



Accounting System & Process Adequacy

Guidance for Companies

**By: Sandia National Laboratories
Contract Audit Department**

March 13, 2024

Accounting System & Process Adequacy

Information for Companies

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Purpose

This guide is intended for use by prospective and current entities that are interested in conducting business with Sandia National Laboratories (Sandia). It is intended to help these companies develop adequate accounting systems and processes to support their government contracting efforts. Sandia understands that the appropriate types of controls and accounting systems in place may differ based on entity size.

Prior to placing any contract, Sandia requires that a prospective contractor's accounting system can adequately collect, process, and report required cost or pricing information. An [Accounting System Review](#) (ASR), which is discussed below, is the tool used by Sandia to gain an understanding of the prospective contractor's accounting system. The ASR and audit procedures conducted by Sandia are authorized by [Federal Acquisition Regulations \(FAR\)](#) (FAR 15.404.2 & FAR 9.106).

If properly implemented, the attributes described in this document should result in accounting systems that will be adequate for collecting, processing, reporting contract-related cost and pricing data and information, and will correspond with the attributes described in the ASR.

The benefits to prospective contractors who have an adequate accounting system include:

1. Providing a readily understandable and auditable document trail for Sandia and other auditors or officials.
2. Meeting the minimum requirements set forth in the contract, the FAR, and other authoritative guidance with which you must comply as a government contractor.
3. Avoiding costly accounting and billing errors that would require reimbursement to Sandia.
4. Allowing your management to better understand their business, improve their ability to control costs, and become more competitive in the marketplace.
5. Providing a solid basis for future cost proposals by your business entity. This will also expedite cost proposal audits and save you valuable time and money.
6. Decreasing business risk.

This is not intended to be definitive guidance. Entities that desire to engage in government contracting should perform additional research or engage professionals in this area of expertise as deemed necessary. Included in the last section of this guide is a list of references that you may find helpful.

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How to Use This Document

Since it would be virtually impossible to discuss every possible combination of entity organization types and sizes, this document will discuss the attributes that your accounting system and processes should possess to be adequate for use with government contracts. This document applies to businesses organized as a Sole Proprietorship, Limited Liability Corporation, S-Corporation, C-Corporation or other business organization types.

Where possible, hyperlinks have been added to websites that will provide you with more information, and these hyperlinks are recognizable by their [Blue Font](#). If a hyperlink fails, merely search the web using the descriptive titles we've provided.

Words and phrases in [Red Font](#) or that have a "Drill Down" tag that appears as you place your cursor over them are hyperlinked to amplifying information for that word or phrase. Section 3 of this document provides greater detail regarding the particular word or phrase. Section 3 is also arranged in alphabetical order to facilitate users' ability to find key terms in the event a hard copy of the guide is utilized.

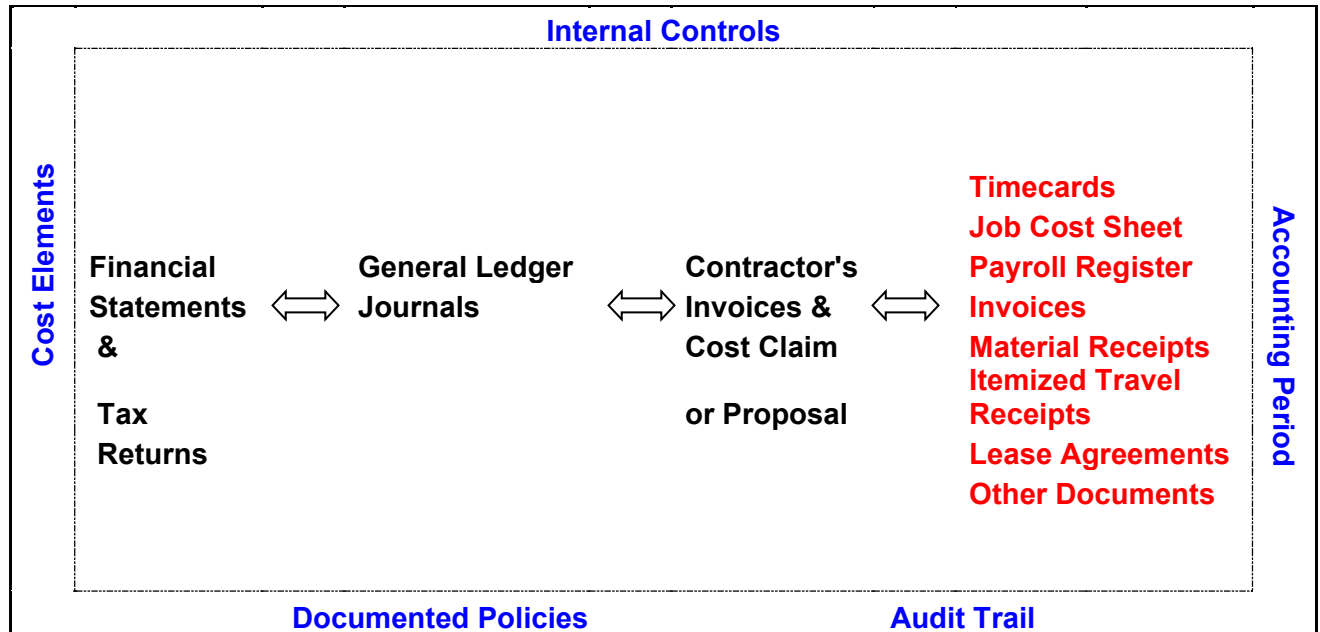
Definitions of the terminology used in this document are those found primarily in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 2.101) and other guidance cited throughout the document.

Information is organized and presented in three levels of detail and designated by Sections as follows:

1. ["General Attributes of an Adequate Accounting System"](#) which describes attributes that every accounting system should possess. This foundational level encompasses the environment and structure of the accounting system.
2. ["Process and System Attributes"](#) provides information pertaining to cost categories, supporting documents and data that should be incorporated into your accounting system and processes. These are the items which collect the information and feed it into your final Annual Financial Statements.
3. ["Supporting Document Attributes"](#) explains the information that should be included on documents that support processes, procedures, incurred costs and transactions. These are also the general criteria that an auditor will look for when examining documents and data related to your contract.

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The diagram below shows the inter-relationship of these three levels of accounting system attributes, as they are related to the accounting and auditing process. Colored fonts in this diagram are not hyperlinked. They are merely used to differentiate between the three levels of detail discussed in this guide.



Level 1- General Attributes of an Adequate Accounting System

Level 2- Process and System Attributes

Level 3- Supporting Document Attributes

If you have additional questions, contact the Subcontracting Professional (SP) associated with the contracting action or the [Sandia National Labs – Supplier Diversity Team](#). You can also review the [Sandia National Labs- Supplier Website](#).

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1. General Attributes of an Adequate Accounting System

The accounting system attributes described below should be part of all adequate accounting systems. These attributes will provide a solid foundation of desirable characteristics upon which you can build your business.

All vendors and contractors to Sandia are strongly encouraged to utilize a computerized accounting system. Depending on the entity size, we anticipate that the accounting system will be moderately to very sophisticated and will be tailored to meet the requirements of government contracting.

There are many good off-the-shelf accounting software packages available, and most can be tailored to meet a variety of scenarios. We recommend that if you decide to utilize an off-the-shelf software package, you carefully research its capabilities and evaluate its ease of use prior to making the purchase.


Regardless of the system you use, compatibility with Microsoft Excel™ or the ability to convert data to XML (Extensible Markup Language) should be strongly considered as a fundamental attribute of any accounting system. These formats have become the unofficial industry and government standards. Much of the data that we will request (proposals, annual cost claims submissions, etc.) must be compatible with those standard formats. This capability will save a great deal of time, frustration, and money throughout the life of your business.

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Contract-Cost Element Matrix

The matrix below shows the contract pricing types generally used at Sandia across the top row. Listed along the left column are the most common cost elements used to segregate costs related to government contracting and the most common categories used by the majority of Sandia’s suppliers.

The Cost Element titles in the matrix are hyperlinked to a general summary of the recommended attributes that an adequate accounting system should possess.

Contract Pricing Type 	Time & Materials (T&M), Labor Hour (LH)	Cost Reimbursable (CR, CNF, CPFF, CPAF)	Fixed Rate (FR)	Fixed Price (FP)
Cost Elements				
Labor	X	X	X	X
Travel	X	X	X	X
Materials and Purchased Services	X	X		X
Other Direct Costs	X	X		X
Equipment	X	X		X
Subcontractors	X	X		X
Indirect Costs	X	X		X
Facilities Capital Cost of Money	X	X	X	X
Unallowable Costs	X	X	X	X

The type of contract being contemplated or negotiated depends upon the type of work to be accomplished, the type of business entity with which Sandia is contracting, and many other factors.

