



## DEFENSE CONTRACT AUDIT AGENCY

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PPS

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DCAA MANUAL  
NO. 7641.90

### INFORMATION FOR CONTRACTORS

1. PURPOSE. This manual supersedes DCAA Pamphlet 7641.90, *Information for Contractors*, dated January 2005. The manual is designed to assist contractors in understanding applicable requirements and to help ease the contract audit process. It describes what contractors should expect when doing business with the U.S. Government and interacting with DCAA auditors. The examples in this manual are presented to illustrate some of the more frequent requirements that contractors encounter when working with DCAA auditors, and in responding to the Government procurement and administrative process. These examples are intended solely to provide better insight into the procurement process and should not be construed as uniform guides. Nor should this manual be considered a substitute for the applicable rules and regulations, as not all requirements are contained herein. Each contractor must tailor its responses to its individual situation.
2. APPLICABILITY. This manual applies to all contractors interacting with DCAA auditors, as a result of doing business with the U.S. Government.
3. PROCEDURES. See Enclosures 1 through 6.
4. RELEASABILITY. Unlimited. This manual is approved for public release and is available on the Internet from the DCAA's web site at [www.dcaa.mil](http://www.dcaa.mil) and the internet library at <https://infoserv.dcaaintra.mil>.

5. EFFECTIVE DATE. This manual is effective immediately.

/s/

Patrick J. Fitzgerald

Director, Defense Contract Audit Agency

Enclosures

1. Introduction to the Defense Contract Audit Agency (DCAA)
2. Preaward Surveys of Prospective Contractor Accounting Systems
3. Price Proposals
4. Cost Accounting Standards
5. Contract Financing and Interim and Final Vouchers
6. Incurred Cost Proposals

Glossary

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ENCLOSURE 1INTRODUCTION TO THE DEFENSE CONTRACT AUDIT AGENCY (DCAA)

1. DCAA History. In December 1964, then Secretary of Defense Robert S. McNamara decided that DoD contract audits would be more effective and efficient if performed by a single organization. Accordingly, the Defense Contract Audit Agency (DCAA) was established as a separate Agency of the Department of Defense, effective July 1965.

2. DCAA Organization.

a. DCAA Organizational Overview.

(1) The Agency operates under the direction, authority, and control of the Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO). The DCAA Director is a civilian selected by the Secretary of Defense. Organizationally, DCAA includes a Headquarters, Field Detachment, and five regions: Central, Eastern, Mid-Atlantic, Northeastern, and Western (refer to [Figure 1](#) for Regional Boundaries). Within each region are resident and branch offices (refer to [Figure 2](#) for DCAA organization chart). Resident offices are established at large defense contractor locations, and branches are established in major metropolitan areas to audit all other contractors on a mobile basis. Suboffices may be established at a geographic location distant from the main resident or branch office if a concentrated workload of audits exists.

(2) The DCAA Contract Audit Manual (DCAAM 7640.1), referred to as the "CAM," prescribes auditing policies and procedures for personnel engaged in the performance of the DCAA mission. The electronic version of the CAM is updated on a continual basis and represents the most current version. Printed editions of the CAM are published once a year. Copies of the printed edition of the CAM are available for purchase from the Superintendent of Documents, U.S. Government Printing Office (GPO), P.O. Box 979050, St. Louis, MO 63197-9000. Refer to Order Processing Code \*3509, Stock Number 708-077-00000-3, ISBN 0-16-010384-3. The electronic version of the CAM and other DCAA documents are located under Publications at [www.dcaa.mil](http://www.dcaa.mil).

(3) Current audit guidance (not incorporated into CAM) are available on DCAA's web site at [www.dcaa.mil](http://www.dcaa.mil).

(4) Other acquisition reference materials can be found on the Defense Acquisition University's (DAU's) Acquisition, Technology and Logistics' Knowledge Sharing System (AKSS) web site at <https://dap.dau.mil/Pages/Default.aspx>.

b. Field Audit Office Organization.

(1) Whether the Field Audit Office (FAO) is a resident or branch, with or without suboffices, the office is led by a manager and the office is organized into teams. Each team is led by a supervisory auditor who supervises a number of auditors. Field audit offices may also have one or several assigned technical specialists. Technical specialists are subject matter experts available to assist the audit teams as the need arises. A contractor will most likely have direct contact primarily with the audit team. Should questions arise during the audit, the contractor may elevate its concerns to the FAO manager, Regional Audit Manager (RAM), or Deputy Regional Director (DRD).

(2) A supervisor's responsibilities may be assigned on the basis of: (1) contractor, (2) location, or (3) audit function (i.e., one supervisor may be responsible for evaluating all proposals for several contractors). This means that a contractor may see one or several auditors, depending upon the timing and/or type of audit(s) being conducted.

### 3. DCAA Responsibilities and Duties.

a. While serving the public interest as its primary customer, DCAA performs all necessary contract audits for the Department of Defense and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. DCAA provides these services in connection with negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. DCAA also provides contract audit services to other Federal agencies as appropriate

b. DCAA furnishes professional accounting and financial advice to Government procurement personnel at all points of the procurement process including: (1) pre-negotiation, (2) negotiation, (3) administration, and (4) settlement (contract closing).

c. By Reference, DoD Instruction 7600.2, Audit Policies, incorporates the Generally Accepted Government Auditing Standards (GAGAS). These standards, commonly referred to as the "Yellow Book" are developed and published by the Comptroller General and incorporate certain standards from the American Institute of Certified Public Accountants (AICPA). For the attestation engagements DCAA performs, GAGAS incorporates the general standards on criteria, fieldwork and reporting standards and the related Statement on Standards for Attestation Engagements. These standards and guidance are applicable to DCAA for all audits of funds received by contractors, nonprofit organizations, and other external organizations.

d. The Federal Acquisition Regulation (FAR) is the primary regulation for use by most Federal agencies in their acquisition of supplies and services with appropriated funds. The FAR, together with agency supplemental regulations (e.g., the Department of Defense Federal Acquisition Regulation Supplement [DFARS], which applies to all Defense components), Cost Accounting Standards (CAS), as well as specific contractual provisions, should be the primary guidelines for contractors' conduct in administering contracts. The FAR, DFARS and other agency supplements, and CAS can be found in Title 48 of the Code of Federal Regulations

(CFR) which is normally available in the reference section of most major public libraries. FAR and DFARS can also be found on the DAU's AKSS at <https://dap.dau.mil/Pages/Default.aspx>.

#### 4. DCAA General Audit Interests.

- a. DCAA is concerned with identifying and evaluating all activities that either contribute to, or have an impact on, proposed or incurred costs of Government contracts.
- b. DCAA evaluates contractors' financial policies, procedures, and internal controls.
- c. DCAA also performs audits that identify opportunities for contractors to reduce or avoid costs (operations audits).

#### 5. DCAA Major Areas of Emphasis.

- a. DCAA's major areas of emphasis include: (1) business systems, (2) management policies and procedures, (3) accuracy and reasonableness of contractors' forward pricing and incurred cost representations, (4) adequacy and reliability of records and accounting systems, and (5) contractor compliance with contractual provisions having accounting or financial significance such as the Cost Principles (FAR Part 31), the Cost Accounting Standards (CAS) Clause (FAR 52.230-2), and the clauses pertaining to the Truth in Negotiations Act (TINA) (FAR 52.215-10, -11, -12, and -13).
- b. DCAA's audits are generally limited to pricing actions and contracts that fall under FAR Part 15, Contracting by Negotiation. The extent of DCAA's involvement is determined by the type of contract that will be awarded. Generally, most DCAA efforts on firm-fixed price type contracts take place during the proposal stage rather than in the incurred cost stage. The reverse is true for cost reimbursable contracts. The allowable costs properly included in the final pricing of flexibly priced contracts are generally determined after they are incurred and audited. For additional details on the types of Government contracts reference FAR Part 16.

#### 6. Contractor Records Retention.

- a. DCAA performs all needed contract audits through evaluation of contractor records. FAR Subpart 4.7 generally describes records retention requirements. Specific retention periods for the differing types of records are addressed as well as how to calculate the retention periods. The full text of the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS) is available on the Defense Acquisition University's Acquisition Knowledge Sharing System at <https://dap.dau.mil/Pages/Default.aspx>
- b. Subpart 4.7 requires contractors to make available records, which includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any



other form, and other supporting evidence to satisfy contract negotiation, administration, and audit requirements of the contracting agencies and the Comptroller General.

c. This subpart applies to records generated under contracts that contain one of the following clauses:

(1) Audit and Records-Sealed Bidding (52.214-26).

(2) Audit and Records-Negotiation (52.215-2).

## 7. Other Information.

a. The Department of Defense has mandated that defense agencies move towards a paperless environment (Management Reform Memorandum #2, dated May 21, 1997). Accordingly, DCAA auditors are required to obtain and develop their audit documentation electronically in order to capture the efficiencies that Information Technology (IT) offers us. This necessitates obtaining source information in an electronic format. Therefore, contractors are encouraged to submit information electronically. Submitting information electronically will aid in reducing disruption to your staff during the audit, allow you to transmit information instantaneously, increase the accuracy of submissions and updates, automatically record events for later retrieval, and increase the overall productivity of all involved in the procurement cycle.

b. All inquiries for additional information should be directed to the local DCAA field audit office, the address and telephone number of which can be found using the Audit Office Locator on the DCAA public web site at <http://www.dcaa.mil>. The contractor's business location where the accounting records are maintained should be used for determining the appropriate DCAA office. If assistance is needed in determining the cognizant DCAA office, contractors may call DCAA Headquarters at (703) 767-3274.

c. Individuals having concerns or suggestions about the contract audit process should first bring these to local DCAA management's attention. Concerns not resolved at the local level should be elevated to the DCAA regional office. Each Deputy Regional Director (DRD) serves as the DCAA Director's primary regional point of contact to work with a company in resolving issues that cannot be settled at the local level. The DRDs may be contacted at the following numbers:

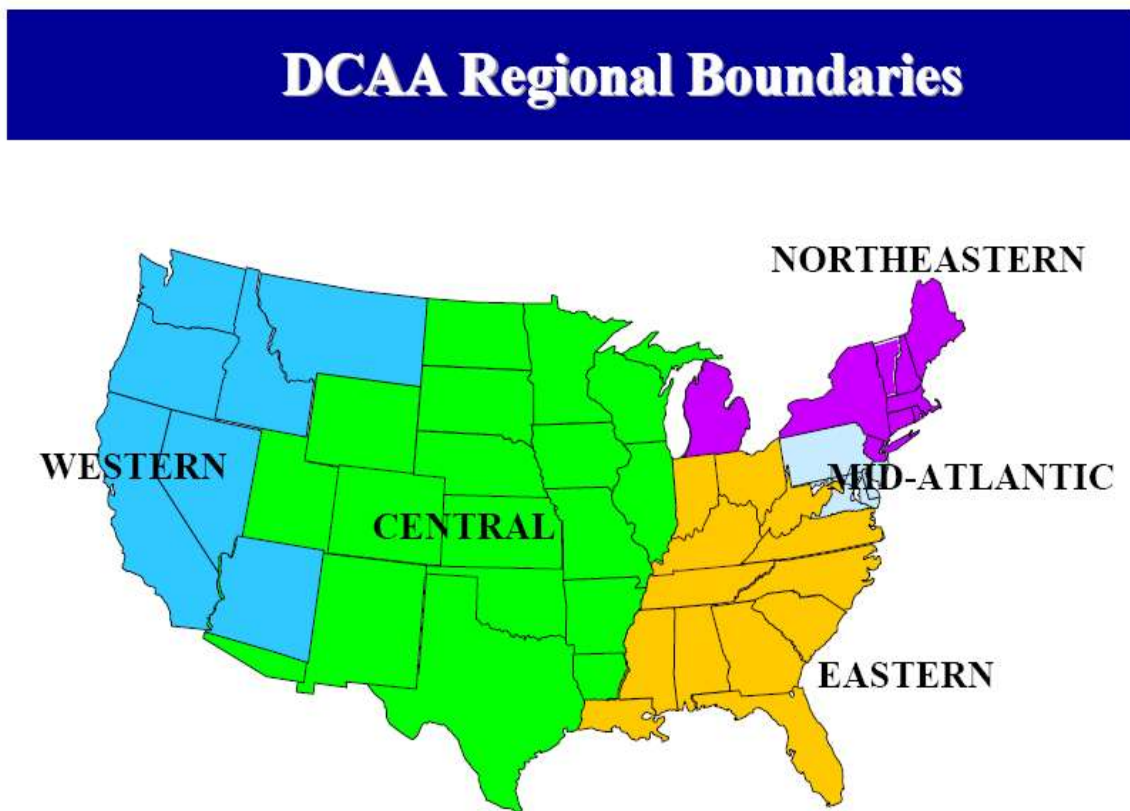
Table 1. Regional Telephone Numbers.

Region	Telephone Number
Central Region (Irving, TX)	(972) 753-2513
Eastern Region (Smyrna, GA)	(770) 319-4400
Mid-Atlantic Region (Philadelphia, PA)	(215) 597-7453
Northeastern Region (Lowell, MA)	(978) 551-9710
Western Region (La Mirada, CA)	(714) 228-7003

d. DCAA encourages the use of this manual by all individuals interested in increasing their knowledge of audits by the Defense Contract Audit Agency. User comments and suggestions are welcome. All such correspondence should be addressed to:

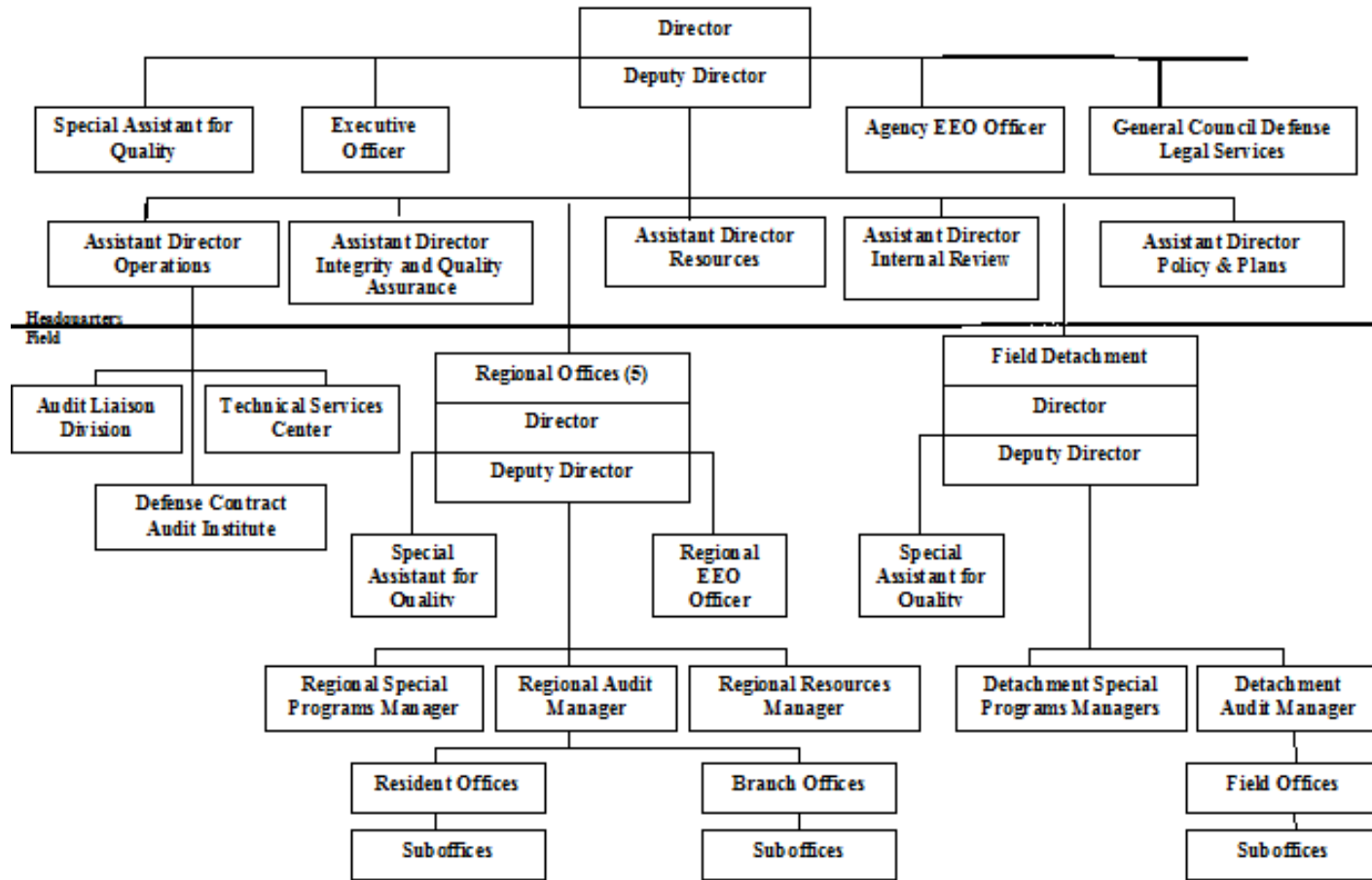
Defense Contract Audit Agency  
ATTN: Publications and Systems Division (PPS)  
8725 John J. Kingman Rd., Suite 2135  
Fort Belvoir, VA 22060-6219  
(703) 767-3234 (FAX)  
e-mail: DCAA-PPS@dcaa.mil

Figure 1. Regional Boundaries.



Western Region includes Alaska, Hawaii, the Pacific and the Far East  
Eastern Region includes the Caribbean, Central and South America  
Northeast Region includes Africa, Europe, the Middle East, and Afghanistan

Figure 2. Defense Contract Audit Agency Organizational Chart.



\*Regional Offices Located in:  
 Smyrna, GA; Lowell, MA; Irving, TX; La Mirada, CA; and Philadelphia, PA  
 Field Activities (-)

ENCLOSURE 2PREAWARD SURVEYS OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEMS

1. Preaward Survey Overview. A preaward survey is an evaluation, usually made by the cognizant contract administration office, of a prospective contractor's ability to perform a proposed contract. Such surveys may cover technical, production, quality assurance, financial capability, accounting system, and other considerations. Normally, DCAA may be requested to furnish information regarding the adequacy of the contractor's accounting system to accumulate the type of cost information required by the contract.

2. Financial Condition Risk Assessments. Financial condition risk assessments or financial capability audits are performed to determine if the contractor is financially capable of performing on Government contracts. These risk assessments/analysis are generally conducted by the Defense Contract Management Agency (DCMA). DCAA may perform these services at the request of DCMA when there are unique circumstances requiring DCAA audit assistance. However, DCAA will, in all audit situations, be alert to conditions which may indicate unfavorable or adverse financial conditions or other circumstances which could impede a contractor's ability to perform on Government contracts. If indicators of financial distress are identified, the auditor will inform the Contracting Officer (CO) immediately.

3. Accounting System.

a. Accounting System Surveys – General.

(1) The preaward accounting system survey is an examination before contract award to determine the acceptability of a contractor's accounting system for accumulating costs under a prospective Government contract. The audit scope should be limited to obtaining an understanding of the design of the prospective accounting system so as to appropriately complete the SF 1408, "Preaward Survey of Prospective Contractor Accounting System" (see [Figure 3](#) and refer to paragraph b below for additional discussion), and those procedures essential to reach an informed opinion as to whether or not the design of the prospective accounting system is acceptable for accumulating costs under a Government contract and has the ability to generate the specific cost information required under the anticipated contract.

(2) Contractors should recognize that an operable accounting system that is under general ledger control is of paramount importance when performing Government contracts. However, prospective contractors may have no work that requires the same type of accounting system required for Government work. A prospective contractor may not want to install a new, more detailed accounting system unless awarded a contract. In this case, if the potential Government contractor anticipates a contract award, it must have developed a system that is operable, though not necessarily in use. It must be in a position to demonstrate this new system

to the auditor and be ready to implement the system prior to incurring any costs on the Government contract.

(3) If the auditor determines the accounting system is not acceptable for accumulating costs under a prospective Government contract, the auditor will promptly notify both the contractor and the procurement official of the deficiencies, and will usually identify recommendations for correcting the deficiencies. DCAA will not develop the new system, since this is the contractor's responsibility. Once the required corrective actions have been taken by the contractor to correct the deficiencies, DCAA, if requested by the CO, will perform a follow-up audit of the revised system and/or corrected deficiencies.

(4) An accounting system audit may be performed after contract award. The major objective is to determine if the contractor's accounting system is adequate for accumulating and billing costs on Government contracts. It is usually performed at the request of the CO when (1) a follow-up to a preaward survey is recommended, or (2) a preaward survey was not conducted prior to contract award, and the CO determines that an audit is now required to support contract requirements. Auditors may self-initiate a post contract award accounting system audit based on audit risk at a contractor location.

b. Detailed Provisions of SF 1408 (Reference Figure 3, Page 2 of 2).

(1) Proper segregation of direct costs from indirect costs. DCAA will review the accounting system to determine if direct costs are segregated from indirect costs. Direct costs are defined in FAR 31.202 as any cost that can be identified specifically with a particular final cost objective (e.g., a contract). An example would be labor specifically identified to the contract or materials purchased specifically for the contract. At times, contractors may find it impractical to identify costs specifically to a contract. FAR 31.202 states that a direct cost can be treated as an indirect cost if the dollar amount is minor, it is treated the same way for all contracts in a contractor's accounting system, and that treatment produces substantially the same results as treating the cost as a direct cost. Indirect costs are defined in FAR 31.203 as any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective. An example of an indirect cost would be the lighting in a manufacturing area that houses the work of several contracts. The lighting benefits all contracts, but cannot practically be identified to a specific contract. These types of costs are normally placed in an overhead or General and Administrative (G&A) expense pool and allocated to contracts on some equitable basis. The cost accounting system must identify what costs are considered direct and what costs are considered indirect. Once these criteria are defined, they must be consistently applied.

(2) Identification and accumulation of direct costs by contract. DCAA will determine if the accounting system can accumulate costs by contract (commonly referred to as a job order cost accounting system).

(3) A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. DCAA will determine if indirect costs are allocated to cost objectives based upon relative benefits received or other equitable relationship, as required by FAR 31-201-

4, "Determining allocability," and FAR 31-203, "Indirect costs." Fundamentally, this means that a cost may not be allocated as an indirect cost to a final cost objective if other costs incurred for the same purpose have been included as direct costs of that or any other cost objective. For example, if a contractor wishes to perform a contract that requires three firemen on 24-hour duty at a fixed-post to provide protection against damage to highly flammable materials used on the contract, but the contractor already has a firefighting force for general protection of the plant, which is treated as an indirect cost and allocated to all contracts, the contractor may charge the cost of three of the post firemen directly to the particular contract requiring them. In this example, the contractor may also allocate a portion of the remaining cost of the general firefighting force to the same contract only if the separate classes of firemen can be shown to serve different purposes consistently (that is: (a) costs charged directly to the contract are only costs of three contract-required firemen at a fixed post who are protecting contract materials, and (b) no costs of these firemen are ever included in the indirect cost pool).

(4) Accumulation of costs under general ledger control. DCAA will determine if the job cost ledger and other books of account can be reconciled with the general ledger, and that the company accounting system is controlled by the general ledger.

(5) A timekeeping system that identifies employees' labor by intermediate or final cost objectives. DCAA will determine whether a contractor's timekeeping system has the ability to track employees' time spent on each work activity. (See Section 2-302 for further information on timekeeping procedures and controls.)

(6) A labor distribution system that charges direct and indirect labor to the appropriate cost objectives. This is interconnected with the discussion of timekeeping. Once an employee's time is segregated as described in paragraph 2-301.2e, the costs must be allocated to the appropriate cost objective(s).

(7) Interim (at least monthly) determination of costs charged to a contract through routine posting to books of account. DCAA will determine if the accounting system produces appropriate reports that show the results of charges to contracts. These reports should be produced at least monthly.

