

Sandia National Laboratories

**Audit and Cost Proposal Information**

**For Contractors**

## User Information:

The following information does not supercede any statute, regulation or policy that is, was or will be in effect. It is designed as a tool to answer general questions that are commonly posed by contractors that are subject to audits from the Sandia Contract Audit Department (hereinafter, Contract Audit). For specific questions pertaining to your current or proposed contract, contact the appropriate Sandia Contracting Representative (SCR) listed in your Request for Quote (RFQ) or contract.

Note: You can quickly navigate within this document by placing the cursor over the desired link, either in the Table of Contents below, or throughout the document, and right click the mouse.

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**Department of Energy’s National Nuclear Security Administration under contract DE-AC04-94AL85000.**

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### What is the Audit Process?

Contractors who provide or propose to provide goods or services to Sandia National Laboratories (SNL) under contract are subject to the Federal Acquisition Regulations (FAR). The Department of Energy (DOE) requires that Sandia National Laboratories review and audit a contractor’s incurred or proposed costs to ensure that they are fair and reasonable.

Generally, there are two types of audits to which you may be subject. The first type is referred to as a **preaward** or cost proposal audit and is conducted when a proposal is submitted to SNL in consideration of a future contract. The second type of audit is referred to as a postaward audit and is the most common type of audit that we perform. This may be conducted during the course of the contract’s life, after the terms and conditions of the contract have been fulfilled, or both. This will generally occur every one to three years over the life of a contract, and at the end of its period of performance.

The audit process for both the **preaward** and postaward audit is similar. An SNL auditor will contact you several weeks in advance of an audit, and this is generally done by phone. For postaward audits you will generally be contacted two to three months prior to the audit, and for **preaward** audits you will be contacted one to three weeks prior to the audit. The auditor will provide you with pertinent information including a timeline, dates of actual fieldwork, what documents are required, where you can get more information if you should require it, and answer any questions you may have.

Prior to the performance of a postaward or **preaward** audit, an Accounting System Review (ASR) is performed. The ASR consists of a questionnaire used to assess the capability of a contractor’s accounting system to handle a specific government pricing arrangement. The auditor will arrange a convenient time to perform an ASR with you. The ASR usually takes about one hour and is routinely done by phone. In some instances the auditor may want to make a site visit to complete this step and they will schedule this with you. For a postaward audit, you will also be asked to provide an updated cost claim at this time. This will allow you to review your financial records and include any charges not previously claimed, or adjust any charges that were claimed in error. Paying special attention to the accuracy of your cost claim (postaward) or cost proposal (**preaward**) will result in significant timesavings for you over the course of the audit.

For a postaward audit, the auditor will review your cost claim, the terms and conditions of your contract and the associated boilerplate, previously submitted invoice information, and the results of your ASR. From this, the auditor will develop a sample of invoices that will be reviewed and traced to supporting documentation and your financial or cost accounting system. Where applicable, indirect rate information will also be reviewed so you’ll be required to submit either your approved rates from your cognizant agency or the financial information that we will need to audit your indirect rates, if we are the cognizant agency. We will generally provide the “sample” of items to be audited to you approximately one to four weeks prior to the actual audit to give you time to retrieve documents and organize information.

For a **preaward** audit the auditor will review your cost proposal, narrative proposal, and any technical specifications available, and will provide you with a list of items that they will review during the audit. The list may include payroll information for proposed personnel, cost information for travel, equipment and supplies, subcontractors and other direct charges. Also, support for indirect rates that are being proposed may be required and is the same as that required for a postaward audit. Information from your general ledger is also often required. You will generally receive this “sample” from two days to two weeks prior to the audit, depending upon the urgency of the acquisition and complexity of the proposal.

If an onsite visit is planned, the auditor will arrive at your site for fieldwork as previously scheduled, to review supporting documentation for the proposed or claimed costs. An entrance conference will be scheduled, preferably on the first day, so that the auditor and pertinent contractor personnel can exchange audit-related information and answer any questions. This is a good time for the contractor to inform the auditor of any last-minute issues, or any conflicts in schedules that may impede the audit.

The amount of time required for fieldwork can vary from between a few hours to several days for a **preaward**, to several weeks for a postward, depending upon the amount of dollars being audited and the complexity of the audit. One factor that the contractor has control over is the availability and organization of supporting records and documents. Good document organization can significantly streamline the fieldwork process. At the conclusion of fieldwork, an exit conference will be scheduled to discuss any issues or findings relevant to the audit. For postaward audits, the auditor may provide the contractor with final schedules and a concurrence memo. If the contractor concurs with the audit findings, you may simply sign the concurrence memo and return it to the auditor.

