

**DCAAP 7641.90**  
**January 2004**

# **INFORMATION FOR CONTRACTORS**



**DEPARTMENT OF DEFENSE**  
**DEFENSE CONTRACT AUDIT AGENCY**



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
8725 JOHN J. KINGMAN ROAD, SUITE 2135  
FORT BELVOIR, VA 22060-6219

PAS  
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**FOREWORD**

This pamphlet has been prepared to assist contractors in understanding applicable requirements and to help ease the contract audit process. This pamphlet supersedes DCAA Pamphlet 7641.90, *Information for Contractors*, dated January 2003. The models in this pamphlet 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. Our examples are intended solely to provide better insight into the procurement process and should not be construed as uniform guides. Nor should this pamphlet 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. A listing of frequently used acronyms and abbreviations is included as Appendix 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 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.

The DCAA Contract Audit Manual (CAM) provides extensive additional information on audit policies and procedures. The DCAA Pamphlet 7641.90, *Information for Contractors*; DCAAM 7640.1; CAM, and current audit guidance (not incorporated into CAM) are available on DCAA's web site at [www.dcaa.mil](http://www.dcaa.mil). 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 <http://akss.dau.mil>.

The CAM (Stock Number: 708-077-00000-3)) can also be purchased from the Superintendent of Documents, P.O. Box 371954, Pittsburgh, PA 15250-7954.

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, 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 Cost Accounting Standards 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 <http://akss.dau.mil>.

Included in this pamphlet at Appendix B is a copy of FAR Subpart 4.7 on Contractor Records Retention. In addition, the Small Entity Compliance Guide can be found at 48 CFR, Chapter 1. It can be accessed via the Internet at <http://www.arnet.gov/far/secgframe.html>.

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 in the Directory of DCAA Offices (DCAAP 5100.1) or by 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.

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:

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

DCAA encourages the use of this pamphlet 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: Policy Auditing Standards Division (PAS)  
8725 John J. Kingman Rd., Suite 2135  
Fort Belvoir, VA 22060-6219  
(703) 767-3234 (FAX)  
e-mail: [DCAA-PAS@dcaa.mil](mailto:DCAA-PAS@dcaa.mil)

Robert DiMucci  
Assistant Director  
Policy and Plans

**JANUARY 2004 EDITION OF THE INFORMATION FOR CONTRACTORS  
DCCAP 7641.90  
NOTES ON SUBSTANTIVE CHANGES**

For your convenience, the following is a list of substantive changes to this edition of the *Information for Contractors*. Each change is summarized in the notes below.

**Foreword**

The Foreword was revised to encourage contractors to submit data electronically.

**Chapter 2**

2-201 This section was revised to indicate that financial capability audits may be performed during preaward or post contract award periods.

2-301 This section was revised to redefine the preaward accounting system survey and provide background information on post contract award accounting system audits.

**Chapter 3**

3-201 This section was revised to emphasize the importance of the contractor management's written approval of any partial submissions to the Integrated Product Team (IPT). The discussion of auditor communication expectations related to interim results was updated.

3-701 This section was revised to indicate that waivers may be granted only in exceptional cases.

**Chapter 5**

5-201 This section was revised to remove the requirement to submit the "first request" public voucher directly to the auditor.

5-303 & 304 These sections were changed to reflect the new coding for the final voucher numbering.

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## CHAPTER 1

### 1-000 Introduction to the Defense Contract Audit Agency (DCAA)

#### 1-101 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.

#### 1-201 DCAA Organization

##### 1-201.1 DCAA Organizational Overview

a. The Agency operates under the direction, authority, and control of the Under Secretary of Defense (Comptroller). Its 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 1-2-1 for Regional Boundaries). Within each region are resident and branch offices (refer to Figure 1-2-2 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.

b. 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 CAM is updated and reprinted in its entirety twice a year, in January and July. Copies of this document can be purchased from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402. Refer to Government Printing Office (GPO) Catalog No. D-1.46/2:7640.1/1283. The CAM and other DCAA documents can be found online at [www.dcaa.mil](http://www.dcaa.mil) under DCAA Publications.

##### 1-201.2 Branch Office Organization

a. Many contractors will be dealing with a branch office. Branch offices are managed by a branch manager and the office is organized into teams. The teams are led by a supervisory auditor who supervises a number of field auditors (approximately eight field auditors per supervisor). 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 field auditors. Should questions arise during the audit, the contractor may elevate its concerns to the supervisor or field office manager.

b. 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 field auditors, depending upon the timing and/or type of audit(s) being conducted.

### **1-301 DCAA Responsibilities and Duties**

a. DCAA performs all needed contract audits for the Department of Defense (DoD) and provides accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for acquisition and contract administration. These services are related to negotiation, administration, and settlement of contracts and subcontracts.

b. DCAA provides contract audit services to other Government agencies as appropriate.

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

d. DCAA fully adheres to and complies with the American Institute of Certified Public Accountants' (AICPA's) auditing standards and procedures. The AICPA standards have been fully incorporated into the Government Auditing Standards issued by the Comptroller General of the United States. These standards must be followed by Federal auditors for all audits of funds received by contractors, nonprofit organizations, and other external organizations.

### **1-401 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 performs audits which identify opportunities for contractors to reduce or avoid costs.

### **1-501 DCAA Major Areas of Emphasis**

a. DCAA's major areas of emphasis include: (1) internal control systems, (2) management policies, (3) accuracy and reasonableness of cost representations, (4) adequacy and reliability of records and accounting systems, (5) financial capability, and (6) contractor compliance with contractual provisions having accounting or financial significance such as the Cost Principles (FAR Part 31), the "Cost Accounting Standards Clause" (FAR 52.230-2) and the clauses pertaining to the Truth in Negotiations Act (FAR 52.215-10, -11, -12, and -13).

b. 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 flexibly priced contracts. The allowable costs properly included in the final pricing of flexibly priced contracts are generally determined after they are incurred and audited. Specific types of contracts are explained in Chapter 7.