(8) Exclusion from costs charged to Government contracts of amounts that are not allowable pursuant to FAR Part 31, Contract Cost Principles and Procedures, or other contract provisions. The FAR identifies some costs as expressly unallowable: e.g., bad debts (FAR 31.205-3); contingencies (FAR 31.205-7); contributions or donations (FAR 31-205-8); and entertainment (FAR 31.205-14), and requires that they be excluded from proposals and billings. Costs mutually agreed to be unallowable between the contractor and the CO also may not be proposed or billed. DCAA will determine if the accounting system identifies these unallowable costs and segregates them in the books and records (or on some alternate acceptable informal basis that readily reconciles with the books and records). While these costs may be legitimate business expenses, they will not be accepted by the U.S. Government as allowable contract costs. FAR 42.709 authorizes CO to assess a penalty if a contractor claims an expressly unallowable cost in (1) the final indirect cost rate proposal or (2) the final statement of costs incurred or estimated to be incurred under a fixed-price incentive contract.

(9) Identification of costs by contract line item and units (as if each unit or line item was a separate contract) if required by the proposed contract. Some contracts require that the cost of certain items be readily identifiable. In such cases, DCAA will review a contractor's accounting system to determine if a contractor can comply with such requirements.

(10) Segregation of preproduction costs from production costs. DCAA will review a contractor's accounting system to determine that the costs can be identified in this manner.

#### 4. Labor Charging System.

a. Timekeeping Procedures. Timekeeping procedures and controls on labor charges are areas of utmost concern. Unlike other costs, labor is not supported by external documentation or physical evidence to provide an independent check or balance. The key link in any sound labor time charging system is the individual employee. It is critical to labor charging internal control systems that management indoctrinates employees on their independent responsibility for accurately recording time charges. This is the single most important feature management can emphasize in recognizing its responsibility to owners, creditors, and customers to guard against fraud and waste in the labor charging function. To be effective, the internal controls over labor charging should meet the following criteria:

(1) There should be a segregation of responsibilities for labor-related activities; for example, the responsibility for timekeeping and payroll accounting should be separated. In addition, supervisors who are accountable for meeting contract budgets should not have the opportunity to initiate employee time charges. It is recognized that, for a very small company, this type of segregation may not be possible, whereas for a larger company, this type of segregation would be required in order to have good internal controls over labor costs.

(a) Procedures must be evident, clear-cut, and reasonable so there is no confusion concerning the reason for controls or misunderstanding as to what is and what is not permissible.

(b) Maintenance of controls must be continually verified and violations must be remedied through prompt and effective action, which serves as a deterrent to prospective violations.

(2) Individual employees must be constantly, although unobtrusively, made aware of controls that act as an effective deterrent against violations. Many businesses accomplish this by emphasizing the importance of timesheet preparation in staff meetings, employee orientation, and through the posting of signs throughout the workplace that remind employees of the importance of accurate and current timesheets.

b. Timesheet Preparation. Detailed instructions for timesheet preparation should be established through a timekeeping manual and/or company procedure. Those Instructions should indicate that the employee is personally responsible for:

(1) Recording his/her time on a daily basis.

(2) Recording time on the timesheet

(3) The correct distribution of time by project numbers, contract number or name, or other identifiers for a particular assignment. To ensure accuracy, a listing of project numbers and their descriptions should be provided to the employee and maintained in the work authorization system electronically or in a hard copy for the employee to refer to it as needed.

(4) Changes to the timesheet. Procedures should be in place that identify the original time charge, the corrected time charge, and documentation from the employee indicating his/her concurrence with the change.

(5) Recording all hours worked whether they are paid or not. This is necessary because labor costs and associated overheads are affected by total hours worked, not just paid hours worked. Therefore, labor rate computations and labor overhead costs should reflect all hours worked. Unpaid hours worked are termed "uncompensated overtime." Solicitations over the simplified acquisition threshold contain the provision at FAR 52.237-10, Identification of Uncompensated Overtime, which details disclosure requirements for uncompensated overtime.

(6) Certifying the hours on the timesheet reflect the hours worked and the appropriate cost objective at the end of each work period.

c. Recommended Timekeeping Policy.

(1) The supervisor should approve and cosign, all timesheets.

(2) The supervisor is prohibited from completing an employee's timesheet unless the employee is absent for a prolonged period of time on some form of authorized leave. If the employee is on travel status, the supervisor for the employee may prepare a timesheet. Upon his or her return, the employee should turn in his/her timesheet and attach it to the one prepared by the supervisor.

(3) The guidance should state that the nature of the work determines the proper distribution of time, not availability of funding, type of contract, or other factors.

(4) The company policy should state that the accurate and complete preparation of timesheet the employee's responsibility. Careless or improper preparation may lead to disciplinary actions under company policies, as well as applicable Federal statutes.

d. Labor Floor Checks or Interviews. DCAA auditors periodically perform physical observations of work areas and interviews of employees to determine if: (1) employees are actually at work, (2) employees are performing in their assigned job classification, and (3) employee time is charged to the appropriate job or indirect account. These types of audits are referred to as labor floor checks or interviews. DCAA will perform unannounced floor checks to



determine the adequacy and accuracy of the timekeeping system for reimbursement of labor costs under cost reimbursable, time and material (T&M), and labor hour contracts.

e. Penalties for Labor Mischarging.

(1) The manipulation of charges to a contract may be subject to criminal charges under 18 United States Code (U.S.C.) 1001.

(2) Subject to the facts surrounding participation, the following individuals can be held liable for the violation:

(a) Employees who fill in and sign the timesheets with the false information.

(b) Supervisors who approve the timesheets with the knowledge that they contain the false information.

(c) Managers and officers who know those facts and make the claim anyway by submitting the invoice based upon the false timesheet.

(d) The company, in a case where the falsification is known by individuals who submit or who have authority to submit or disapprove the submission of invoices, or who are of a sufficiently high enough level in the company that the court will impute their knowledge to the corporation.

(3) There does not have to be a direct contractual relationship between the Government and the employee who submitted the false timesheet for the employee to be liable. A person may be liable even though he or she did not submit the fraudulent claim presented to the U.S. Government.

Figure 3. Preaward Survey of Prospective Contractor Accounting System (SF 1408).

<b>PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM</b>	SERIAL NO. (For surveying activity use)	OMB No. : 9000-0011 Expires: 07/31/2010
PROSPECTIVE CONTRACTOR		
Public reporting for this collection of information is estimated to average 34 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to FAR Secretariat (VRS), Office of Federal Acquisition and Regulatory Policy, GSA, Washington, DC 20405; and to the Office of Management and Budget, Paperwork Reduction Project (9000-0011), Washington, DC 20503.		
<b>SECTION I - RECOMMENDATION</b>		
1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT		
<input type="checkbox"/> YES <input type="checkbox"/> NO (Explain in 2 NARRATIVE)		
<input type="checkbox"/> YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER CONTRACT AWARD (Explain in 2 NARRATIVE)		
2. NARRATIVE (Clarification of deficiencies, and other pertinent comments. If additional space is required, continue on plain sheets of paper.)		

IF CONTINUATION SHEETS  
ATTACHED - MARK HERE

3. SURVEY MADE BY	a. SIGNATURE AND OFFICE (include, typed or printed name)	b. TELEPHONE NO. (include area code)	c. DATE SIGNED
4. SURVEY REVIEWING OFFICIAL	a. SIGNATURE AND OFFICE (include typed or printed name)	b. TELEPHONE NO. (include area code)	c. DATE REVIEWED

AUTHORIZED FOR LOCAL REPRODUCTION  
Previous edition usable

STANDARD FORM 1408 (REV. 9-88)  
Prescribed by GSA  
FAR (48 CFR) 53.209 -1(f)

Figure 3. Preaward Survey of Prospective Contractor Accounting System (SF 1408), continued.

SECTION II - EVALUATION CHECKLIST			
MARK "X" IN THE APPROPRIATE COLUMN (Explain any deficiencies in SECTION I NARRATIVE)	YES	NO	NOT APPLICABLE
1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES?			
2. ACCOUNTING SYSTEM PROVIDES FOR:			
a. Proper segregation of direct costs from indirect costs.			
b. Identification and accumulation of direct costs by contract.			
c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is final cost objective.)			
d. Accumulation of costs under general ledger control.			
e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives.			
f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.			
g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.			
h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions.			
i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract.			
j. Segregation of preproduction costs from production costs.			
3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION:			
a. Required by contract clauses concerning limitation of cost (FAR 52.232-20 and 21) or limitation on payments (FAR 52.216-16).			
b. Required to support requests for progress payments.			
4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS?			
5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? (If not, describe in Section I Narrative which portions are (1) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent.)			

ENCLOSURE 3PRICE PROPOSALS1. Requirements for Submission.

a. **Cost or Pricing Data Required:** The Truth in Negotiations Act (TINA) requires contractors to submit cost or pricing data if the procurement is above the TINA threshold (\$700,000) and none of the exceptions to cost or pricing data requirements applies. Under TINA, the CO obtains accurate, complete and current data from the contractor to establish a fair and reasonable price (FAR 15.403).

b. CO may require: (1) proposal submission of cost or pricing data in the format prescribed in FAR 15.408, Table 15-2, (2) specify an alternative format, or (3) permit submission in the contractor's own format. FAR 15.408, Table 15-2, provides instructions on preparing a proposal, the supporting documentation required, and other information when cost or pricing data are required. An example of a completed proposal cover sheet (the first page of the proposal) as required by FAR 15.408, Table 15-2, and the associated proposal support, are found in the price proposal model (paragraph 3-501 and at [Figure 4](#)). It is extremely important to prepare proposals in accordance with these instructions unless the CO specified an alternate format or approved the contractor's own format. FAR 15.408, Table 15-2, I. General Instructions, requires that specific information appear on the first page of the proposal.

c. **Information Other Than Cost or Pricing Data Required:** Even when an exception to cost or pricing data applies (FAR 15.403-1), the CO is still required to establish a fair and reasonable price. In order to make this determination the CO may require information other than cost or pricing data, including information related to prices and cost information that would otherwise be defined as cost or pricing data if certified. Obtaining sufficient data or information from the contractor is particularly critical in situations where an item is determined to be a commercial item in accordance with FAR 2.101 and the contract is being awarded on a sole source basis. Information other than cost or pricing data may be submitted in the offeror's own format, unless the CO decides that use of a specific format is essential and the format has been described in the solicitation (FAR 15.403-5(b)(2)). When DCAA is asked to audit information other than cost or pricing data, the scope of the engagement will vary. DCAA participation and the amount of support provided will be at the discretion of the CO. Since the audit process will vary, it is not practical to describe the possible scenarios. Therefore, a discussion of the audit of cost or pricing data will be used to provide an understanding of the full audit process.

2. DCAA Forward Pricing Services. DCAA provides a number of forward pricing services to meet the needs of COs from requests for specific rate and cost data, to a full proposal audit. When DCAA comes in to audit, the auditor will let the contractor know the scope of their audit.

### 3. DCAA Audit.

a. The auditor initiates an audit when the Procuring Contracting Officer (PCO) or the Administrative Contracting Officer (ACO) submits a request to the cognizant DCAA office. The auditor will identify the type of data required of the contractor and review the proposal package for adequacy. DCAA will then contact a company representative and coordinate with the contractor to obtain a walk-through of the proposal to gain an understanding of the basis of the proposal and related supporting documentation.

b. The actual audit time at a contractor location will vary depending on the size and complexity of the audit and availability of data. The auditor will first review the contractor's proposal assertions to determine if it has been adequately prepared (in accordance with the instructions in FAR 15.408, Table 15-2 or the format specified by the CO). If the proposal has not been adequately prepared, the auditor will recommend to the PCO/ACO that the proposal be returned to the contractor without audit until such time as an adequate proposal is received. If the proposal is adequate, the auditor will proceed with the audit.

c. The responsibility for providing adequate supporting data lies solely with the contractor. The contractor bears the burden of proof in establishing reasonableness of proposed costs; therefore, it is in the contractor's best interest to submit a fully supportable and well-prepared cost proposal. The basis and rationale for all proposed costs should be provided as part of the proposal so that the government can place reliance on the information as current, complete, and accurate.

d. When an auditor requests supporting documentation from a contractor (either verbally or in writing), the request will clearly state what support is needed and when it should be provided. The contractor will be provided a reasonable time period to provide the data given the specific circumstances. Generally, documentation supporting the contractor's assertion (e.g., the contractor's proposal) should be readily available. Unless the request requires analysis by the contractor or there are extenuating circumstances (e.g., the request is for a voluminous amount of data or for data stored at an offsite location), the contractor should provide the documentation upon request. Support includes access to personnel, in addition to the documentation/data supporting the contractor's assertion (e.g., cost records, policies and procedures, management reports). Auditors will generally need to obtain supporting documentation directly from the person responsible for the information.

e. If the contractor does not provide the requested information by the requested due date, and the contractor has not provided an appropriate explanation for the delay, the auditor will prepare a formal written request to the appropriate high-level contractor management official stating that the information must be provided by a specific date (not to exceed one week) with a copy to the CO. This written request is normally initiated as soon as the due date is missed. If the information, or an appropriate explanation for the delay, is not provided within one week, the auditor will notify the contractor that a formal denial of access to records exists and is being reported to appropriate Government personnel.

f. Also, whenever possible, the proposal and supporting data should be provided in an electronic format unless there are extenuating circumstances, in which case the contractor should explain the reasons that the data cannot be furnished digitally.

g. When the price of a contract or contract modification exceeds \$700,000 and is to be negotiated on the basis of cost or pricing data (e.g., historical accounting data, purchase orders, etc.), the contractor is required to certify that the data in support of its proposal are accurate, complete, and current (refer to FAR 15.403-4). In addition, FAR 15.404-1(c)(2)(iv) states that cost analysis also shall include appropriate verification that the offeror's cost submissions are in accordance with contract cost principles and, when applicable, the CAS. FAR 31.201-2 states that the factors to be considered in determining whether a cost is allowable include the following: (i) reasonableness, (ii) allocability, (iii) standards promulgated by the Cost Accounting Standards Board (CASB), if applicable, otherwise, generally accepted accounting principles and practices appropriate to the particular circumstances, (iv) terms of the contract, and (v) any limitations set forth in this subpart of FAR.

h. Upon completion of the audit, the auditor will hold an exit conference with a designated company representative. The exit conference will address all factual aspects of the proposal audit. If exceptions are taken to the judgmental aspects of the proposal, the auditor will not disclose detailed conclusions relative to the reasons or amounts that may be questioned. These judgmental differences are subject to negotiation by the CO.

#### 4. Examples of Data That DCAA May Request.

a. In order for DCAA to perform an evaluation, and to provide a timely, adequate, and fair evaluation of the contractor's proposal, the contractor should have available detailed schedules of the labor and overhead rates used in the proposal. The schedules should show computations and tie into the existing accounting system. The schedules should also present the historical data, the rationale used in deriving future projections, and exclude all unallowable costs (refer to paragraph 2-301.2h and FAR 31.201 6). Further, the accounting method used in estimating proposed costs should be the same as the method used to accumulate costs.

b. Examples of the type of data DCAA may request to support the contractor's assertions in its proposal may include:

(1) The basis of proposed labor rates and classifications including any proposed escalation factors.

(a) DCAA will want to understand how proposed labor rates were estimated and will need to audit any data that support these estimates.

(b) DCAA will want to understand and evaluate the basis of labor categories (labor grades) proposed and the hours assigned to each labor category.

(2) The basis of proposed labor hours, including staff-loading charts, comparisons of proposed hours to experienced hours for the production of similar items; and any learning curve applications.

(3) The basis of proposed material costs. This support should include a consolidated priced summary of individual material quantities included in the various tasks, orders, or contract line items being proposed and the basis for pricing (vendor quotes, invoice prices, competitive bids, etc.). Include raw materials, parts, components, assemblies, and services to be produced or performed by others. For all items proposed, identify the item and show the source, quantity, and price.

(4) The basis of proposed subcontract costs. Include documented support of the prime contractor's price analyses of all subcontractor proposals. In addition, if cost or pricing data is required per FAR 15.403-4 and not otherwise exempt, in accordance with FAR 15.403-1(b), submit the subcontractor's cost or pricing data as part of your own cost or pricing data, as well as your analyses of the subcontractor's cost or pricing data.

(5) Data showing the degree of competition and the basis for establishing the source and reasonableness of price for acquisitions (such as subcontracts, purchase orders, material order, etc.) exceeding, or expected to exceed, the appropriate threshold set forth at FAR 15.403-4 priced on the basis of adequate price competition.

(6) Explanation of the pricing method for interorganizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the contractor.

(7) The basis of the proposed indirect expense rates including overhead, general and administrative, material handling, and fringe benefits. Cost associated with direct and/or indirect rates are generally a very significant portion of the proposal. Required support for all companies is at least the current year detailed operating budget and a long range forecast/strategic plan covering all the periods of performance. The operating budget should be at the departments/pool level with expense item detail supporting anticipated contract performance. The budget should detail indirect expenses and show the relationship of direct labor (or other indirect expense allocation bases) to sales projections. Support also includes comparisons by year of projected overhead expenses by account to prior years' incurred amounts. Out-year projections should be supported by the contractor's analysis of the impact on its rates based on its long range forecast/strategic plan.

(8) The contractor is responsible for justifying and fully supporting all items in the proposal so that the audit will not be prolonged or negotiations delayed. All significant problems related to factual aspects of the proposal will be fully discussed with the company's representative. The auditor is required to notify the CO of unsupported costs and to explain what is needed from the contractor to support the costs. Unsupported costs are those items for which the contractor does not furnish sufficient documentation to enable the auditor to reach a definitive conclusion. The CO generally will request the contractor to develop appropriate support for any estimates upon which DCAA cannot develop an adequate audit opinion.

(9) Data requested by DCAA to evaluate information other than cost or pricing data will be based on the DCAA assistance requested by the CO and the type of information (other than cost or pricing data) the contractor has submitted. When the CO requests that the auditor perform an examination of a proposal supported by cost information (other than cost or pricing data), then the auditor will request the type of data described in paragraphs a. through e. If the CO has requested that the auditor perform specific procedures on submitted cost information, paragraphs a. through e. above give an idea of the types of data that could be requested on a limited basis depending on the circumstances of the procurement and the cost information submitted by the contractor.

(10) Sometimes, the auditor may be asked to assist the CO in making his/her determination as to whether an item meets the commercial item definition in FAR 2.101 and/or as to whether the price is reasonable. Examples of data that may be requested when assisting a CO in evaluating offered commercial items include:

- (a) Source documents supporting sales history, quantities, and prices;
- (b) Documents identifying special terms and conditions;
- (c) Documents identifying customarily offered discounts for an item;
- (d) Sources of financial data such as surveys, financial studies, etc.;
- (e) Catalogs and price lists;
- (f) Historical data for an item previously not determined commercial that the offeror is now trying to qualify as a commercial item; or
- (g) Information other than cost or pricing data as discussed in f. above.

5. Model Proposal - Advanced Tank Technologies (ATT). Background information, similar to the following, should be provided:

a. ATT was incorporated in the State of Maryland in 1985. ATT is a research and development concern specializing in engineering feasibility studies and surface vehicle design. In 1995, ATT developed a small manufacturing capability that enables it to manufacture prototypes of its basic designs. ATT had to borrow funds from a local lending institution to establish this capability. ATT provides services primarily to major DoD contractors on a firm-fixed price (FFP) basis.

b. This procurement, solicited by Request for Proposal (RFP) number DAAH01-09-R-0001, calls for the production of 50 prototypes of a new heavy-duty shock absorber. ATT designed this part under another Army contract for the Armored Personnel Carrier Program.



- c. The period of performance is February 28, 2010 to September 30, 2012.

Figure 4. Model Proposal.

**PROPOSAL COVER SHEET**

**(Cost or Pricing Data Required)**

1. **Solicitation/Contract/Modification No.:** DAAH01-09-R-0001
2. **Advanced Tank Technologies**  
500 East Highway  
Washington, DC 20001
3. **Point of Contact**  
Jane Doe  
Contracts Manager  
(202) 555-1212
4. **Contract Administration Office**  
DCMA Baltimore  
200 Townsontown Blvd., West  
Towson, MD 21204-5299  
(301) 339-4800  
**Audit Office**  
ABC Branch Office  
8181 Main Street  
Landover, MD 20785-2218  
(301) 436-2090
5. **Type of Contract Action:** New Contract
6.
 

Proposed	+	Profit or	=	Total:
Cost		Fee		
\$938,241	+	\$93,824	=	\$1,032,065
7. **Government Property**  
  
We will not require the use of any Government property in the performance of this work.
8. **Cost Accounting Standards (CAS) and Estimating & Accounting Compliance**
  - a. Our organization is NOT subject to the CASB Regulations (Public Law (PL) 91-379) as amended and FAR Part 30. We have a Small Business Exemption.
  - b. This contract action is NOT subject to CAS. We have a Small Business Exemption.
  - c. NO, we have not submitted a CASB Disclosure Statement (CASB DS-1 or 2).
  - d. We have NOT been notified that we are or may be in noncompliance with our Disclosure Statement or CAS.

Figure 4. Model Proposal, continued.

e. NO aspect of this proposal is inconsistent with our disclosed practices or applicable CAS.

f. YES, this proposal is consistent with our established estimating and accounting practices and procedures and FAR Part 31, Cost Principles.

9. This proposal reflects our estimates and/or actual costs as of this date and conforms with the instructions in FAR 15.403-5(b)(1) and FAR 15.408, Table 15-2. By submitting this proposal, we grant the CO and authorized representative(s) the right to examine, at any time before award, those records, which include books, documents, accounting procedures and practices, and other data, regardless of type and form or whether such supporting information is specifically referenced or included in the proposal as the basis for pricing, that will permit an adequate evaluation of the proposed price.

January 21, 2010

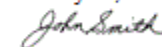
  
John Smith, President

Figure 4. Model Proposal, continued.

Advanced Tank Technologies  
Washington, DC  
Proposal Submitted in Response To RFP DAAH01-09-R-0001

<u>Element of Cost</u>	<i>Amount</i>	<i>Reference</i>
Engineering Labor	\$452,151	Schedule 1
Manufacturing Labor	26,412	Schedule 1
Direct Labor Overhead @ 56.7%	271,345	Schedules 1 & 3
Material	113,175	Schedule 2
Material Handling Overhead @ 5.0%	<u>5,659</u>	Schedule 5
Subtotal	868,742	
G&A @ 8.0%	<u>69,499</u>	Schedule 4
Estimated Cost	938,241	
Profit @ 10.0%	<u>93,824</u> *	
Total Price	<u>\$1,032,065</u>	

\* Contractors can negotiate profit with the CO. Typically, COs use criteria in FAR 15.404-4 for establishing a profit objective. DoD COs may use the weighted guidelines policy described in DFARS 215.404-4.

Figure 4. Model Proposal, continued.

