

approval of the Office of Management and Budget under 44 U.S.C. 3501, *et seq.*

List of Subjects in 48 CFR Parts 2 and 31

Government procurement.

Dated: January 30, 2003.

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Therefore, DoD, GSA, and NASA propose amending 48 CFR parts 2 and 31 as set forth below:

1. The authority citation for 48 CFR parts 2 and 31 continues to read as follows:

Authority: 40 U.S.C. 486(c); 10 U.S.C. chapter 137; and 42 U.S.C. 2473(c).

PART 2—DEFINITIONS OF WORDS AND TERMS

2. Amend section 2.101(b) by adding, in alphabetical order, the definition "Direct cost"; and by revising the definition "Indirect cost" to read as follows:

2.101 Definitions.

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(b) * * *

Direct cost means any cost that is identified specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.

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Indirect cost means any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

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PART 31—CONTRACT COST PRINCIPLES AND PROCEDURES

3. Amend section 31.106–2 by revising the section heading and paragraphs (b) through (e) to read as follows:

31.106–2 Special allocations.

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(b) When a facilities contract in relation to other cost objectives receives significantly more or less benefit from an indirect cost pool than would be reflected by an allocation of such costs using the contractor's normal methods, the contractor shall—

(1) Use a special allocation from that indirect cost pool to the facilities

contract commensurate with the benefits received;

(2) Exclude the amount of the special allocation from the indirect cost pool; and

(3) Exclude the allocation base data for the facilities contract from the base used to allocate the pool.

(c) The cognizant Federal agency is responsible for determining whether the conditions necessitating a special allocation exist and negotiating the terms of an advance agreement (see 31.109) implementing an appropriate special allocation.

(d) A special allocation is appropriate for—

(1) The purchase of completed facilities (or services in connection with the facilities) from outside sources. Since such purchases do not involve the contractor's direct labor or indirect plant maintenance personnel, a special allocation is appropriate for indirect manufacturing and plant overhead costs that are primarily incurred or generated by reason of direct labor or maintenance labor operations; and

(2) Contracts providing for the installation of new facilities or the rehabilitation of existing facilities that involve the use of the contractor's plant maintenance labor, as distinguished from direct labor engaged in the production of the company's normal products. A special allocation to a facilities contract that involves the use of plant maintenance labor only should recognize that such a contract receives less benefit from such cost items as direct productive labor supervision, depreciation, and maintenance expense applicable to productive machinery and equipment, or raw material and finished goods storage costs.

(e) A special allocation is not appropriate for a facilities contract that calls for the construction, production, or rehabilitation of equipment or other items that are involved in the regular course of the contractor's business using the contractor's direct labor and manufacturing processes.

4. Amend section 31.201–1 by revising paragraph (a); and by removing the word "which" from paragraph (b) and adding "that" in its place. The revised text reads as follows:

31.201–1 Composition of total cost.

(a) The total cost, including standard costs properly adjusted for applicable variances, of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred, plus any allocable cost of money pursuant to 31.205–10, less any allocable credits. In ascertaining what constitutes a cost, any generally

accepted method of determining or estimating costs that is equitable and is consistently applied may be used, including standard costs properly adjusted for applicable variances.

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5. Amend section 31.201–2 by—

a. Revising the introductory text of paragraph (a);

b. Revising paragraph (c); and

c. Removing the word "which" from the last sentence of paragraph (d) and adding "that" in its place. The revised text reads as follows:

31.201–2 Determining allowability.

(a) A cost is allowable only when all of the following requirements are met:

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(c) When contractor accounting practices are inconsistent with this Subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.

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6. Amend section 31.202 by revising paragraph (a) and the introductory text of paragraph (b) to read as follows:

31.202 Direct costs.

(a) No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective. Direct costs of the contract shall be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly.

(b) For reasons of practicality, the contractor may treat any direct cost of a minor dollar amount as an indirect cost if the accounting treatment—

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7. Revise section 31.203 to read as follows:

31.203 Indirect costs.

(a) After direct costs have been determined and charged directly to the contract or other work, indirect costs are those remaining to be allocated to intermediate or final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective.

(b) The contractor shall accumulate indirect costs by logical cost groupings with due consideration of the reasons