Figure 1-2-1 Regional Boundaries

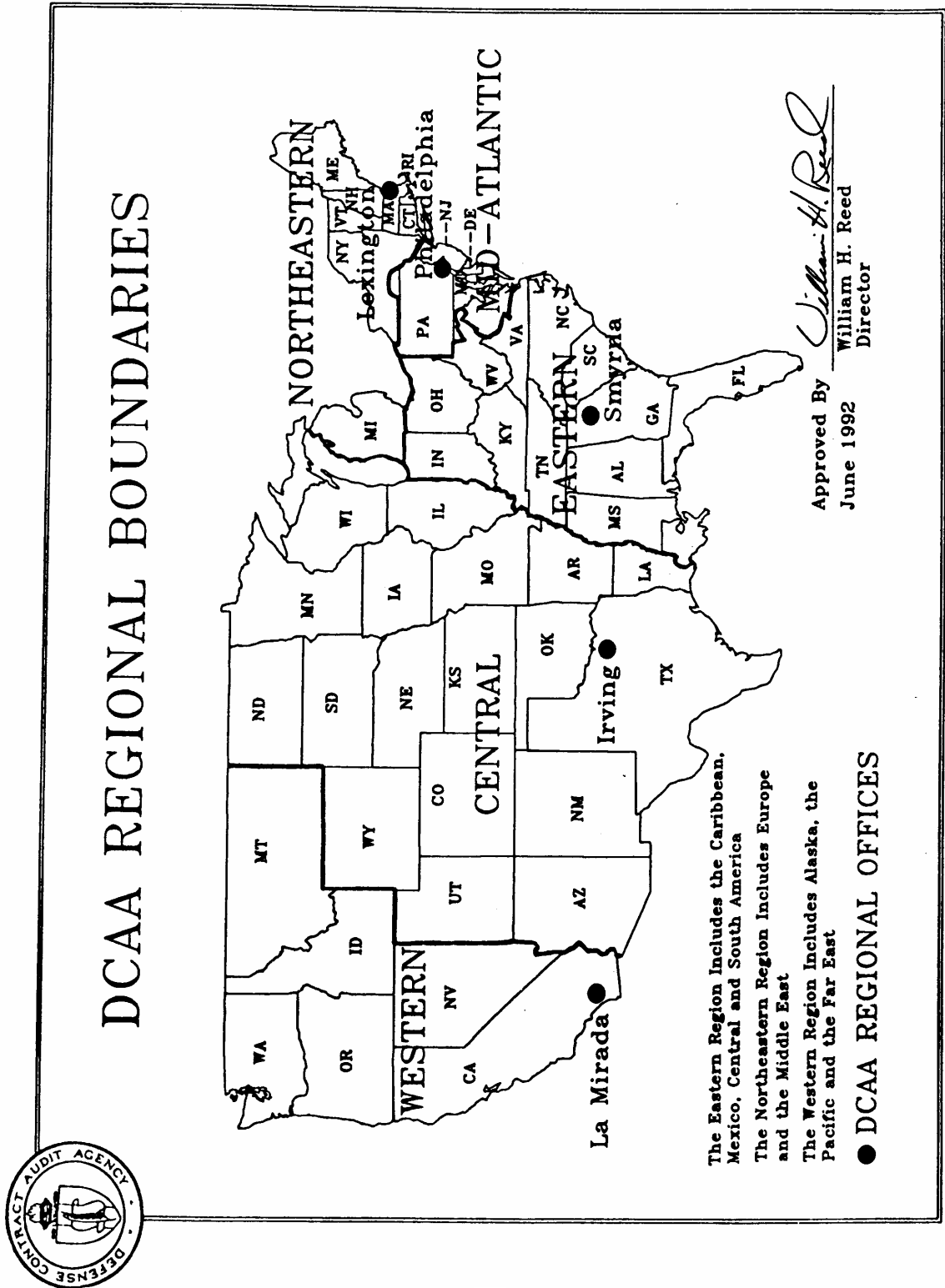
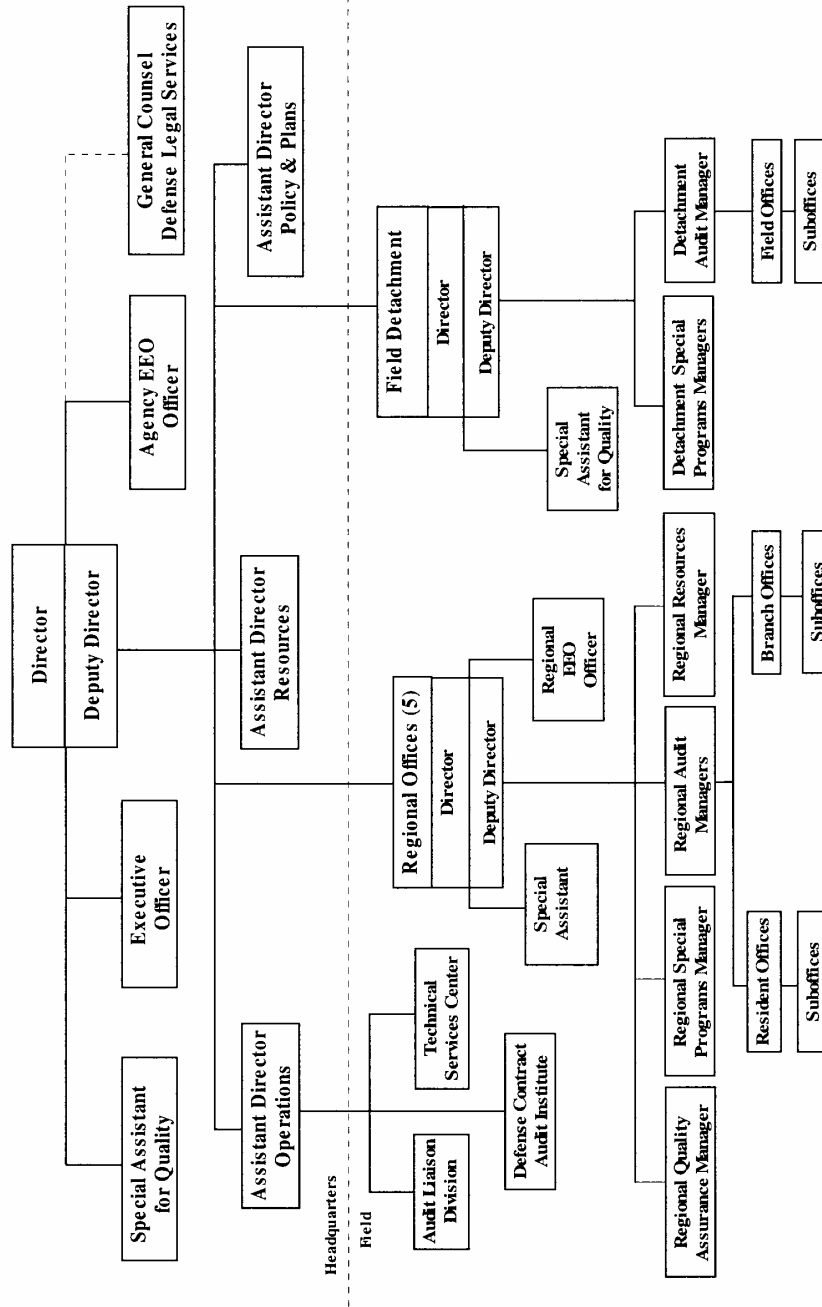


Figure 1-2-2 DCAA Organization Chart (Region Version)

**DEFENSE CONTRACT AUDIT AGENCY**



\*Regional Offices located in: Smyrna, GA; Lowell, MA; Irving, TX; La Mirada, CA; and Philadelphia, PA

Field Activities (—)

## CHAPTER 2

### 2-000 Preaward Surveys of Prospective Contractor Accounting Systems

#### 2-101 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, there are two categories of information that DCAA may be requested to furnish. One deals with the contractor's financial capability to perform the contract and the other deals with the adequacy of the accounting system to accumulate the type of cost information required by the contract.

