

# Contract Audits/Closeouts Guideline - 4.8.G (09/27/04)

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## Last Update: (09/27/04) BDenman:kma - 4.8.G.0

This guideline was extensively revised to address administrative changes throughout the document.

### Definitions

**Allowable cost** - Cost and expenses (less applicable income and other credits) that are actually incurred by the Contractor, are applicable and properly chargeable, either as directly incident or as allocable through appropriate distribution or apportionment, to the performance of the contract work in accordance with its terms, and are determined by the Sandia Contracting Representative (SCR) to be allowable pursuant to the contract, including the additional provisions, if applicable.

**Audit reports** - Reports that are prepared by Sandia's Contract Audit Department before, during, and after the duration of the contract.

**Closeout Internal Notification (COIN)** – Form used by the Procurement Help Desk Closeout

Center (PHDCC) to address audit findings where there is nonconcurrency with the findings.

**Interim Audit** – Any audit of an open contract that is incomplete.

**Overrun** - The audited amount which has exceeded the contract's authorized funding.

**Unallowable Cost** - Any cost which, under the provisions of the contract, cannot be included in prices, cost-reimbursements, or settlements under the contract to which it is allocable.

**Variance** - The difference between a pre-established cost and an actual measure.

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## **Sandia Contract Audits - 4.8.G.1**

Sandia's Contract Audit Department audits the Contractor's accounting records and financial operating procedures for the purpose of determining whether the Contractor's claimed charges constitute allowable charges under the terms of the contract. An audit may include the preparation of an initial or updating of an Accounting System Survey to obtain, among other assurances, a sufficient understanding of internal controls necessary to plan an audit and determine the nature, timing, and extent of tests to be performed. The SCR must obtain audit approval prior to the placement of a Cost-Reimbursement (CR) contract.

Criteria used in evaluating the claimed charges include cost principles set forth in the Federal Acquisition Regulations (FAR), Department of Energy Acquisition Regulations (DEAR), Cost Accounting Standards (CAS), and Generally Accepted Accounting Principles (GAAP).

**NOTE:** As a matter of corporate policy, the objective is to resolve any contract audit findings within thirty (30 ) days of the issue date of the audit report.

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## **Interim Audits - 4.8.G.2**

Interim audits are received by the PHDCC Sandia Contract Administrator (SCA) and are routed to the SCR for review of unallowable/questionable costs, if applicable. The SCR is responsible for establishing resolution of the unallowable/questionable costs with the Contractor, Auditor, and Requester, as applicable.

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## Final Audit Closeout – 4.8.G.3

A final audit will be performed on those contracts that have audit rights incorporated into the contract. Contract Audit Department should perform a final audit within three (3) years after final payment. If Sandia is the cognizant auditing agency to the Contractor, final indirect rates will be established for the Contractor. If Sandia is not the cognizant agency, a tentative complete audit will be issued until the cognizant agency has established final indirect rates for the Contractor. Upon completion of the final audit, the Auditor will discuss all findings with the Contractor. If the Contractor is in agreement with the final audit, they will be asked to sign a statement of concurrence attached to the Summary Schedule by the Sandia Auditor(s). If monies are due to Sandia per the final audit findings, restitution is to be made to the following address:

**Sandia National Laboratories**  
**P.O. Box 5800, MS-0189**  
**Albuquerque, NM 87185-0189**  
**Reference: Contract No. \_\_\_\_\_**

If the Contractor disputes total audited amount on a particular contract, the SCR must:

- review COIN and audit report, and costs/charges for unallowability;
- interface with Contractor, Sandia Auditor, and Requester to discuss audit findings; and
- document agreement or nonagreement with audit findings and return completed COIN form to the PHDCC/SCA.

**Note:** If disagreement involves audit findings greater than \$25K, the SCR's manager must approve the COIN form.

The SCR is required to comply within fourteen (14) days of receipt of the COIN form.

The SCR is the first point of contact if the Contractor disagrees with the total audited amount and cannot resolve issues with the Sandia Auditor. If the SCR is unable to resolve the disputed findings, the SCR may recommend using the Acquisition Conflict Resolution Process (ACR) (see Guideline 5.8.G – Acquisition Conflict Resolution). This process may be used at the Contractor's discretion.

The SCR is the only person who can obligate Sandia and who can negotiate a final closeout amount, regardless of the final audited amounts.

