M&O partner experiences a significant change in the nature of the business that impacts equitable distribution of indirect costs.
- b. Regardless of the performer of the work, the contractor partner is responsible for complying with the requirements of this CRD. The contractor partner is responsible for flowing down the requirements of this CRD to subcontractors at any tier to the extent necessary to ensure the contractor partner's compliance with the requirements.

2. REQUIREMENTS.

- a. The cognizant Contracting Officer must be informed immediately by the M&O contractor partner in writing once they become aware of any of the following:
  - (1) Plans to execute a single Line-Item Capital Construction (LI) or Major Item of Equipment (MIE) project with an estimated Total Project Cost equal to or exceeding \$500 million,
  - (2) The total portfolio value of LI and/or MIE projects planned or executed by the M&O contractor partner equals or exceeds \$500 million annually,
  - (3) A change in site projected annual total cost by 10% from the prior year due to a change in the LI or MIE portfolios,
  - (4) A significant change in acquisition strategy or project management approach for a project(s) or program(s) making up 10% or more of the site projected annual cost, or
  - (5) Any other factor or combination of factors that results in a reasonable belief by the M&O contractor partner that the existing cost model results in material inequities in the causal or beneficial relationship between indirect costs and cost objectives.
- b. The Integrated Federal Review Team (IFRT) activities must be supported by the M&O contractor partner, including providing information and analysis of cost accounting practices and potential changes identified by the IFRT.
- c. Nothing in this CRD shall serve to waive any of the Government's rights or contractor partner's responsibilities under the clause at FAR 52.230-6, *Administration of Cost Accounting Standards*, (or successor/equivalent clause), or the DOE Financial Management Handbook.