Advanced Tank Technologies Washington, DC Proposal Submitted In Response to RFP DAAH01-09-R-0001										Figure 3-5-1 SCHEDULE 1	
	2010 <u>Engineering Labor Cost</u>			2011 <u>Engineering Labor Cost</u>			2012 <u>Engineering Labor Cost</u>			Total <u>Engineering Labor</u>	
<u>Labor Category</u>	<u>Rate/Hr</u>	<u>Hours</u>	<u>Total</u>	<u>Rate/Hr</u>	<u>Hours</u>	<u>Total</u>	<u>Rate/Hr</u>	<u>Hours</u>	<u>Total</u>	<u>Hours</u>	<u>Total</u>
Program Manager	\$ 33.93	683	\$ 23,174	\$ 35.63	760	\$ 27,079	\$ 37.41	507	\$ 18,967	1,950	\$ 69,220
Senior Engineer	26.39	1,200	\$ 31,668	27.71	900	\$ 24,939	29.10	700	\$ 20,370	2,800	\$ 76,977
Junior Engineer	22.12	1,800	\$ 39,816	23.23	1,500	\$ 34,845	24.39	900	\$ 21,951	4,200	\$ 96,612
Engineering Aide	14.50	1,800	\$ 26,100	15.23	550	\$ 8,377	15.99	50	\$ 800	2,400	\$ 35,277
Technical Writer	16.00	-	\$ -	16.80	0	\$ -	17.64	900	\$ 15,876	900	\$ 15,876
Metallurgist	18.85	1,900	\$ 35,815	19.79	1,200	\$ 23,748	20.78	700	\$ 14,546	3,800	\$ 74,109
Draftsman	18.95	<u>2,200</u>	<u>\$ 41,690</u>	19.90	<u>1,500</u>	<u>\$ 29,850</u>	20.90	<u>600</u>	<u>\$ 12,540</u>	<u>4,300</u>	<u>\$ 84,080</u>
Total Direct Labor - Engineering		<u>9,583</u>	<u>\$ 198,263</u>		<u>6,410</u>	<u>\$ 148,838</u>		<u>4,357</u>	<u>\$ 105,050</u>	<u>20,350</u>	<u>\$ 452,151</u>
	2010 <u>Manufacturing Labor Cost</u>			2011 <u>Manufacturing Labor Cost</u>			2012 <u>Manufacturing Labor Cost</u>			Total <u>Manufacturing Labor</u>	
<u>Labor Category</u>	<u>Rate/Hr</u>	<u>Hours</u>	<u>Total</u>	<u>Rate/Hr</u>	<u>Hours</u>	<u>Total</u>	<u>Rate/Hr</u>	<u>Hours</u>	<u>Total</u>	<u>Hours</u>	<u>Total</u>
Fabrication	\$ 10.85	400	\$ 4,340	\$ 11.39	600	\$ 6,834	\$ 11.96	600	\$ 7,176	1,600	\$ 18,350
Assembly	9.25	<u>0</u>	\$ -	9.71	<u>200</u>	\$ 1,942	10.20	<u>600</u>	\$ 6,120	<u>800</u>	<u>\$ 8,062</u>
Total Direct Labor - Manufacturing		<u>400</u>	<u>\$ 4,340</u>		<u>800</u>	<u>\$ 8,776</u>		<u>1,200</u>	<u>\$ 13,296</u>	<u>2,400</u>	<u>\$ 26,412</u>
<b>Total Direct Labor</b>			<u>\$ 202,603</u>			<u>\$ 157,614</u>			<u>\$ 118,346</u>		<u>\$ 478,563</u>
Direct Labor Overhead @ 56.7% (Sched. 3)			<u>\$ 114,876</u>			<u>\$ 89,367</u>			<u>\$ 67,102</u>		<u>\$ 271,345</u>

All hours proposed are based on historical costs, reference contract DAAH01-08-C-0001, account 9271

The supporting data showing the historical hours and the development of the proposed hours are in file "DAAH01-09-R-0001, Hours" and is available immediately upon request.

The direct labor rates are based on actual average rates as of 31 October 2009 and escalated 5 percent each year. The supporting data and rate calculations are located in file "DAAH01-09-R-0001, Direct Labor Rates" and is available immediately upon request.

Figure 4. Model Proposal, continued.

## SCHEDULE 2

Advanced Tank Technologies  
Washington, DC  
Proposal Submitted in Response to RFP DAAH01-09-R-0001

Shock Absorber  
Bill of Material

<u>Support</u>	<u>Qty</u> (Note 4)	<u>Unit Price</u>	<u>Total</u>	<u>Notes</u>
Sheet Metal	1,600 sq. yd	\$ 25.00	\$ 40,000	(1)
Casings	750 pcs.	8.50	6,375	(2)
Plastic	7,500 pcs.	5.75	43,125	(1)
Springs	1,700 pcs.	4.00	6,800	(2)
Bolts	7,500 pcs.	2.25	<u>16,875</u>	(2)
Total Material			<u>\$ 113,175</u>	
Material Overhead at 5.0%			<u>\$ 5,659</u>	(3)

Explanatory Notes

- (1) These prices are supported by multiple vendor quotes. The proposed prices are those provided by the low bidder who was the ACME Corporation in their quotation dated December 21, 2009. The quotations are included in file "DAAH01-09-R-0001, Vendor Quotations" that are available immediately upon request.
- (2) These prices are supported by the Halloween edition of the Springs R Us Catalog. This catalog is available for audit in the pricing office.
- (3) See Schedule 5.
- (4) The proposed quantities are from the engineering drawings for the shock absorber. This drawing is located in file "DAAH01-09-R-0001, Engineering Drawing" and is immediately available upon request.

Figure 4. Model Proposal, continued.

## SCHEDULE 3

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2010 Labor Overhead  
Actual Overhead Expenses for Fiscal Years 2007 through 2009

Overhead Expenses (Note 2)	Budget	Actual Expenses (Note 1)		
	2010	2009	2008	2007
Indirect Payroll	\$260,000			
Payroll Taxes	228,000			
Vacation	120,000			
Holiday	110,000			
Sick Leave	50,000			
Pensions	171,000			
Employee Morale	5,000			
Entertainment	50,000			
Office Equipment	7,000			
Depreciation	5,000			
Subscriptions	1,500			
Travel	22,000			
Miscellaneous	2,000			
Stationery	6,000			
Reproduction	17,000			
Maintenance	5,000			
Rent	202,000			
Telephone	11,000			
Insurance	102,000			
<b>Total Pool</b>	<b><u>\$1,374,500</u></b>			
Less Unallowable Costs				
Entertainment	<u>\$ 50,000</u>			
<b>Net Allowable Expenses</b>	<b><u>\$1,324,500</u></b>			
<b>Allocation Base</b>				
Direct Labor/IR&D/B&P Labor	<u>\$2,336,000</u>		(Note 3)	
<b>Rate</b>	<b><u>56.7%</u></b>		(Note 4)	

Explanatory Notes

- (1) Provide the prior three years' actual overhead expense and allocation base in the same format as the budget for 2010. For the year 2009, actuals to date are provided and annualized (All values are not shown in this example for brevity of presentation)
- (2) The projected overhead expenses are based on the company's operating budget for 2010. The operating budget supporting data is located in file "DAAH01-09-R-0001, Overhead Operating Budget" and is immediately available upon request.
- (3) Includes IR&D/B&P Labor of \$5,000. IR&D and B&P labor is included in the overhead base in order to allocate a proportionate share of overhead to the labor, as required by FAR 31.205-18.
- (4) The same rate is estimated for fiscal years 2011 and 2012. We anticipate minimal inflation and a stable business base as illustrated in our long-term strategic plan. The data and analysis supporting this assertion is located in file "DAAH01-09-R-0001, Overhead Forecast" and is immediately available upon request. The total overhead rate is 58.8%. The proposed overhead rate of 56.7% is based on the removal of unallowable overhead expenses.

Figure 4. Model Proposal, continued.

## SCHEDULE 4

Advanced Tank Technologies  
 Washington, DC  
 Budget for Fiscal Year 2010 G&A  
 Actual G&A Expenses for Fiscal Years 2007 through 2009

2010 Projected G&A Expenses (Note 2)		Less Unallowables	Net Allowable Expenses	Actual Expenses (Note 1)		
				2009	2008	2007
Payroll Taxes	\$ 16,000		\$ 16,000			
Officers' Salaries	165,000		165,000			
Indirect Salaries	21,000		21,000			
Interest	14,000	\$ 14,000	0			
Vacation	11,000		11,000			
Holiday	9,000		9,000			
Sick Leave	5,000		5,000			
Contributions	8,000	8,000	0			
Pensions	12,000		12,000			
Office Equipment	1,000		1,000			
Depreciation	2,500		2,500			
Travel	10,000		10,000			
Miscellaneous	2,000		2,000			
Legal Fees	7,000		7,000			
Accounting Fees	7,000		7,000			
Computer	17,500		17,500			
Rent	15,000		15,000			
Advertising	8,500	8,500	0			
Telephone	3,000		3,000			
Insurance	7,000		7,000			
Total Pool	\$ 341,500	\$ 30,500	\$ 311,000			
IR.&D/B&P Labor	\$5,000		\$5,000			
IR.&D/B&P Overhead 58.8%	2,940	\$105	\$2,835	(Note 3)		
IR.&D/B&P Travel	665		665			
Total IR.&D/B&P	\$8,605	\$105	\$8,500			
Grand Total	\$ 350,000	\$ 30,500	\$ 319,500			
		Allocation Base				
		Direct Labor	\$ 2,331,000			
		Overhead	1,374,500			
		Less IR.&D/B&P Overhead @ 58.8%	(2,940)	(Note 4)		
		Other Direct Costs (ODC)	29,000			
		Materials	250,000			
		Material Overhead	12,500			
		Total Base	\$ 3,994,060			

Figure 4. Model Proposal continued.

		Rate	8.0%	(Note 5)		
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Explanatory Notes

- (1) Provide the prior three years' actual G&A expenses and the allocation base in the same format as the 2010 budget. For the year 2009, actuals are provided to date and annualized (All values are not shown in this example for brevity of presentation).
- (2) The projected G&A expenses are based on the company's operating budget for 2010. The operating budget supporting data is located in file "DAAH01-09-R-0001, G&A Operating Budget" and is available immediately upon request.
- (3) The \$105 adjustment reflects the difference between the total overhead rate of 58.8% and the proposed rate of 56.7%.
- (4) Overhead on IR.&D/B&P labor at the total overhead rate of 58.8% is added to the G&A pool and deducted from the G&A base.
- (5) The same rate is estimated for fiscal years 2011 and 2012. We anticipate minimal inflation and a stable business base as illustrated in our long-term strategic plan. The data and analysis supporting this assertion is included in file "DAAH01-09-R-0001, G&A" and is available immediately upon request. The total cost input base consists of contract direct costs plus total overhead costs (including unallowable cost) less overhead on IR.&D/B&P transferred to the G&A pool. The base does not include IR.&D/B&P direct labor or other IR.&D/B&P direct costs, which are usually recovered through the G&A pool.



Figure 4. Model Proposal, continued.

## SCHEDULE 5

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2010 Material Handling  
Actual Overhead Expenses for Fiscal Years 2009 through 2007

<b>Material Handling Expenses (Note 2)</b>	Budget	Actual Expenses (Note 1)		
	2010	2009	2008	2007
Purchasing Department	\$ 10,000			
Receiving Department	2,500			
Total Expenses	\$ 12,500			
Less Unallowable Costs	\$ 0			
Net Allowable Expenses	\$ 12,500			
<b>Allocation Base</b>				
Direct Material	\$250,000			
Material Overhead Rate (Note 3)	5.0%			

Explanatory Notes

- (1) Provide the prior three years' actual material overhead expenses and allocation base in the same format as the budget for 2010. For the year 2009, actuals are provided to date and annualized (All values are not shown in this example for brevity of presentation).
- (2) The projected material overhead expenses are based on the company's operating budget for 2010. The operating budget supporting data is located in file "DAAH01-09-R-0001, Material Handling-Operating Budget" and is immediately available upon request.
- (3) The same rate is estimated for fiscal years 2011 and 2012. We anticipate minimal inflation and a stable business base as illustrated in our long-term strategic plan. The data and analysis supporting this assertion is located in file "DAAH01-09-R-0001, Material Handling-Forecast" and is available immediately upon request.

6. Negotiations. In the process of negotiating the contract terms and price, the PCO or ACO will meet with the contractor. Depending upon the significance and complexity of the procurement, this meeting may be face to face or by telephone. The PCO or ACO is assisted in the negotiations by the auditor's report. The auditor may also attend negotiation meetings to provide support to the PCO or ACO.

7. Truth in Negotiations Act (TINA).

a. Procurements by DoD, National Aeronautics and Space Administration (NASA) and the U.S. Coast Guard are subject to the Truth in Negotiations provisions of the Armed Services

Procurement Act, as modified by the Federal Acquisition Streamlining Act (FASA) of 1994 and the Clinger-Cohen Act of 1996 [also known as the Federal Acquisition Reform Act of 1996 (FARA)], and as codified at 10 USC 2306a. Under FASA, procurements by civilian agencies are subject to parallel requirements effective December 5, 1994. These requirements appear at 41 USC 254b. The purpose of these statutes is to put the Government on equal footing with contractors when negotiating non-competitive or sole source contracts. FAR Parts 15 and 52 contain uniform implementing regulations and contract clauses.

b. The statutes require the submission and certification of cost or pricing data in conjunction with the pricing of negotiated prime contracts and subcontracts exceeding \$700,000. This threshold is subject to adjustment every five years. However, if a fair and reasonable price cannot be determined, the head of the contracting activity may require cost or pricing data for procurements below the cost or pricing data threshold, but not for those at or below the simplified acquisition threshold [FAR 15.403-4(a)(2)]. Cost or pricing data is not obtained for acquisitions at or below the simplified acquisition threshold of \$100,000. There are, however, exceptions to cost or pricing data requirements, specifically, when prices are based on adequate price competition, set by law or regulations, or when a commercial item is being acquired. The head of the contracting activity may also grant waivers for submission of cost or pricing data in exceptional cases. FAR 15.403-1 discusses these exceptions. The statutory requirements also apply to modifications of negotiated or advertised contracts or subcontracts, contract termination actions, and final pricing actions under price redeterminable contracts that exceed \$700,000. Contract and subcontract changes or modifications are subject to the requirements if the total amount of both the related increases and decreases exceeds \$700,000, even though the net change in price is less than \$700,000 [FAR 15.403-4(a)(1)].

c. If none of the exceptions are applicable, the CO is required to obtain cost or pricing data before the award of negotiated contracts exceeding the \$700,000 threshold (FAR 15.403-4(a)). The contractor must submit, either actually or by specific identification in writing, the cost or pricing data with its proposal submission. Merely making available books, records, and other documents without identification does not constitute submission of cost or pricing data. To meet the statutory requirement for meaningful disclosure of current, accurate, and complete data, the contractor must provide any new or revised data obtained after the date of the original cost proposal, but before negotiations are complete. The data should be promptly submitted in a manner that clearly shows how the information relates to the offeror's price proposal.

d. DCAA selects negotiated pricing actions (prime contracts, subcontracts, modifications, final price redeterminations, equitable adjustments, and terminations) for audit on a systematic basis to determine compliance with the statutes. Selection considers such factors as contract type and dollar value of the contract, adequacy of accounting and estimating systems, and the number of instances and amount of defective pricing found in prior audits. Selection of a contract for this type of audit (commonly referred to as a postaward audit) is not an indicator of any impropriety on the part of the contractor.

ENCLOSURE 4COST ACCOUNTING STANDARDS1. Cost Accounting Standards (PL 100-679).

a. The CASB was established as an agency of Congress in accordance with a provision of Public Law 91-379. It was authorized to promulgate CAS designed to achieve uniformity and consistency in the cost accounting principles to be followed by defense contractors and subcontractors under Federal contracts as a condition of contracting. Contractors subject to full CAS coverage are required to disclose, in writing, their cost accounting practices, to follow the disclosed practices consistently, and to comply with duly promulgated CAS. The CASB went out of existence on September 30, 1980 as a result of Congress' decision not to provide additional funding.

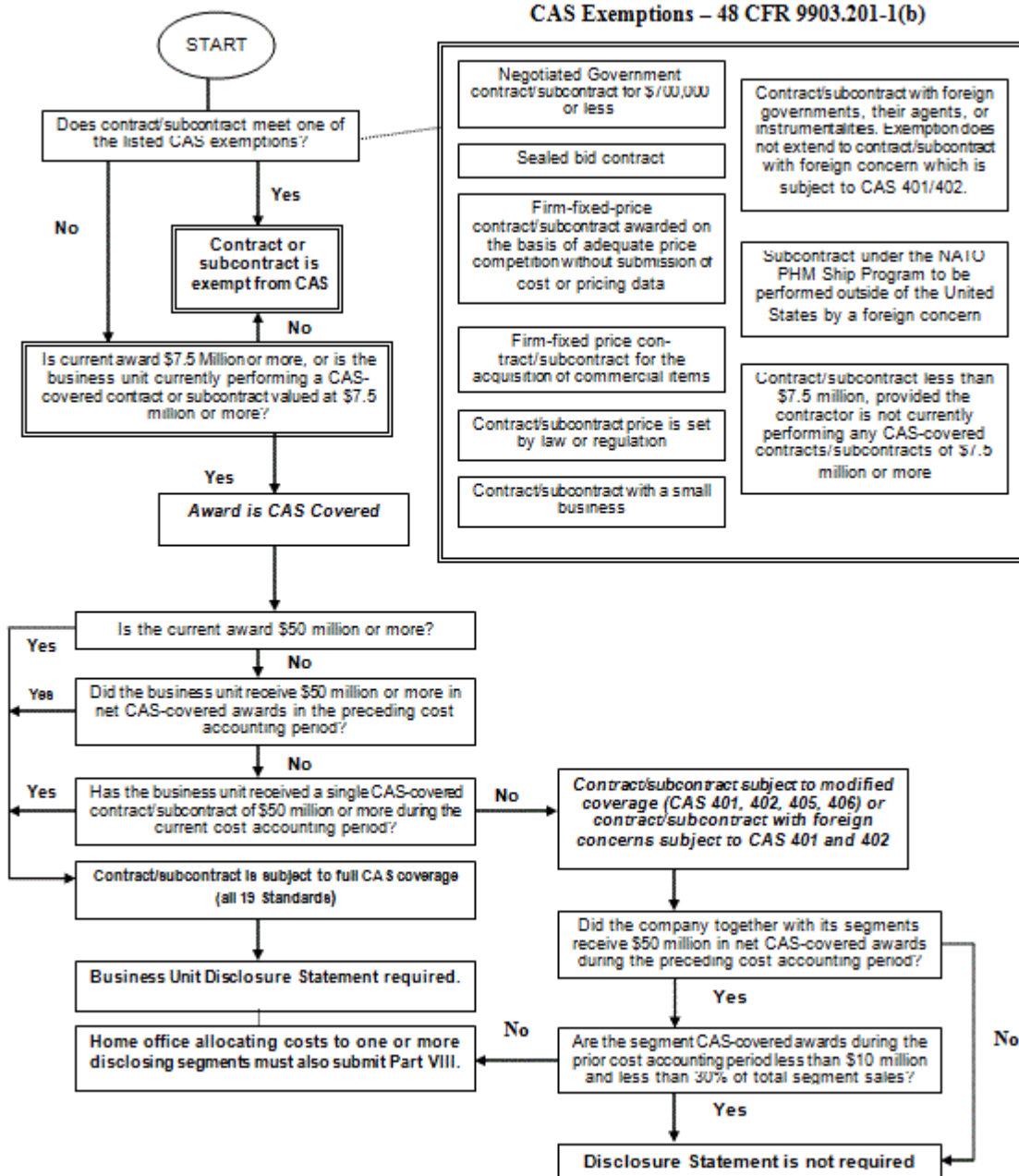
b. In December 1988, Congress passed legislation to re-establish the CASB. That legislation (PL 100-679) expressly continued in effect all then-existing standards, waivers, exemptions, interpretations, modifications, rules and regulations issued by the original CASB. The legislation expanded the applicability of CAS to all executive agencies and their contractors and subcontractors. The CASB is located in the Office of Federal Procurement Policy (OFPP), which is under the Office of Management and Budget (OMB). The CASB consists of five members: the Administrator of OFPP, who is the Chairman, and one member each from DoD, General Services Administration (GSA), industry, and the private sector (generally expected to be from the accounting profession). On April 17, 1992 the CASB's rules and regulations, previously found at both FAR Part 30 and 4 CFR Parts 331 through 420, were re-codified at 48 CFR Chapter 99.

c. Regulations implementing CAS appear in 48 CFR Part 9903 and in FAR Part 30.

d. The official rules, regulations, and standards issued by the CASB are binding on all executive agencies, their contractors, and subcontractors. Therefore, in pricing, administering, and settling contracts covered by this legislation, CASB standards, and associated CASB rules and regulations, must be used to estimate, accumulate, and report the associated costs.

2. Cost Accounting Standards (CAS) Applicability. A flowchart for determining CAS applicability and Disclosure Statement submission (see 4-105) is shown in [Figure 5](#).

Figure 5. CAS Coverage and Disclosure Statement Determination.



a. The CASB has issued 19 CAS that have the full effect of law. CASB rules, regulations, and standards apply to negotiated contracts that are not exempt in accordance with 48 CFR 9903.201-1. Full CAS coverage applies to a contractor business unit that:

- (1) Receives a single CAS-covered contract award of \$50 million or more; or

(2) Receives \$50 million or more in net CAS-covered awards during its preceding cost accounting period.

b. Modified CAS coverage requires only that the contractor comply with CAS 401, 402, 405 and 406 (Disclosure and Consistency of Cost Accounting Practices clause, FAR 52.2303). Modified CAS applies to a covered contract of less than \$50 million, but more than \$700,000 awarded to a business unit that received less than \$50 million in net CAS-covered awards during its preceding cost accounting period.

3. CAS Exemptions. The following categories of contracts and subcontracts are exempt from all CAS requirements (48 CFR 9903.201-1(b)).

a. Sealed bid contracts.

b. Negotiated contracts and subcontracts not in excess of \$700,000. For purposes of this exemption, an order issued by one segment to another segment shall be treated as a subcontract.

c. Contracts and subcontracts with small businesses. FAR Subpart 19.3 addresses determination of status as a small business. A small business (offeror) is one that represents, through a written self certification, that it is a small business concern in connection with a specific solicitation and has not been determined by the Small Business Administration (SBA) to be other than a small business. The CO accepts an offeror's representation unless that representation is challenged or questioned. If the status is challenged, the SBA will evaluate the status of the concern and make a determination. (Specific standards appear in Part 121 of Title 13 of the Code of Federal Regulations.)

d. Contracts and subcontracts with foreign governments or their agents or instrumentalities or, insofar as the requirements of CAS other than CAS 9904.401 and 9904.402 are concerned, any contract or subcontract awarded to a foreign concern.

e. Contracts and subcontracts in which the price is set by law or regulation.

f. Firm fixed-price and fixed-price with economic price adjustment (provided that price adjustment is not based on actual costs incurred), T&M, and labor hour contracts and subcontracts for the acquisition of commercial items.

g. Contracts or subcontracts of less than \$7.5 million, provided that, at the time of the award, the business unit of the contractor or subcontractor is not currently performing any CAS-covered contracts or subcontracts valued at \$7.5 million or greater.

h. Subcontracts under the NATO PHM Ship program to be performed outside the United States by a foreign concern.

i. Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of cost or pricing data.

4. Flowdown of CAS Clauses (FAR 52.230-2 3 and 4). The prime contract CAS clauses at FAR 52.230-2, FAR 52.230-3 and FAR 52.230-4 require that contractors flow the CAS requirements down to subcontractors and require subcontractors to flow them down to lower tier subcontractors. Subcontractors must comply with any applicable standards in effect at the time the subcontract is awarded plus any new standards that become applicable to the subcontractor.

5. Submission of Disclosure Statement Form No. CASB DS-1 (48 CFR 9903.202). Contractors must use a disclosure statement format prescribed by the CASB when describing their cost accounting practices. Completed disclosure statements are required in the following circumstances:

a. Any business unit that is selected to receive a CAS-covered contract or subcontract of \$50 million or more shall submit a disclosure statement before award.

b. Any company which, together with its segments, received net awards of negotiated prime contracts and subcontracts subject to CAS totaling \$50 million or more in its most recent cost accounting period must submit a disclosure statement before award of its first CAS-covered contract in the immediately following cost accounting period.

c. When a disclosure statement is required, a separate disclosure statement must be submitted for each segment whose costs are included in the total price of any CAS-covered contract or subcontract exceeding \$700,000, unless: (1) the contract or subcontract is of the type or value exempted by 9903.201-1, or (2) in the most recently completed cost accounting period the segment's CAS-covered awards are less than 30 percent of total segment sales for the period *and* less than \$10 million.

d. Each segment or business unit required to disclose its cost accounting practices should complete the Cover Sheet, the Certification and Parts I through VII.

e. Each corporate or other home office that allocates costs to one or more disclosing segments performing CAS-covered contracts shall complete the Cover Sheet, the Certification, Parts I and VIII of the disclosure statement. The home office that allocated applicable costs to segments may complete Parts V, VI and VII to be included in the Disclosure Statement submitted by its segments.