#### 2-201 Financial Capability Audits

Financial capability audits are performed to determine if the contractor is financially capable of performing on Government contracts. These audits may be performed during the preaward or post contract award periods. The type of financial information examined by DCAA consists of such data as: (1) financial statements, including those contained in reports issued to stockholders, lending institutions, and SEC filings, (2) cash flow forecasts, (3) loan agreements and evidence showing compliance with these agreements, (4) aging of accounts receivable and payable, and (5) financial history of the contractor and affiliated concerns. Based on this information, the auditor will make a recommendation to the contracting officer regarding whether or not a contractor has sufficient financial resources to perform the contract.

#### 2-301 Accounting System

##### 2-301.1 Accounting System Surveys - General

a. The preaward accounting system survey is an audit 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 2-3-1 and refer to paragraph 2-301.2 for additional discussion), and those procedures essential to reach an informed opinion as to whether or not the design is acceptable for accumulating costs under a Government contract. In addition to the items on the SF 1408 evaluation checklist, DCAA will determine if the system will provide reasonable data for projection of costs to complete a contract.

b. 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 as is needed for Government work. A prospective contractor may not

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want to install a new, more detailed accounting system unless awarded a contract. In this case, if the potential 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. In developing their contract cost accounting systems, new companies often benefit from employing personnel or consultants who understand rules and regulations applicable to accounting for costs incurred on Government contracts.

c. If the accounting system is unacceptable, 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 contracting officer, will perform a follow-up audit of the revised system and/or corrected deficiencies.

d. 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 contracting officer 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 contracting officer 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.

### **2-301.2 Detailed Provisions of SF 1408 (Reference Figure 2-3-1, Page 2 of 2)**

a. 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. Contractors at times may find it impractical to identify costs specifically to a contract. FAR 31.202 states that a direct cost can be identified 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.

b. 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).

c. 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 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. If superficially similar costs are treated as both direct and indirect costs, the purposes for incurring the costs must be distinguishable. For example, if a contractor wishes to perform a contract which 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).

d. Accumulation of costs under general ledger control. DCAA will determine if the job order cost accounting system can be reconciled with the general ledger, and that the company accounting system is controlled by the general ledger.

e. 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.)

f. 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).

g. 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.

h. 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 contracting officer also may not be proposed or billed. DCAA will determine if the accounting system

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identifies these expressly 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 officers 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.

i. 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.

j. 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.

### **2-302 Labor Charging System**

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.

(2) 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.

(3) 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.

(4) 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 timecard preparation in staff meetings, employee orientation, and through posting of signs throughout the workplace that reminds employees of the importance of accurate and current timecards.



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### 2-302.1 Timecard Preparation

Detailed instructions for timecard preparation should be established through a timekeeping pamphlet and/or company procedure. An automated timekeeping system uses remote data entry terminals to record labor charging data directly to the computer for processing. Supporting documentation normally consists of machine printouts showing data that, in a manual system, appears on source documents. When a manual system is in place, instructions should indicate that the employee is personally responsible for:

- (1) Recording his/her time on a daily basis.
- (2) Recording time on the timecard in ink.
- (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 in writing to the employee.
- (4) Changes to the timecard. All changes should be lined through, with the employee's initials beside the change indicating the employee personally made the change and that the change is correct.
- (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) Signing the timecard at the end of each work period.

### 2-302.2 Recommended Timekeeping Policy

- a. The supervisor should approve and cosign all timecards.
- b. The supervisor is prohibited from completing an employee's timecard 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 time sheet. Upon his or her return, the employee should turn in his/her time sheet and attach it to the one prepared by the supervisor.
- c. 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.
- d. The company policy should state that the accurate and complete preparation of timecards is a part of the employee's job. Careless or improper preparation may lead to disciplinary actions under company policies as well as applicable Federal statutes.

### **2-302.3 Floor Checks**

DCAA auditors periodically perform physical observations of work areas and inquiries 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 floor checks. DCAA will perform unannounced floor checks to determine the adequacy and accuracy of the timekeeping system for reimbursement of labor costs under cost reimbursable contracts.

### **2-302.4 Penalties for Labor Mischarging**

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

b. Subject to the facts surrounding participation, the following can be liable for the violation:

(1) Employees who fill in and sign the timecards with the false information.

(2) Supervisors who approve the timecards with the knowledge that they contain the false information.

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

(4) 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.

c. There does not have to be a direct contractual relationship between the Government and the employee who submitted the false timecard for the employee to be liable. A person may be liable although her or she did not submit the fraudulent claim presented to the U.S. Government.

**Figure 2-3-1 Preward Survey of Prospective Contractor Accounting System (SF 1408)**

<b>PREWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM</b>	SERIAL NO. <i>(For surveying activity use)</i>	OMB No.: <b>9000-0011</b> Expires: 10/31/97
	PROSPECTIVE CONTRACTOR	

Public reporting burden for this collection of information is estimated to average 24 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the 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.

**SECTION I - RECOMMENDATION**

1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT

YES  NO *(Explain in 2. NARRATIVE)*

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 <input type="checkbox"/>
3. SURVEY MADE BY	a. SIGNATURE AND OFFICE <i>(Include typed or printed name)</i>	b. TELEPHONE NO. <i>(include area code)</i>	c. DATE SIGNED
4. SURVEY REVIEWING OFFICIAL	a. SIGNATURE AND OFFICE <i>(Include typed or printed name)</i>	b. TELEPHONE NO. <i>(include area code)</i>	c. DATE REVIEWED

AUTHORIZED FOR LOCAL REPRODUCTION  
Previous edition is usable.

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

<b>SECTION II - EVALUATION CHECKLIST</b>			
MARK "X" IN THE APPROPRIATE COLUMN <i>(Explain any deficiencies in SECTION I NARRATIVE)</i>	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 a 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.)			