Sandia's ultimate goal is to utilize taxpayers' dollars to obtain high quality goods and services that are reasonably priced and delivered on time. As one of Sandia's suppliers, you will be integral to our ability to fulfill a critical mission to our nation and provide these quality goods and services.

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Documented Policies

Written policies are important for any business. They provide the roadmap for how business is to be routinely done and often describe what is important to the business in order for it to achieve success. The level of detail and sophistication of these policies will vary depending upon the type and size of business. At a minimum, the following policies should be documented and maintained in your records and files along with your business plan:

1. [Accounting Policies](#)
2. [Labor Policies](#)
3. [Ethics Policies](#)

Cost Elements

An adequate accounting system must first be able to collect, process, and report costs. It should be able to break-out costs by Cost Element (also referred to as Cost Category). All cost proposals, annual cost claim submission, evaluations, reports, and summaries related to a government contract will report costs in at least one of the categories shown in the [Contract-Cost Element Matrix](#) on the previous page.

Other categories may be used in addition to, or instead of these, if they more correctly represent the cost category and are used in your accounting system. However, it is important to point out that the ones shown are the ones most commonly used.

Generally, the Request for Quote (RFQ) and contract with Sandia will either stipulate or imply which cost categories will be allowable and may be charged.

Per [Cost Accounting Standards \(CAS\)](#) (CAS 401, 402), the classification of costs, both direct and indirect, should be consistently used. Once you define and establish which costs are included in a cost category, they should not be changed. If it becomes necessary to do so, you should first discuss the changes with the SP for your contract.

The cost elements used should be easily traceable to the General Ledger and the Financial Statements.

Business entities wishing to propose contract costs must have adequate [Cost Estimating Processes](#) and methods. These processes should be integrated with all other aspects of the entity's accounting and business processes. Estimating methods

must provide Sandia with reasonable assurance that the proposed cost or price for the contract is fair and reasonable. For proposed Fixed Price and some Cost type contracts, Sandia may require contractors to certify in writing that their costs or prices are current, accurate, and complete. Refer to the [Federal Acquisition Regulations \(FAR\)](#) FAR 15.403 for more information.

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Note: It is not necessary for prospective and current contractors to implement accounting system improvements or controls over cost categories that are not proposed or billed. For instance, if your contract will not or does not require you to purchase Materials, it is not necessary to implement the suggested accounting system attributes described below for Materials.

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Accounting Period

[Cost Accounting Standards \(CAS\)](#) (CAS 406) states that “[a] contractor shall use their fiscal year as the cost accounting period[.]” A contractor’s proposals, reports, claims of costs (Electronic Cost Claims), and other contract-related submissions to Sandia must be segregated per the contractor’s fiscal year. An adequate accounting system must be able to readily provide data for direct and indirect costs based upon the contractor’s fiscal year.

Audit Trail

An audit trail is defined as the sequence of electronic or hardcopy documents and records that validates or invalidates accounting entries. This trail generally extends from the original documents, such as payroll records and invoices, to the final annual financial statements.

The cost elements used should be easily traceable to the General Ledger and the Financial Statements. There must be a clear and obvious connection between related documents and data.

The [DCAA Contract Audit Manual](#) stipulates that contractors should have procedures requiring the generation of an audit trail that documents the incurrence of costs. All costs should be traceable to evidential matter (documents and records) that are sufficient, relevant and competent. This includes both direct and indirect costs. Compliance with this guide should enable contractors to develop a suitable audit trail that meets these criteria.

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Internal Controls

In general, Sandia anticipates that there are internal controls in place to protect assets and information, limiting the access to critical data and records to only those that have the need to access them.

Internal controls that a business entity employs should be commensurate with the size and complexity of the business entity. We anticipate that the internal controls implemented in a major corporation and those found at a sole proprietorship would be very different.

Business entities should review their internal control processes on a periodic basis to ensure they are adequate based upon changing business conditions and environmental factors. Internal controls should be documented in writing or flowcharted, as necessary.

While there is no definitive internal controls methodology, there are commonalities between the leading models currently in use around the world. Additional information on internal controls is found at [COSO](#) and the [GAO Greenbook](#).

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2. Process and System Attributes

This section provides information pertaining to cost categories and includes supporting documents and data that should be incorporated into your accounting system and processes. It is arranged in the order shown in the Cost Element Matrix on page 5.

Labor

The following accounting system attributes are for bona-fide employees of the contractor. Employees of the contractor are defined as individuals who are treated as its employees with respect to federal or state income or employment taxes.

Costs related to purchased labor, temporary employees, subcontracted labor, and all labor provided by other than bona-fide employees of the contractor should be classified as Subcontractors, Consultants, or another cost category as appropriate, and not in the Labor cost category. Adequate accounting and business processes for bona-fide employees should include the following:

1. [Employee classifications](#) for each employee.
2. [Timecard, timesheet or other similar timekeeping record](#) for all employees, must be on a daily basis and by project.
3. [Timekeeping system](#) may be either manual or automated.
4. [Payroll information](#) for each employee.

5. [Payroll Summary or Payroll Register](#) for each pay period. This may not be necessary for companies with less than 3-5 employees.
6. Employee compensation for regular and overtime hours worked based upon the contract.
7. [Uncompensated overtime](#) included in any proposal must be properly recorded in the accounting system, billings and cost claims.
8. A [Labor Distribution Summary](#) report demonstrating the amounts shown coincide with payroll, timesheet and other records. This may not be necessary for companies with less than 3-5 employees.
9. Procedures which provide for a system of documenting, approving and reviewing the transfer of labor costs from one cost objective, contract, or project to another cost objective, contract, or project. [Written permission](#) and justification for transfers provided by the appropriate Manager.
10. If a company is utilizing purchased labor, it, they must bill Sandia in accordance with the contract terms and conditions.
11. There are routine reconciliations between the [Labor Distribution Summary](#), [Payroll Summary or Payroll Register](#), [Timekeeping system](#) and total labor charges.
12. All [timesheets](#), [payroll information](#) and [employee classification](#) information maintained in a logical and auditable manner. Records retained for a period not less than that specified in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 4.703) and the contract.

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Travel

There are very specific regulations and requirements associated with contract-related travel. This guidance is found in Section I of your contract, the [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.205-46), [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#). These references should be carefully reviewed prior to embarking on contract-related travel. The following items should be part of your accounting methodology and processes:

1. The traveler and the business entity should familiarize themselves with the [Federal Travel Regulations \(FTR's\)](#) and the applicable sections of the contract in advance of any contract-related travel.
2. Prior to embarking on travel, the business entity and the traveler should review [GSA Per Diem Rates \(U.S. and Foreign\)](#).
3. With very few exceptions, costs incurred in excess of [GSA Per Diem Rates \(U.S. and Foreign\)](#) will not be reimbursed by Sandia.
4. For travel destinations that do not have a specific [GSA Per Diem Rates \(U.S. and Foreign\)](#) approved rate, the "Standard Per Diem Rate" for the applicable fiscal year is used.

5. Prior to embarking on foreign travel, the business entity should have a process to obtain Department of Energy [Written Permission](#) via the Sandia Delegated Representative (SDR). DOE approval is REQUIRED IN ADVANCE of foreign travel. This process may take up to 60 days in advance of the travel, so it is advisable to begin the process early.
6. Prior to embarking on domestic travel, the business entity should have a process to obtain [Written Permission](#) from the SP or SDR.
7. An Employee [Travel Expense Report](#) and a [Travel Authorization](#) are required and maintained on file.
8. [Lodging receipts](#), [Meal receipts](#), [Airfare receipts](#), [Ground Transportation receipts](#), [Rental Car receipts](#), and [Incidental and Miscellaneous Expenses receipts](#) are maintained in an auditable fashion along with other trip-related documents.
9. Receipts are required for costs associated with meals and incidental expenses (M&IE) in excess of \$75, as established by [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.205-46), or your contract.
10. The receipts and records required for proof and described are virtually identical to those required for tax purposes as established by the [Internal Revenue Service](#).
11. Records retained for a period not less than that specified in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 4.703) and the contract.

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Materials & Purchased Services

Materials and Purchased Services associated with a contract must be allowable per the contract and the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#).

Materials purchased exclusively and charged directly to a Sandia contract might include metal, chemicals, lumber, electronic components, etc.

Purchased services associated with a Sandia contract might include non-destructive testing or certification services, crane or rigging services, third party inspection services, and other services.

Adequate accounting processes and functions related to Materials and Purchased Services include:

1. A [purchase order system](#) is in place.
2. [Purchase orders](#) (PO) are reviewed, approved, and signed by a contracting officer, or an employee who possesses that responsibility per the business entity's job descriptions.
3. A chargeable account or other identifying information is found on [purchase orders](#) and [invoices](#) that tie the materials to a particular job or contract.

