

APPENDIX E
DESCRIPTIONS AND DEFINITIONS - “ANALYSIS OF ACCRUED COST” and “CCR
ADJUSTMENT EXPLANATION” REPORTS

DESCRIPTIONS:

- **Analysis A** - This analysis provides a comparison of the cumulative accrued cost with the cumulative actual cost reported by the contractor for the same period.
- **Analysis B** - This analysis provides a comparison of the cost accrued for the current month with the actual cost reported by the contractor for the same period.
- **Analysis C** - This analysis provides a comparison of the contractor’s estimate for the current month with the actual cost reported by the contractor for the same period.
- **Analysis D** - This analysis provides a comparison of the cost accrued for the current month with the contractor’s estimate for the same month; **the variance is the amount by which the contractor’s NF 533 estimate was “adjusted” in developing the cost accrual for the month (see NFMR, Volume 7, Chapter 1.010811.A.4).**

DEFINITIONS:

- **Center Cumulative Accrued Cost** - the cumulative contract cost (i.e., contract inception to date) accrued in NASA’s accounting system as of the end of the month being analyzed.
- **Contractor 533 Cumulative Actual Cost** – the cumulative actual cost (i.e., contract inception to date) reported on the contractor’s NF 533 for the month being analyzed (Col. 7.c. – 533M, Col. 7.a. – 533Q).
- **Contractor 533 Actual Cost for Month** – the monthly actual cost (i.e., cost for the specific month alone) reported on the contractor’s NF 533 for the month being analyzed (Col. 7.a. – 533M).
- **Center Accrued Cost for Month** – The amount the Center accrues on a contract for the current month normally includes:
 1. An amount to adjust the cumulative accrued costs to the actual costs reported by the contractor for the prior month;
 2. The contractor’s estimated costs for the current month
 3. The accrual may also include:
 4. An adjustment to the contractor’s estimated costs for the current month, under the conditions set forth in NFMR, Volume 7, Chapter 1.010811.A.4.

For the purposes of this analysis, the amount entered as “Center Accrued Cost for Month” will **ONLY** include 2 and 3 above.

- **Contractor Estimated Cost for Month** – the monthly cost estimate provided on the contractor’s NF 533 for the month being analyzed. This estimate would usually be reported on the prior month’s NF 533 (i.e., the estimate for June would appear in Col. 8.a. on the contractor’s NF 533 for May).

LEVEL OF DETAIL REQUIRED FOR EXPLANATIONS OF VARIANCE ANALYSES - “ANALYSIS OF ACCRUED COST” and “CCR ADJUSTMENT EXPLANATION” REPORTS:

These reports include the calculation of four variance analyses (described above). The DCFO (F) is responsible for providing, as part of the analysis, narrative comments explaining **each** of the four variances, which is in excess of 5 percent. The requirement for the explanations ensures an analysis of the cause of the variances so that appropriate action can be taken. If comments obtained from the contractor regarding a condition of the contract are appropriate **and explain** the resulting variance, such comments may be enough.

However, comments **solely** from the contractor may not be sufficient in all cases. For example, where the Center is making an adjustment to the contractor’s estimate in developing the accrual, the contractor’s comments alone will not explain the variance; the analysis should also include **financial management’s explanation** of the variance and the adjustment made.

EXAMPLE:

The Analysis of Accrued Cost required by NFMR, Volume 7, Chapter 1.010811.A.4 is designed to measure the accuracy of the accrual entered into the Agency's accounting system and, where there are variances, quickly pinpoint the reason(s) for their occurrence. The required format, helps the Center assess the accuracy of its accruals on its major cost-type contracts to facilitate the regular review of accrual metrics with the Center CFO required by NFMR, Volume 7, Chapter 1.010812.A. It also provides data for Headquarters to evaluate the Center's accrual performance, as part of its quality assurance responsibilities, and the accuracy of Agency cost data. The Analysis will reflect the variance between accrued and actual costs and identify whether the variance was due to the contractor's estimate from the NF 533 or adjustments made to that estimate by the Center. Centers are required to review the Analysis and take corrective actions as appropriate where chronic significant variances occur.

Centers should not include the amount they enter to adjust the cumulative accrued costs through the end of the prior month to the prior month's subsequently reported cumulative actual cost as part of their "Center Accrued Cost for Month." Inclusion of this value distorts the percentages and defeats the purpose of the Analysis.

An example to illustrate preparation of the Analysis and its intended use:

Contract NASX-XXXX is ongoing. The Center accrued cumulative cost on this contract of \$130,077,000 as of September 30, 2000. The accrual for the month of September alone was \$1,809,000, based solely upon the contractor's estimate for September, shown on the NF 533

submitted in early September. The contractor's cumulative actual cost through September 30, as subsequently reported on the NF 533 submitted in October, was \$130,828,000; the actual cost for the month of September alone was \$2,560,000. The analysis would be completed as shown in Appendix 5.

Analysis A. reveals that the cumulative cost for this contract was underaccrued by \$751,000 in the Agency's accounting system as of September 30, which represented 29.3 percent of the actual cost for the month of September. We then look to the other analyses to determine the reason(s) for this variance. Analysis B. shows that the amount accrued in the Agency accounting system for the month of September alone was \$751,000 less than the actual costs incurred for September. Since the variance in B. equals that in A., this means that the overall cumulative variance shown in A. resulted from the accrual for the month of September, rather than the cumulative effect of variances from a number of months' accruals. Since the variance shown for Analysis C. is the same as that for A. and B., it is clear that the cumulative variance shown in A. and the variance for the month of September shown in B. were both due solely to the inaccuracy of the contractor's estimate for September. There is no variance shown in Analysis D., since the contractor's estimate was used as reported on the NF 533 in preparing the September accrual. Now the accrual for October is prepared. An adjustment is made to correct the \$751,000 variance in September, i.e., to align the cumulative accrued cost through September with the subsequently reported cumulative actual cost. This adjustment is **not** considered part of the "Center Accrued Cost for Month" for purposes of completing the October Analysis of Accrued Cost worksheet, however. The NF 533 submitted in early October shows the contractor's estimate for October to be \$1,388,000. Shortly before the accrual is made, however, the analyst obtains information that the estimate includes \$250,000 for equipment no longer expected to be delivered in October. The analyst decides, therefore, that the accrual for the month of October will be \$1,388,000 less \$250,000, or \$1,138,000. The actual for the month of October, as reported on the NF 533 submitted in November, turns out to be \$1,575,000; the equipment was, in fact delivered in October and more work was performed than expected. The Analysis for the October accrual is shown in Appendix 6.

The October analyses of accrued cost show the following:

- Analysis A. Cumulative contract cost in the Agency's accounting system was underaccrued as of October 31 by \$437,000, which represents 27.7 percent of the October actual cost.
- Analysis B. The \$437,000 underaccrual is due solely to the accrual made in the month of October (indicating the Center properly corrected the prior month's variance). B.3. and B.4. = A.3 and A.5, respectively.
- Analysis C. Of the \$437,000 underaccrual, \$187,000 was due to the inaccuracy of the contractor's estimate for October; more work was performed than planned. This represents 11.8 percent of the 27.7 percent cumulative variance.
- Analysis D. Of the \$437,000 underaccrual, the remainder, or \$250,000, was due to the analyst's adjustment (reduction) of the contractor's NF 533 estimate for October, based

upon information received that indicated equipment would not be delivered in October as planned. The equipment was, however, delivered in October.

It should be noted that $C.3. + D.3. = A.3.$ Also, $C.4. + D.5. = A.5.$ (.1 rounding error is not significant), thus accounting for the total October cumulative variance.