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## CHAPTER 3

### 3-000 Price Proposals

#### 3-101 Requirements for Submission

a. FAR 15.402, Pricing Policy, contains a hierarchical preference for contracting officers to use in obtaining information to determine price reasonableness. Contracting officers are not to obtain more information than is necessary for determining the reasonableness of the price or evaluating cost realism. Contracting officers are prohibited from obtaining cost or pricing data if an exception to the cost or pricing data submission requirements applies, as discussed in FAR 15.403-1 and paragraph 3-701, Truth in Negotiations Act (TINA). However, there are still situations when cost or pricing data must be obtained, e.g., Government unique sole source procurements that exceed the cost or pricing data threshold. Paragraphs 3-201, DCAA Audit Evaluation; 3-401, Examples of Data Which May be Requested by DCAA; and 3-501, Model Proposal; address the process when DCAA is requested by a contracting officer to audit cost or pricing data submitted by a contractor.

b. Contracting officers 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 backup required, and other information when cost or pricing data are required (refer to Figure 3-1-1). 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 backup, are found in the price proposal model (paragraph 3-501 and at Figure 3-5-1). It is extremely important to prepare proposals in accordance with these instructions when the contracting officer specifies that FAR Table 15-2 be used. FAR 15.408, Table 15-2, I. General Instructions, requires that specific information appear on the first page of the proposal. However, many contractors choose to use the former SF1411, Contract Pricing Proposal Cover Sheet, even though it has been eliminated from the FAR. This form, although it does require more information than the current FAR, meets the requirements of FAR 15.408, Table 15-2 I.A.

c. Information other than cost or pricing data may be submitted in the offeror's own format unless the contracting officer 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 audit will vary significantly. DCAA participation and the amount of support provided will be at the discretion of the contracting officer. Since the audit process will vary significantly, it is not practical to describe the possible scenarios. Discussion of the audit of cost or pricing data will provide the contractor with an understanding of the full audit process.

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**Figure 3-1-1**

**FAR 15.408, Table 15-2 Instructions For Submitting Cost/Price Proposals When Cost or Pricing Data Are Required**

This document provides instructions for preparing a contract pricing proposal when cost or pricing data are required.

**Note 1:** There is a clear distinction between submitting cost or pricing data and merely making available books, records, and other documents without identification. The requirement for submission of cost or pricing data is met when all accurate cost or pricing data reasonably available to the offeror have been submitted, either actually or by specific identification, to the Contracting Officer or an authorized representative. As later information comes into your possession, it should be submitted promptly to the Contracting Officer in a manner that clearly shows how the information relates to the offeror's price proposal. The requirement for submission of cost or pricing data continues up to the time of agreement on price, or an earlier date agreed upon between the parties if applicable.

**Note 2:** By submitting your proposal, you grant the Contracting Officer or an authorized representative the right to examine records that formed the basis for the pricing proposal. That examination can take place at any time before award. It may include those books, records, documents, and other types of factual information (regardless of form or whether the information is specifically referenced or included in the proposal as the basis for pricing) that will permit an adequate evaluation of the proposed price.

*I. General Instructions*

- A. You must provide the following information on the first page of your pricing proposal:
- (1) Solicitation, contract, and/or modification number;
  - (2) Name and address of offeror;
  - (3) Name and telephone number of point of contact;
  - (4) Name of contract administration office (if available);
  - (5) Type of contract action (that is, new contract, change order, price revision/redetermination, letter contract, unpriced order, or other);
  - (6) Proposed cost; profit or fee; and total;
  - (7) Whether you will require the use of Government property in the performance of the contract, and, if so, what property;

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- (8) Whether your organization is subject to cost accounting standards; whether your organization has submitted a CASB Disclosure Statement, and if it has been determined adequate; whether you have been notified that you are or may be in noncompliance with your Disclosure Statement or CAS, and, if yes, an explanation; whether any aspect of this proposal is inconsistent with your disclosed practices or applicable CAS, and, if so, an explanation; and whether the proposal is consistent with your established estimating and accounting principles and procedures and FAR Part 31, Cost Principles, and, if not, an explanation;
- (9) The following statement: *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 Table 15-2. By submitting this proposal, we grant the Contracting Officer 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.*
- (10) Date of submission; and
- (11) Name, title and signature of authorized representative.

B. In submitting your proposal, you must include an index, appropriately referenced, of all the cost or pricing data and information accompanying or identified in the proposal. In addition, you must annotate any future additions and/or revisions, up to the date of agreement on price, or an earlier date agreed upon by the parties, on a supplemental index.

C. As part of the specific information required, you must submit, with your proposal, cost or pricing data (that is, data that are verifiable and factual and otherwise as defined at FAR 15.401). You must clearly identify on your cover sheet that cost or pricing data are included as part of the proposal. In addition, you must submit with your proposal any information reasonably required to explain your estimating process, including--

- (1) The judgmental factors applied and the mathematical or other methods used in the estimate, including those used in projecting from known data; and
- (2) The nature and amount of any contingencies included in the proposed price.

D. You must show the relationship between contract line item prices and the total contract price. You must attach cost-element breakdowns for each proposed line item, using the appropriate format prescribed in the "Formats for Submission of Line Item Summaries" section of this table. You must furnish supporting breakdowns for each cost element, consistent with your cost accounting system.

E. When more than one contract line item is proposed, you must also provide summary total amounts covering all line items for each element of cost.

F. Whenever you have incurred costs for work performed before submission of a proposal, you must identify those costs in your cost/price proposal.

G. If you have reached an agreement with Government representatives on use of forward pricing rates/factors, identify the agreement, include a copy, and describe its nature.

H. As soon as practicable after final agreement on price or an earlier date agreed to by the parties, but before the award resulting from the proposal, you must, under the conditions stated in FAR 15.406-2, submit a Certificate of Current Cost or Pricing Data.

## II. Cost Elements

Depending on your system, you must provide breakdowns for the following basic cost elements, as applicable:

A. *Materials and services.* Provide 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, 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. Conduct price analyses of all subcontractor proposals. Conduct cost analyses for all subcontracts when cost or pricing data are submitted by the subcontractor. Include these analyses as part of your own cost or pricing data submissions for subcontracts expected to exceed the appropriate threshold in FAR 15.403-4. Submit the subcontractor cost or pricing data as part of your own cost or pricing data as required in paragraph IIA(2) of this table. These requirements also apply to all subcontractors if required to submit cost or pricing data.

(1) *Adequate Price Competition.* Provide data showing the degree of competition and the basis for establishing the source and reasonableness of price for those 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. For interorganizational transfers priced at other than the cost of comparable competitive commercial work of the division, subsidiary, or affiliate of the contractor, explain the pricing method (see FAR 31.205-26(e)).