4. The accounting system has a method to track discounts on purchases.
5. Purchase discounts are passed on to Sandia.
6. Materials purchased are required for contract execution, purchased in reasonable quantities, and purchased at a fair and reasonable price. Refer to [FAR 31.205-26](#).
7. Purchased services are actually required for execution of the contract and are competitively priced.
8. Make or Buy decisions are well documented and there is an economical or other advantage to in-house manufacturing or development. [Purchase orders](#), [invoices](#) and other documentation adequately supports component and parts purchases used for in-house manufacturing or development.
9. Non-Taxable Transaction Certificates (NTTC), if available to the supplier, are used and the savings is passed on to Sandia per [FAR](#) (FAR 52.229-10).
10. Intra-company or related party transactions are clearly identified on supporting documents and are transferred at cost per [FAR](#) (FAR 31.201-26).
11. Freight or shipping charges for delivery of materials are subject to the terms and conditions found in the Section I of your contract, the [FAR](#), and [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#). [Bills of lading](#) and [proof of payment](#) are required to support any freight charges claimed by the business entity.
12. Refunds for returned materials, revenue related to sales of scrap, returns of carcasses, rebates, etc. related to any Sandia contract must be recognized by the contractor and that amount credited on billings to Sandia per the [FAR](#) (31.201-5)
13. Residual material which was charged to the contract by the contractor and for which the contractor received reimbursement for those costs or material provided directly by Sandia generally becomes the property of Sandia at the end of the contract term. Residual equipment that was paid for or provided by Sandia must be reported to the SP via Sandia Form SF 6110-AC available at the [Sandia National Labs- Supplier Website](#) in the "Forms" section.
14. [Invoices](#), [purchase orders](#), [bills of lading](#), or other supporting documents related to material purchases are maintained in an auditable manner. Records retained for a period not less than that specified in the [FAR](#) (FAR 4.703) and the contract.

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Other Direct Costs

Other direct costs (ODC's) are costs that directly benefit one project or contract and do not fit into any other cost category. Often these are incidental items, supplies, , purchased services, rental or lease expenses, etc. ODCs associated with a contract must be allowable per the contract and the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#). Adequate accounting processes and functions related to ODCs include:

1. A [purchase order system](#) is in place.
2. [Purchase orders](#) (PO) are reviewed, approved, and signed by a contracting officer or an employee who possesses that responsibility per the business entity's job descriptions.
3. A chargeable account or other identifying information is found on [purchase orders](#) or [invoices](#) that tie the ODCs to a particular job or contract.
4. The accounting system has a method to track discounts on ODCs.
5. Purchase discounts are passed on to Sandia.
6. ODCs including rental and lease expenses are billed to Sandia at cost and without mark-up.
7. Non-Taxable Transaction Certificates (NTTC), if available to the supplier, are used and the savings is passed on to Sandia per [Federal Acquisition Regulations \(FAR\)](#) (FAR 52.229-10).
8. Intra-company or related party transactions are clearly identified on supporting documents and are transferred at cost per [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-26).
9. [Invoices](#), [purchase orders](#), [bills of lading](#), or other supporting documents related to ODC purchases are maintained in an auditable manner. Records retained for a period not less than that specified in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 4.703), [Department of Energy Acquisition Regulation \(DEAR\)](#) (DEAR 970.5232-3) and the contract.
10. Charges for Training or Professional activities, if allowable per the contract, are billed per [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.205-43 & 44).
11. Taxes are billed per [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.205-41).
12. Refer to [Federal Acquisition Regulations \(FAR\)](#) (FAR 31) for more information on other allowable charges.
13. Refunds for returned items, revenue related to sales of scrap, or other credits related to any Sandia contract must be recognized by the contractor and that amount must be credited on Sandia's billings per [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-5).

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Equipment

Equipment purchased exclusively and charged directly to a Sandia contract might include test equipment, vehicles, machinery, electronic devices, computers, etc. Since it was effectively purchased and paid for by Sandia, it generally becomes the property of Sandia at the end of the contract term. Purchases of directly charged equipment must be reported to the SP. Equipment associated with a contract must be allowable per the contract and the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#). Adequate accounting processes and functions related to Equipment include:

1. A [purchase order system](#) is in place.

2. [Purchase orders](#) (PO) are reviewed, approved, and signed by a contracting officer or an employee who possesses that responsibility per the business entity's job descriptions.
3. A chargeable account or other identifying information is found on [purchase orders](#) or [invoices](#) that tie the Equipment to a particular job or contract.
4. The accounting system has a method to track discounts on Equipment.
5. Purchase discounts are passed on to Sandia.
6. Equipment rental or lease costs are charged to Sandia at cost and without a mark-up.
7. Capital equipment purchases are approved in advance by the SP. [Written permission](#) is on file.
8. Non-Taxable Transaction Certificates if available to the supplier are used and the savings is passed on to Sandia per [Federal Acquisition Regulations \(FAR\)](#) (FAR 52.229-10).
9. Intra-company or related party transactions are clearly identified on supporting documents and are transferred at cost per [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-26).
10. Residual equipment, which was charged to the contract by the contractor and for which the contractor received reimbursement for those costs, or equipment provided directly by Sandia, generally becomes the property of Sandia at the end of the contract term. Residual equipment, which was paid for by or provided by Sandia, must be reported to the SP via Sandia Form SF 6110-AC available at the [Sandia National Labs- Supplier Website](#) in the "Forms" section.
11. [Invoices](#), [purchase orders](#), [bills of lading](#), or other supporting documents related to Equipment purchases are maintained in an auditable manner. Records retained for a period not less than that specified in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 4.703), [Department of Energy Acquisition Regulation \(DEAR\)](#) (DEAR 970.5232-3) and the contract.

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Subcontractors

Subcontractors are generally defined as distinct from the Prime Contractor in several respects. They may provide their own tools, supplies and equipment, they perform similar work for other prime contractors or customers, and they maintain their own sets of books and pay various taxes separate from the Prime Contractor.

It is important to note that the Prime Contractor is responsible for the performance, conduct and contract execution of the Subcontractor. This includes billing of costs, fraud, waste and abuse. For example, if a subcontractor to a prime consistently overcharges Sandia for costs associated with a contract, Sandia will hold the Prime Contractor responsible and seek reimbursement from the Prime Contractor.

Additionally, Subcontractors are audited by [Sandia National Labs-Contract Audit](#) and are expected to adhere to the same accounting and reporting standards as the Prime Contractor. We encourage Prime Contractors to provide this guide to any and all of their Subcontractors in order to preclude problems when an audit occurs.

Subcontractor costs associated with a contract must be allowable per the contract and the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#). Adequate accounting processes and functions related to Subcontractors include:

1. A formal agreement or contract has been executed between the Prime Contractor and the Subcontractor.
2. A formal bid process is used to find the best value.
3. The Prime Contractor has a process in place to review Subcontractor billings for reasonableness and accuracy.
4. Subcontractor costs are billed to Sandia at cost and without a mark-up.
5. Intra-company or related party transactions are clearly identified on supporting documents and are transferred at cost per [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-26).
6. **Invoices**, billings and other supporting documents related to Subcontractor costs are maintained in an auditable fashion. Records are retained for a period not less than that specified in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 4.703), [Department of Energy Acquisition Regulation](#) (DEAR) (DEAR 970.5232-3) and the contract.

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Indirect Costs

Indirect costs are those costs which are 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. A cost that cannot be readily related to one final product or service is most likely an indirect cost. Examples of indirect costs include utility expenses, fringe benefits, material handling costs, and payroll taxes.

These costs are generally collected together into a “pool” of similar costs and allocated over final cost objectives also known as the “allocation base” and results in a percentage or “rate” that is applied to direct costs in a consistent manner to all customers.

A contractor may not claim an indirect rate unless their accounting system can adequately collect these costs and the contractor consistently allocates the indirect costs over all cost objectives. The costs must be allowable, allocable and reasonable per the [Federal Acquisition Regulations \(FAR\)](#) and [Cost Accounting Standards \(CAS\)](#). Contractors claiming rates, must either have a cognizant agency (DCAA, DHHS, ONR,

etc.) final rate agreement or must complete the [DCAA Incurred Cost Electronically \(ICE\)](#).

The most commonly claimed indirect rate is General and Administrative Expense Pool (G&A). These costs are incurred for the general management and administration of the business unit as a whole. The cost objective or “base” is often the total costs of all non-G&A expenses or what is referred to as “Total Cost Input” (TCI). Here is a simplified example:

	<u>FY2024</u>
G&A Expenses Pool (Sched A tab in DCAA ICE):	\$125,600
G&A Base (Sched A tab in DCAA ICE):	\$598,425
G&A Rate:	20.98%

In this example, 20.98 cents could be allocated to each direct expense dollar, as long as it is done consistently. For T&M and LH contracts, the G&A rate is generally already built into the loaded labor rates.

An entity may also have a Fringe Benefits rate, Labor Overhead rate, Material Handling rate, overhead rates for off-site or on-site labor, or others. These rates may be charged and claimed as long as the company can collect and segregate the costs and charge them consistently. It must be the contractor’s normal way of doing business.