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## Alternative Closeout Process - 4.8.G.4

The Alternative Closeout (ACO) process is used at Sandia Contract Auditing's discretion. Similar to a formal final audit, a report is prepared reflecting any:

- questioned costs/charges that were identified in any prior audits;
- items questioned/denied by Accounts Payable or the Sandia Delegated Representatives (SDRs); or
- any costs identified as questionable in the ACO process.

The SCA can proceed with the final closeout in the event there are not any disputed costs associated with the ACO. In the event of questionable costs, the SCA will forward a copy of the report and the COIN form to the SCR for action to be taken. The SCR must:

- review COIN and audit report, and costs/charges for unallowability,
- interface with Contractor, Sandia Auditor, and Requester to discuss audit findings, and
- document agreement or non-agreement with audit findings and return completed COIN form to the PHDCC/SCA.

**Note:** If disagreement involves audit findings greater than \$25K, the SCR's manager must approve the COIN form.

The SCR is required to comply within fourteen (14) days of receipt of the COIN form.

The SCR is the only person who can obligate Sandia and who can negotiate a final closeout amount, regardless of the final audited amounts. The SCR is the first point of contact for the Contractor in resolving disputed cost per final audit. If the SCR is unable to resolve the disputed audit findings, the SCR may recommend using the Acquisition Conflict Resolution (ACR) process (see Guideline 5.8.G – Acquisition Conflict Resolution). This process may be used at the discretion of the Contractor.

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## Overruns – 4.8.G.5

The final audit report will reflect actual contract overruns. The SCA will review all overruns and will forward the COIN form to the SCR for action to be taken. The SCR is required to comply within fourteen (14) days of receipt of the notification. The SCR is ultimately responsible for resolving all overruns.

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## Billbacks/Payments - 4.8.G.6

Interim Audit billbacks are based on the outcome of the audit and Contractor or SCR agreement. If the Interim Audit signifies payment is due to the Contractor, no action will be taken due in part

to Sandia's policy not to provide reconciliatory payment to Contractors until the final audit is completed.

For Final Audit billback/payments, the SCA will generate a billback form on all contracts where the total paid amount is greater than the total closed out amount. Conversely, the SCA will generate a payment request if the total paid amount is less than the total closed out amount.

Unless other arrangements have been made between the Contractor and Accounts Receivable for monies due Sandia for a particular contract, Sandia will offset against future payments on other contracts until the obligation is satisfied. If no opportunities exist for offsetting against future payments, a Sandia invoice is forwarded to the Contractor requesting payment.

**Note:** No action will be taken if payments/billbacks are computed at \$25 or less. In addition, billbacks between \$26 and \$299 are recorded and go through the Sandia collection process for ninety (90) days but are never sent to an outside collection agency. This authority was delegated to Sandia by means of the "Delegation of Authority to Terminate Collection Efforts" by the Department of Energy/National Nuclear Security Administration (DOE/NNSA).

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## **Defective Pricing - 4.8.G.7**

Defective pricing can occur on negotiated contracts that are greater than \$500K where the Contractor has submitted certified cost or pricing data. The Truth in Negotiations Act (TINA) 10 U.S.C. 2306a requires that the Contractor's cost or pricing data is accurate, complete, and current at the time of certification (contract placement). (See Guideline 3.2 - Contract Price/Cost Consideration.)

If after a review it is determined that a price reduction is warranted, the SCR will attempt to get agreement from Contractor and reduce contract price, which could include interest. If Contractor agrees, the contract amount will be reduced accordingly. If agreement with Contractor cannot be reached, the SCR should consult with Sandia Legal. If Legal concurs, the SCR will unilaterally reduce contract price or offset against other active contracts.

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## **Firm-Fixed Price Orders/Contracts Closeout – 4.8.G.8**

The PHDCC/SCA will close all Firm-Fixed Price (FFP) orders/contracts when the matched amount is within  $\pm 5\%$  of the contract amount. Once the contract is closed, excess funds will be released to the originating line organization. The SCA will close all other FFP contracts, when the promise date has expired and after concurrence for closure has been received from the

Requester and/or the SCR.

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Send feedback on ideas and information on this page to the Process Expert, Bertie Denman.



[Bertie Denman](#)



[Karen Archibeque](#)

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