(2) *All Other.* Obtain cost or pricing data from prospective sources for those acquisitions (such as subcontracts, purchase orders, material order, etc.) exceeding the threshold set forth in FAR 15.403-4 and not otherwise exempt, in accordance with FAR 15.403-1(b) (i.e., adequate price competition, commercial items, prices set by law or regulation or waiver). Also provide data showing the basis for establishing source and reasonableness of price. In addition, provide a summary of your cost analysis and a copy of cost or pricing data submitted by the prospective source in support of each subcontract, or purchase order that is the lower of either \$10,000,000 or more, or both more than the pertinent cost or pricing data threshold and more than 10 percent of the prime contractor's proposed price. The Contracting Officer may require you to submit cost or pricing data in support of proposals in lower amounts. Subcontractor cost or pricing data must be accurate, complete and current as of the date of final price agreement, or an earlier date agreed upon by the parties, given on the prime contractor's Certificate of Current Cost or Pricing Data. The prime contractor is



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responsible for updating a prospective subcontractor's data. For standard commercial items fabricated by the offeror that are generally stocked in inventory, provide a separate cost breakdown, if priced based on cost. For interorganizational transfers priced at cost, provide a separate breakdown of cost elements. Analyze the cost or pricing data and submit the results of your analysis of the prospective source's proposal. When submission of a prospective source's cost or pricing data is required as described in this paragraph, it must be included along with your own cost or pricing data submission, as part of your own cost or pricing data. You must also submit any other cost or pricing data obtained from a subcontractor, either actually or by specific identification, along with the results of any analysis performed on that data.

B. *Direct Labor.* Provide a time-phased (*e.g.*, monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates.

C. *Indirect Costs.* Indicate how you have computed and applied your indirect costs, including cost breakdowns. Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates. Indicate the rates used and provide an appropriate explanation.

D. *Other Costs.* List all other costs not otherwise included in the categories described above (*e.g.*, special tooling, travel, computer and consultant services, preservation, packaging and packing, spoilage and rework, and Federal excise tax on finished articles) and provide bases for pricing.

E. *Royalties.* If royalties exceed \$1,500, you must provide the following information on a separate page for each separate royalty or license fee:

- (1) Name and address of licensor.
- (2) Date of license agreement.
- (3) Patent numbers.
- (4) Patent application serial numbers, or other basis on which the royalty is payable.
- (5) Brief description (including any part or model numbers of each contract item or component on which the royalty is payable).
- (6) Percentage or dollar rate of royalty per unit.
- (7) Unit price of contract item.
- (8) Number of units.
- (9) Total dollar amount of royalties.
- (10) If specifically requested by the Contracting Officer, a copy of the current license agreement and identification of applicable claims of specific patents (see FAR 27.204 and 31.205-37).

F. *Facilities Capital Cost of Money.* When you elect to claim facilities capital cost of money as an allowable cost, you must submit Form CASB-CMF and show the calculation of the proposed amount (see FAR 31.205-10).

*III. Formats for Submission of Line Item Summaries*

A. New Contracts (Including Letter Contracts)

Cost elements (1)	Proposed contract estimate – total cost (2)	Proposed contract estimate – unit cost (3)	Reference (4)
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- (1) Enter appropriate cost elements.
- (2) Enter those necessary and reasonable costs that, in your judgment, will properly be incurred in efficient contract performance. When any of the costs in this column have already been incurred (e.g., under a letter contract), describe them on an attached supporting page. When preproduction or startup costs are significant, or when specifically requested to do so by the Contracting Officer, provide a full identification and explanation of them.
- (3) Optional, unless required by the Contracting Officer.
- (4) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

B. Change Orders, Modifications, and Claims

Cost elements (1)	Estimated cost of all work deleted (2)	Cost of deleted work already performed (3)	Net cost to be deleted (4)	Cost of work added (5)	Net cost of change (6)	Reference (7)
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- (1) Enter appropriate cost elements.
- (2) Include the current estimates of what the cost would have been to complete the deleted work not yet performed (not the original proposal estimates), and the cost of deleted work already performed.
- (3) Include the incurred cost of deleted work already performed, using actuals incurred if possible, or, if actuals are not available, estimates from your accounting records. Attach a detailed inventory of work, materials, parts, components, and hardware already purchased, manufactured, or performed and deleted by the change, indicating the cost and proposed disposition of each line item. Also, if you desire to retain these items or any portion of them, indicate the amount offered for them.

- (4) Enter the net cost to be deleted, which is the estimated cost of all deleted work less the cost of deleted work already performed. Column (2) minus Column (3) equals Column (4).
- (5) Enter your estimate for cost of work added by the change. When nonrecurring costs are significant, or when specifically requested to do so by the Contracting Officer, provide a full identification and explanation of them. When any of the costs in this column have already been incurred, describe them on an attached supporting schedule.
- (6) Enter the net cost of change, which is the cost of work added, less the net cost to be deleted. Column (5) minus Column (4) equals Column (6). When this result is negative, place the amount in parentheses.
- (7) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.)

**C. Price Revision/Redetermination**

Cutoff date	Number of units completed	Number of units to be completed	Contract amount	Redetermination proposal amount	Difference	Cost elements
(1)	(2)	(3)	(4)	(5)	(6)	(7)

Incurred cost – preproduction	Incurred cost – completed units	Incurred cost – work in process	Total incurred cost	Estimated cost to complete	Estimated total cost	Reference
(8)	(9)	(10)	(11)	(12)	(13)	(14)

(Use as applicable).

- (1) Enter the cutoff date required by the contract, if applicable.
- (2) Enter the number of units completed during the period for which experienced costs of production are being submitted.
- (3) Enter the number of units remaining to be completed under the contract.
- (4) Enter the cumulative contract amount.
- (5) Enter your redetermination proposal amount.
- (6) Enter the difference between the contract amount and the redetermination proposal amount. When this result is negative, place the amount in parentheses. Column (4) minus Column (5) equals Column (6).

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- (7) Enter appropriate cost elements. When residual inventory exists, the final costs established under fixed-price-incentive and fixed-price-redeterminable arrangements should be net of the fair market value of such inventory. In support of subcontract costs, submit a listing of all subcontracts subject to repricing action, annotated as to their status.
  - (8) Enter all costs incurred under the contract before starting production and other nonrecurring costs (usually referred to as startup costs) from your books and records as of the cutoff date. These include such costs as preproduction engineering, special plant rearrangement, training program, and any identifiable nonrecurring costs such as initial rework, spoilage, pilot runs, *etc.* In the event the amounts are not segregated in or otherwise available from your records, enter in this column your best estimates. Explain the basis for each estimate and how the costs are charged on your accounting records (*e.g.*, included in production costs as direct engineering labor, charged to manufacturing overhead). Also show how the costs would be allocated to the units at their various stages of contract completion.
  - (9) Enter in Column (9) the production costs from your books and records (exclusive of preproduction costs reported in Column (8)) of the units completed as of the cutoff date.
  - (10) Enter in Column (10) the costs of work in process as determined from your records or inventories at the cutoff date. When the amounts for work in process are not available in your records but reliable estimates for them can be made, enter the estimated amounts in Column (10) and enter in Column (9) the differences between the total incurred costs (exclusive of preproduction costs) as of the cutoff date and these estimates. Explain the basis for the estimates, including identification of any provision for experienced or anticipated allowances, such as shrinkage, rework, design changes, *etc.* Furnish experienced unit or lot costs (or labor hours) from inception of contract to the cutoff date, improvement curves, and any other available production cost history pertaining to the item(s) to which your proposal relates.
  - (11) Enter total incurred costs (Total of Columns (8), (9), and (10)).
  - (12) Enter those necessary and reasonable costs that in your judgment will properly be incurred in completing the remaining work to be performed under the contract with respect to the item(s) to which your proposal relates.
  - (13) Enter total estimated cost (Total of Columns (11) and (12)).
  - (14) Identify the attachment in which the information supporting the specific cost element may be found. (Attach separate pages as necessary.) [FAC 97-2, 62 FR 51224, 9/30/97, effective 10/10/97]

**3-201 DCAA-Offered Forward Pricing Services (Figure 3-2-1)**

DCAA offers a number of forward pricing services to meet the needs of contracting officers. Figure 3-2-1 summarizes the various services offered along with key characteristics for each type of service. Citations are provided to the pertinent audit policy prescribed in the DCAA Contract Audit Manual. The following sections discuss each type of DCAA service.