If your indirect rates are already audited by another government agency (referred to as the “cognizant agency”), such as the Defense Contract Audit Agency, Office of Naval Research, Department of Health and Human Services, etc., you will be asked to provide to Sandia audited and/or submitted rates and allocation base information. We will apply these rates where appropriate. This may require that you give permission to your cognizant agency to release current and historical rate information to us. This will greatly expedite the contracting action with Sandia and make less work for you.

Adequate accounting processes related to Indirect Costs include:

1. The accounting system can segregate indirect from direct costs.
2. All costs in the bases and pools can be traced to the General Ledger, Financial Statements and other books of account.
3. There is a causal-beneficial relationship between the indirect costs found in the pool and the cost objectives found in the base, as discussed in the [FAR](#) (31.201-4). For example, if Subcontractor costs may not be included in the base due to contract limitations, any costs associated with the administration with subcontracts must also be excluded from the pool.

4. There is consistency in allocating costs incurred for the same purpose per [Cost Accounting Standards \(CAS\)](#) (CAS 402). Costs that are claimed as indirect should be consistently claimed as indirect.
5. The same cost accounting period shall be used for the indirect cost pool as that used for the allocation base, with limited exceptions per [Cost Accounting Standards \(CAS\)](#) (CAS 406).
6. Unallowable costs can be identified and excluded from the base and the pool for all overhead rates per [Cost Accounting Standards \(CAS\)](#) (CAS 405). For G&A, they must be identified and excluded from the pool only and remain in the base.
7. General Ledger, Trial Balance, Financial Statements, [Invoices](#), billings, [proof of payment](#) and other supporting documents related to Indirect Costs are maintained in an auditable fashion. Records are to be retained for a period not less than that specified in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 4.703), [Department of Energy Acquisition Regulation](#) (DEAR) (DEAR 970.5232-3) and the contract.
8. The contractor must be able to properly account for, claim, calculate, and substantiate the fairness and reasonableness of the rate. Refer to [DCAA Incurred Cost Electronically \(ICE\)](#) for more information on calculation of indirect rates.

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Facilities Capital Cost of Money

Facilities Capital Cost of Money (FCCM or COM) provides a method for the measurement and allocation of the cost of capital committed to facilities as an element of contract cost. Additional information pertaining to FCCM may be found in [Cost Accounting Standards \(CAS\)](#) (CAS 414). Contractors claiming the Cost of Money (COM) rate must have relatively sophisticated accounting systems and processes. They must also have a deep understanding of their indirect rate structure and the associated bases and pools. The contractor is responsible for submitting the appropriate schedules and calculations per CAS 414. Indirect rates must be an allowable charge to the contract to charge Sandia for this rate. Refer to Section 3, [Facilities Capital Cost of Money \(FCCM or COM\)](#) for a listing of the minimum record requirements.

Unallowable Costs

Unallowable costs are costs for which the government (Sandia) will not reimburse a contractor. Unallowable costs may be unallowable based upon the [Federal Acquisition Regulations \(FAR\)](#) (FAR Part 31), the Section I of the contract, in the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#), or other federal statute. Also, refer to [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-2) for allowability criteria.

All unallowable costs must be excluded from any proposal, claim, or billing in accordance with [Cost Accounting Standards \(CAS\)](#) (CAS 405) and [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-6).

An unallowable cost may be incurred, but the government will not reimburse the supplier or contractor for the unallowable costs.

An adequate accounting system should provide a means of identifying and segregating unallowable costs from those costs which are allowable for both direct and indirect costs.

All costs incurred on any government contract must have a business purpose which is related to the scope of the work for the contract in order to be allowable. All costs deemed to not have a business purpose will be disallowed from any proposal, billing, or cost claim.

Costs incurred before the beginning of contract execution or after the end of the contract Period of Performance (POP) will be considered unallowable costs. You should discuss this with the SP for the contracting action in advance of incurring any “out of period costs.”

To be an allowable cost, costs must also be considered to be a [Reasonable Cost](#) in both amount and occurrence. Refer to [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-3) for more information. Contractors and vendors should use care to avoid claiming costs which are not deemed reasonable. Costs that are unreasonable will be subject to disallowance in any proposal, billing, cost claim, or audit.

Costs that are directly associated with unallowable costs are also unallowable as discussed in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.2-14.1). Provided are two examples:

1. An employee is charging for labor while they are illegally dumping hazardous waste. The costs, fines and penalties associated with the dumping of the hazardous waste are unallowable as either a direct or indirect charge. Additionally, the labor costs associated with that illegal activity are also unallowable.
2. Costs are incurred to set up a bar with a bartender for an employee recognition meeting. Alcohol is an unallowable cost per the [Federal Acquisition Regulations \(FAR\)](#) (FAR Part 31). In this example the bar setup and bartender costs are also unallowable in addition to the cost of the alcohol. Additionally, for the estimated time that it took the contractor to arrange the bar and bartender, those labor costs associated with the employee who made the arrangements would also be disallowed.

Identification and segregation of directly associated unallowable costs are the responsibility of the contractor.

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3. Supporting Document Attributes

Below is summarized critical information that should be included on documents that support processes, procedures, incurred costs and transactions. These are also the general criteria that an auditor will look for when examining documents and data related to your contract.

Audits by Sandia are performed in accordance with [International Professional Practices Framework \(Red Book\)](#). Criteria used are found in various authoritative guides including: [Defense Contract Audit Agency \(DCAA\) Audit Manual](#), [Federal Acquisition Regulations \(FAR\)](#), [Department of Energy Acquisition Regulations \(DEAR's\)](#), [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#), Section I of your contract, and [American Institute of Certified Public Accountants \(AICPA\)](#) literature. Audits and other review activities conducted by Sandia are authorized by the Prime Contract with Department of Energy and [Federal Acquisition Regulations \(FAR\)](#) (FAR 15.404.2 & FAR 9.106). Various statutes provide for access to records and facilities.

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Accounting Policies:

- They must follow Generally Acceptable Accounting Principles (GAAP).
- Policies are written and/or flowcharted.
- They describe your accounting methodology, such as whether you use cash, accrual, or another method of accounting.
- Identify major aspects of [Internal Controls](#), who may override them, and when override is appropriate.
- They dictate how often account reconciliations are accomplished, by whom, and how differences are to be handled.
- They state what the fiscal year is that will be used.
- They discuss who is responsible for bookkeeping, filing of taxes, and other major accounting functions.
- The policies describe your accounting system such as whether it is manual or computerized.
- If you use accounting software, the policy states what software is used and any special ways that it has been altered to work for your business.
- They dictate how you distinguish and segregate unallowable costs from allowable costs.
- Overhead costs are identified and the method of recouping them is defined.

- If you apply a General & Administrative (G&A) or other overhead rate, you should explain how you calculate it, to what you apply it, and what costs are included in the base and pool.

Airfare Receipts:

- This includes receipt for payment, which includes date, payment amount, class of airfare, entity to which the payment was made on the service provider's (airlines) original form or document.
- If electronic tickets (e-tickets) were used, it should include date, payment amount, entity to which the payment was made, and the airlines sequentially assigned serial or document ID number. This information is often sent to the traveler via e-mail. Maintain a copy of this e-mail for your records.
- Airline Travel Itinerary, which was generated by the airline, to show:
 - Total cost of flight(s)
 - Date(s) of flight(s)
 - Class of airfare (coach, standard, etc.), which may be coded on the itinerary.
- Per the [FAR](#) (31.205-46), airfare costs should not exceed the lowest customary standard, coach, or equivalent airfare offered during normal business hours.
 - Costs associated with privately flown or chartered aircraft may not exceed the lowest customary standard, coach, or equivalent airfare offered during normal business hours in accordance with [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.205-46). For example, if a contractor were to fly their own personal aircraft to another destination for the purpose of business, the maximum amount that they may be reimbursed for all operating and ownership costs is that amount described above.

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Bill of Lading:

- This shows shipping charges associated with delivery of goods. Refer to your contract to ensure shipping charges are an allowable cost.
- It must indicate date, shipping charges, item(s) being shipped, shipper's identity, and address on their original form or document.
- The Bill of Lading should indicate if the shipment was FOB Destination, FOB Shipping Point or other.
- It must include a signature, stamp, or other method used to acknowledge receipt of item.
- A Bill of Lading must include a description of items shipped. There must be a clear and obvious connection between the items being shipped and the bill of lading such as the PO number, Invoice number, or descriptor.