6. Adjustment of Contracts. CASB regulations provide for equitable adjustment of the price of existing contracts if a new standard, modification to an existing standard or an interpretation requires a change in a contractor's cost accounting practices. Equitable adjustment is also provided for changes that the cognizant Federal agency official (CFAO) finds to be desirable and not detrimental to the Government. Contract price adjustments also may be required to protect

the Government from any increased costs caused by contractor-initiated unilateral accounting changes, contractor noncompliance with existing standards, or contractor failure to follow any cost accounting practice consistently.

7. DCAA Audit Responsibility. FAR 30.202-6, 30.202-7, and 30.601 outline the basic functions of the contract auditor in the implementation and administration of the CASB rules, regulations and standards. DCAA is responsible for recommendations to the CFAO regarding whether:

- a. A contractor's disclosure statement adequately describes the actual or proposed cost accounting practices;
- b. A contractor's described and actual practices comply with the applicable requirements of FAR and the CAS.
- c. A contractor's changed cost accounting practice is adequately described and compliant with the applicable requirements of FAR and CAS;
- d. A contractor's cost impact proposal is adequate and reflects the proper amount of contract price adjustments.

ENCLOSURE 5CONTRACT FINANCING AND INTERIM AND FINAL VOUCHERS1. Introduction.

a. Contract financing involves certain FAR specified arrangements for infusing money to a contractor as work progresses and in advance of payment for delivered end products or services. In most business settings, it is customary for the work to be performed and completed in a satisfactory manner prior to invoicing the customer. However, in Government contracting, the work may take several months or even years of effort before the service has been rendered or items delivered. Therefore, the Government often uses contract financing methods to help offset costs incurred by the contractor in its performance of the contract.

b. The Government's approach to satisfying contractor cash needs varies with the type of contract. Cost-type contracts provide for interim payments for costs vouchered on a Standard Form (SF) 1034 public voucher. Fixed-price contracts are subject to FAR Part 32 financing methods, the most common of which has been cost-based progress payments. Cost-based progress payments are requested on a SF 1443 progress payment request form. The contract will designate an address to which these forms are submitted (the billing address) and the distribution, number of copies, etc. Electronic submission of cost vouchers and progress payments, can be made through Wide Area Workflow (WAWF). Refer to 5-302, Electronic Submission of Interim Vouchers, for the requirements for submitting electronic payment requests.

c. When the contract financing is cost-based, such as interim cost reimbursement (interim vouchers) or cost based progress payments, the billing system and the contract costs are subject to periodic audits by DCAA. When the costs are audited, DCAA will, at a minimum, verify that the costs billed have been incurred in performance of the contract, that they are in agreement with the accounting records, and that they are in accordance with the contract terms. Billed direct costs generally represent costs recorded at the time of the request for reimbursement paid by cash, check, or other form of payment for items or services purchased directly for the contract. Additionally, when the contractor is not delinquent in paying its bills, it may bill costs incurred, but not necessarily paid for supplies and services purchased directly for the contract and associated financing payments to subcontractors, provided payments will be made in accordance with the terms and conditions of a subcontract or invoice; and ordinarily within 30 days of the submission of the Contractor's payment request to the Government. Accrued costs for contributions under employee pension plans shall be excluded until actually paid unless the contractor's practice is to make contributions to the retirement fund quarterly or more frequently; and the contribution does not remain unpaid 30 days after the end of the applicable quarter or shorter payment period. Billed indirect expenses are based on the application of estimated allowable expense rates for the fiscal year and adjusted at the end of the fiscal year to represent the actual allowable year end rates. The estimated allowable rates should be based on the current operating budgets for the fiscal year. Refer to 5-301, Provisional Billing Rates. The contractor may be required to submit schedules of estimated and actual indirect expenses to the local



DCAA office as soon as this information is known. These schedules should be similar to the Schedules 3, 4, and 5 shown in the model contractor proposal included in Chapter 3-501.

## 2. Public Vouchers Under Cost-Type Contracts - Responsibility for Preparation.

a. The contractor is responsible for preparing and submitting claims for reimbursement according to the terms of the contract, including any special billing or payment instructions, such as a requirement to bill by contract line item (CLIN) or accounting classification reference number (ACRN). For contract payments, FAR and DFARS require electronic processing of payment requests. The WAWF Receipts and Acceptance System was initiated to eliminate paper transactions from contract processing. DFARS requires the use of WAWF as the only acceptable system for submission and processing of payment requests. All vouchers should be submitted through WAWF unless contract terms require hard copy vouchers to be submitted. These submissions should not contain any classified information and should not be made more than once every two weeks, unless other arrangements are made with the CO.

b. Public voucher claims for reimbursement must be prepared on the prescribed Government forms (refer to paragraph 5-302). The first voucher on a contract is effectively an interim voucher, as are all subsequent vouchers prior to the final or completion voucher. A final "completion" voucher will not be submitted until all contract work is completed. The auditor may provide advice concerning the format for preparing public vouchers and financial representations.

## 3. Provisional Billing Rates.

a. FAR 42.704 provides the CO (or cognizant Federal agency official) or auditor responsible for establishing the final indirect cost rates also shall be responsible for determining the billing rates. The Government allows interim payments, if authorized by the contract, during contract performance by progress payments for fixed-price contracts, or by public voucher for cost-type contracts. Reimbursement of indirect costs for these payments is generally made through billing rates that are established to approximately equal the expected final indirect cost rates for the contractor's fiscal period, as adjusted for any unallowable costs. These billing rates are used for interim reimbursement purposes until settlement is reached on final rates after the end of the contractor's fiscal year. Billing rates may be prospectively or retroactively revised by mutual agreement, at either the Government's or contractor's request, to prevent substantial overpayment or underpayment. Once the final rates are established, an adjustment is made for any variance between the billing and final rates.

b. Upon receipt of the certified final indirect cost rate proposal, FAR 42.704(e) provides that the Government and the contractor may mutually agree to revise billing rates to reflect the certified proposed indirect cost rates. The proposed indirect rates will be adjusted to reflect historically disallowed amounts from prior audits until the proposal has been audited and settled. The historical decrement will be determined by either the CO or the auditor responsible for determining final indirect cost rates. If billed costs exceed claimed costs, the contractor must

appropriately adjust the next voucher or remit or otherwise credit the Government for the difference.

#### 4. Electronic Submission of Interim Vouchers.

a. DFARS Clause 252.232-7003, Electronic Submission of Payment Requests, require contractors to submit payment requests electronically unless certain exceptions apply. DFARS requires the use of WAWF as the only acceptable system for submission and processing of payment requests. All vouchers should be submitted through WAWF unless contract terms require hard copy vouchers to be submitted.

b. For further information regarding electronic submission of payment requests contact the cognizant CO or DFAS, Headquarters, Electronic Commerce Program Office, or visit the DFAS electronic commerce home page at <http://www.dfas.mil/dfas/contractorsvendors.html>.

c. Cost reimbursement type contracts provide that the contractor may submit periodic claims for reimbursement of costs and fee on Government public voucher forms SF 1034 and SF 1035 or their equivalent. For contractors utilizing WAWF for the submission of interim payment requests on cost-type, T&M and labor hour contracts, the "Cost Voucher" is the equivalent of the SF 1034. Data equivalent to the SF 1035 must be included in a separate electronic file and attached to the cost voucher in WAWF, unless the contractor has been authorized to submit interim vouchers directly to the payment office under the direct bill program. Guidance and training for completing a cost voucher invoice can be obtained from the WAWF website at <https://wawf.eb.mil>. As discussed in 5-201a., contractors should also ensure vouchers are prepared and submitted in accordance with the terms of the contract, including any special billing or payment instructions, such as a requirement to bill by contract line item (CLIN) or accounting classification reference number (ACRN). SF 1034 and 1035 information will be periodically reviewed by COs and auditors as part of their continued oversight of contractors' billings including audits of billing systems, contractor preparation of interim vouchers, and status of Government contract funding.

#### 5. Guidance for Preparing Interim Public Vouchers (SF 1034).

a. All vouchers should be submitted through WAWF unless contract terms require hard copy vouchers. The information required on interim public vouchers is provided in the various fields contained in WAWF when creating a voucher for electronic submission. If contract terms require hard copy vouchers, the contractor must use SF 1034 (original) and 1034A (copies), "Public Voucher for Purchases and Services Other Than Personal," to show the amount claimed for reimbursement. Contractor submittal of a public voucher through WAWF provides data equivalent to the SF 1034. The information required on interim public vouchers is explained below. The lettered items correspond to entries on [Figure 6](#).

Table 2. Information Required on Interim Vouchers.

(i)	SHIPPED FROM; TO; WEIGHT; GOVERNMENT B/L NUMBER	Leave blank
(j)	NUMBER AND DATE OF ORDER	Leave blank
(k)	DATE OF DELIVERY OR SERVICE	The month and year or beginning and ending dates of incurred costs claimed for reimbursement (e.g., 4/1/2012 - 4/30/2012).
(l)	ARTICLES OR SERVICES	Insert the following: "For detail, see SF 1035 -- total amount of claim transferred from page xx of xx SF 1035." [The xx represents the appropriate page number(s).] One space below this line, insert "COST REIMBURSABLE -- PROVISIONAL PAYMENT"
(m)	QUANTITY; UNIT PRICE	Leave blank.
(n)	AMOUNT	The total amount claimed for the time period indicated under "Date of Delivery or Services." This should be the amount transferred from the SF 1035 -- Continuation Sheet.

b. Although the instructions on the form read "(Payee must NOT use the space below)," DCAA requests that contractors follow the instructions below when completing the SF 1034:

Table 2. Information Required on Interim Vouchers, continued.

<b><u>Figure Reference</u></b> <b><u>e</u></b>		<b><u>Description of Data To Be Inserted</u></b>
	SF 1034 Caption	
(o)	PAYMENT	Leave blank.
(p)	APPROVED FOR	Insert "Provisional payment subject to later audit."
(q)	EXCHANGE RATE; =\$1.00	Mark out with X's the words "Exchange Rate" and the equal and dollar sign in this block.
(r)	BY	Insert the name, mailing address, and telephone number of the auditor who will sign the public voucher in blocks (r) and (s), if required. The contractor can get this information by contacting its cognizant DCAA office.
(s)	TITLE	See reference (r) above.

Figure 6. Sample of SF 1034 Interim Voucher.

Standard Form 1034 Revised October 1987 Department of the Treasury TFM 4-2000 1034-122		<b>PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL</b>				Voucher No. (c) 10	
(a) U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION  USA Rocky Mountain Arsenal Denver, CO 80240			DATE VOUCHER PREPARED (b) 5/15/2007		SCHEDULE NO. (f)		
			CONTRACT NUMBER AND DATE (c) DAAA05-07-C-0001 1/2/2007		PAID BY: (f)		
			(d)		DATE INVOICE RECEIVED (f)		
(h) PAYEE'S NAME AND ADDRESS  ABC Corporation 100 Main Street New York, NY "OR (if applicable)" The National Bank, New York, NY Assigned for ABC Corporation New York, NY					DISCOUNT TERMS (f)		
					PAYEE'S ACCOUNT NUMBER (g)		
SHIPPED FROM			TO (i)		WEIGHT		GOVERNMENT B/L NUMBER (i)
NUMBER AND DATE OF ORDER (j)	DATE OF DELIVERY OR SERVICE (k)	ARTICLES OR SERVICES <i>(For description, item number of contract of Federal schedule, and other information deemed necessary)</i> (l) For detail, see SF 1035 - total amount of claim transferred from page 1 of 1 SF 1035  COST REIMBURSABLE - PROVISIONAL PAYMENT	QUANTITY (m)	UNIT PRICE (n)		AMOUNT (n)	
				COST	PER		
	Period: 4/1/2007 through 4/30/2007					\$5,372	
(Use continuation sheet(s) if necessary) (Payee must NOT use the space below) TOTAL							
PAYEE (o)		Approved for Provisional Payment	EXCHANGE RATE		DIFFERENCES		
PROVISIONAL COMPLETE PARTIAL FINAL PROGRESS ADVANCE		Subject to later audit (p)					
		BY (r) Joel J. Hunt, Auditor Defense Contract Audit Agency			Amount verified correct for (Signature or initials)		
		TITLE 123 Anyplace (703) 555-1111 Any City, Any State 00000					
Pursuant to the authority vested in me, I certify that this voucher is correct and proper for payment.							
(Date)		(Authorized Certifying Officer)			(Title)		
ACCOUNTING CLASSIFICATION							
P	CHECK NUMBER	ON ACCOUNT OF U.S. TREASURY		CHECK NUMBER	ON (Name of bank)		
A							
B							
Y	CASH			PAYEE			
D	S	DATE					

- When stated in foreign currency, insert name of currency.
- If the ability to certify and authority to approve are combined in one person one signature only is necessary; otherwise the approving officer will sign in the space provided over his official title.
- When a voucher is received in the name of a company or corporation, the name of the person writing the complete name, as well as the capacity in which he signs, must appear. For example, "John Doe Company, per John Smith, Secretary", or Treasurer as the case may be.

Previous edition usable

NSN 7540-OC-634-4206

**PRIVACY ACT STATEMENT**

The information requested on this form is required under the provisions of 31 U.S.C. 82b and 82c, for the purpose of dispersing Federal money. The information requested is to identify the particular creditor and the amounts to be paid. Failure to furnish this information will hinder discharge of the payment obligation.

U.S. Government Printing Office 1980-201.769#00014

5/23/2007

6. Guidance for Preparing SF 1035. The SFs 1035 and 1035A, "Public Voucher for Purchases and Services Other Than Personal Continuation Sheet," will be used for additional information required by the CO and/or the auditor. The SFs 1035 and 1035A should be assembled separately in original and copy sets and submitted with the SF 1034 and 1034A. Suitable self-designed forms may be submitted instead of the SF 1035 and 1035A, as long as they contain the information required by the CO and/or auditor. Contractors submitting public vouchers via WAWF must attach an electronic file containing SF 1035 equivalent data to their electronic voucher submission in WAWF. Depending on the type of cost contract (cost plus fixed fee, cost-sharing no fee, etc.) the information required on the SF 1035 may differ in format and content. Figures 7 and 8 represent examples of a SF 1035 for a cost plus fixed fee and a cost-sharing no fee contracts, respectively.

a. Interim Public Voucher – Cost Plus Fixed Fee Contract.

(1) The lettered items correspond to entries on [Figure 7](#).

Table 3. Information Required on SF 1035 for Plus Fixed Fee Contract.

<b>Figure Reference</b>	<b><u>SF 1035 Caption</u></b>	<b><u>Description of Data To Be Inserted</u></b>
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT	The name and address of the military department or agency that negotiated the contract.
(b)	VOUCHER NO.	The appropriate serial number of the voucher, as shown on the SF 1034.
(c)	SCHEDULE NO.	Leave blank.
(d)	SHEET NO.	The sheet number, in numerical sequence if more than one sheet is used. Use as many sheets as necessary to show the information required by the CO or the auditor.

(2) The following items are generally entered below the line with Number and Date of Order; Date of Delivery or Service; Articles or Services; Quantity; Unit Price; and Amount, but do not necessarily tie to these captions. The items entered are what most auditors and COs require on the SF 1035. Discuss any SF 1035 requirements with the local DCAA office to be sure that there are no unique local requirements that could impact preparation of the SF 1035.

Table 3. Information Required on SF 1035 for Plus Fixed Fee Contract, continued.

(o)	The details of the contract reserves withheld in the current period and for the cumulative period. The contractor is responsible for reducing its claims for contract reserves. There may be several contract clauses that address the CO's authority to establish contract reserves and under what circumstances these reserves can be established. The CO will notify the contractor of any applicable reserves. This is not to be confused with the clause at FAR 52.216-8 that gives the CO authority to withhold 15 percent of the fee payable (refer to (g) above).
(p)	Show the status of all outstanding DCAA Forms 1, "Notice of Contract Costs Suspended and/or Disapproved." NOTE: This instruction will not be applicable to the majority of contractors. When not applicable, this item should be omitted. The DCAA Form 1 is the form used to effect suspension and disapproval of costs or fees claimed for payment on a contractor's reimbursement vouchers. In general, an item of cost, either direct or indirect, that lacks adequate explanation or documentary support for definitive audit approval or disapproval will be suspended until the required data are received and a determination can be made as to the allowability of the item. Costs for which audit action has been completed and are not considered allowable will be disapproved. When amounts on an outstanding DCAA Form 1 are resubmitted, they will be shown in the current period column, and the corresponding cumulative total of outstanding suspensions or disapprovals will be reduced to cover the resubmission so that the cumulative amounts will be "net."
(q)	Net reserves and adjustments.
(r)	Show the costs and fee subject to reimbursement for the current and cumulative periods.
(s)	Amount to be carried forward to the SF 1034.

Figure 7. Sample of SF1035 Interim Voucher.

Standard Form 1035 September 1973 4 Treasury FRM 2000 1035-110		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL			VOUCHER NO. (b) 10	
CONTINUATION SHEET					SCHEDULE NO. (c)	
					SHEET NO. (d)	
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT (a) USA Rocky Mountain Arsenal, Denver, CO 80240						
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES <i>(Enter description, item number of contract or Federal Supply schedule, and other information deemed necessary.)</i>	QUANTITY	UNIT PRICE		AMOUNT
				COST	PER	
(e) ABC Corporation 100 Main Street New York, NY		(f) Contract No. DAAA05-07-C- 0001	(g) Target/Estimated Costs			\$250,000
			(g) Target/Fixed Fee			15,000
			(g) Total			<u>\$265,000</u>
			(g) 85% of Fixed Fee			<u>12,750</u>
		(h) <u>Analysis of Claimed Current and Cumulative Costs and Fee Earned</u>	(j) Amount for Current Period Billed		(k) Cumulative Amount from Inception to Date of This Billing	
(i) Major Cost Elements:						
Direct Materials			\$ 700			\$ 25,000
Subcontracts (Cost & Redeterminable)			1,500			8,140
Interplant Charges			200			1,250
Special Tooling			200			3,750
Direct Transportation Costs			175			520
Direct Labor - (Manufacturing, Engineering, etc.)			650			60,000
Overhead			925			90,000
General & Administrative Expenses			435			18,860
(l) Total Costs			<u>\$4,785</u>			<u>\$207,520</u>
(m) Fixed Fee Earned (Total Costs x 6%)			287			12,451
(n) Total Amounts Claimed			<u>\$5,072</u>			<u>\$219,971</u>
<u>Contract Reserves and Adjustments:</u>						
(o) Contract Reserves Withheld			\$ (500)			\$(15,000)
		- (Identify)				
(o) Contract Reserves Cleared			700			11,000
(p) DCAA Form 1 - Resubmittal (Voucher No.)			100			--
(p) DCAA Form 1 - Conceded by Contractor						(1,600)
(p) DCAA Form 1 - Outstanding Suspensions						(1,700)
(p) DCAA Form 1 - Disapprovals Subject to Appeal						(2,000)
(q) Net - Reserves and Adjustments			<u>\$ 300</u>			<u>\$(9,300)</u>
(r) <u>Adjusted Amounts Claimed:</u>						
Current and Cumulative Costs			\$5,085			\$198,220
Fixed Fee			287			12,451
Total			(s) <u>\$5,372</u>			<u>\$210,671</u>

b. Interim Public Voucher – Cost-Sharing No Fee Contract.



(1) The following is an example of a SF 1035 for a cost-sharing no fee contract. This example ( [Figure 8](#) ) is separate and distinct from the preceding SF 1034 ( [Figure 6](#) ) and SF 1035 ( [Figure 7](#) ).

Table 4. Information Required on SF 1035 for Cost Sharing No-Fee Contracts.

<b>Figure Reference</b>	<b><u>SF 1035 Caption</u></b>	<b><u>Description of Data To Be Inserted</u></b>
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT	The name and address of the military department or agency that negotiated the contract.
(b)	VOUCHER NO.	The appropriate serial number of the voucher as shown on the SF 1034.
(c)	SCHEDULE NO.	Leave blank.
(d)	SHEET NO.	The sheet number, in numerical sequence if more than one sheet is used. Use as many sheets as necessary to show the information required by the CO or the auditor.

(2) The following items are generally entered below the line under Number and Date of Order; Date of Delivery or Service; Articles or Services; Quantity; Unit Price; and Amount, but do not necessarily tie to these captions. The items entered are what most auditors and COs require on the SF 1035. Discuss any SF 1035 requirements with the local DCAA office to be sure that there are no unique local requirements that could impact preparation of the SF 1035.

Table 4. Information Required on SF 1035 for Cost Sharing No-Fee Contracts, continued.

<b>Figure Reference</b>	<i>Description of Data To Be Inserted</i>
(e)	Payee's name and address, as shown on SF 1034.
(f)	The contract number and the task order number, when applicable.
(g)	Total estimated costs, contractor's share of costs, Government's share of costs and one percent of Government share of costs. FAR 52.216-12(b) states that "After paying 80 percent of the Government's share of the total estimated cost of performance shown on the schedule, the CO may withhold further payment of allowable cost until a reserve is set aside in an amount that the CO considers necessary to protect the Government's interest. This reserve shall not exceed one percent of the total estimated cost shown in the schedule or \$100,000 whichever is less." Therefore, a contract reserve of one percent of incurred costs is normally withheld after 80 percent of the Government share of total estimated costs is paid.
(h)	Insert: " <u>Analysis of Claimed Current and Cumulative Costs and Fee Earned.</u> "
(i)	The major cost elements. Use additional SF 1035s, if necessary, to show the detail of direct travel charges and the computations of overhead adjustments from provisional rates to final audited rates (allowable actual rates). The provisional indirect rates used (overhead and general and administrative) to calculate the indirect expenses should be reflected on the SF 1035s.
(j)	The amount billed for the current period and cumulative amount from contract inception to date of this billing.
(k)	The Government's share of the amount billed for the current period and the Government's share of the cumulative amount billed from contract inception to the date of this billing.
(l)	The contractor's share of the amount billed for the current period and the contractor's share of the cumulative amount billed from contract inception to the date of this billing.
(m)	The total costs incurred, summarized by contract, by Government share, and by contractor share.
(n)	The one percent contract withholding required by FAR 52.216-12(b).
(o)	The total amount claimed by the contractor for the current period and the cumulative amount claimed from contract inception to the date of this billing. The current period amount is to be carried forward to the SF 1034.

Figure 8. Sample of SF 1035 Interim Voucher.

Standard Form 1035 September 1973 4 Treasury FRM 2000 1035-110		<b>PUBLIC VOUCHER FOR PURCHASES AND                  SERVICES OTHER THAN PERSONAL</b>  <i>CONTINUATION SHEET</i>				VOUCHER NO. (b) 10	
						SCHEDULE NO. (c)	
						SHEET NO. (d)	
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT (a) US Army Material Command, Atlanta, GA 30080							
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES <i>(Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)</i>	QUAN- TITY	UNIT PRICE		AMOUNT	
				COST	PER		
		(f) Contract No. DAAA09-96-C-0002					

PerFORM (DLA)

## 7. Completion Voucher.

a. The completion voucher is the last voucher submitted on a contract or task order. A separate completion voucher will be submitted for each individual project or task order for which a separate series of public vouchers has been submitted.

b. FAR 52.216-7(d)(5) requires the contractor to submit the completion voucher within 120 days after settlement of the final indirect cost rates covering the year in which the contract is physically complete, or longer if approved in writing by the CO. The completion voucher must include settled subcontract amounts and rates. The prime contractor is responsible for settling subcontractor amounts and rates included in the completion voucher and providing status of subcontractor audits to the CO upon request. However, prior to submitting the completion voucher, DCAA may be required to complete an audit of the contractor's incurred costs relating to the contract. Within six months after the end of the contractor's fiscal year, the contractor shall submit to the CO and to the cognizant DCAA office a proposed final incurred cost proposal for the period (reference FAR 52.216-7). It should be based on the actual cost experienced during that period and submitted with supporting cost data specifying the contracts and subcontracts to which the rates apply. A sample format of this incurred cost proposal is contained in Chapter 6 of this manual.

c. After the incurred cost proposal is submitted, the contractor's costs will be audited. Normally, a contract cannot be closed out unless the applicable costs have been audited. Therefore, the contractor should not prepare or submit the completion invoice until the DCAA audit of the contractor's fiscal years during which costs have been incurred under the contract has been completed.

d. The SF 1034 that is submitted on the final voucher is identical to that for the interim voucher except for the following items (refer to [Figure 9](#)):

Table 5. Information Required on Final Voucher (SF1034).