Type of Service	Scope of Service	Contractor's Supporting Documentation	Type of Report Statement	Reporting	CAM Cite
Specific Cost Information [Activity Code 25000]	Provide existing data in FAO files, or additional services that can be provided in four hours or less	Cost or pricing data; information other than cost or pricing data	None	Telephone with written confirmation memorandum	9-107
Application of Agreed-Upon Procedures [Activity Code 28000]	Performance of specific procedures agreed upon up front with the customer	Cost or pricing data; information other than cost or pricing data	Disclaimer	Report	9-108 9-209
Cost Realism Analysis [Activity Code 28000]	To ascertain potential cost understatement	Information other than cost or pricing data	Disclaimer	Report	9-108 9-311.4
Audit of Part(s) of a Proposal [Activity Code 27000]	Examination of one or more cost elements or parts of a cost element, e.g., rates or the bases but not entire proposal	Cost or pricing data on the part(s) to be examined; information other than cost or pricing data on the part(s) to be examined (cost data only)	Opinion only on the part(s) of the proposal examined	Report	9-108 9-210
Complete Proposal Audit [Activity Code 21000]	Examination of an entire proposal	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion on proposal as a whole	Report	Chapter 9
Audit of Forward Pricing Rates [Activity Code 23000]	Examination of a contractor's direct and indirect rates (generally in support of forward pricing rate agreements or informal rate recommendations; however, a request to examine an individual price proposal can trigger an activity code 23000, if the results of the rate findings are expected to form the basis for subsequent audit rate recommendations related to other price proposals)	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion on the rates examined	Report	9-700 9-1200
Integrated Product Team (IPT) [Activity Code 22000]	Auditor effort expended participating on a chartered IPT which culminates in either a full examination of a proposal, examination of a part of a proposal, or an application of agreed-upon procedures	Cost or pricing data; information other than cost or pricing data (cost data only)	Opinion or disclaimer based on the services performed, refer to boxes for activity codes 21000, 27000, or 28000 as applicable	Report	1-804 1-805

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### **3-201.1 Specific Cost Information**

The contracting officer needs quick access to rate information or other specific cost data. The contracting officer does not expect an audit of the contractor's proposal. Generally, the auditor provides a response based on the information that is readily available in the field audit office files. However, the auditor may respond to any request for forward pricing assistance from a customer when auditor effort can be accomplished in four hours or less. This may include auditor contact with the contractor. The auditor issues a confirming memorandum, not a report. Since an audit has not been performed and report is not being issued, the auditor does not render or disclaim an opinion on the acceptability of the proposal as the basis for negotiation of a fair and reasonable price.

### **3-201.2 Application of Agreed-Upon Procedures**

The auditor performs specified procedures to evaluate the contractor's proposal. The contracting officer, with the auditor's assistance, agrees upon the procedures to be accomplished at the start of the audit. The contracting officer, not the auditor, takes the responsibility of establishing the scope of the audit because the contracting officer has the best understanding of his/her needs which are less than an examination, (e.g., audit of the entire proposal or audit of part(s) of a proposal). DCAA issues a report describing the findings of the procedures accomplished. The report will not express an opinion on whether the proposal is an acceptable basis for the negotiation of a fair and reasonable price, since the purpose of this type of service is to apply the procedures that the customer needs, not to perform the procedures that the auditor believes necessary in order to support rendering an opinion.

### **3-201.3 Cost Realism Analysis**

The contracting officer requests the auditor to evaluate the overall costs in a contractor's proposal to determine if the costs are realistic for the work to be performed, reflect a clear understanding of the requirements, and are consistent with the various elements of the contractor's technical proposal. The goal of the cost realism analysis is to ensure that the proposed costs are not significantly understated. Since cost realism analyses are applications of agreed-upon procedures, the auditor performs specified procedures to evaluate the contractor's proposal. The contracting officer, with the auditor's assistance, agrees-upon the procedures to be accomplished at the start of the audit. The contracting officer, not the auditor, takes the responsibility of establishing the scope of the audit because the contracting officer has the best understanding of his/her needs which are less than an examination, (e.g., audit of the entire proposal or audit of part(s) of a proposal). DCAA issues a report describing the findings of the procedures accomplished. The report will not express an opinion on whether the proposal is an acceptable basis for the negotiation of a fair and reasonable price, since the purpose of this type of service is to (1) focus on the cost realism of the contractor's proposal, not the acceptability of the proposal as a basis for negotiation of a fair and reasonable price and (2) apply the procedures that the customer needs, not to perform the procedures that the auditor believes necessary in order to support rendering an opinion.

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### **3-201.4 Audit of Parts of a Proposal**

The contracting officer requests the auditor to examine selected parts of the proposal, i.e., only specified rates or selected cost elements, not the entire proposal. The auditor establishes the scope of the examination. The auditor issues a report that renders an opinion as to the acceptability of the parts of the proposal examined as a basis for negotiation of a fair and reasonable price. The auditor will disclaim an opinion on the acceptability of the proposal as a whole because the auditor is not performing procedures to gather sufficient, competent evidence on the proposal as a whole.

### **3-201.5 Audit of the Entire Proposal**

The contracting officer requests the auditor to examine the entire proposal. The auditor establishes the scope of the examination. The auditor issues a report that renders an opinion as to the acceptability of the contractor's proposal as a basis for negotiation of a fair and reasonable price.

### **3-201.6 Audit of Forward Pricing Rates**

The auditor examines a contractor's direct and/or indirect rates. Generally, such an examination is conducted in support of forward pricing rate agreements (FPRAs) or informal forward pricing rate recommendations (FPRRs). Contracting officers may request these types of services or an auditor may self-initiate an examination of the rates. A request to examine an individual price proposal can trigger an audit of forward pricing rates if the results of the rate findings are expected to form the basis of subsequent audit rate recommendations related to other price proposals. The auditor issues a report that renders an opinion.