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Cost Estimating Processes:

- These are practices used in estimating are in conformance with applicable sections of the [Cost Accounting Standards \(CAS\)](#).
 - For certain businesses, a CAS disclosure statement is required.
 - Direct and Indirect Costs must be consistently per [Cost Accounting Standards \(CAS\)](#):
 - Estimated
 - Accumulated
 - Reported
- For Cost and Fixed Price type contracts, you must have a Cost Accounting system that possesses sufficient refinements to provide cost segregation as applicable, for:
 - Preproduction work and special tooling
 - Prototypes, static test models or mockups
 - Production information for individual production centers, departments, or operations, as well as by lots, batches, runs, or time periods
 - Engineering by major tasks
 - Each contract item that is being separately priced.
 - For example, the contract requires that six different major assemblies be produced. The cost accounting system should be able to identify and report the costs for each assembly.
 - Scrap, rework, spoilage, excess materials, obsolete items resulting from engineering changes.
 - Packaging and crating when the amounts are material.
 - Any other non-recurring, or discrete, or direct cost items which require separate treatment.
- For all contract types, the system must be able to collect and report costs by [Cost Elements](#) and by the contractor's fiscal year as described in this guide.
- The system should have adequate [Internal Controls](#).
- Accounting data used in developing estimated or proposed costs must be:
 - Valid
 - Reliable
 - Relevant
- Estimates may be based upon historical cost data for tasks or work that is similar to that being proposed. You must take into account:
 - Learning curves
 - Efficiencies gained from prior experience or new methods
 - Changes in complexity
 - Contract performance period or production rates
 - Quality controls standards or other requirements
 - For Time and Materials and Labor Hour contracts, proposed base labor rates must be fair and reasonable, and have some basis in reality. Current New Mexico labor cost information may be found at [New Mexico- Department of Labor](#) and most other states provide similar data.
- Estimates for which historical data cannot be reasonably used should be based upon:

- Standardized estimating processes
 - Estimating processes used should be documented or flowcharted.
- Competitive quotes from suppliers, vendors, subcontractors and service providers.
 - Discounts for quantity purchases or other reasons must be included in the estimate.
 - Include all reasonable and allowable costs.
- Escalation rates such as increases in Direct Labor or Direct Materials rates in subsequent years may be based upon historical or statistical predictions from reliable sources. Here are some sources that may be used:
 - [U.S. Department of Labor](#)
 - [Dept of Labor/Data Resources Inc. Inflation & Escalation Factors \(DOL/DRI\)](#)
 - [Global Insights](#) (Formerly DRI)
- Sample templates for submitting costs estimates and proposals for all contract types are found at [Sandia National Labs-Contract Audit](#) at the “Electronic Cost Proposal” link. You may use a different format that is supported by your accounting or estimating system, as long as it has all of the elements shown in the template.
- [Department of Energy Guide for Cost Estimating, Analysis, and Standardization](#) (DOE G 430.1) provides a complete description of cost estimating processes and techniques. It is for informational purposes and is not directive in nature.
- Documentation that supports all estimates, including supplier quotes, should be retained for a period not less than that specified in the [FAR](#) (4.703).

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Employee Classification:

- This information may be captured on hard-copy documents, digitally, or in the Human Resources module of more sophisticated accounting or enterprise software systems.
- This information includes general duties and responsibilities in writing for each position in the company.
- Qualifications and education should be documented for each individual charging to the contract either direct or indirectly.
- Include professional licenses for each individual charging directly to the contract.
- Professional certifications for each individual charging directly to the contract.
- Include current resume or Human Resources (HR) summary sheet for each direct employee.
- Include documents clearly identify individuals with an employee identification number, Social Security number, or other unique identifier such as mailing address or description of the employee.

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Ethics Policies:

- While not a requirement, putting ethical guidelines down in writing that your company will “live by” is an excellent business practice. There are numerous examples of ethics policies available on the web. They can be easily tailored to your business and circumstances.
- One example of points that might be addressed in an Ethics Policy is provided below from the [Small Business Administration](#). This is intended as an example only.
 - **Purpose.** A purpose combines both your vision as well as the values you would like to see upheld in your business. It comes from the top and outlines specifically what is considered acceptable as well as unacceptable in terms of conduct in your business.
 - **Pride.** Pride builds dignity and self-respect. If employees are proud of where they work and what they are doing, they are much more apt to act in an ethical manner.
 - **Patience.** Since you must focus on long-term versus short-term results, you must develop a certain degree of patience. Without it, you will become too frustrated and will be more tempted to choose unethical alternatives.
 - **Persistence.** Persistence means standing by your word. It means being committed. If you are not committed to the ethics you have outlined, then they become worthless. Stand by your word.
 - **Perspective.** In a world where there is never enough time to do everything we need or want to do; it is often difficult to maintain perspective. However, stopping and reflecting on where your business is headed, why you are headed that way, and how you are going to get there allows you to make the best decisions both in the short-term as well as the long-term.

Facilities Capital Cost of Money (FCCM or COM)

- Accurate historical records of net book value of tangible and intangible assets, which are titled in the businesses name and to be included in the calculation.
- Depreciation and amortization schedules for all owned assets to be included in the calculation
- Deeds, titles or other proof of ownership for major assets such as land, buildings, heavy equipment, or plant facilities.
- Unallowable Costs** removed from the calculation
- Where leasing has been approved by the government as a more economical method of obtaining equipment or facilities, such as with an operating or a capital lease, lease agreements should be provided. Lease-hold improvements that are significant must also be supported if they are to be included in the calculation.
- Secretary of Treasury [Cost of Money Rate \(COM or FCCM\)](#) distributed semi-annually
- Idle facilities and undistributed amounts must be properly accounted for.
- Form CASB-CMF properly filled out and found at [Cost Accounting Standards \(CAS\)](#) (CAS 414, Appendix A).

Ground Transportation Receipts:

- Receipt for payment that includes date, payment amount, entity to which the payment was made on the service provider's original form or document. May include the following:
 - Toll booth receipts
 - Parking receipts
 - Costs associated with Valet Parking are generally considered not to be a [Reasonable Cost](#) due to the premium cost paid for this service and these costs will be disallowed.
 - Taxi, public transportation, uber, etc.:
 - Receipts are required for incidental expenses in excess of \$75 or as established by [FAR](#) (31.205-46).
- Costs associated with travel in a privately owned vehicle may be claimed and reimbursed at the [GSA POV Mileage Rate](#). rate. This rate includes reimbursement for all operating costs such as fuel, depreciation, insurance, and normal wear and tear for the vehicle. These operating costs may not be claimed in addition to the [GSA POV Mileage Rate](#).
 - Travel via privately owned vehicle for long distances is considered reasonable if the cost does not exceed the cost of the lowest customary standard, coach, or equivalent airfare offered during normal business hours.

Incidental and Miscellaneous Expenses Receipts

- Incidental and Miscellaneous Expenses are costs generally associated with travel that are not classified as Lodging Expenses, Travel Expenses or Meal Expenses. They may include items such as gratuities for maids or hotel staff, laundry expenses, safe arrival phone calls or other small expense items that serve a business purpose or are otherwise allowable.
- Receipt for payments that includes date, payment amount, entity to which the payment was made on the service provider's original form or document.
- Listing of itemized amounts and taxes.
 - Alcoholic beverages are an unallowable charge per the [Federal Acquisition Regulations \(FAR\)](#) (FAR Part 31.205-51).
 - Receipts are required for incidental expenses in excess of \$75 or as established by [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.205-46) or your contract.
- A credit card receipt may be presented, provided that it contains the above information or is in addition to another document prepared by the service provider that contains the above information. There must be a clear and obvious connection between the two documents.
- A cancelled check for the payment must be accompanied by additional evidence of receipt of payment by the payee such as a receipt or similar document. Cancelled checks are not accepted as primary audit evidence.

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Internal Controls:

- Controls over who has access to data, information and records, and controls over who can retrieve, alter, delete or input data and information into accounting and estimating systems
- Controls over who has access to physical assets, and controls over who can add, alter or withdraw physical assets
- This includes a segregation of accounting duties. For example, the person that maintains inventory should not have access to inventory records, to prevent actual theft and the subsequent cover-up of theft of inventory. This may not be reasonable for a business with less than three to five employees.
- Controls over who has access to cash and cash equivalents such as petty cash funds and franking machines and ensure that these items can be securely locked up and protected. Routine cash counts are conducted by management not associated with the cash account records
- Locks or other mechanisms to control access to tangible and intangible assets. For example, lock up inventory items and supplies
- Password protections over data storage systems, such as personal passwords for each person that have access to the businesses computers
- Logging software that tracks access to business computer systems
- Access to computer servers or mainframes secured by locks
- Computer information backups produced and properly maintained. Stored in a fire and waterproof safe or off-site.
- Business-wide ethics policies as previously discussed. Employees know and understand the company's ethics policy
- Clearly defined duties and responsibilities for each employee
- Blank checks and official business records and documents kept under lock and key
- Sequentially numbered invoices and receipts and are locked up when not required
- Only one individual such as the business owner open bank statements and reconcile checking accounts. This should not be the same person that prepares the checks.
- Well trained employees. Employees have been trained on their duties and responsibilities, the company's ethics policies, importance of internal controls, etc.
- Reconciliation of accounts is routinely accomplished and differences are properly handled.
- Routine Management review of payroll distribution, with matching of employees to payroll distributions
- For larger companies, internal audits or reviews are accomplished, well-documented, and any findings are corrected or reported to management as appropriate
- Authorized vendors' lists. There should be controls over who may add vendors to the list. Personnel tasked with making payments to vendors should not be able to

make changes to the list. No vendors should have addresses at Post Office (PO) boxes.