<b>Figure Reference</b>	<b>SF 1034 Caption</b>	<b>Description of Data To Be Inserted</b>
(e)	VOUCHER NO.	Serial number of the voucher with the letter "Z" after it. Use a separate series of consecutive numbers beginning with 1 for each new contract or task order (when applicable) for which separate public vouchers are required.
(l)	ARTICLES OR SERVICES	Insert the following: "For detail, see SF 1035 -- total amount of claim transferred from page <u>xx</u> of <u>xx</u> SF 1035". [The "xx" represents the appropriate page numbers.] One space below this line insert "COST REIMBURSABLE -- COMPLETION VOUCHER"
(o)	PAYMENT	The box identified "FINAL" should be marked.
(p)	APPROVED FOR	Insert "Final Payment."
(r)	BY	Leave this box blank. (Auditor name should NOT be inserted.)
(s)	TITLE	"Auditor, Defense Contract Audit Agency" should NOT be inserted since DCAA does not sign the final voucher. This is done by the CO, based on DCAA's final report.

e. Completion Voucher.

(1) The following is a sample SF 1035 for a completion invoice. Delays in processing completion invoices can be avoided if these instructions are followed. Note: The example of the SF 1035 ( [Figure 9](#) ) for the completion voucher is separate and distinct from the preceding SF 1034 ( [Figure 6](#) ) and SFs 1035 ( [Figure 7](#) and 8 ) examples.

Table 6. Information Required on Final Voucher (SF1035).

<b>Figure Reference</b>	<b>SF 1034 Caption</b>	<b>Description of Data To Be Inserted</b>
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT	The name and address of the military department or agency that negotiated the contract.
(b)	VOUCHER NO.	The appropriate serial number of the voucher, as shown on SF 1034 (with the letter "Z" after it).
(c)	SCHEDULE NO.	Leave blank.
(d)	SHEET NO.	The sheet number, in numerical sequence, if more than one sheet is used. Use as many sheets as necessary to show the information required by the CO or the auditor.

(2) The following items are generally entered below the line under Number and Date of Order; Date of Delivery or Service; Articles or Services; Quantity; Unit Price; and Amount, but do not necessarily tie to these captions.

Table 6. Information Required on Final Vouchers (SF1035), continued.

<b>Figure Reference</b>	<b>Description of Data To Be Inserted</b>
(e)	Payee's name and address, as shown on the SF 1034.
(f)	The contract number and the task order number, when applicable.
(g)	The latest target or estimated costs, target or fixed-fee, and total contract value.
(h)	Type: " <u>Contractor's Cumulative Claim and Reconciliation Statement.</u> "
(i)	The major cost elements. Use additional SF 1035s, if necessary, to show the detail of certain charges or computations. A separate column should be prepared for each of the contractor's fiscal years. The amounts shown for direct costs should always tie in to the costs shown on the submission prepared for audit, as explained in paragraph 5-304.1. Any direct costs questioned during our audit of costs should be excluded from the applicable contractor's fiscal year. Fringe, overhead, and G&A should be computed using the rates as explained in reference (j). The total costs being billed cannot exceed the estimated cost of the contract. Unless the contract has been modified, cost overruns cannot be claimed. Any amount in excess of the contract value should be subtracted from the total.
(j)	The final audit determined or negotiated fringe, overhead, and G&A rates should be listed by contractor's fiscal year as shown. However, if the contract specifies ceiling rates, the rates shown cannot exceed the ceiling(s) in the contract.
(k)	The cumulative amounts billed, by the major cost elements, less previous payments.
(l)	The total costs claimed. This should not exceed the estimated contract costs.
(m)	Bill for any portion of the fee not previously billed. If the contract provides for an incentive fee, show the computations of the total fee claimed. Use separate sheets if necessary.
(n)	The total costs claimed and the target or fixed-fee due. This should not exceed the total contract amount.
(o)	The amount of total previous payments received on interim vouchers.
(p)	The amount due should be the amount that appears on the SF 1034.

Figure 9. Sample of SF 1035 Completion Voucher.

Standard Form 1035 September 1973 4 Treasury FPM 2000 1035-110		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL				VOUCHER NO (b) 307	
						SCHEDULE NO (c)	
						SHEET NO (d)	
CONTINUATION SHEET							
U.S. DEPARTMENT OF HEALTH, EDUCATION AND WELFARE (a) Navy Regional Medical Center, San Diego, CA							
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES (State description, item number of contract or Federal supply schedule, and other information deemed necessary)		QUAN- TITY	UNIT PRICE		AMOUNT
					CODE	PER	
(e) XYZ Corporation 200 Euclid St. Tampa, Florida 20005		(f) Contract No. N66818-91-C- 0091					
		(h) Contractor's Cumulative Claim Reconciliation Statement					(g) Target/Estimated Costs \$400,000
(j) Final Rates		FY 87	FY 88				(g) Fixed Fee 36,000
Fringe Benefit Rate		10.93%	12.15%	13.33%			(g) Total \$436,000
Overhead Rate		112.99	92.30	92.12			(k) Total
G&A Rate		2.91	14.97	12.33			
(i) Major Cost Elements							
Salaries		\$115,572.17	\$ 16,068.11	\$3,033.44			\$134,673.72
Fringe Benefits		12,632.04	1,952.28	404.36			14,988.68
Total Direct Labor		\$128,204.21	\$ 18,020.39	\$3,437.80			\$149,662.40
Overhead		\$144,857.94	\$ 16,632.82	\$3,165.90			\$164,657.66
Material		2,242.16					2,242.16
Subcontract		62,351.00					62,351.00
Travel		4,193.94	297.76				4,491.70
Consultants		1,071.76					1,071.76
Other Direct Costs		770.10	8.34	9.00			787.44
Subtotal		\$343,691.11	\$ 34,959.31	\$4,613.70			\$385,264.12
G&A		10,001.41	5,233.41	815.47			16,050.29
Total Costs Incurred		\$353,692.52	\$ 40,192.72	\$7,429.17			\$401,314.41
Amount in Excess of Contract Amount							(1,314.41)
(l) Total Cost Claimed							\$400,000.00
(m) Fixed Fee							36,000.00
(n) Total							\$436,000.00
(o) Less Previous Payments							(433,871.23)
Amount Due							(p) \$ 2,128.77



## 8. Submission Requirements.

### a. General.

(1) Unless otherwise notified or specified differently in the contract (refer to 5-302 for electronic invoicing requirements), public vouchers must be submitted according to the following requirements.

(2) In WAWF, selected vouchers will be routed to DCAA for review and approval and once approved by DCAA are forwarded to DFAS for provisional payment. For hard copy vouchers:

(a) Original SF 1034, SF 1035, or equivalent contractor's attachment.

(b) For those contractors submitting interim vouchers to any of the following four addresses, there is no need to submit any copies of the voucher. The original SF 1034 and SF 1035 is sufficient.

DFAS – Columbus  
PO Box 369016  
Attn: Columbus CP  
Columbus, Ohio 43213-1152

DFAS – Columbus  
PO Box 369020  
Attn: Limestone VP  
Columbus, Ohio 43213-1152

DFAS – Columbus  
PO Box 369023  
Attn: Indianapolis VP  
Columbus, Ohio 43213-1152

DFAS – Columbus  
PO Box 369024  
Attn: Dayton VP  
Columbus, Ohio 43123-1152

(c) For contractors submitting interim vouchers to other than the four addresses listed in.

(d) above, six copies of SF 1034A, SF 1035A, or equivalent contractor's attachment are required.

### b. Completion Voucher.

(1) Upon completion of the contract, the contractor is required to submit a voucher designated as "completion voucher" together with such other documents as are prescribed by the contract. Approval and payment by the Government of the contractor's completion vouchers constitutes complete and final payment to the contractor, except for any items reserved by qualification of the contractor's Release of Claims. When a voucher is identified as the "Completion Voucher," the voucher should be submitted to DCAA. DFARS 242.803(b)(i)(D) authorizes the contract auditor to review completion vouchers and send them to the CO. An additional copy should be submitted to the ACO. In WAWF, when a contractor submits a completion voucher, it is routed directly to the ACO for action and a copy is placed in the DCAA "History" folder within WAWF. Refer to 5-302 for electronic invoicing requirements.

(2) In addition to the SF 1034s and 1035s, the contractor is required to submit the following documents to DCAA:

(a) Contractor's release of claims, and, if applicable, an Assignee's release of claims in a form acceptable to the CO. The amount listed on this release should be the total allowable cost plus allowable fee. It should tie in to the total amount claimed on the SF 1035.

(b) Contractor's assignment of refunds, rebates, credits, and other amounts and, if applicable, an Assignee's assignment of refunds, rebates, credits, and other amounts in a form acceptable to the CO.

c. Separate Public Voucher Submission Requirements. A separate public voucher (or if appropriate, a separate series of public vouchers) should be submitted for:

(1) Each line item, sub line item, project, or portion of a multiple funded contract for which separate funding is provided under the contract. A contractor who believes that this would create additional work and expense by requiring maintenance of records over and above that which the accounting system provides should refer the matter to the CO for resolution.

(2) Each portion of a contract which is payable by a different disbursing office.

(3) Costs claimed under a qualification in the final release on a completed contract or in the settlement agreement under a terminated contract.

(4) On contracts administered by the DCMA, separate public vouchers are required where the claim is for:

(a) Settlement expenses on a partially or completely terminated contract.

(b) Subcontractor settlement on a partially or completely terminated contract. In this case, the proposed subcontract termination settlement must be submitted to the Termination Contracting Officer (TCO) for approval, except for those settlements concluded under FAR 49.108-4. Evidence of the approval must accompany the voucher when it is submitted to the auditor for processing.

(c) In cases where the settlement of a subcontract is the basis of a claim, the contractor must submit the voucher for the subcontract settlement amount directly to the ACO who will forward the voucher to the appropriate office. The voucher, together with a letter indicating the amount of the settlement approved for payment, will be returned to the contractor. The contractor will then submit the voucher, with a copy of the approval letter, to the auditor for processing.

9. Requirements for Supporting Fee Claims. Each SF 1035 (or contractor equivalent form) should include the basis of the claim for earned fee.

10. Resubmission of Costs Previously Suspended or Disapproved. Resubmissions of any previously claimed amounts that were suspended or disapproved by a DCAA Form 1 should be shown as a separate line item on public vouchers. Cite the number of the public voucher on which the deduction was made and the number of the DCAA Form 1. Suspensions and disapprovals that have been successfully appealed should be identified by citing the final decision of the ACO, the Board of Contract Appeals, or the Court of Federal Claims.

11. Maintenance of Reimbursement Claim Data. Maintain adequate records to show, by major cost element and fee, the amounts claimed for reimbursement for each applicable contract or task order covered by a separate series of public vouchers. The records should contain, by fiscal year, a reconciliation of any differences between the costs incurred under the contract or task order and the amounts claimed for reimbursement.

12. Withholding and Release of Contract Reserves. Contractual provisions covering fees, patents, royalties, etc., usually provide for the accumulation of a withholding reserve until certain contract requirements are met to the CO's satisfaction (e.g., Patent Rights - Retention by the Contractor (Long Form), FAR 52.227-13). Include appropriate adjustments in reimbursement claims to cover the required accumulation and release of contract withholding reserves. Resolve any questions about these reserves with the ACO.

13. Progress Payments Based on Costs - General (FAR 32.5). Progress payments are a form of Government furnished interest-free financing applicable to undelivered and uninvoiced items. Progress payments shall be made to the contractor when requested as work progresses, but not more frequently than monthly. The amount of each progress payment is computed by (i) applying the rate stipulated in the progress payment clause of the contract (DFARS 252.232-7004) to the cumulative total allowable booked costs under the contract; (ii) plus financing payments to subcontractors or other company divisions of the contractor's corporate office; (iii) less the sum of all previous progress payments. The CO is responsible for approving progress payment requests.

14. Processing Progress Payments.

a. If the auditor has determined that the accounting and billing systems are reliable, progress payment preparation, submission, and review is normally a straightforward process. Contractors may include the following costs in progress payment requests, under the conditions noted:

(1) Total costs incurred under the contract whether or not actually paid, plus financing payments to subcontractors.

(2) Financing and other payments for the costs of supplies and services purchased directly for the contract if the costs are (i) paid in accordance with the terms of the subcontract or

invoice and (ii) ordinarily paid within 30 days of the contractor's payment request to the Government.

(3) Properly allocable and allowable indirect costs.

(4) Cost of Money that would be allowable under FAR 31.205-10 as an incurred cost for progress payment purposes (FAR 52.232-16(a)(1)).

b. Estimated additional costs to complete the contract (item 12.b. of SF 1443, Request for Progress Payment) require the contractor to make technical and financial estimates to complete (ETC) every six months. The contractor must support this estimate with an analysis that shows how the amount was derived. It must be a realistic estimate and not simply a mathematical computation between contract value and the cost incurred. The ETC must be supported with current, accurate, and complete information. The estimate may be the last estimate made, adjusted for costs incurred since the last estimate; however, estimates shall be updated at least every six months.

c. The request for progress payments (SF 1443) is submitted to the office designated in the contract (usually the ACO) for approval. The instructions for preparing the SF 1443 are found on the back of the form ( [Figure 11](#)). Refer to [Figure 11](#) for an example of a completed form. Progress payment requests may be submitted electronically using WAWF.

#### 15. Treatment of Contract Overruns on Progress Payments.

a. If the sum of the ETC and the incurred cost exceed the contract price, the contract is in a loss position. In this case, costs eligible for progress payments may be discounted by a loss ratio factor, resulting in a smaller progress payment. The progress payment request submitted by the contractor should not be adjusted for the loss ratio. A supplementary analysis should be prepared by the contractor (reference FAR 32.503-6) and attached to the progress payment request. (Refer to [Figure 12](#) for an example of this analysis. This example is separate and distinct from example [Figure 11](#)).

Figure 10. Sample Standard Form 1443.

<b>CONTRACTOR'S REQUEST FOR PROGRESS PAYMENT</b>						
<small>IMPORTANT: This form is to be completed in accordance with instructions on reverse.</small>						
<b>SECTION I - IDENTIFICATION INFORMATION</b>						
1. <b>TO:</b> Name and Address of Contracting Office DCMAO, Baltimore 200 Towsontown Blvd., West Towson, Maryland 21204-5299  <i>Paying Office</i> DPSC-DCMA, PHILADELPHIA 2800 South 20 <sup>th</sup> Street Philadelphia, PA 19101-4178				2. <b>FROM:</b> Name and Address of Contractor ( <i>Including Zip Code</i> ) Advance Tank Technology 500 East highway Washington, DC 20001		
3. Business Type YES      NO		4. Contract No. DAAH01-07-C-0001		5. Contract Price \$5,000,000		
6. Rates A. Prog Pymts 8    5    %		B. Liquidation 8    5    %		7. Date of Initial Award A. Year 2007		B. Month 1
8a. Progress Payment Request No. 3				8b. Date of This Request May 15, 2007		
<b>SECTION II - STATEMENT OF COSTS UNDER THIS CONTRACT THROUGH April 30, 2007</b>						
9. Paid costs eligible under progress payment clause						\$
10. Incurred costs eligible under progress payment clause						2,293,500
11. Total costs eligible for progress payments (Item 9 plus 10)						2,293,500
12. a. Total costs incurred to date						\$ 2,293,500
b. Estimated additional cost to complete						2,080,730
13. Item 11 multiplied by item 6a.						1,949,475
14. a. Progress payments paid to subcontractors						\$
b. Liquidated progress payments to subcontractors						
c. Unliquidated progress payments to subcontractors (Item 14a less 14b)						
d. Subcontract progress billings approved for current payment						
e. Eligible subcontractor progress payments (Item 14c plus 14d)						
15. Total dollar amount (Item 13 plus 14e)						1,949,475
16. Item 5 multiplied by item 6b						\$ 4,250,000
17. Lesser of item 15 or item 16						1,949,475
18. Total amount of previous progress payments requested						1,702,300
19. Maximum balance eligible for progress payments (Item 17 less 18)						247,175
<b>SECTION III - COMPUTATION OF LIMITS FOR OUTSTANDING PROGRESS PAYMENT *see special instructions on back for use under the FAR</b>						
20. Computation of progress payment clause (a(3)(i) or a(4)(ii) Limitation*						\$ 1,732,060
a. Costs included in Item 11, applicable to items delivered, invoiced, and accepted to the data in heading of Section II.						
b. Costs eligible for progress payments, applicable to undelivered items and to delivered items not invoiced and accepted (Item 11 less 20a)						561,440
c. Item 20b multiplied by item 6a						\$ 477,224
d. Eligible subcontractor progress payments (Item 14e)						
e. Limitation a(3)(i) or a(4)(ii) (Item 20c plus 20d)*						477,224
21. Computation of progress payment clause (a(3)(ii) or a(4)(iii) Limitation*						\$ 2,053,580
a. Contract price of items delivered, accepted and invoiced to date in heading of Section II						
b. Contract price of items not delivered, accepted and invoiced (Item 5 less 20a)						2,946,420
c. Item 21b multiplied by item 6b						2,504,457
d. Unliquidated advance payments plus accrued interest						
e. Limitation (a(3)(ii) or a(4)(iii)) (Item 21c plus 21d)*						2,504,457
22. Maximum unliquidated progress payments (Lesser of Item 20e or 21e)*						477,224
23. Total amount applied and to be applied to reduce progress payment						\$ 1,662,180
24. Unliquidated progress payments (Item 18 less 23)*						40,120
25. Maximum permissible progress payments (Item 2 less 24)*						437,104
26. Amount of current invoice for progress payment (Lesser of Item 25 or 19)*						247,175
27. Amount approved by contracting officer						
<b>CERTIFICATION</b>						
I certify that the above statement (with attachments) has been prepared from the books and records of the above-named contractor in accordance with the contract and the instructions hereon, and to the best of my knowledge and belief, that it is correct, that all the costs of contract performance (except as herewith reported in writing) have been paid to the extent shown herein, or where not shown as paid have been paid or will be paid currently, by the contractor, when due, in the ordinary course of business, that the work reflected above has been performed, that the quantities and amounts involved are consistent with the requirements of the contract. That there are no encumbrances (except as reported in writing herewith, or on previous progress payment request No. _____) against the property acquired or produced for, and allocated or properly chargeable to the contract which would affect or impair the Government's title, that there has been no materially adverse change in the financial condition of the contractor since the submission of the most recent written information dated _____ by the contractor to the Government in connection with the contract, that to the extent of any contract provisions limiting progress payments pending first article approval, such provision has been complied with, and that after the making of the requested progress payment the unliquidated progress payments will not exceed the maximum unliquidated progress payments permitted by the contract.						
Name and Title of Contractor Representative signing this form					Signature	
Name and Title of contracting officer					Signature	

Figure 10. Sample Standard Form 1443, continued.

## INSTRUCTIONS

Form Approved OMB  
No. 9000-0010

**GENERAL** - All entries on this form must be typewritten - all dollar amounts must be shown in whole dollars, rounded up to the next whole dollar. All line item numbers not included in the instructions below are self-explanatory.

**SECTION I - IDENTIFICATION INFORMATION.** Complete Items 1 through 8c in accordance with the following instructions:

**Item 1. TO** - Enter the name and address of the cognizant Contract Administrator Office. **PAYING OFFICE** - Enter the designation of the paying office, as indicated in the contract.

**Item 2 FROM- CONTRACTOR'S NAME AND ADDRESS/ZIP CODE** - Enter the name and mailing address of the contractor. If applicable, the division of the company performing the contract should be entered immediately following the contractor's name.

**Item 3.** Enter an "X" in the appropriate block to indicate whether or not the contractor is a small business concern.

**Item 5.** Enter the total contract price, as amended. If the contract provides for escalation or price redetermination enter the initial price until changed and not the ceiling price; if the contract is of the incentive type, enter the target or billing price, as amended until final pricing. For letter contracts, enter the maximum expenditure authorized by the contract, as amended.

**Item 6A. PROGRESS PAYMENT RATES** - Enter the 2-digit progress payment percentage rate shown in paragraph (a)(1) of the progress payment clause.

**Item 6B. LIQUIDATION RATE** - Enter the progress payment liquidation rate shown in paragraph (b) of the progress payment clause, using three digits - Example: show 80% as 800 - show 72.3% or 723.

**Item 7. DATE OF INITIAL AWARD** - Enter the last two digits of the calendar year. Use two digits to indicate the month. Example: show January 1982 or 82/01.

**Item 8A. PROGRESS PAYMENT REQUEST NO.** - Enter the number assigned to this request. All requests under a single contract must be numbered consecutively, beginning with 1. Each subsequent request under the same contract must continue in sequence, using the same series of numbers without omission.

**Item 8B.** Enter the date of the request.

**SECTION II - GENERAL INSTRUCTIONS. DATE.** In the space provided in the heading enter the date through which costs have been accumulated from inception for inclusion in this request. This date is applicable to item entries in Sections II and III.

**Cost Basis.** For all contracts with Small Business concerns, the base for progress payments is total costs incurred. For contracts with concerns other than Small Business, the progress payment base will be the total recorded paid costs, together with the incurred costs per the Computation of Amounts paragraph of the progress payment clause in FPR 1-30.510-1 (a) or FAR 52.232-16, as appropriate. Total costs include all expenses paid and incurred, including applicable manufacturing and production expense, general and administrative expense for performance of contract, which are reasonable, allocable to the contract, consistent with sound and generally accepted accounting principles and practices, and which are not otherwise excluded by the contract.

**Manufacturing and Production Expense, General and Administrative Expense.** In connection with the first progress payment request on a contract, attach an explanation of the method, bases and period used in determining the amount of each of these two types of expenses. If the method, bases or periods used for computing these expenses differ in subsequent requests for progress payments under this contract, attach an explanation of such charges to the progress payment request involved.

**Incurred Costs Involving Subcontractors for Contracts with Small Business Concerns.** If the incurred costs eligible for progress payments under the contract include costs shown in invoices of subcontractors, suppliers and others, that portion of the costs computed on such invoices can only include costs for: (1) completed work to which the prime contractor has acquired title; (2) materials delivered to which the prime contractor has acquired title; (3) services rendered; and (4) costs billed under cost reimbursement or time and material subcontracts for work to which the prime contractor has acquired title.

**SECTION II - SPECIFIC INSTRUCTIONS**

**Item 9. PAID COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE** - Line 9 will not be used for Small Business Contracts.

**Item 9** shall include only those recorded costs which have resulted at time of request in payment made by cash, check, or other form of actual payment for items or services purchased directly for the contract. This includes items delivered, accepted and paid for, resulting in liquidation of subcontractor progress payments.

Costs to be shown in Item 9 are not to include advance payments, downpayments, or deposits, all of which are not eligible for reimbursement; or progress payments made to subcontractors, suppliers or others, which are to be included in Item 14. See "Cost Basis" above.

**Item 10. INCURRED COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE** - For all Small Business Contracts, Item 10 will show total costs incurred for the contract.

Costs to be shown in item 10 are not to include advance payments, downpayments, deposits, or progress payments made to subcontractors, suppliers or others.

For large business contracts, costs to be shown in Item 10 shall include all costs incurred (see "Cost Basis" above) for: materials which have been issued from the stores inventory and placed into production process for use on the contract; for direct labor; for other direct in-house costs; and for properly allocated and allowable indirect costs as set forth under "Cost Basis" above.