The SNL auditor assigned to you will provide additional information prior to and during your audit. It’s important that if you have any questions that you refer them to the auditor or to your cognizant Sandia Contracting Representative (SCR) listed on the coversheet of your contract. Two-way communication is key to a smooth and efficient audit.

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### What Is a Cost Proposal?

A cost proposal is a summary of the total charges or costs proposed to one of the following types of contracts:

* **Time & Material (T&M), Labor-Hour (LH):** A time-and-materials contract provides for acquiring supplies or services on the basis of -- (1) Direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative (G&A) expenses, and profit; and (2) Materials at cost, including, if appropriate, material handling costs as part of material costs. A labor-hour contract is a variation of the T&M contract, differing only in that materials are not supplied by the contractor. Contracts of this type contain an Allowable Charges Clause, which lists the labor billing rate(s) and may allow for certain other direct charges, including but not limited to travel, equipment and other direct costs (ODCs). The contract may also allow for a G&A rate if such a rate is part of, supported by and consistent with the contractor’s established accounting system. The costproposal provides a breakdown of the proposed labor hour billing rates by (1) direct labor, (2) indirect costs and (3) profit. The cost proposal may also include the proposed costs for other direct charges, including travel, materials, equipment, subcontracts, and ODCs. Proposed costs are usually based on historical, actual or estimated costs or a combination thereof.
* **Cost Reimbursable (CR):** Cost-reimbursement types of contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the Sandia Contracting Representative.
* **Firm-fixed price (FFP):** A firm-fixed-price contract provides for a price that typically is not subject to any adjustment on the basis of the contractor's costs incurred in performing the contract. These contracts allow the contractor to bill after the completion of certain tasks or milestones based on a negotiated price.
* The cost proposals for CR and FFP contracts will address each of the proposed costs by cost element, i.e., direct labor, materials, travel, equipment, other direct costs (ODCs), and indirect costs by fiscal year. The contractor’s proposed profit or fee is also included. Proposed costs are usually based on historical, actual or estimated costs or a combination thereof.

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### Why Is a Cost Proposal Required?

At any time prior to the award of a contract, the Sandia Contracting Representative (SCR) may request a cost proposal, as part of a process to determine if a price proposed by a contractor is fair and reasonable. The requirement for a cost proposal may be stipulated by federal regulation, i.e., for fixed-price, sole-source contracts >$650K. However, the SCR may request a cost proposal whenever he/she feels that it is necessary in order to establish that proposed costs are fair and reasonable. A contractor’s attention to detail in preparing and submitting a cost proposal cannot be over-emphasized.

Contractors that submit accurate cost proposals benefit from significant savings of time and money. Contractors who submit reliable cost proposals decrease the amount of time interacting with an auditor. Additionally, if an on-site visit is required, a reliable cost proposal will decrease the amount of time an auditor will need to be at the contractor’s facilities, thereby decreasing work disruption.

Sandia is required to comply with the requirements of FAR Part 15. Therefore, the contractor may be required to certify that to the best of its knowledge and belief, the cost or pricing data are accurate, complete, and current as of the date of agreement on price or, if applicable, an earlier date agreed upon between the parties that is as close as practicable to the date of agreement on price.

It is important to note that just because a cost proposal is required to be submitted, does not necessarily mean that a preaward audit will occur. The SCR will inform the contractor if an audit is required and will forward the cost proposal to the Contract Audit Department. We will review your cost proposal when it arrives for accuracy and completeness. If the cost proposal has been prepared correctly, we will proceed with a preaward audit. If not, the cost proposal will be returned to the SCR with an explanation of the deficiencies noted in the cost proposal.

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### How Do I Submit A Cost Proposal?

Cost Proposals may be submitted electronically via email, or by ground mail in a digital format. While not an endorsement of any particular product, Sandia uses Microsoft® software, and many contractors find it most efficient to submit cost proposals as a Microsoft® Excel attachment to email. This is the preferred method of submission because of efficiency and effectiveness.

However, if you do not have email capabilities, you may download your cost proposal file onto a CD and mail it to the address that is provided in the [Where Do I Send It](#_What_If_my_Claim is for an Alternat) Section.

If you are using software such as Lotus® or a similar product, check to see if conversion options are available within the software. Many software applications contain conversion features that allow files to be saved in a different software format.

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### What Information is Required?

Accuracy and completeness of cost proposal information is paramount. We have provided Excel templates to assist you in including all of your proposed costs. The templates contain preformatted cells and formulas. We strongly recommend that you utilize the preformatted cells and formulas as well as Excel’s function and calculation features to help prevent simple mathematical errors and improve the quality of your information. The Excel “Audit” function can also be used to ensure the accuracy of your data submission.