- Controls over timekeeping, Human Resource and other sensitive records
- Audits or reviews by external independent auditors conducted as required
- If subject to the [Sarbanes-Oxley Act](#), the business is in full compliance and has received an “unqualified” audit opinion

Invoice:

- Invoices are generally defined requests for payment and/or acknowledgements of delivery of goods or services
- They are printed or typed on the provider’s original form or document
- Invoices should include date of receipt, summary or listing of goods or services delivered, unit of issue, cost per unit and total cost
- The Invoice document will preferably have a unique serial number.
- It will include acknowledgement of receipt or delivery of goods or services by signature, stamp or other method
- There must be a clear and obvious connection between the goods or services ordered on the [Purchase Order](#) and the goods or services shown on the Invoice.

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Labor Distribution Summary:

- Electronic or hard-copy summary report generated from the payroll and/or timekeeping system
- Displays all labor distributed to all contracts, projects or tasks. May segregate labor by employee classification such as Engineer-2, Electrician-3, etc.
- Shows all hours worked and may also show costs associated with each contract, project or task
- Summary varies by accounting or timekeeping system
- For automated accounting systems, any Labor Distribution Edit Errors are processed into a suspense account and billed to customers only after they have been corrected.

Labor Policies:

- Policies are written.
- Hours, which comprise a full time equivalent (FTE) or man-year are discussed.
- Describe how many standard days of vacation, holidays, paid time-off, etc. are included in an FTE.
- Describe how “hours worked” will be defined.
- Explain the compensation policy or employee classification of the owner-employee and whether exempt or not exempt from the [Fair Labor Standards Act \(FLSA\)](#). This should include a description of whether the owner/employee

receives a regular periodic salary, or merely takes a withdrawal from their equity account on an as needed or periodic basis.

- Describe [Uncompensated Overtime](#) policies for employees who are exempt from the [Fair Labor Standards Act \(FLSA\)](#).
- Provide an overview of fringe benefits and bonuses included in the compensation package.
- Description of the company's records retention policy. This should coincide with the records retention policy described in the [Federal Acquisition Regulations \(FAR\)](#) (FAR 4.703).

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Lodging Receipts

- Receipt for payment which includes date, payment amount, and the entity to which the payment was made on the service provider's (hotel, motel, etc) original form or document.
- Shows itemized amounts to include daily or weekly rate, incidental costs and taxes.
 - Alcoholic beverages are an unallowable charge per the [FAR](#) Part 31.205-51).
 - Non-alcoholic beverages such as bottled water and sodas stocked in a mini-bar or made available in the hotel room are generally not considered [Reasonable Costs](#) and will be disallowed based upon the premium price charged for these items.
- A credit card receipt may be presented, provided that it contains the above information, or is in addition to another document prepared by the service provider that contains the above information. There must be a clear and obvious connection between the two documents.
- A cancelled check for the payment must be accompanied by additional evidence of receipt of payment by the payee such as a receipt or similar document. Cancelled checks are not accepted as primary audit evidence.

Meal Receipts when Per Diem is not Claimed:

- Receipt for payment which includes date, payment amount, and entity to which the payment was made on the service provider's original form or document or cash register receipt. Receipts are not required when Per Diem rate is claimed.
- Shows itemized amounts to include food, beverage and tip.
 - Alcoholic beverages are an unallowable charge per the [Federal Acquisition Regulations \(FAR\)](#) (FAR Part 31.205-51).
 - Costs associated with Room Service are generally not a [Reasonable Cost](#) and will be disallowed due to the premium paid for the service.
- A credit card receipt may be presented, provided that it contains the above information or is in addition to another document prepared by the service provider

that contains the above information. There must be a clear and obvious connection between the two documents.

- A cancelled check for the payment must be accompanied by additional evidence of receipt of payment by the payee such as a receipt or similar document. Cancelled checks are not accepted as primary audit evidence.

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Payroll Information:

- Maintained in an automated (accounting software) or manual system. A computerized system is preferable and will help preclude common mistakes.
- Maintained for each individual employee.
- Summarizes hours worked, vacation, holidays, etc. These should coincide with the hours reported on the employee's timecard.
- Pay rate shown which was used to calculate total pay, payroll taxes and deductions.
- Social Security, FUTA, SUTA, SSI, etc, properly calculated for owner-employees paying self-employment payroll taxes. More information is available at the [U.S. Department of Labor](#) or [New Mexico-Department of Labor](#) websites.
- Proof of payment** of all payroll taxes and deductions to appropriate authority or recipient.
- Net payment amount shown and correctly calculated.
- Employee-owner designated as exempt or not exempt from the [Fair Labor Standards Act \(FLSA\)](#).

Payroll Summary or Payroll Register:

- Required for this business.
- Maintained in a manual or automated (accounting software) system.
- Summarizes all pay for a given pay period for all employees.
- Indicates pay period dates.
- Summarizes hours worked, vacation, holidays, etc. These should coincide with the hours reported on the employee's timecard.
- Lists all employees, hours, pay rates, taxes, deductions, and net pay.
- Each employee is identified by name, Social Security, Employee I.D. Number, or other unique identifier.
- Shows cumulative and total payroll payout for all employees for a given pay period.

Proof of Payment:

- Proof of payment remitted to an entity outside of the business includes:
 - Receipt for payment which includes date, payment amount, entity to which the payment was made on the outside entity's original form or document.

- A cancelled check for the payment must be accompanied by additional evidence of receipt of payment by the payee such as a receipt or similar document. Cancelled checks are not accepted as primary audit evidence.
- There must be a clear and obvious connection between documents that serve as proof of payment, and documents which demand payment. This may include references to document serial numbers, goods or services delivered, or other clear descriptor.

Purchase Order System:

- A purchase order system should include a method of tracking submitted purchase orders such as a log, journal, or listing which contains the following:
 - Consecutively serialized identification number for each [Purchase Order](#) (PO) submitted. Coincides with the number shown on the PO document.
 - Contract number for which the PO is being submitted.
 - Date submitted.
 - Brief description of the goods or services being purchased.
 - Organization or business to which the PO was sent.
 - Total amount of the PO.

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Purchase Order:

- Consecutively serialized document that includes the company name and address, date, signature of person approving the PO such as contracting officer or employee-owner.
- Lists the goods or services being purchased, quantity, unit of issue, part number and/or description, price, and total cost. Also shows discounts for quantities or other reason.
- Shows the contract number for which the goods or services are being purchased.

Reasonable Cost:

- A cost that a prudent businessperson would incur in a truly competitive environment.
- Although a cost may be deemed allowable in accordance with the [Federal Acquisition Regulations \(FAR\)](#), the contract or other guidance, it can be disallowed if it appears to be unreasonable. Refer to [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.201-3). For example, travel by air from Albuquerque to San Francisco may be allowable per the [Federal Acquisition Regulations \(FAR\)](#) and the contract. However, commuting back and forth from Albuquerque to San Francisco each day for a month would be an unreasonable cost and would be disallowed on that basis.
- What is reasonable depends upon a variety of considerations and circumstances, including:

- Is it the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance?
- Is it a generally accepted sound business practice?
- Does it involve arms-length bargaining?
- Does it comply with Federal and State laws and regulations?
- Is it routinely undertaken as part of the contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large?
- Is it a significant deviation from the contractor's established practices?
- Does it have a true business purpose and is it related to the contract?

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Rental Car Receipts:

- Receipt for payment and rental agreement, which includes date, payment amount, entity to which the payment was made on the service provider's original form or document.
- Size of automobile rented, such as Compact or Mid-size
 - Sandia usually limits reimbursement of rental cars to no larger than Mid-size. Refer to Section I of the contract and also the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#).
- Shows itemized amounts to include rental cost, insurance cost, etc.
 - Travelers are not to be reimbursed for purchasing pre-paid refueling options for rental cars. Refueling service, which is provided by most rental car companies, is generally considered not to be a **reasonable cost**, due to the premium prices charged for this service and they will be disallowed on that basis. Sandia generally allows only the average price per gallon for fuel at the time of the fuel purchase. Refer to [Federal Acquisition Regulations \(FAR\)](#) (FAR 31.205-46) and the [FTRs](#) (301-10.450) for more information.
 - When a contractor or government employee attends a conference and stays in a hotel or motel co-located with the conference venue, rental car costs are most often considered not to be a **reasonable cost** and will be disallowed.
- A credit card receipt may be presented, provided that it contains the above information, or is in addition to another document prepared by the service provider that contains the above information. There must be a clear and obvious connection between the two documents.
- A cancelled check for the payment must be accompanied by additional evidence of receipt of payment by the payee such as a receipt or similar document. Cancelled checks are not accepted as primary audit evidence.