**Item 12a.** Enter the total contract costs incurred to date; if the actual amount is not known, enter the best possible estimate. If an estimate is used, enter (E) after the amount.

**Item 12b.** Enter the estimated cost to complete the contract. The estimate may be the last estimate made, adjusted for costs incurred since the last estimate; however, estimates shall be made not less frequently than every six months.

**Items 14a through 14e.** Include only progress payments on subcontracts which conform to progress payment provisions of the prime contract.

**Item 14a.** Enter only progress payments actually paid.

**Item 14b.** Enter total progress payments recouped from subcontractors.

**Item 14d.** For Small Business prime contracts, include the amount of unpaid subcontract progress payment billings which have been approved by the contractor for the current payment in the ordinary course of business. For other contracts, enter "0" amount.

**SECTION III - SPECIFIC INSTRUCTIONS.** This Section must be completed only if the contractor has received advance payments against this contractor, or if items have been delivered, invoiced and accepted as of the date indicated in the heading of Section II above. EXCEPTION: item 27 must be filled in by the Contracting Officer.

**Item 20a.** Of the costs reported in Item 11, compute and enter only costs which are properly allocable to items delivered, invoiced and accepted to the applicable date. In order of preference, these costs are to be computed on the basis of one of the following: (a) The actual unit cost of items delivered, giving proper consideration to the deferment of the starting load costs or, (b) projected unit costs (based on experienced costs plus the estimated cost to complete the contract), where the contractor maintains cost data which will clearly establish the reliability of such estimates.

**Item 20d.** Enter amount from 14e.

**Item 21a.** Enter the total billing price, as adjusted, of items delivered, accepted and invoiced to the applicable date.

**Item 23.** Enter total progress payments liquidated and those to be liquidated from billings submitted but not yet paid.

**Item 25.** Self-explanatory. (NOTE: If the entry in this item is a negative amount, there has been an overpayment which requires adjustment.)

**Item 26.** Self-explanatory, but if a lesser amount is requested, enter the lesser amount.

**SPECIAL INSTRUCTIONS FOR USE UNDER FEDERAL ACQUISITION REGULATION (FAR)**

**Item 20 and 20a.** Delete the references to a(3)(i) of the progress payment clause.

**Items 21 and 21e.** Delete the references to a(3)(ii) of the progress payment clause.

STANDARD FORM 1443 (10-82) BACK

Figure 11. Loss Ratio Factor Analysis.

XYZ Company Loss Ratio Factor Analysis		
Section I:		
Contract price	\$2,850,000	
Not-to-Exceed Amounts on Unpriced Modifications	150,000	
Revised Contract Price	\$3,000,000	
Section II:		
Total costs incurred to date	\$2,700,000	
Estimated additional costs to complete	900,000	
Total costs to complete	\$3,600,000	
	<u>\$3,000,000</u>	<u>83.3%</u>
Loss ratio factor- =	\$3,600,000	
Total costs eligible for progress payments	\$2,700,000	
Loss ratio factor	x 83.3%	
Recognized costs for progress payments	\$2,249,100	
Progress payment rate	x 80.0%	
Alternate amount to be used	\$1,799,280	
Section III:		
Factored costs of items delivered *	\$ 750,000	
Recognized costs applicable to undelivered items (\$2,249,100 - \$750,000)	\$1,499,100	
* This amount shall be the same as the contract price of the items delivered.		

b. The SF 1443 should not be adjusted for the loss ratio. Adjustments for the loss ratio are shown in the Loss Ratio Factor Analysis, which should be submitted with the SF 1443. In the Loss Ratio Factor Analysis the SF 1443 amounts are changed as follows:

- (1) Line 5 changes from \$2,850,000 to \$3,000,000
- (2) Line 11 changes from \$2,700,000 to \$2,249,100
- (3) Line 13 will be \$1,799,280
- (4) Line 20a will be \$750,000
- (5) Line 20b will be \$1,499,100

16. **Performance-Based Payments – General.** Performance-based payments are a form of Government financing for fixed-price contracts when the CO finds them practical and the contractor agrees to their use. They are not payments for accepted items. Since performance-based payments are contract financing payments, they are not subject to the interest-penalty provisions for prompt payment. Payments are to be submitted in a form and manner acceptable to the CO. The contractor may not submit requests for payment more frequently than monthly (FAR 52.232-32(b)). Performance-based payments may be made on the basis of:

- a. performance measured by objective, quantifiable methods;

- b. accomplishment of defined events; or
- c. other quantifiable measures of results.

17. Processing Performance-Based Payments.

a. The CO responsible for administering the contract is responsible for the review and approval of performance-based payments. Generally, the ACO is responsible for receiving, approving, and transmitting the performance-based payment request to the appropriate payment office. Each approval will specify the amount to be paid, the necessary contractual information, and the appropriate account. The CO cannot approve a payment until the specified event or performance criterion has been successfully accomplished.

b. The CO is responsible for determining what reviews are needed to protect the Government's interests. In determining the need for reviews, the CO will consider the contractor's experience, performance record, reliability, financial strength, and the adequacy of contractor controls over performance-based payments. The CO can request both pre-payment and post-payment reviews. The CO may reduce payment when the contractor fails to comply with a material requirement of the contract, fails to progress on the contract, is in an unsatisfactory financial condition, or is delinquent in payment of any subcontractor.

c. The contractor must maintain records and controls to adequately administer performance-based payments. This includes furnishing reports, certificates, financial statements, and other pertinent information requested by the CO to either administer the payment or to determine that an event or other criterion has been successfully accomplished.

d. Auditors will provide assistance to COs as requested. Prepayment assistance may be sought in negotiating and structuring the contract financing template, which addresses topics such as a description of the event, the contract line items to which the event applies, a statement as to whether the event is severable or cumulative, funding information, the event's value, and the estimated dates when the events are expected to occur. Post-payment reviews may include verification of the accomplishment or incurred cost associated with the completion of a performance-based event or criterion. For a detailed discussion of performance-based payments, contractors should go to FAR 32.10 – *Performance-Based Payments*, and FAR 52.232-32 – *Performance-Based Payments*.



ENCLOSURE 6INCURRED COST PROPOSALS1. Introduction.

a. This chapter covers the submission of incurred cost proposals. These would include the direct and various indirect fringe, overhead, and G&A rates incurred by the contractor during its fiscal year. The incurred cost proposal includes the indirect cost pool and base costs used to calculate indirect cost rates, a summary of costs incurred by contract by contract type, supporting schedules, supplemental information and the Certificate of Final Indirect Costs.

b. Because of their size and the nature of their operations, some non-profit organizations are treated similarly to commercial concerns. Consequently, these non-profit organizations operate under the FAR cost principles applicable to commercial concerns rather than 2 CFR, Part 230 (Formerly OMB Circular A-122), *Cost Principles for Non-Profit Organizations*. While these non-profit organizations use the FAR as their primary regulation for administration of contracts, they also use applicable OMB Circulars as guidelines for administering federal financial assistance (grants and agreements). A listing of non-profit organizations subject to the FAR Cost Principles is contained in Attachment C to 2 CFR, Part 230 (Formerly OMB Circular A-122). The nonprofit organizations listed in Attachment C should follow the examples in this manual, as well as satisfying the audit and reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Contractor Proposal.

a. Contractors may have both DoD and non-DoD contracts. Audits of incurred costs applicable to non-DoD Federal agencies are performed by DCAA on a reimbursable basis and only upon request of the cognizant agency. Some agencies do not request audits from DCAA for various reasons, including funding considerations and the materiality of small dollar contracts. It is the contracting agency's responsibility to audit contract costs or otherwise close the contracts. DCAA is available to assist the contractor in coordinating with other agencies.

b. The Allowable Cost and Payment clause (FAR 52.216-7) requires that the contractor submit an adequate final incurred cost proposal together with supporting data, within six months after the end of its fiscal year. An illustration of a Model Incurred Cost Proposal is included in section 6-801 of this manual. The receipt of an adequate proposal by the audit office starts the audit process. This proposal should include a signed "Certificate of Indirect Costs" in accordance with FAR 42.703-2. A copy of this certificate may be found at FAR 52.242-4. (See Schedule N of the model incurred cost proposal under section 6-801.) An adequate proposal should reduce the time required to perform the audit because numerous preliminary steps can be performed before the auditor arrives at the contractor location.

c. Failure to comply with FAR 52.216-7 the Allowable Cost and Payment clause requirement to provide an adequate proposal will result in a DCAA recommendation for the CO to make a unilateral determination on the contractor's final indirect cost rates or contract costs. The DCAA auditor will send several reminder letters to the contractor, but when the submission becomes six months overdue (one year after the end of the fiscal year) and no extension has been granted by the ACO, the auditor will provide the CO with unilateral raterecommendations. The unilateral recommendation will be based on either a decrement factor applied to indirect rates using relevant contractor historical data or a company-wide decrement factor based on questioned costs at high risk contractors applied to total contract costs, if no relevant historical data exists. Relevant historical data exists when all of the following criteria are met:

- (1) The prior fiscal year has been audited.
- (2) All contractor proposals received have been audited and settled.
- (3) The indirect cost pool and base data for the overdue fiscal year is readily available in the contractor's books and records.
- (4) There have been no significant changes in the contractor's business base between the last audited fiscal year and the overdue fiscal year.
- (5) There has been no significant reorganization of the contractor between the last audited fiscal year and the overdue fiscal year.
- (6) There have been no changes in the indirect cost rate structure between the last audited fiscal year and the overdue fiscal year.

d. The recommendation will apply to active contracts, as well as physically complete contracts for the overdue fiscal year. FAR 42.703-2(c)(1) and FAR 42.705(c)(1) provide the CO with the authority to unilaterally establish indirect cost rates or total contract costs.

### 3. Penalties for Mischarging.

a. The manipulation of charges to a contract may be subject to criminal penalties under 18U.S.C. 1001, which reads as follows:

“Whoever, in any matter within the jurisdiction of the executive, legislative, or judicial branch of the Government of the United States knowingly and willfully (1) falsifies, conceals or covers up by any trick, scheme, or device a material fact; (2) makes any materially false, fictitious or fraudulent statement or representation; or (3) makes or uses any false writing or document knowing the same to contain

any materially false, fictitious or fraudulent statement or entry; shall be fined under this title or imprisoned not more than five years, or both.”

b. Penalties may be assessed against contractors who include expressly unallowable costs or costs previously determined to be unallowable for that contractor in a final indirect cost rate proposal pursuant to 10 U.S.C. 2324 (a) through (d) and 41 U.S.C. 256 (a) through (d). Implementing guidance for these statutes is provided in FAR 42.709 and was effective for all contracts on October 1, 1995.

#### 4. Audit Evaluation.

a. After receipt of an adequate proposal, the auditor will contact the contractor’s representative and set up an entrance conference. If the proposal is inadequate (e.g., missing the information listed in 6-801), the auditor will notify the contractor and CO in writing of the deficiency as required by FAR 42.705-1(b)(iii)(A). Absent a mutually agreeable arrangement, the audit will likely be delayed pending receipt of the necessary documents.

b. The audit will include an evaluation of both direct and indirect costs. The audit objective is to examine contractor cost representations identified in the incurred cost proposal to determine whether such costs are: reasonable, allowable and allocable to the contract(s), in accordance with Generally Accepted Accounting Principles (GAAP) and CAS, and not prohibited by the contract, Government statute, or regulation (FAR part 31). The auditor may have performed certain analyses and tests of the books and records and internal controls during the fiscal year the costs were actually being incurred. Real-time testing supplements the audit work performed after receipt of the proposal. During the course of the audit of the incurred cost proposal, the auditor will discuss audit findings with the contractor as they arise. The contractor is expected to provide feedback on these findings on a timely basis. Continued coordination between the contractor and the auditor will ensure the timely resolution of audit findings and facilitate an efficient and effective audit process.

c. The criteria for the allowability of costs on government contracts is discussed in FAR 31.201-2. In accordance with FAR 31.201-2 (d) “A contractor is responsible for accounting for ... *maintaining records, including supporting documentation*, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements.

d. After completing the audit, the auditor will provide the contractor with the results of the audit in writing and seek the contractor’s agreement. Since significant audit findings have been discussed during the audit process, this exit conference should merely be a summary of issues and resolutions. The contractor will be given the opportunity to respond to the audit findings and any contractor comments will be included in the final report.

e. FAR 42.705 discusses the conditions that determine whether the final indirect cost rates will be negotiated or audit determined. If the rates are auditor determined, once agreement is reached on the indirect rates, the contractor will be asked to sign an audit-furnished indirect rate agreement. A Cumulative Allowable Cost Worksheet (CACWS) will be included as an attachment to the rate agreement letter. Signing the rate agreement letter also indicates concurrence with cumulative costs and other information (e.g., contract limitations) shown on the attachment and that the data on the CACWS will be used to close out contracts (see Section 6-802). If agreement with the contractor is not reached, DCAA will forward its audit report to the cognizant CO who will then resolve the disagreement. The auditor will also issue a DCAA Form 1 to recover any reimbursement of unallowable costs that has occurred. The contractor may appeal the Form 1 disallowance to the CO or file a claim under the contract "Disputes" clause (FAR 52.233-1). If rates are to be negotiated by the CO, the audit report and contractor comments will be forwarded to the CO for action.

## 5. Contract Costs.

a. Costs must be accumulated by contract in the same level used for billing costs (e.g. by delivery order, etc.) in order to determine their allowability per Government regulations. All costs (both direct and indirect) of producing goods or providing services should be identified to a final cost objective. FAR 31.001 defines a final cost objective as a cost objective that has allocated to it both direct and indirect costs and, in the contractor's accumulation system, is one of the final accumulation points. Generally, a final cost objective is a contract. Accordingly, costs of a contract are comprised of direct costs and the contract's allocable share of indirect costs.

b. A major part of accounting for costs by contract is the classification of costs as either direct costs or indirect costs.

## 6. Direct Costs.

a. FAR 2.101 defines direct costs as "any cost that can be identified specifically with a particular final cost objective" (i.e., cost incurred for a specific contract). FAR 31.202 also supplements this broad definition with the following:

(1) Costs identified specifically with a contract are direct costs of the contract and are to be charged directly to the contract.

(2) All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives.

(3) No final cost objectives shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective.

b. Contractors should make every effort to identify all costs that are direct, and by default, what remains is indirect.

#### 7. Responsibility of Prime Contractors Over Subcontracts.

a. Prime contractor should obtain consent to subcontract from the CO and notify the CO reasonably in advance of placing any subcontract or modification thereof for which consent is required in accordance with FAR 44.201.

b. The responsibility of the prime contractor for managing its subcontracts is stated in FAR 42.202(e)(2). The prime contractor is primarily responsible for subcontract award, technical and financial performance monitoring, ensuring that indirect rate proposals and annual rate adjustments are submitted on a timely basis, and payment to the subcontractor for the work accomplished under subcontract terms. To accomplish this responsibility, the prime contractor should have adequate internal controls to identify and notify the Government of auditable type subcontracts and intracompany orders under auditable type Government contracts to assure that subcontract/intracompany costs are allowable, allocable, and reasonable.

c. The prime contractor's internal control system over subcontracts and intracompany orders should also provide for including appropriate flow down clauses into the subcontract/intracompany order, such as clauses that:

(1) provide either the Government or the contractor access to the subcontractor's/intracompany books and records for the purposes of performing the annual incurred cost audit,

(2) require that billings include only allowable costs pursuant to FAR 52.216-7, and

(3) require the subcontractor/intracompany entity to submit annual incurred cost proposals pursuant to FAR 42.7.

#### 8. Indirect Costs.

a. FAR 2.101 defines an indirect cost as “any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective. It is not subject to treatment as a direct cost.” Further, an indirect cost shall not be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost of that or any other final cost objective.

b. Because of their nature, indirect costs cannot be charged to final cost objectives on an individual basis. Therefore, indirect costs must be classified and grouped together into indirect cost pools, typically either an overhead cost pool or the G&A cost pool. The pools in turn are allocated to final cost objectives in reasonable proportion to the beneficial or causal relationship of the pooled costs to the cost objectives.

c. FAR 31.203 (e) states: “The method of allocating indirect costs may require revision when there is a significant change in the nature of the business, the extent of subcontracting, fixed-asset improvement programs, inventories, the volume of sales and production, manufacturing processes, the contractor’s products or other relevant circumstances.” Contractors must continually evaluate their allocation pools and bases to determine if change is required. Contractors must notify the CO and the cognizant DCAA auditor of planned changes prior to implementation. Contractors should consider pursuing an advance agreement with the CO when changing allocation methods.

#### 9. Overhead Costs.

a. Costs incurred for, or that only benefit, an identifiable unit or activity of the contractor internal organization, such as an engineering or manufacturing department, are considered overhead costs. It is common to have separate overhead pools for engineering, manufacturing, material handling, and for certain off-site activities. A very small contractor could have only one overhead pool.

b. Examples of overhead pool costs are:

- (1) Department supervision
- (2) Depreciation of department buildings and equipment
- (3) Training of department employees
- (4) Fringe benefits of department employees

c. Overhead rates are developed by dividing the overhead pool costs by the selected allocation base (e.g., direct labor dollars or direct labor hours).

d. To “allocate” means to distribute overhead pool costs to contracts. In order to distribute overhead pool costs, the contractor must select an allocation base. There must be a beneficial or causal relationship between the selected allocation base and the pool of costs to be allocated to contracts. For example, an engineering overhead pool would logically be allocated over total engineering direct labor dollars or engineering direct labor hours. Additional information regarding the allocation of indirect costs to contracts can be found at FAR 31.203, Indirect costs.

#### 10. G&A Expenses.

a. G&A expenses represent the cost of activities that are necessary to the overall operation of the business as a whole, but for which a direct relationship to any particular cost objective cannot be shown. G&A includes the top management functions for executive control and direction over all personnel, departments, facilities, and activities of the contractor. Typically, it includes

human resources, accounting, finance, public relations, contract administration, legal, and an expense allocation from the corporate home office.

b. The G&A rate is developed by dividing total general and administrative expenses by the selected allocation base, e.g., total cost input (i.e., total direct and indirect costs, except G&A), value added cost input (i.e., total cost input except G&A, material and subcontract costs), or single element cost input (e.g., direct labor dollars, direct labor hours, direct materials costs).

#### 11. Facilities Capital Cost of Money (FAR 31.205-10).

a. Facilities Capital Cost of Money (cost of capital committed to facilities) is an imputed cost determined by applying a cost of money rate to facilities capital employed in contract performance. It is allowable whether or not the contract is otherwise subject to CAS (reference 48 CFR Chapter 99) if:

(1) the contractor's capital investment is measured, assigned, and allocated to contracts in accordance with CAS 414 or measured and added to the cost of capital assets under construction in accordance with CAS 417. If the contract is not subject to CAS, FAR 31.205-10 requires COM to be calculated in accordance with CAS 414 and 417.

(2) the contractor maintains adequate records to demonstrate compliance with this standard;

(3) the estimated facilities capital cost of money was specifically identified or proposed in cost proposals relating to the contract under which this cost is to be claimed; and

(4) the requirements of FAR 31.205-52, which limit the allowability of facilities capital cost of money, are observed.

b. The facilities capital cost of money need not be entered on the contractor's books of account. However, the contractor shall make a memorandum entry of the cost and maintain, in a manner that permits audit and verification, all relevant schedules, cost data, and other data necessary to fully support the memorandum entry. An example of a facilities capital cost of money submission can be found in Section 6-801 (Schedule F).

c. There is no requirement for a contractor to propose facilities capital cost of money in pricing and performing a contract. If it chooses not to propose this cost during contract pricing, then the contractor waives any right to claim it during contract performance. (See FAR 15.408(I) and FAR 52.215-17 for more information.)

#### 12. Model Incurred Cost Proposal.

a. This section of the manual presents DCAA's Model Incurred Cost Proposal ( [Figure 6-8-1](#)) to assist a contractor in meeting its requirement for submitting an adequate final indirect cost

rate proposals as required by FAR 52.216-7(d). The model includes example schedules on the following pages. These example schedules present the minimum information needed to begin an audit. If a contractor generates internal formal reports that identify the needed information, these internal reports can be submitted in lieu of the example schedules. However, the basic data contained in the schedules is required to complete the audit in a timely manner. The use of internal reports as a substitute for the example schedule formats shown should first be discussed with the contractor's cognizant DCAA field audit office.

b. An adequate indirect cost rate proposal shall include all data required by FAR 52.216-7(d) unless otherwise specified by the cognizant Federal agency official. The required content of the proposal and the supporting data will vary depending upon the size of the firm, complexity of the accounting system, and type of business. Specific requirements should be coordinated with the cognizant DCAA field audit office and ACO.

c. This model incurred cost proposal illustrates an occupancy rate, a single final overhead rate, and a G&A rate. Some operations may have additional rates, such as: fringe benefits rate, engineering overhead rate, manufacturing overhead rate, off-site rate, etc. A separate schedule should be prepared for each final or intermediate indirect expense pool. If expenses are available by department (e.g., President's Office, Marketing Department for G&A; Fabrication, Assembly/Test for overhead), a breakout by expense for each department should also be provided.

d. DCAA prefers that contractors include an index, similar to that used in the model incurred cost proposal, for each year submitted. If certain schedules are not applicable, the contractor should make a note on the index. At the time of submission of incurred cost proposal the contractor should provide their General Ledger detail and copies of quarterly 941's to facilitate review of submission and audit.

e. In addition to the data presented in the schedules, there is additional information that the auditor typically needs to facilitate timely completion of the audit in accordance with generally accepted government auditing standards. A list of this information is presented on the page entitled "Supplemental Model Incurred Cost Proposal Information." Having this information available at or prior to the entrance conference will make the audit process as efficient as possible.

f. The company name and fiscal period should be included on all schedules submitted.

g. Contractors are encouraged to submit their proposals in electronic format. The Incurred Cost Electronically (ICE) Model, available from the DCAA web site (<http://www.dcaa.mil>, under DCAA Publications), provides contractors with a standard electronic user-friendly incurred cost submission package that will assist them in preparing adequate incurred cost proposals in accordance with FAR 52.216-7(d). Downloading and execution instructions are provided on the web site. The ICE Model is updated periodically, so contractors electing to use it should check the web site periodically for changes. While the ICE model is intended to aid the contractor in providing an adequate submission, its use does not guarantee that the submission



will be judged adequate. Contractors should discuss the ICE model and its requirements with their local DCAA Office before preparing the proposal.

13. Cumulative Allowable Cost Worksheet (CACWS).

a. In accordance with FAR 52.216-7(d)(2)(v), the contractor shall update the billings on all contracts to reflect the final settled rates (see 5-301), and update the schedule of cumulative direct and indirect costs claimed and billed, as required in paragraph (d)(2)(iii)(I), within sixty days after settlement of final indirect cost rates. This schedule will be used by the contractor as a basis for updating the CACWS.

b. The Cumulative Allowable Cost Worksheet (CACWS) is a summary schedule of cumulative allowable contractor costs for each open flexibly priced contract through the last contractor fiscal year for which indirect cost rates have been settled. The CACWS also notes which contracts are physically complete and other key information needed for closing contracts. The worksheet should contain sufficient detail so that the ACO can use it to close contracts in lieu of individual evaluation of the final voucher. An electronic CACWS or comparable summary report should be prepared by the contractor. The contractor is encouraged to submit a CACWS with its indirect cost rate proposal using claimed rates, which will be updated after settlement of rates, or agree to provide a CACWS within 60 days of rate agreement, because of the benefits and efficiencies gained in closing contracts timely. The ACO, in coordination with DCAA, may determine that an evaluation is not required on a final voucher because the allowable costs were already audited and included on the CACWS.

Figure 12.. Model Incurred Cost Proposal.