Since there are two general types of auditable contracts (T&M/LH) and (CR and FFP), Contract Audit has developed two types of cost proposals as described below. Use the template that coincides with your contract type. Your contract type may be found in the Request for Quote (RFQ) or the contract terms and conditions in the clause that precedes the Statement of Work, or check with the SCR.

* **T&M/LH Contracts:**

The minimum data needed includes the breakdown of the proposed labor billing rate(s) by (1) direct labor (2) indirect costs and (3) profit. If applicable, provide a summary of any proposed travel, materials, equipment, subcontractors, and other direct costs (ODCs). Also, ensure that a header with the contractor name and associated Request for Quote (RFQ) number or contract number is included. Each contractor is welcome to download the data from their accounting system and export it into Microsoft Excel format as long as it contains the same information found in the T&M/LH Cost Proposal template.

* **CR or FFP Contracts:**

The minimum data needed includes (1) a summary of the proposed costs by cost element, i.e., direct labor, materials, travel, equipment, other direct costs (ODCs), and indirect costs by fiscal year, and (2) a detailed breakdown of each direct cost element that supports the summary data. Also, ensure that a header with the contractor name and associated Request for Quote (RFQ) number or contract number is included. Each contractor is welcome to download the data from their accounting system and export it into Microsoft Excel format as long as it contains the same information found in the CR and FFP Cost Proposal template.

* **Indirect Rates**

For T&M, LH, CR and FFP contracts, proposed indirect rates must be part of, supported by and consistent with the contractor’s established accounting system. If Sandia is the cognizant\* agency for determining the reasonableness, allowability and allocability of the contractor’s indirect rates, then the “Sample Rate Calc” worksheet contained in each of the cost proposal template workbooks should be filled out and submitted by the contractor along with their cost proposal.

If Sandia National Laboratories Contract Audit is not the cognizant\* agency, we will review the latest rates as set forth by a contractor’s cognizant\* agency (i.e., the Defense Contract Audit Agency, Department of Health & Human Services, Office of Naval Research, or other). A contractor is required to provide the latest rate report(s) from the cognizant\* agency as part of their cost proposal. Additionally, please provide the cognizant\* agency’s contact information including auditor’s name and phone number.

\*The cognizant agency is defined as the federal agency responsible for auditing the contractor’s indirect pool(s) and base(s).

* **Unallowable Costs**

Costs that are expressly unallowable per the FAR and other regulations, or costs mutually agreed to be unallowable must be excluded from the proposal. This includes direct as well as indirect costs. Unallowable indirect costs must be identified and listed on the “Schedule of Unallowable Costs” found in the T&M/LH, CR and FFP template workbooks. Refer to FAR part 31 and your contract terms and conditions for more information on unallowable costs.

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### When Do I Need to Submit a Cost Proposal?

Cost proposals should be submitted at the direction of the Sandia Contracting Representative (SCR). The SCR will communicate the deadline for submittal either via the Request for Quote (RFQ) or other forms of communications. Again, do note that it is imperative that you check for accuracy and completeness prior to your submission since these documents are key to planning a timely and efficient audit.

It is important to note that just because a cost proposal is required to be submitted, does not necessarily mean that a preaward audit will occur. The SCR will inform the contractor if an audit is required and will forward the completed cost proposal to the Contract Audit Department. We review your cost proposal when it arrives for accuracy and completeness. If the cost proposal has been prepared correctly, we will proceed with a preaward audit. If not, the cost proposal will be returned to the SCR with an explanation of the deficiencies noted in the cost proposal.

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### Where Do I Send It?

To send an electronic cost proposal via email, which is the preferred method use, **please email to the Sandia Contracting Representative (SCR)**. You will need to contact the SCR to find out his/her email address.

To send your cost proposal in a digital format via the U.S. Postal Service:

Sandia National Laboratories

P.O. Box 5800

# FIRST AND LAST NAME OF SCR AND HIS/HER MAIL STOP\*\*

Albuquerque, NM 87185

Or

To send your cost proposal in a digital format via alternative transportation services (Fed Ex, UPS etc.):

Sandia National Laboratories

1515 Eubank SE

# FIRST AND LAST NAME OF SCR AND HIS/HER MAIL STOP\*\*

Albuquerque, NM 87123

\*\*The SCR’s Mail Stop can be found on the cover sheet of the Request for Quote (RFQ) or contract.

To contact us:

E-mail: audit@sandia.gov

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### How Can I Provide Feedback to Improve The Process?

We value your input and would like to hear from you to make the process better. Any corrections or suggestions regarding this document are welcome. Feel free to use the feedback form and mail or fax it to the address listed below or send an email to audit@sandia.gov

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