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Timecard, timesheet or other similar timekeeping record

- May be a hardcopy or digital document. Digital or electronic documents are preferred.
- When specified in the contract, if the contractor is working on Sandia's premises, the contractor may use Sandia's form to record hours. Refer to your contract for additional information on this.
- Clearly identifies the employee by name, Employee I.D. Number, and occupational classification, such as Scientist 2, Engineer 1 or Journeyman Electrician, etc.
- The pay period or period end date is included on the timecard/timesheet.
- If using a hardcopy timecard, it should be prepared in ink and filled out as work is performed.
- Direct labor employees record their time no less often than daily.
- Corrections lined-out and initialed by the employee. A relevant explanation should be provided for the correction.
- Only one timecard per timekeeping period is authorized.
- Employees and supervisors sign the timecards/timesheets in accordance with procedures, verifying the accuracy of the recorded effort.
- Records all time incurred by the employee and related to the business entity, which includes hours worked, vacation, holidays, paid or unpaid time, etc. Regular and Overtime hours must be clearly shown and correctly characterized.
- Project, job, task, contract or other designation that clearly identifies work and hours incurred. Or must have the ability to trace hours worked to a project, task, contract or job. This may be pre-printed on the timecard/timesheet.
- Process or method to identify and segregate directly associated unallowable costs from allowable costs.
- On all contracts, hours worked and charged shall be in accordance with the Section I of the contract and also the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#).

Timekeeping System

- Provides for accurate and current recording of labor hours.
- Controls to ensure that only on-roll employees can charge time.
- Measures to ensure proper clock-in and clock-out by employees, either through automated controls or physical observation by management.
- Processes ensure collection and reconciliation of all timecards and hours.
- Automated systems may feed directly into payroll and/or accounting systems.
- See also the section above which describes: [Timecard, timesheet or other similar timekeeping record](#).

Travel Expense Report

- Required for all business types such as sole-proprietorship, partnership, C-Corporation, etc.
- States the business purpose of the travel.

- Indicates the contract number, project, task, etc, associated with the travel.
- If the travel is associated with more than one customer, contract, project, task, etc. a logical method is used to allocate the costs such as number of days spent on benefiting activities or customers. A similar method must be used if personal time/vacation is incurred during the business travel.
- Identifies the employee by name, and Employee I.D. Number, or other unique identifier.
- Lists the inclusive dates of the travel.
- Summarizes all costs incurred and categorized by:
 - [Airfare](#)
 - [Ground Transportation](#) and [Rental Car](#)
 - [Lodging](#)
 - [Meals](#) and [Incidental Expenses](#)
- Correctly calculates all totals.
- Signed by the traveler.

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Travel Authorization

- Required for all business types such as sole-proprietorship, partnership, C-Corporation, etc.
- Filled out in advance of embarking on travel.
- States the business purpose of the travel.
- Indicates the contract number, project, task, etc, associated with the travel.
- Identifies the employee by name, and Employee I.D. Number, or other unique identifier.
- Lists the inclusive dates of the travel.
- Shows the tentative schedule of the trip with major waypoints and planned dates at each waypoint.
- Signed by the employee-owner.

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Uncompensated Overtime

- Companies performing government contracts are required to pay overtime to hourly employees who work in excess of 40 hours per week, as delineated in the [Fair Labor Standards Act \(FLSA\)](#). Hours must be correctly characterized in time and pay records as either regular/straight time hours, or overtime hours. Refer to the [Timecard, timesheet or other similar timekeeping record](#) section for more information.
- All hours worked by salaried employees must be properly accounted for as direct and/or indirect, regular time and overtime.
 - This includes executive, administrative, and professional or technical people who are exempt from the FLSA, regardless of the number of hours

worked. These people are generally engineers, scientists, supervisors, and others who hold responsible positions, and therefore, are compensated at higher annual amounts than hourly employees. These employees often work voluntarily, or as a mandatory requirement, in excess of eight hours per day or 40 hours per week.

- “Uncompensated overtime” is the term used to describe the hours worked by salaried personnel who are exempt from the [Fair Labor Standards Act \(FLSA\)](#) and not paid for the hours worked in excess of 40 hours per week.
- Failure to do so may improperly state direct and or indirect costs, misstate allocation pools and bases, could result in over or under-recoveries, and will not provide reliable labor information for use on future proposals.
- Hours worked shall be in accordance with the Section I of the contract and also the [Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#).
- Contractors must take care to identify direct and indirect overtime hours in their proposals. If significant overtime is anticipated to be incurred by exempt employees, this must be disclosed before the contract is executed. There are four generally acceptable ways that contractors can treat this issue:
 - Hourly labor rates diluted to account for the additional hours. This could be done prospectively, or near real time depending upon the contract pricing type and the capabilities of your accounting system. Any variance between actual and planned should be booked to overhead. See example below.
 - Do not bill for any hours that were not proposed in the rates and for which the employee is not going to be compensated. The rationale is that if no additional costs were incurred by the contractor, then the additional hours should not be billed to Sandia.
 - Book the variance between the labor charged at the full hourly rate to the contract, and actual compensation, to overhead.
 - Compensate the employee for the additional hours worked, and then bill Sandia.
- In those instances where a salaried employee is incurring uncompensated overtime, the amount of labor costs claimed and billed may not exceed the actual labor cost.
 - For example: For an employee whose salary is based upon 1800 direct labor hours per year and is paid \$54,000 annually and equates to an average salary of \$30.00 per hour. The employer anticipates but does not disclose in their proposal that the employee will work 2,000 hours in one year on a Sandia Cost-type contract. The contractor erroneously bills Sandia for the employee for the full amount of \$60,000 (2,000 hours X \$30.00 per hour), pays the employee his annual salary of \$54,000, and pockets the additional \$6,000 as profit. This is considered fraud by most government audit agencies and will be treated accordingly by Sandia. The proper treatment is to “dilute” the employee’s salary prior to billing Sandia. In this example it would result in an hourly rate for the employee of (\$54,000/2000) or \$27.00 per hour. To reemphasize the point, the amount

of labor costs claimed and billed may not exceed the actual labor costs incurred by the employer.

- A second example is an employer who assigns a salaried employee to work on Cost-type contracts or contracts with cost ceilings during normal working hours and then assigns them to Fixed price type contracts after hours without recording the hours worked after normal working hours. This practice will overstate the indirect rates charged to work during normal working hours. Additionally, when discovered, fraud allegations are generally made by the government due to the intentional misstatement of the indirect rates. The shifting of costs to the Cost-type contracts from the Fixed price type contracts as in this example is also considered a fraudulent practice. To reemphasize this point, all hours must be accurately recorded for all employees and staff regardless of whether or not they are subject to the [Fair Labor Standards Act \(FLSA\)](#).

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Written Permission

- Must be in writing to include permission that is: handwritten, on an official form, on a memo, in a letter, or in the case of domestic travel, may be an e-mail.
- May be transmitted via physical or electronic transmission.
- The individual providing written permission must be clearly identified by name and organization and must have the actual authority to provide the permission per the contract.
- The specific event or item for which permission is being granted should be clearly described.
- Dates must be included on all correspondence.
- Written permission for foreign travel must include all of these components and be obtained IN ADVANCE of travel. The Department of Energy (DOE) is the only entity that can grant this permission. Neither the SP nor SDR can grant this permission or override DOE.
 - Conducting official foreign travel without prior DOE approval can result in an infraction against the individual's security clearance or other administrative or punitive measures being taken in addition to disallowance of the associated travel costs.

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The Accounting System Review-What to Expect

The Accounting System Review (ASR) helps Sandia's Procurement personnel determine if a prospective contractor's accounting system will adequately collect, process, and report required accounting data as specified in the [Federal Acquisition](#)

[Regulations \(FAR\)](#) and the [Cost Accounting Standards \(CAS\)](#). It also provides Sandia with information pertaining to the financial health and internal control environment of the entity. The Accounting System Review procedures which are conducted by [Sandia National Labs-Contract Audit](#) are authorized per the [Federal Acquisition Regulations \(FAR\)](#) (FAR 15.404.2 & FAR 9.106).

The characteristics discussed in the Accounting System Review correspond directly to the accounting system attributes and processes described in this document.

Prior to the award and placement of a contract, a Sandia Contract Auditor will contact one of the prospective contractor's primary points of contact (POC). The Auditor will provide the POC with general instructions, a summary of questions that will be asked, and will also negotiate a mutually convenient time to conduct the ASR.