### **3-201.7 Integrated Product Teams (IPTs)**

a. On May 10, 1995, the Secretary of Defense issued a memorandum directing the use of IPTs to the maximum extent practicable throughout the DoD acquisition process. DoD IPTs are composed of representatives from all appropriate Government buying organizations, contract administrative services, and audit offices working together with contractors to build successful and balanced procurement programs. The major objectives of an IPT are better RFPs/RFQs, better proposals, reduced cycle time between issuance of the RFP/RFQ and contract award, and better understanding by all interested parties of the contract requirements.

b. A pricing IPT will begin work when the RFP/RFQ is being developed and will normally continue its work through proposal development, audit, negotiation, contract award, and contract performance. The PCO will chair the IPT, determine its membership, and set its scope. The intent in using IPTs is to avoid rework at the end of a process by identifying problems and finding potential solutions at the earliest possible point in the procurement process.

c. The two most important characteristics of an IPT are cooperation and empowerment. To be effective, teams must have full and open discussions. IPT members are not required or

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encouraged to compromise their positions to reach an agreement (for example, DCAA will fully participate, but is also expected to continue to act as an independent financial advisor and to provide an independent audit opinion).

### **3-201.8 Auditor's Role on DoD IPTs**

a. The auditor will be a full participant in IPTs that require financial advisory services. As part of the IPT, contracting officers may request auditors to audit the complete pricing proposal, audit part of the pricing proposal, or to apply agreed-upon procedures.

b. The auditor's role on the IPT during the proposal preparation process is to provide real-time feedback on such items as:

- Proposal support data expectations;
- Proposal estimating techniques; and
- Impact of outstanding estimating or accounting system deficiencies on the proposal preparation process and actions needed to correct the deficiencies.

To maintain audit independence, the auditor will not assist the contractor in preparing the proposal.

c. IPTs encourage the audit of the proposal parts (for example, consolidated bills of material, major subcontracts, and other direct costs) as the contractor completes each section. Management's written approval of any partial submission is critical to avoiding wasted audit effort reviewing interim draft proposals. The auditor normally will be expected to discuss interim audit findings with the team on a real-time basis. In many cases, the contracting officer will also ask the auditor to communicate the interim audit results to the contractor for comment or correction before submission of the final signed proposal.

d. In all cases, at the conclusion of the audit evaluation and receipt of the contractor's final signed proposal, the FAO will issue an audit report. Audit reports will not be issued on a piecemeal basis on each part of the proposal. If the contractor has an effective system for integrating the proposal parts, then the cycle time between submission of the full proposal and the issuance of the audit report should be very short. Ideally, at the point when the contractor submits its full proposal, the auditor already will have completed most of the fieldwork. The remaining work usually entails a reconciliation of the proposal parts submitted during the IPT process with the completed version, and follow-up with the contractor on any differences.

### **3-301 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 then contact a company representative and establish a date and time for an entrance conference to begin the audit. The request from the PCO/ACO will specify a report due date.



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 quality of the proposal package submitted will also have a big impact on audit time. The auditor will first review the contractor's proposal 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 contracting officer). 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 try to complete the audit as quickly as feasible with as little disruption as possible to the company routine.

c. If, for any reason during the audit, the auditor is not granted access to required information or the necessary people, the auditor will notify the PCO/ACO of the problem. Depending on the significance of the data, the auditor may be forced to terminate the audit.

d. When the price of a contract or contract modification exceeds \$550,000 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)(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 Cost Accounting Standards (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, 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.

e. In order for DCAA to perform the FAR 15.404-1(c)(iv) verification, 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 and the rationale used in deriving future projections, and exclude all unallowable costs (refer to paragraph 2-301.2h and FAR 31.201-6). The accounting method used in estimating proposed costs should be the same as the method used to accumulate costs. Whenever possible, the proposal and supporting data should be provided in an electronic format. Submission in an electronic format is more efficient and conserves resources for both the contractor and the Government. The contractor and auditor should work together to address software compatibility issues if they occur.

f. 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 contracting officer. All audit conclusions discussed at an exit conference are subject to supervisory and managerial review; therefore, changes may occur. If these changes affect factual aspects and are significant, the contractor will be advised.

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### 3-401 Examples of Data That DCAA May Request

a. The basis of the proposed labor rates and classifications including any proposed escalation factors.

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

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

b. The basis of the proposed labor hours, including staff-loading charts and comparisons of proposed hours to experienced hours for the production of similar items.

c. The basis of proposed subcontracts and material costs. This support should include a detailed bill of materials (which is a listing of all materials proposed on a contract with per unit and extended prices), current material purchase pricing records (such as vendor quotations, catalogs and purchase orders), competitive bids for major subcontract purchases, and engineering/manufacturing estimate sheets. The contractor is also required to provide cost analyses for all major noncompetitive subcontract and material purchases.

d. The basis of the proposed indirect expense rates including overhead, general and administrative, material handling, and fringe benefits. Required support for all companies is a current year operating budget and a forecast covering the periods and departments/segments of 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.

e. Financial statements showing the stability of the company. If actual data are not yet available, projected financial statements should be prepared as part of the company budget.

f. 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 contracting officer 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 contracting officer generally will request the contractor to develop appropriate support for any estimates upon which DCAA cannot develop an adequate audit opinion.

g. As indicated in 3-101c, data requested by DCAA to evaluate information other than cost or pricing data will be based on the DCAA assistance requested by the contracting officer and the type of cost information (other than cost or pricing data) the contractor has submitted. When the contracting officer 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 f. If the

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contracting officer has requested that the auditor perform specific procedures on submitted cost information, paragraphs a. through f. 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. Sometimes, the auditor may be asked to assist the contracting officer 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 contracting officer in evaluating offered commercial items include:

- Source documents supporting sales history, quantities, and prices;
- Documents identifying special terms and conditions;
- Documents identifying customarily offered discounts for an item;
- Sources of financial data such as surveys, financial studies, etc.;
- Catalogs and price lists; or
- Historical data for an item previously not determined commercial that the offeror is now trying to qualify as a commercial item.

### **3-501 Model Proposal-Advanced Tank Technologies (ATT)**

Background information, similar to the following should be provided:

(1) 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. As recently as 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.

(2) This procurement, solicited by Request for Proposal (RFP) number DAAH01-02-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.

(3) The period of performance is February 28, 2002 to September 30, 2004.

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**Figure 3-5-1 Model Proposal**

**PROPOSAL COVER SHEET**

**(Cost or Pricing Data Required)**

1. **Solicitation/Contract/Modification No.:** DAAH01-02-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**  
DCMC Baltimore  
200 Townsontown Blvd., West  
Towson, MD 21204-5299  
(301) 339-4800

**Audit Office**  
District Branch Office  
8181 Professional Place  
Landover, MD 20785-2218  
(301) 436-2090

5. **Type of Contract Action:** New Contract

6.