<b>MODEL INCURRED COST PROPOSAL FISCAL YEAR ENDED 3/31/2009</b>	
Schedule A	Summary of all Claimed Indirect Expense Rates
Schedule B	General and Administrative (G&A) Expenses (Final Indirect Cost Pool)
Schedule C	Overhead Expenses (Final Indirect Cost Pool)
Schedule D	Occupancy Expenses (Intermediate Indirect Cost Pool)
Schedule E	Claimed Allocation Bases by element of cost used to distribute indirect costs.
Schedule F	Facilities Capital Cost of Money Factors Computation
Schedule G	Reconciliation of Books of Account and Claimed Direct Costs by major cost element
Schedule H	Schedule of Direct Costs by Contract/Subcontract and Indirect Expense

	Applied At Claimed Rates, as well as a subsidiary schedule of Government participation percentage in each of the allocation base amounts
Schedule I	Schedule of Cumulative Direct and Indirect Costs Claimed and Billed by Contract and Subcontract
Schedule J	Subcontract Information
Schedule K	Summary of each time-and-materials and labor-hours contract, including labor categories, labor rates, hours, costs and indirect expenses applied at claimed rates.
Schedule L	Reconciliation of Total Payroll per IRS Form 941 to Total Labor costs Distribution
Schedule M	Listing of Decisions/Agreements/Approvals and Description of Accounting/Organizational Changes
Schedule N	Certificate of Final Indirect Costs
Schedule O	Contract Closing Information for Contracts Completed in this Fiscal Year (include contract number, period of performance, contract ceiling amounts, contract fee computations, level of effort, and indicate if the contract is ready to close).

Figure 12. Model Incurred Cost Proposal, continued.

<b>SUPPLEMENTAL INCURRED COST PROPOSAL INFORMATION</b>	
A.	Comparative analysis of indirect expense pools detailed by account with prior fiscal year and budgetary data
B.	General organization and executive compensation information (see attached form)
C.	Identification of prime contracts under which the contractor performs as a subcontractor.
D.	Description of accounting system
E.	Procedures for identifying and excluding unallowable costs from the costs claimed and billed.
F.	Certified financial statements and other financial data.

G.	Management letter from outside Certified Public Accountants (CPA)s concerning any internal control weaknesses.
H.	Actions that have been and/or will be implemented to correct the weaknesses described in the management letter
I.	List of all internal audit reports issued since the last disclosure of internal audit reports to the Government.
J.	Annual internal audit plan of scheduled audits to be performed in the fiscal year when the final indirect cost rate submission is made.
K.	Federal and State income tax returns.
L.	Securities and Exchange Commission 10-K annual report.
M.	Minutes from board of directors meetings.
N.	Listing of delay claims and termination claims submitted which contain costs relating to the subject fiscal year.
O.	Contract briefings, which generally include a synopsis of all pertinent contract provisions, such as: Contract type, contract amount, product or service(s) to be provided, contract performance period, rate ceilings, advance approval requirements, pre-contract cost allowability limitations, and billing limitations.

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA		SCHEDULE A
SUMMARY OF ALL CLAIMED INDIRECT EXPENSE RATES FISCAL YEAR ENDED 3/31/2009		
Description	Amount	Reference
<u>General and Administrative:</u>		
Pool	\$271,022	Schedule B
Base	\$3,151,320	Schedule E
Claimed G&A Rate	8.60%	
<u>Overhead:</u>		
Pool	\$510,610	Schedule C
Base	\$656,824	Schedule E
Claimed O/H Rate	77.74%	
<u>Occupancy Expense (Intermediate):</u>		
Pool	\$178,083	Schedule D
Base (Square Footage)	<u>18,492</u>	Schedule D
Claimed Rate (per Sq. Ft.)	<u>\$9.63</u>	
<u>Cost of Money Overhead:</u>		
COM For period	\$10,235	Schedule F
Allocation Base	<u>\$656,824</u>	
O/H COM Factor	0.01558	
<u>Cost of Money G&amp;A:</u>		
COM For period	\$2,101	Schedule F
Allocation Base	\$3,151,320	
G&A COM Factor	0.00067	

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA		SCHEDULE B						
GENERAL AND ADMINISTRATIVE (G & A) EXPENSES FISCAL YEAR ENDED 3/31/2009								
ACCT NO.	ACCT DESCRIPTION	DEPT. A MARKETING	DEPT. B CONTROLLER	DEPT. C PRESIDENT	EXPENSES PER G/L	ADJUST- MENTS	CLAIMED COSTS	NOTES
600101	Salaries and Wages	\$25,202	\$30,802	\$34,203	\$90,007	\$-	\$90,007	(1)
600102	Legal Fees		1,744		1,744		1,744	
600103	Audit Fees		32,361		32,361		32,361	
600104	Travel	3,636	2,082	7,289	12,987	(1,293)	11,692	(2)
600105	Entertainment	300		184	484	(484)	-	(3)
600106	Advertising/ Promotion	354			354	(287)	67	(4)
600107	Bad Debts		3,013		3,013	(3,013)	-	(5)
600108	Periodicals	2,882	1,678	1,875	6,435		6,435	
600109	Conventions/ Seminars	4,920		3,018	7,938	(319)	7,617	(4)
600110	Interest Expense		1,001		1,001	(1,001)	-	(6)
600111	Holiday	650	789	882	2,321		2,321	
600112	Vacation	1,627	1,976	2,209	5,812		5,812	
600113	Sick Leave	276	336	375	987		987	
600114	Personal Absence	303	368	411	1,082		1,082	
600115	Employer FICA	1,068	1,297	1,450	3,815		3,815	
600116	FUI	31	62	70	183		183	
600117	SUI	255	309	346	910		910	
600118	Workers' Compensation	144	175	196	515		515	
600119	Health Insurance	2,493	3,030	3,387	8,912		8,912	
600120	Life Insurance	304	370	413	1,087		1,087	
600121	Pension Plan	3,449	4,188	4,681	12,318	(1,883)	10,435	(7)
600122	Miscellaneous	940	1,488	929	3,357		3,357	
	Subtotal	\$48,836	\$56,874	\$61,896	\$197,626	\$78,287	\$189,339	
	Occupancy Allocation	5,093	6,269	11,789	23,151		23,151	Sched , D
	Subtotal	\$53,929	\$63,143	\$73,685	\$220,777	\$78,287	\$212,490	
	IR&D/B&P							
	IR&D Matl, Travel, ODCs				\$9,724		\$9,724	
	IR&D Labor				14,287		14,287	
	IR&D Overhead @82.75%				11,822	(716)	11,106	(8)
	B&P Matl, Travel, ODCs				6,483		6,483	
	B&P Labor				9,525		9,525	
	B&P Overhead @82.75%				7,882	(477)	7,405	(8)
	Grand Total				\$401,206	\$78,280	\$341,304	

**Notes Explaining Adjustments:**  
 (1) Executive Compensation claimed is less than limitations established per FAR 31.205-6 and DFARS 231.205-6.  
 (2) Expense of President, Vice President, and wives on a personal trip not claimed.  
 (3) Unallowable cost per FAR 31.205-14.  
 (4) Unallowable cost per FAR 31.205.1.  
 (5) Unallowable cost per FAR 31.205-3.  
 (6) Unallowable cost per FAR 31.205-20.  
 (7) Employer contributions to pension plan in excess of that approved and considered allowable by the ACO.  
 (8) Adjustments reflect the difference between the G/L overhead rate of 82.75% and the claimed rate of 77.74%.

**NOTE:**  
 Although IR&D and B&P are technically not G&A expenses, they are normally allocated using the same cost input base as used for G&A. The term G&A used in this model includes IR&D and B&P. In the event that the base used to allocate IR&D and B&P is different than the base used to allocate G&A, a separate schedule for IR&D and B&P would be required.

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA								SCHEDULE C
OVERHEAD EXPENSES FISCAL YEAR ENDED 3/31/2009								
ACCT NO.	ACCT DESCRIPTION	FABRI-CATION	ASSEMBLY/ TEST	MFG. ENG.	EXPENSE \$ PER GL	ADJUST-MENTS	CLAIMED COSTS	NOTES
700101	Salaries and Wages	\$13,885	\$13,224	\$5,951	\$33,060		\$33,060	
700123	Postage & Handling	2,619	2,494	1,122	6,235		6,235	
700124	Office Supplies	2,714	2,584	1,163	6,461		6,461	
700125	Small Equipment	369	351	158	878		878	
700126	Temp. Help	763	726	327	1,816		1,816	
700127	Other Outside Services	12,718	12,112	5,451	30,281		30,281	
700128	Relocation	511	486	219	1,216	(777)	439	(1)
700129	Business Meals	1,135	1,081	486	2,702		2,702	
700130	Telephone	19,132	18,221	8,199	45,552		45,552	
700131	Telescopier	1,022	974	438	2,434		2,434	
700132	Equipment Rental	11,403	10,860	4,887	27,150		27,150	
700133	Recruitment	120	114	51	285		285	
700134	Dues/Memberships	587	545	980	2,112	(500)	1,612	(2)
700135	Insurance	310	295	133	738		738	
700136	Depreciation/Amortization	1,186	1,130	508	2,824		2,824	
700137	Repairs & Maintenance	706	672	303	1,681		1,681	
700111	Holiday	8,476	8,072	3,633	20,181		20,181	
700112	Vacation	10,685	10,176	4,579	25,440		25,440	
700113	Sick Leave	6,014	5,727	2,577	14,318		14,318	
700138	Severance Pay	13,616	12,968	5,835	32,419	(23,023)	9,396	(3)
700115	Employer FICA	9,917	9,445	4,250	23,612		23,612	
700116	FUI	508	484	218	1,210		1,210	
700117	SUI	2,441	2,325	1,046	5,812		5,812	
700118	Workmen's Compensation	1,391	1,324	596	3,311		3,311	
700119	Health Insurance	13,061	12,439	5,597	31,097		31,097	
700120	Life Insurance	2,870	2,733	1,230	6,833		6,833	
700121	Pension Plan	24,494	23,328	10,498	58,320	(8,612)	49,708	(4)
700122	Miscellaneous	257	245	110	612		612	
	<b>Subtotal</b>	<b>\$162,910</b>	<b>\$155,135</b>	<b>\$70,545</b>	<b>\$388,590</b>	<b>\$(32,912)</b>	<b>\$355,678</b>	
	Occupancy Allocation	80,565	46,426	27,941	154,932		154,932	Sched. D
	<b>Grand Total</b>	<b>\$243,475</b>	<b>\$201,561</b>	<b>\$98,486</b>	<b>\$543,522</b>	<b>\$(32,912)</b>	<b>\$510,610</b>	
<b>Notes Explaining Adjustments:</b>								
(1) Moving expenses in excess of those allowed by FAR 31.205-35.								
(2) Membership fees and tennis dues for one individual-not allowable per FAR 31.205-14.								
(3) Severance pay in excess of allowable costs per FAR 31.205-6.								
(4) Employer contributions to pension plan in excess of that approved and considered allowable by the ACO.								

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA		SCHEDULE D		
OCCUPANCY EXPENSES (NOTE 1) FISCAL YEAR ENDED 3/31/2009				
ACCT NO.	ACCT DESCRIPTION	EXPENSES PER G/L	ADJUSTMENTS	CLAIMED COSTS
800101	Salaries & Wages	\$23,280	\$ -	\$23,280
800139	Real Estate Rent	122,959		122,959
800135	Insurance	2,946		2,946
800140	Property Taxes	1,761		1,761
800141	Permit & Licenses	39		39
800136	Depreciation/Amortization	25,417		25,417
800137	Repairs & Maintenance	<u>1,681</u>	—	<u>1,681</u>
	<b>GRAND TOTAL</b>	<b><u>\$178,083</u></b>	<b><u>\$ -</u></b>	<b><u>\$178,083</u></b>
ALLOCATION OF EXPENSES BASED ON SQUARE FEET UTILIZED (NOTE 2)				
	Sq. Footage	% of Total	Expense Allocation	
<u>G&amp;A Departments:</u>				
Marketing	528	2.86	\$5,093	
Controller	651	3.52	6,269	
President's Office	1,225	6.62	11,789	
<u>Manufacturing Departments:</u>				
Fabrication	8,365	45.24	80,565	
Assembly/Test	4,821	26.07	46,426	
Manufacturing Engineering	<u>2,902</u>	<u>15.69</u>	<u>27,941</u>	
<b>TOTAL</b>	<b><u>18,492</u></b>	<b><u>100.00%</u></b>	<b><u>\$178,083</u></b>	
<b>Explanatory Notes:</b>				
(1) This example would be applicable to any intermediate pool that is allocated to other final pools.				
(2) It may be necessary to modify the square feet allocation base if the resulting allocation is not equitable. For example, the cost per square foot for executive offices or clean rooms may be greater than for warehouse space.				

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA				SCHEDULE E
CLAIMED ALLOCATION BASES BY ELEMENT OF COST FISCAL YEAR ENDED 3/31/2009				
DESCRIPTION	GENERAL LEDGER	ADJUSTMENTS	CLAIMED COSTS	NOTES
<b>Overhead Base:</b>				
Contract Labor	\$633,012	\$-	\$633,012	Sched. H
IR&D Labor	14,287		14,287	(1)
B&P Labor	9,525		9,525	(1)
<b>Total Labor</b>	<b>\$656,824</b>	<b>\$-</b>	<b>\$656,824</b>	
Overhead Base: Straight time direct labor dollars of all contracts and projects including labor costs of IR&D/B&P projects.*				
<b>NOTE 1: Describe in detail the cost elements in the allocation bases that are used to distribute indirect costs.</b>				
<b>G&amp;A Base:</b>				
Contract direct costs				Sched. H
Labor			\$633,012	
Travel			34,563	
Material			842,981	
ODCs			172,105	
Subcontracts			944,841	
<b>Total Direct Costs</b>			<b>\$2,627,502</b>	
Overhead			\$543,522	Sched. C, (2)
Less: IR&D/B&P transferred to G&A:				
IR&D Overhead @ G/L Rate of 82.75%			(11,822)	Sched. B, (3)
B&P Overhead @ G/L Rate of 82.75%			(7,882)	Sched. B, (3)
<b>Total Cost Input</b>			<b>\$3,151,320</b>	(4)
G&A Base: Total cost input (excludes IR&D, B&P, and Cost of Money).*				
<b>*NOTE: Describe in detail the cost elements in the allocation bases that are used to distribute indirect costs.</b>				
<b>Explanatory Notes:</b>				
(1) The IR&D and B&P labor is included in the overhead base in order to allocate a proportionate share of overhead to the labor as required by FAR 31.205-18.				
(2) The claimed G&A base must include both the Schedule C claimed overhead (\$510,610) plus overhead costs incurred but not claimed (\$32,912).				
(3) Overhead on the IR&D/B&P labor at the General Ledger rate of 82.75% is added to the G&A pool (Schedule B) and deducted from the G&A base.				
(4) In summary, the total cost input base consists of contract direct costs plus overhead (claimed and unclaimed) less overhead on IR&D/B&P transferred to the G&A pool. The base does not include IR&D/B&P direct labor or other IR&D/B&P direct costs which are usually recovered through the G&A pool.				



Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION  
ANYWHERE, USA

FACILITIES CAPITAL  
COST OF MONEY FACTORS COMPUTATION  
FISCAL YEAR ENDED 3/31/09

SCHEDULE F

Period	Rate	Months	COM
Apr - June 08	4.75	3/12	1.188
Jul - Dec 08	5.125	6/12	2.563
Jan - Mar 09	5.625	3/12	1.406
			<u>5.156</u>

CONTRACTOR: XYZ CORPORATION		ADDRESS: ANYWHERE, USA						
BUSINESS UNIT:								
COST ACCOUNTING PERIOD:		1. Applicable Cost of Money Rate 5.156%	2. Accumulation & Distribution of NBV	3. Allocation of Undistributed	4. Total Net Book Value	5. COM for Cost Accounting Period	6. Allocation Base For Period	7. Facilities Capital COM Factors
Business Unit Facilities Capital	Recorded		69,761	(Basis Of Allocation)	(Column 2+3)	(Column #4)	In units of measure	(Column 5/6)
	Leased Property		162,290					
	Corporate/Group							
	Total		232,051					
	Undistributed		193,290					
	Distributed		38,761					
Overhead Pools	Overhead		30,345	168,162	198,507	10,235	656,824	0.01558
	LESS: COM on IR&D/B&P Labor:				-	(371)	23,812	0.01558
						-	-	-
						-	-	-
						-	-	-
G&A Expense Pool	G & A		8,416	25,128	33,544	1,730	-	
	ADD: COM on IR&D/B&P Labor				-	371		
	Subtotal:				-	2,101	3,151,320	0.00067
TOTAL			38,761	193,290	232,051	11,964		

Note 1 Allocation Bases (Refer to Schedule E for details)

Overhead COM: Straight time direct labor dollars of all contracts and projects including labor costs of IR&D/B&P projects.

G&A COM: Total cost input (excluding G&A, B&P, and Cost of Money)

NOTE: The interest rates to be used are those determined by the Secretary of the Treasury under Public Law 92-41, 85 Statute 97.

This rate is published semiannually in the Federal Register. Your Proposal should use the applicable actual Treasury Rates in effect during your fiscal year.

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE USA		SCHEDULE G		
RECONCILIATION OF BOOKS OF ACCOUNT AND CLAIMED DIRECT COSTS BY MAJOR COST ELEMENT FISCAL YEAR 3/31/2009				
DESCRIPTION	AMOUNTS PER G/L	ADJUSTMENTS	AMOUNT CLAIMED	NOTES
<b>*Direct Costs:</b>				
Direct Labor	\$656,824	\$ -	\$656,824	
Travel	35,173	(1,687)	33,486	(1)
Material	843,192		843,192	
ODCs	187,493	(3,183)	184,310	(2)
Subcontracts	<u>944,841</u>	—	<u>944,841</u>	
<b>Total Direct Costs</b>	<b><u>\$2,667,523</u></b>	<b><u>\$(4,870)</u></b>	<b><u>\$2,662,653</u></b>	
	(Sched. H)			
*Includes IR&D/B&P direct costs.				
Notes Explaining Adjustments:				
(1) Travel – Costs of first class airfare in excess of coach on contract N00039-05-C-0873 that are unallowable per FAR 31.205-46.				
(2) ODCs – Overtime premium not allowable by terms of contract N00039-05-C-0873.				

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA															SCHEDULE H	
SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT AND INDIRECT EXPENSE APPLIED AT CLAIMED RATES FISCAL YEAR ENDED 3/31/2009																
JOB ORDER NO.	CONTRACT NO.	SUBCONTRACT No.	DIRECT LABOR	TRAVEL	MATERIAL	ODCs	SUBCONTRACTS/ INTERCOMPANY	TOTAL DIRECT COSTS	(NOTE 4) O/H @ 77.74%	DIRECT COSTS PLUS O/H	(NOTE 4) G&A @ 8.60%	COST OF MONEY			GRAND TOTAL	
												TOTAL COSTS	O/H @ 0.01558	G&A @ 0.00067		TOTAL COM
(Note 5)																
<b>Cost Type (Note 3)</b>																
1201	N00039-05-C-0873							-								
	Claimed		\$122,113	\$5,231	\$115,068	\$43,630	\$87,912	\$373,954	\$94,931	\$468,885	\$40,324	\$509,209	\$1,901	\$314	\$2,215	\$511,424
	Not Claimed (note 1)			1,687		3,183		4,870	0	4,870	419	5,289	0	3	3	5,292
1203	N00040-05-C-0874		16,387	836	312	1,212	15,341	54,088	12,739	46,827	4,027	50,854	255	31	287	51,141
1204	Subcontract-Clark Inc.		8,973	87	9,687	632	7,888	27,267	6,976	34,243	2,945	37,187	(Note 2)	(Note 2)	(Note 2)	37,187
	Total Cost Type:		\$147,473	\$7,841	\$125,067	\$48,657	\$111,141	\$440,179	\$114,646	\$554,825	\$47,715	\$602,539	\$2,156	\$349	\$2,505	\$605,045
<b>Other Flexibly Priced (Note 3):</b>																
1205	N000060-05-C-0913		210,312	8,932	38,643	59,613	89,732	407,232	163,497	570,729	49,083	619,811	3,275	382	3,657	623,468
<b>Time &amp; Materials:</b>																
1301	N00022-06-D-0111															
	Task Order No 1		5,300	382	1,000			6,682	4,120	10,802	929	11,731	83	7	90	11,821
	Task Order No 2		2,882	421	500			3,803	2,240	6,043	520	6,563	45	4	49	6,612
1305	F66777-07-D-0112															
	Task Order No 1		2,911	171	750			3,832	2,263	6,095	524	6,619	45	4	49	6,669
Various Firm Fixed Price			99,819	5,338	16,724	12,914	147,318	282,113	77,599	359,712	30,935	390,648	1,554	241	1,795	392,443
Various Commercial Work			164,315	11,478	660,297	50,921	596,650	1,483,661	127,738	1,611,399	138,580	1,749,980	0	0	0	1,749,980
<b>TOTAL CONTRACT COSTS</b>			<b>\$633,012</b>	<b>\$34,563</b>	<b>\$842,981</b>	<b>\$172,105</b>	<b>\$944,841</b>	<b>\$2,627,502</b>	<b>\$492,104</b>	<b>\$3,119,606</b>	<b>\$268,286</b>	<b>\$3,387,892</b>	<b>\$7,158</b>	<b>\$988</b>	<b>\$8,145</b>	<b>\$3,396,037</b>
IR & D			\$14,287	\$366	\$126	\$9,232		\$24,011	\$11,107	\$35,118						
B&P			9,525	244	85	6,156		16,010	7,405	23,415						
<b>TOTAL IR &amp; D/B &amp; P</b>			<b>\$23,812</b>	<b>\$610</b>	<b>\$211</b>	<b>\$15,388</b>	<b>\$0</b>	<b>\$40,021</b>	<b>\$18,511</b>	<b>\$58,533</b>						
<b>GRAND TOTAL</b>			<b>\$656,824</b>	<b>\$35,173</b>	<b>\$843,192</b>	<b>\$187,493</b>	<b>\$944,841</b>	<b>\$2,667,523</b>	<b>\$510,615</b>							
			(Sched H-1)						(Sched. A m/rounding)							

**Explanatory Notes**

- (1) Direct costs not claimed as explained in Schedule G.
  - (2) Cost of money is not applicable to this subcontract by terms of the subcontract.
  - (3) Cost and flexibly priced contracts should be sorted and subtotals by Federal Agency if you perform work for both DoD and other non-DoD (civilian) agencies. Provide details in the same level used for billing costs (e.g. by delivery order, etc.). In addition, any level of effort hours required should be provided in a footnote or subsidiary schedule.
  - (4) Claimed indirect expense rates are applicable to cost-type and flexibly-priced effort, as well as IR&D/B&P projects. Indirect recovery on fixed priced and commercial work is not necessarily limited to the claimed rates.
  - (5) Subcontract, intercompany, or intracompany cost incurred should be included in this column.
- NOTE: Any indirect costs which exceed contract ceilings should be identified separately as "not claimed."