The ASR may be accomplished over the phone or at the prospective contractor's site. This will be determined by the Auditor. The time to complete the ASR varies depending upon the complexity of the contract being contemplated, the type of accounting system in use by the entity, the value of the contract, and other criteria. Generally, the ASR can be accomplished in less than one day.

If the prospective contractor possesses historical cost data that is comparable to that which is being proposed to Sandia, the Auditor may perform a Pre-award Audit in conjunction with the ASR. The Sandia Subcontracting Professional (SP) associated with the contracting action and the Auditor will discuss this with you at the appropriate time. They will also provide instructions as to how to proceed and what documents will be required.

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Where to Get Assistance

If you have additional questions, contact the SP associated with the contracting action or the [Sandia National Labs – Supplier Diversity Team](#). You can also review the [Sandia National Labs- Supplier Website](#). Questions or comments related to this document or pertaining to the Accounting System Review or Audit processes may be directed to [Sandia National Labs-Contract Audit](#). Frequently Asked Questions, information and points of contact may be found at the links embedded above.

For general information pertaining to various aspects of government contracting, federal statutes, state and local government requirements, and more, proceed to the section entitled [References](#).

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References

[American Institute of Certified Public Accountants \(AICPA\)](#): Professional organization for Certified Public Accountants. It facilitates the establishment of Generally Accepted Accounting Principles (GAAP), ethics and auditing standards.

[Code of Federal Regulations \(CFRs\)](#): Complete listing of Federal statutes and laws.

[Committee of Sponsoring Organizations \(COSO\) Internal Controls Model](#): An internal controls model adopted by numerous organizations and entities throughout the U.S. and the world. This site provides information on the model, how to implement it, and more.

[Consumer Price Index Inflation & Escalation Factors \(CPI\)](#): Consumer price index and various other economic indicators. These rates are often used to calculate cost of living increases and other escalations of costs. This may provide some predictive value for estimating costs in future periods.

[Cost Accounting Standards \(CAS\)](#): Standards which establish consistent methodologies for collecting and reporting government contracting costs. Codified in CFR Title 48 and FAR Part 99 and has the effect of law.

[Cost of Money Rate \(COM or FCCM\)](#): Treasury rates for use in calculation of the imputed Cost of Money, and used in lieu of application of interest rates.

[Defense Contract Audit Agency \(DCAA\)](#): The federal agency which performs audits of Federal Defense contracts. This site includes an extensive listing of links and references.

[Defense Contract Audit Agency Audit Manual \(CAM\)](#): Primary criteria used by Sandia Contract Audit Department and all other U.S. Government auditing agencies, to conduct audits.

[Dept of Labor/Data Resources Inc. Inflation & Escalation Factors \(DOL/DRI\)](#): Historical listing of labor and economic cost increases on a per month basis. Often used to calculate cost of living increases related to labor and other direct costs.

[Department of Energy Acquisition Regulations \(DEAR's\)](#): Regulations related to acquisitions and contracting for the Department of Energy. It Amplifies the Federal Acquisitions Regulations (FAR) and is the prime reference for topics not covered by the FAR.

[Department of Energy Guide for Cost Estimating, Analysis, and Standardization \(DOE G 430.1\)](#): A good guide for the development of cost estimates by government contractors. Click on the above embedded link to take you to the table of contents and then select "Display Related Directives" in the upper left-hand corner of the page and

select the appropriate chapter of the guide. This guide is for informational purposes for Sandia's contractors.

[Fair Labor Standards Act \(FLSA\)](#): Found in 29 U.S.C. 201 of the [Code of Federal Regulations \(CFRs\)](#) establishes minimum wage, overtime pay, recordkeeping, and child labor standards affecting full-time and part-time workers in the private sector and in Federal, State, and local governments. It may also be found on the [U.S. Department of Labor](#) website.

[Federal Acquisition Regulations \(FAR\)](#): Statutory guidance found in Title 48 of the [Code of Federal Regulations \(CFRs\)](#) and has the effect of law. It provides guidelines to be followed by Federal Contractors in the placement and execution of government contracts. This is the primary resource that underlies all Sandia contracting actions.

[Federal Travel Regulations \(FTR's\)](#): This provides the regulations to be followed when embarking on government travel and is the primary reference for travel charged to any Sandia contract.

[Government Accountability Office \(GAO\) - Guide on Internal Controls](#): A guide for implementing internal controls at GAO but is also a good reference for any entity that wishes to incorporate internal controls into their processes.

[International Professional Practices Framework \(Red Book\)](#): The primary standard to which Sandia National Laboratories adheres in the conduct of audits.

[GSA Per Diem Rates \(U.S. and Foreign\)](#): Sets forth the maximum amounts that may be charged on a per day basis for travel costs by a government employee or contractor. Limits are established by city and state for the two general categories, lodging and incidental expenses. This is the criteria used by Sandia National Laboratories in the audit of travel costs. These rates change at least annually on or about October 1 of each year.

[Hoovers Online \(Company Information\)](#): This site provides thought provoking articles and information about business and the business environment for small, medium and large businesses.

[DCAA Incurred Cost Electronically \(ICE\)](#). Template and manual on indirect rate analysis and calculation required to be used on Sandia contract.

[Internal Revenue Service](#): Access to the Internal Revenue Code (IRC), forms, information, and points of contact.

[GSA Mileage Rate](#): to determine the maximum per mile cost that may be charged on a government contract. These rates change at least annually.

[NASA Procurement site](#): Content of this site includes a good listing of authoritative guidance and general information related to government contracting.

[New Mexico Department of Workforce Solutions](#): The New Mexico Department of Labor's website contains information related to current competitive salaries and wages, unemployment insurance and payroll tax rate information, state employment laws and more. There are also links to other State and Federal Department of Labor websites and related information.

[New Mexico-Small Business Administration](#): Excellent information about starting and running small businesses in New Mexico, with links to other state and Federal Small Business Administration websites. It contains a wealth of valuable information.

[Office of Management and Budget \(OMB\) Circulars](#): Easily searchable compendium of Office of Management and Budget Circulars. This may be of greatest interest to non-profit organizations, educational institutions and government agencies which do business with Sandia National Laboratories.

[Producer Price Index Inflation and Escalation Factors \(PPI\)](#): Producer Price Index and various other economic indicators. These rates are often used to calculate cost of living increases and other escalations of costs. This may provide some predictive value for estimating costs in future periods.

[Sandia National Labs-Contract Audit](#): A portal to Sandia's Contract Audit Department. Contains links to various document templates, authoritative literature, and a glossary of commonly used terminology. It also has a listing of phone numbers and e-mail addresses for audit staff members.

[Sandia National Labs – Supplier Diversity Team](#): A great resource for small and startup businesses that desire to increase and improve their business. Many services including training and consulting are available to small businesses, at no cost. Contact them to find out how they can add value to your business.

[Sandia National Labs-Standard Contract Terms and Conditions \(Boiler Plates or Section II\)](#): This site provides access to the Section II (Boiler Plate) of your contract, which includes the standard terms and conditions with which you must comply. Refer to the Section I of your contract to determine the correct Boiler Plate. It's very important that you read and understand both sections of your contract.

[Sandia National Labs- Supplier Website](#): This is a site that every contractor should bookmark on their browser. The Sandia National Laboratories Procurement Center's website will tell you what goods and services they're looking for, how to go about contracting, and how to get paid for your goods and services. There are also links to other important functions in the supply chain.

[Sarbanes-Oxley Act](#): Information on the Sarbanes-Oxley Act which was recently enacted. Although, it currently applies to publicly traded companies, more and more companies are adopting various aspects of the law as good business practice. This site explains the various sections of the Act.

[Small Business Administration](#): Superb resource for small businesses. It includes information on management, accounting, finance, employment issues and more.

[Small Business Administration Glossary of Terms](#): A glossary of terms related to the unique world of government contracting.

[Small Business Administration-Government Contracting and Business Development](#): The SBA's guidance on how to go about competitively competing on government contracts. There are also many other links to related information.

[U.S. Department of Labor](#): Employment information including labor standards, employment law and payroll tax information.

[U.S. Dept of Labor Wage Determinations \(CA & NM\)](#): Department of Labor pronouncement of Standard Wages for Service Sector employees for California and New Mexico for those contracts covered under the Standard Contract Act. Consult procurement for additional information or questions.

[XML \(Extensible Markup Language\)](#): The next generation of computer language similar to HTML. eXtensible Markup Language (XML) provides a method to tag information to greatly improve the automation of information location and retrieval. Related to XML are eXtensible Business Reporting Language" (XBRL) and extensible Financial Reporting Markup Language (XFMRL) which will facilitate improved sharing of electronic financial reporting, invoicing, billing and other routine data transfers.

Sandia is a multiprogram laboratory operated for the U.S. Department of Energy's National Nuclear Security Administration by National Technology and Engineering Solutions of Sandia LLC under Contract DE-NA0003525.