□

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA		SCHEDULE H continuation		
GOVERNMENT PARTICIPATION PERCENTAGES FISCAL YEAR ENDED 3/31/2009				
	OVERHEAD		G&A	
CONTRACT TYPE	ALLOCATION BASE AMOUNT	% OF BASE	ALLOCATION BASE AMOUNT	% OF BASE
Cost Type	\$147,473	22.5	\$554,825	17.8
Flexibly Priced	210,312	32.0	570,729	18.3
Time and Material	11,093	1.7	22,941	0.7
Firm Fixed Price	99,819	15.2	359,712	11.5
Commercial	164,315	25.0	1,611,399	51.7
IR&D/B&P	<u>23,812</u>	<u>3.6</u>	—	—
<b>TOTAL</b>	<b><u>\$656,824</u></b>	<b><u>100.0</u></b>	<b><u>\$3,119,606</u></b>	<b><u>100.0</u></b>
	(Schedule H)		(Schedule H)	
<p>NOTE: The purpose of this schedule is to show the extent that cost-type and flexibly priced contracts participate in the allocation bases.</p> <p>For users of this model incurred cost proposal, the schedule should reflect the circumstances at your own operation. For example, if you use more than one overhead pool, there should be a separate calculation of Government participation for each overhead pool</p>				

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA			SCHEDULE OF CUMULATIVE DIRECT AND INDIRECT COSTS CLAIMED AND BILLED COST BY CONTRACT AND SUBCONTRACT FISCAL YEAR ENDED (FYE) 3/31/2009										SCHEDULE I		
Contract No.	Subcontract No.	Order No.	Subject to Penalty Clause Note (2)	Prior Years Settled Total Costs Note (3)	Unsettled/Claimed Direct and Indirect Costs		Total Cumulative Settled or Claimed	Less: Contract Limitations, Rebates, Credits Note (5)	Net Cumulative Settled or Claimed Note (6)	Cumulative Costs billed			Over (Under) billing	Physically complete (Note 7)	
					FYE 3/31/08 Note (4)	FYE 3/31/09 Note (4)				PV No.	Thru	Amount			
<b>Cost Type &amp; Flexibly Priced: (Note 1)</b>															
N00039-05-C-0873		1201	Yes	\$0	\$126,821	\$511,424	\$638,245		\$638,245	18	2/28/2009	\$640,110	(\$1,865)		
N00040-05-C-0874		1203	Yes	382,595	2,867,500	51,141	3,301,236		3,301,236	30	3/31/2009	3,295,110	-6,126		
N00041-06-C-0777	45085	1204		359,626	555,311	37,187	952,124		952,124	24	1/31/2009	960,100	7,976	Yes	
N000060-05-C-0913		1205	Yes	591,362	443,916	623,468	1,658,746		1,658,746	33	3/31/2009	1,640,426	-18,320	Yes	
							(Sched. H)								
Subtotal - Cost Type									\$6,550,351	\$6,550,351			\$6,535,746	(\$14,605)	
<b>Time &amp; Material</b>															
N00022-06-D-0111	SC4875	1				\$10,600	\$10,600		\$10,600	6	3/31/2009	\$10,848	\$247	Yes	
N00022-06-D-0111	SC4875	2				5,950	5,950		5,950	6	3/31/2009	5,000	-950		
F66777-07-D-0112		1				6,000	6,000		6,000	2	3/31/2009	5,750	-250		
							(Sched. K)								
Subtotal-Time & Material									\$22,550	\$22,550			\$21,598	(\$953)	
<b>TOTAL</b>									\$6,572,901	\$6,572,901			\$6,557,344	(\$15,558)	

**Explanatory Notes:**

- (1) Cost and flexibly priced contracts should be sorted and subtotaled by Federal Agency, if you perform work for both DoD and other non-DoD (civilian) agencies. Provide details in the same level used for billing costs (e.g. by delivery order etc.).
  - (2) Indicate those contracts covered by the penalty clause required by FAR 42.709.
  - (3) These totals, by contract, should be computed using the negotiation or rate agreement document for the respective year.
  - (4) These totals, by contract, should be the same as shown in the overhead submissions using the claimed indirect rates. Claimed amounts for Cost Type contracts should come from Schedule H and claimed amounts for T&M contracts should come from Schedule K.
  - (5) Contract limitations include costs that are included in the column entitled "Total Cumulative Settled or Claimed" and are either (i) in excess of contract ceiling rates, (ii) unallowable per contract terms, (iii) outside the period of performance, or (iv) in excess of contract ceiling amounts.
  - (6) The cumulative amounts in this column should not exceed the contract ceiling. If amounts exceeding the ceiling are in dispute, or if you have requested that the contracting agency increase the contract ceiling, please include the amounts in the "Contract Limitations" column and provide an explanation in a footnote.
  - (7) Indicate those contracts for which work effort was physically completed during the fiscal year claimed. (Complete Schedule O for these contracts.)
- Shortly after the final agreement on rates, you will need to submit final vouchers on these completed contracts.

Figure 12. Model Incurred Cost Proposal, continued.

XYZ Corporation ANYWHERE, USA		Subcontract Information FISCAL YEAR ENDED 3/31/2009		SCHEDULE J				
Cost type subcontracts issued under flexibly priced prime contracts: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>								
SUBCONTRACT NO.	PRIME CONTRACT NO.	SUBCONTRACTORS NAME & ADDRESS	POINT OF CONTACT AND PHONE NO.	SUBCONTRACT VALUE	Performance Period		INCURRED IN FY 2009	AWARD TYPE
					From	To		
Subcontracts Issued: P.O. #XYZ0998R	N00039-05-C-0873	Small Company 1445 Southpark Blvd. Buffalo, NY 14206	Ms. Donna Charleston Marketing Manager (716) 883-8700 X317	\$110,500	3/16/2006	6/30/2009	\$87,912	CPFF
P.O. #XYZ0776R	N00040-05-C-0874	Tanza Enterprises 87B Executive Park Fairfax, VA 22033	Mr. Mike Tanza President (703) 983-5640	\$895,000	4/20/2006	12/2//2010	\$15,341	CPFF
P.O. #XYZ01032R	Subcontract to Clark Inc. Prime N00039-05-C-0875	Argonautics, Inc. 555 Ocean Parkway Anaheim, CA 92803	Mr. Ted Kessel Marketing Manager (714) 998-2000 X12	\$152,500	7/25/2008	10/16/2011	\$7,888	CPFF
P.O. #XYZ1213R	N00060-05-C-0913	DSK Corporation 3559 Vaulting Road York, PA 17405	Ms. Jane Matthews Marketing (717) 992-7800	\$236,135	10/12/2008	3/15/2009	\$49,732	CPFF
P.O. #XYZ0822R	N00060-05-C-0913	Aristeo Associates 546 Arroyo Drive Carlsbad, NM 87112	Mr. Vince Aristeo President (504) 535-1600	\$100,000	5/14/2007	5/14/2008	\$40,000	CPFF

Figure 12. Model Incurred Cost Proposal, continued.

T&M/LH subcontracts issued under flexibly priced prime contracts: Yes _____ No <u>X</u>								
SUBCONTRACT NO.	PRIME CONTRACT NO.	SUBCONTRACTORS NAME & ADDRESS	POINT OF CONTACT AND PHONE NO.	SUBCONTRACT VALUE	Performance Period		INCURRED IN FY 2009	AWARD TYPE
					From	To		

Incentive subcontracts under flexibly priced prime contracts: Yes _____ No <u>X</u>								
SUBCONTRACT NO.	PRIME CONTRACT NO.	SUBCONTRACTORS NAME & ADDRESS	POINT OF CONTACT AND PHONE NO.	SUBCONTRACT VALUE	Performance Period		INCURRED IN FY 2009	AWARD TYPE
					From	To		

Subcontract orders based on cost issued under IDIQ prime contracts: Yes _____ No <u>X</u>								
SUBCONTRACT NO.	PRIME CONTRACT NO.	SUBCONTRACTORS NAME & ADDRESS	POINT OF CONTACT AND PHONE NO.	SUBCONTRACT VALUE	Performance Period		INCURRED IN FY 2009	AWARD TYPE
					From	To		

Inter-divisional/intercompany and FFP effort issued under flexibly priced prime contracts: Yes _____ No <u>X</u>								
SUBCONTRACT NO.	PRIME CONTRACT NO.	SUBCONTRACTORS NAME & ADDRESS	POINT OF CONTACT AND PHONE NO.	SUBCONTRACT VALUE	Performance Period		INCURRED IN FY 2009	AWARD TYPE
					From	To		

Note: Subject schedule is to provide identification of subcontracts you have awarded to companies for which you are the prime or upper-tier contractor, including inter-divisional effort. This information is required at the pricing action level (e.g. delivery order, CLIN) for all subcontract awards (e.g. cost-type, incentive contracts, T&M/LH, FFP etc.) issued under flexibly-priced and IDIQ prime contracts.

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA							SCHEDULE K		
SUMMARY OF HOURS AND AMOUNTS ON TIME AND MATERIAL/LABOR HOUR CONTRACTS FISCAL YEAR ENDED 3/31/2009									
	CONTRACT #N00022-06-D-0111						CONTRACT #F66777-07-D-0112		
CONTRACT LABOR CATEGORY (NOTE 1)	TASK 01			TASK 02			TASK 01		
	RATE (2)	HOURS	AMOUNT	RATE (2)	HOURS	AMOUNT	RATE (2)	HOURS	AMOUNT
Program Manager	\$25.00	100	\$2,500	\$25.00	50	\$1,250	\$22.50	100	\$2,250
Senior Engineer	20.00	100	2,000	17.50	100	1,750	17.50	100	1,750
Engineer	15.00	200	3,000	12.50	100	1,250	16.00	50	800
Analyst	12.50	100	1,250	12.50		-	10.00	20	200
Technical Typist	7.00	<u>50</u>	<u>350</u>	7.00	<u>100</u>	<u>700</u>		—	—
<i>TOTAL</i>		<u>550</u>	<u>\$9,100</u>		<u>350</u>	<u>\$4,950</u>		<u>270</u>	<u>\$5,000</u>
Material Costs (Note 3)			\$1,000			\$500			\$750
Travel (Note 3)			382			421			171
G&A @ 8.6% (Note 4)			<u>118</u>			<u>79</u>			<u>79</u>
<i>TOTAL</i>			<u>\$10,600</u>			<u>\$5,950</u>			<u>\$6,000</u>
<i>TASK CEILING</i>			<u>\$25,000</u>			<u>\$12,500</u>			<u>\$7,500</u>
<b>Explanatory Notes:</b>									
(1) Represents effort performed by the company. Any subcontract effort should be identified separately.									
(2) Represents rates specified in the contract, which may be higher or lower than actual rates incurred.									
(3) Represents actual costs recorded in the cost records.									
(4) G&A applied at the claimed rate to Material and Travel Costs.									



Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA		SCHEDULE L
RECONCILIATION OF TOTAL PAYROLL PER IRS FORM 941 TO TOTAL LABOR DISTRIBUTION FISCAL YEAR ENDED 3/31/2009		
DESCRIPTION	EXPENSES PER G/L	
Direct Labor	\$656,824	Schedule H
<u>General and Administrative:</u>		
Wages	90,007	Schedule B
Holiday Wages	2,321	Schedule B
Vacation Wages	5,812	Schedule B
Sick Leave	987	Schedule B
Personal Absence	1,082	Schedule B
<u>Overhead:</u>		
Wages	33,060	Schedule C
Holiday Wages	20,181	Schedule C
Vacation	25,440	Schedule C
Sick Leave	14,318	Schedule C
Severance Pay (in full)	32,419	Schedule C
Occupancy Wages	23,280	Schedule D
Overtime Premium (included in ODCs)	<u>270</u>	
TOTAL LABOR DISTRIBUTION	<u>\$906,001</u>	
	PER IRS FORM 941	
1 <sup>st</sup> Quarter	\$228,479	
2 <sup>nd</sup> Quarter	228,236	
3 <sup>rd</sup> Quarter	237,206	
4 <sup>th</sup> Quarter	220,167	
Plus: Current Year Accrual	15,128	Journal Entry #62
Less: Prior Year's Accrual	(33,214)	Journal Entry #62
Other Adjustments	<u>9,999</u>	*
TOTAL PAYROLL	<u>\$906,001</u>	
*Reference the source for any items used in this reconciliation.		

Figure 12. Model Incurred Cost Proposal, continued.

XYZ  
CORPORATION  
ANYWHERE, USA

SCHEDULE M

LISTING OF DECISIONS, AGREEMENTS OR APPROVALS AFFECTING  
DIRECT/INDIRECT COST AND DESCRIPTION OF ACCOUNTING OR  
ORGANIZATIONAL CHANGES  
FISCAL YEAR ENDED 3/31/2009

A. Decisions/Agreements or Approvals

1. Pension Plan. (Schedules B&C) reference ACO memorandum of negotiations (2008 Overhead) of August 10, 2008 which sets forth pension plan rates, vacation approvals, and certain other matters.
2. Billing Rates. ACO letter of March 3, 2008 setting forth approved billing rates for FY 2009.
3. Salary Approval. See ACO letter of June 19, 2008 approving salaries to top management.
4. Ceiling Rates. Contract N00039-05-C-0873 provides for a ceiling on overhead and G&A rates of 80% and 10%, respectively. Our claimed rates for FY 2009 are less than the ceiling rates.

B. Accounting or Organization Changes.

1. During the period of January 2008, a redirection of contract N00060-05-C-0913 occurred. The PCO directed us to stretch this program into the future. This action necessitated a significant reduction in our staff. From a total of 25 full-time employees on January 1, 2008, the staff was reduced to a total of 13 full-time employees by May 30, 2008.
2. Effective April 1, 2008, we deleted our secondary overhead pool for fringe benefit expenses. We elected to charge the fringe benefits expenses directly to the benefiting overhead pool. This change was made so that we could be more precise in our fringe costs related to the wages and salaries of each pool. All fringe costs of direct personnel are charged to the overhead expense – Schedule C. We have made a study for the year under audit which reflects that there is no adverse cost impact on Government contracts. That study is available for your review.
3. Other than 1 and 2 above, we have no other major accounting or organizational changes during the period. However, we are currently considering adding a material handling pool effective April 1, 2009. Our material and subcontract effort has increased significantly during the last year and we feel that a pool of this nature is appropriate. DCAA will be kept advised of our status and we will discuss this matter with you during the audit of this claim.

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION  
ANYWHERE, USA

SCHEDULE N

CERTIFICATE OF FINAL INDIRECT COSTS  
FISCAL YEAR ENDED 3/31/2009

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief

1. All costs included in this proposal, (identify proposal and date), to establish final indirect cost rates for (identify period covered by rate) are allowable in accordance with the cost principles of the FAR and its supplements applicable to the contracts to which the final indirect cost rates will apply, and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: \_\_\_\_\_

Signature: \_\_\_\_\_

Name of Certifying Official:

Title: \_\_\_\_\_

Date of Execution: \_\_\_\_\_

NOTE: The Certificate of Final Indirect Costs is contained in FAR 52.242-4.

As prescribed in 42.703-2(f), insert the following clause:

Certification of Final Indirect Costs (Jan 1997)

(a) The Contractor shall --

- (1) Certify any proposal to establish or modify final indirect cost rates;
- (2) Use the format in paragraph (c) of this clause to certify; and
- (3) Have the certificate signed by an individual of the Contractor's organization at a level no lower than a vice president or chief financial officer of the business segment of the Contractor that submits the proposal.

(b) Failure by the Contractor to submit a signed certificate, as described in this clause, may result in final indirect costs at rates unilaterally established by the CO.

(c) The certificate of final indirect costs shall read as follows: (see above)

Figure 12. Model Incurred Cost Proposal, continued.

XYZ CORPORATION ANYWHERE, USA										SCHEDULE O	
SCHEDULE OF CONTRACT CLOSING INFORMATION FOR THOSE CONTRACTS FOR WHICH WORK EFFORT WAS COMPLETED DURING FISCAL YEAR ENDED 3/31/2009											
CON-TRACT NO.	Order No.	Performance Period		Ready To Close (1)	Contract Ceiling Amount (2)	Contract Fee (3)	Level of Effort Cumulative Hours		Notes		
		From	To				Required	Actual			
Cost Type:											
Subcontract -Clark Inc.		2/16/05	2/28/09	Yes	\$1,000,000	\$60,000	15,000	14,558			
N00060-06-C-0913		10/16/06	12/28/08	Yes	\$1,750,000	\$112,000	27,500	28,950			
Time & Material:											
N00022-06-D-0111	0001	7/1/06	12/31/08	Yes	\$25,000						
<b><u>Explanatory Notes:</u></b>											
(1) Indicate whether the contract is ready to close based on all information available. If the contract is not ready to close (e.g. a contract modification is being pursued, waiting for subcontract final billing), the reasons why should be stated in a footnote.											
(2) Provide the overall contract ceiling amount, before fee, for the type of contract.											
(3) Provide fee amount as provided by the contract. Include details of the fee computation for all flexibly priced incentive fee and level of effort type contracts, along with the contract modification used, in a footnote.											

Figure 12. Model Incurred Cost Proposal, continued.

<b>CONTRACTOR DATA FORM</b>													
FAO:					CONTRACTOR:								
FAO ASSIGNMENT #:					CFYE (Month and Year):								
AUDITOR:					DATE RESULTS NEEDED BY:								
					CONTRACTOR DATA:			% GOVT		% ADV		# EMPLYS.	
SIC/NAICS CODE:			CODE	DESCRIPTION	YEAR	SALES							
PRIMARY					20								
SECONDARY					20								
<i>EXECUTIVE DATA</i>													
CFY	EXEC POSITION	SALES SCOPE	% TIME DIRECT	BASE SALARY	BONUS	PENSION	HEALTH/LIFE INS.	AUTO	DEFERRED COMP.	LTV/ OTHER*	VOL DELS.	CLAIMED COMP.	
20	1												
	2												
	3												
	4												
	5												
	6												
	7												
	8												
	9												
20	1												
	2												
	3												
	4												
	5												
	6												
	7												
	8												
	9												
*Detail of "Other" compensation:													

Mandatory data fields are shaded. Mandatory data includes assignment number, CFYE including both month and year, primary SIC/NAICS code, sales and material compensation elements claimed. Mandatory data not provided may result in return of this form.

Figure 12. Model Incurred Cost Proposal, continued.

Supplemental Schedule O

Page 1 of 4

**Contract Brief**

A. General Information

1. Contractor Name: \_\_\_\_\_

2. Contract Number \_\_\_\_\_ Date of Award: \_\_\_\_\_

Contractor Job No. \_\_\_\_\_ FY Funds: \_\_\_\_\_

3. Briefed through Mod.No. \_\_\_\_\_ Dated: \_\_\_\_\_

4. Contract Type CPFF  CPIF  CPAF  CS  CR   
 T&M  FPI  FFP  IDIQ  Other  \_\_\_\_\_  
 (Specify)

5. Estimated Cost \$ \_\_\_\_\_ Estimated Fee \$ \_\_\_\_\_ Total Price \$ \_\_\_\_\_

6. Period of Performance \_\_\_\_\_ To \_\_\_\_\_

7. Is this a Subcontract? Yes (Go to Item 8)  No (Go to Item 9)

8. Prime Contractor \_\_\_\_\_

Prime Contract No. \_\_\_\_\_ Contract Type \_\_\_\_\_

Address \_\_\_\_\_

Point of Contact \_\_\_\_\_ Phone \_\_\_\_\_

Cognizant DCAA Office \_\_\_\_\_

Figure 12. Model Incurred Cost Proposal, continued.

*Contract Brief* *Page 2 of 4*

9. Acquisition Agency \_\_\_\_\_

Address: \_\_\_\_\_

Point of Contact: \_\_\_\_\_ Phone \_\_\_\_\_

10. Administrative Contract Office

Address \_\_\_\_\_

Point of Contact: \_\_\_\_\_ Phone \_\_\_\_\_

11. Procurement Regulations: Check All that Apply.  
FAR  DFARS  NASA  Other  (Specify) \_\_\_\_\_

12. Cost Accounting Standards (CAS) Identify the CAS clauses contained in the contract.  
FAR 52.230-1  FAR 52.230-2  FAR 52.230-3   
FAR 52.230-4  FAR 52.230-5  FAR 52.230-6

13. Truth In Negotiation Act (TINA) Identify the TINA clauses contained in the contract.  
FAR 52.215-22 (FAR 52.215-10, effective 10/10/97)   
FAR 52.215-23 (FAR 52.215-11, effective 10/10/97)   
FAR 52.215-24 (FAR 52.215-12, effective 10/10/97)   
FAR 52.215-25 (FAR 52.215-13, effective 10/10/97)

Figure 12. Model Incurred Cost Proposal, continued.

**Contract Brief**

14. Earned Value Management (EVM) and Other Program Management System Reporting Requirements Identify the EVM and other reporting requirements contained in the contract.
- Earned Value Management (DFARS 252.234-7001, DFARS 252.242-7002, effective March 23, 2005)
  - Contract Performance Report (CPR) (DD Form 2734) or equivalent
  - Cost / Schedule Status Report (C/SSR) (DD Form 2735) or equivalent
  - Contract Fund Status Report (CFSR) (DD Form 1586) or equivalent
  - Contractor Cost Data Report (CCDR) (DD Forms 1921, 1921-1 and 1921-2) or equivalent
15. Brief Statement of Scope of Work: \_\_\_\_\_

**B. Contract Clauses and Special Provisions**

16. Identify the contract clauses incorporated by reference.  
\_\_\_\_\_
17. If this is a Time and Material (T&M) or fixed unit price contract, ~~attach~~ the schedule of negotiated rates.
18. If this is a cost sharing contract, identify the terms of the cost ~~sharing~~ arrangement.  
\_\_\_\_\_
- |  | <u>Yes</u>               | <u>No</u>                |
|--|--------------------------|--------------------------|
| 19. Does the contract contain a level of effort clause? If yes, identify the limitations specified in the contract.                          | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. Does the contract contain ceilings on the indirect rates? If yes, identify the ceiling rates (attach relevant portions of the contract). | <input type="checkbox"/> | <input type="checkbox"/> |
| 21. Is Facilities Capital Cost of Money (FCCM) allowable on this contract? (FAR 52.215-30) (FAR 52.215-16 effective 10/10/97)                | <input type="checkbox"/> | <input type="checkbox"/> |
| 22. Does the contract contain the FAR Penalty Clause (52.242-3)?   | <input type="checkbox"/> | <input type="checkbox"/> |
| 23. Does the contract contain precontract or cost allowability restrictions? If yes, identify the relevant portions of the contract.         | <input type="checkbox"/> | <input type="checkbox"/> |



Figure 12. Model Incurred Cost Proposal, continued.

**Contract Brief**

	<u>Yes</u>	<u>No</u>
24. Does the contract contain restrictions on overtime (FAR 52.222-2)?	<input type="checkbox"/>	<input type="checkbox"/>
25. Does the contract contain restrictions or special requirements for subcontracts? If yes, identify the relevant portions of the contract.	<input type="checkbox"/>	<input type="checkbox"/>
<hr/>		
26. Identify any costs made specifically unallowable by the terms of the contract.		
<hr/>		
27. Identify any profit or fee provisions in the contract.		
<hr/>		
28. Identify other special provisions/limitations specified in the contract.		
<hr/>		

**C. Summary of Contract Modifications**

Modification Number	Date	Change in Funding	Total Funding	Cost	Profit/Fee	Total
Original Contract						

GLOSSARYABBREVIATIONS AND ACRONYMS

ACO	– Administrative Contracting Officer
AICPA	– American Institute of Certified Public Accountants
B&P	– Bid & Proposal
CAM	– Contract Audit Manual (DCAA)
CAS	– Cost Accounting Standard(s)
CO	– Contracting Officer
CPA	– Certified Public Accountant(s)
CPAF	– Cost-Plus-Award-Fee (Contract)
CPFF	– Cost-Plus-Fixed-Fee (Contract)
CPIF	– Cost-Plus-Incentive-Fee (Contract)
DCAAM	– Defense Contract Audit Agency Manual
DCMA	– Defense Contract Management Agency
DFARS	– Defense Federal Acquisition Regulation Supplement
DRD	– Deputy Regional Director
ETC	– Estimate to Complete (Cost)
FAR	– Federal Acquisition Regulation
FFP	– Firm-Fixed Price (Contract)
FPI	– Fixed-Price Incentive (Contract)
FPR	– Fixed-Price Redeterminable (Contract)
FPRA	– Forward Pricing Rate Agreement(s)
FPRR	– Forward Pricing Rate Recommendations
FY	– Fiscal Year
G&A	– General & Administrative (Expense)
GAAP	– Generally Accepted Accounting Principles
GPO	– Government Printing Office
GSA	– General Services Administration
IR&D	– Independent Research & Development (Cost)
IT	– Information Technology
NASA	– National Aeronautics and Space Administration
ODC	– Other Direct Cost
OFPP	– Office of Federal Procurement Policy (OMB)
OMB	– Office of Management and Budget

PCO	– Procuring Contracting Officer
PL	– Public Law
RFP	– Request(s) for Proposal(s)
SF	– Standard Form
T&M	– Time and Material (Contract)
TCO	– Termination Contracting Officer
U.S.C.	– United States Code
WAWF	– Wide Area Workflow