Proposed Cost	+	Profit or Fee	=	Total:
\$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 Cost Accounting Standards Board (CASB) Regulations (Public Law 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.
  - 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 Contracting Officer 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.

10. November 21, 2001



11. John Smith, President

Advanced Tank Technologies  
Washington, DC  
Proposal Submitted in Response To RFP DAAH01-02-R-0001

<u>Element of Cost</u>	<u>Amount</u>	<u>Reference</u>
Engineering Labor	\$452,151	Schedule 1
Manufacturing Labor	26,412	Schedule 1
Direct Labor Overhead @ 56.7%	271,345	Schedule 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 contracting officer. Typically, contracting officers use criteria in FAR 15.404-4 for establishing a profit objective. DoD contracting officers may use the weighted guidelines policy described in DFARS 215.404-4 .



## SCHEDULE 2

Advanced Tank Technologies  
Washington, DC  
Proposal Submitted in Response to RFP DAAH01-02-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 October 21, 2001. The quotations are included in file "DAAH01-02-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 "DAAH01-02-R-0001, Engineering Drawing" and is immediately available upon request.

SCHEDULE 3

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2002 Labor Overhead  
Actual Overhead Expenses for Fiscal Years 1999 through 2001

Overhead Expenses (Note 2)	Budget	Actual Expenses (Note 1)		
	2002	2001	2000	1999
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			
Total Pool	<u>\$1,374,500</u>			
Less Unallowable Costs				
Entertainment	\$ 50,000			
Net Allowable Expenses	<u>\$1,324,500</u>			
Allocation Base				
Direct Labor	<u>\$2,336,000</u>		(Note 3)	
Rate	<u>56.7%</u>		(Note 4)	

Explanatory Notes

- (1) Provide the prior three years' actual overhead expense and allocation base in the same format as the budget for 2002. For the year 2001, actuals to date are provided.
- (2) The projected overhead expenses are based on the company's operating budget for 2002. The operating budget supporting data is located in file "DAAH01-02-R-0001, Overhead Operating Budget" and is immediately available upon request.
- (3) Includes Bid and Proposal Labor of \$5,000.
- (4) The same rate is estimated for fiscal years 2003 and 2004. We anticipate minimal inflation and a stable business base. The data and analysis supporting this assertion is located in file "DAAH01-02-R-0001, Overhead Forecast" and is immediately available upon request.



SCHEDULE 4

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2002 G&A  
Actual G&A Expenses for Fiscal Years 1999 through 2001

2002 Projected G&A Expenses (Note 2)	Less Unallowables	Net Allowable Expenses	Actual Expenses (Note 1)		
			2001	2000	1999
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	<u>7,000</u>		<u>7,000</u>		
Total Pool	\$ 341,500	\$ 30,500	\$ 311,000		
B&P	<u>8,500</u>		<u>8,500</u>	(Note 3)	
Total G&A and B&P	\$ <u>350,000</u>	\$ <u>30,500</u>	\$ <u>319,500</u>		
		<u>Allocation Base</u>			
		Labor	\$ 2,331,000		
		Overhead	1,371,665	(Note 4)	
		Other Direct Costs	29,000		
		Materials	250,000		
		Material Overhead	<u>12,500</u>		
		Total Base	<u>\$ 3,994,165</u>		
		Rate	<u>8.0%</u>	(Note 5)	

Explanatory Notes

- (1) Provide the prior three years' actual G&A expenses and the allocation base in the same format as the 2002 budget. For the year 2001, actuals are provided to date.
- (2) The projected G&A expenses are based on the company's operating budget for 2002. The operating budget supporting data is located in file "DAAH01-02-R-0001, G&A Operating Budget" and is available immediately upon request.
- (3) Includes \$665 B&P Travel (\$5,000 + \$2,835 + \$665).
- (4) Total Pool, excluding \$2,835 allocated to B&P Labor (\$5,000 x .567) [\$1,374,500 - \$2,835].
- (5) The same rate is estimated for fiscal years 2003 and 2004. We anticipate minimal inflation and a stable business base. The data and analysis supporting this assertion is included in file "DAAH01-02-R-0001, G&A" and is available immediately upon request.

SCHEDULE 5

Advanced Tank Technologies  
Washington, DC  
Budget for Fiscal Year 2002 Labor Overhead  
Actual Overhead Expenses for Fiscal Years 1999 through 2001

	Budget	<u>Actual Expenses (Note 1)</u>		
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
<b>Material Handling Expenses (Note 2)</b>				
Purchasing Department	\$10,000			
Receiving Department	<u>2,500</u>			
Total Expenses	<u>\$12,500</u>			
Less Unallowable Costs	\$ <u>0</u>			
Net Allowable Expenses	<u>\$12,500</u>			
<b>Allocation Base</b>				
Materials	<u>250,000</u>			
Material Overhead Rate (Note 3)	<u>5.0%</u>			

Explanatory Notes

- (1) Provide the prior three years' actual material overhead expenses and allocation base in the same format as the budget for 2002. For the year 2001, actuals are provided to date.
- (2) The projected material overhead expenses are based on the company's operating budget for 2002. The operating budget supporting data is located in file "DAAH01-02-R-0001, Material Overhead-Operating Budget" and is immediately available upon request.
- (3) The same rate is estimated for fiscal years 2003 and 2004. We anticipate minimal inflation and a stable business base. The data and analysis supporting this assertion is located in file "DAAH01-02-R-0001, Material Overhead-Forecast" and is available immediately upon request.

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### 3-601 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, by telephone, or even by mail. The PCO or ACO is assisted in the negotiations by the auditor's report. The auditor also attends negotiation meetings to provide support to the PCO or ACO.

### 3-701 Truth in Negotiations Act (TINA)

a. Procurements by DoD, 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 March 31, 1995. 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 \$550,000. 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 \$550,000. Contract and subcontract changes or modifications are subject to the requirements if the total amount of both the related increases and decreases exceeds \$550,000, even though the net change in price is less than \$550,000 [FAR 15.403-4(a)(1)].

c. If none of the exceptions are applicable, the contracting officer is required to obtain cost or pricing data before the award of negotiated contracts exceeding the \$550,000 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.

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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 or defective pricing audit) is not an indicator of any impropriety on the part of the contractor.

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**CHAPTER 4****4-000 Cost Accounting Standards****4-101 Cost Accounting Standards (Public Law 100-679) <sup>1</sup>**

a. The Cost Accounting Standards Board (CASB) was established as an agency of Congress in accordance with a provision of Public Law 91-379. It was authorized to promulgate cost accounting standards (CAS) designed to achieve uniformity and consistency in the cost accounting principles 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 cost accounting standards. 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 new 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, 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 recodified 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 regulations and interpretations, must be used to estimate, accumulate, and report the associated costs.

**4-102 Cost Accounting Standards (CAS) Applicability**

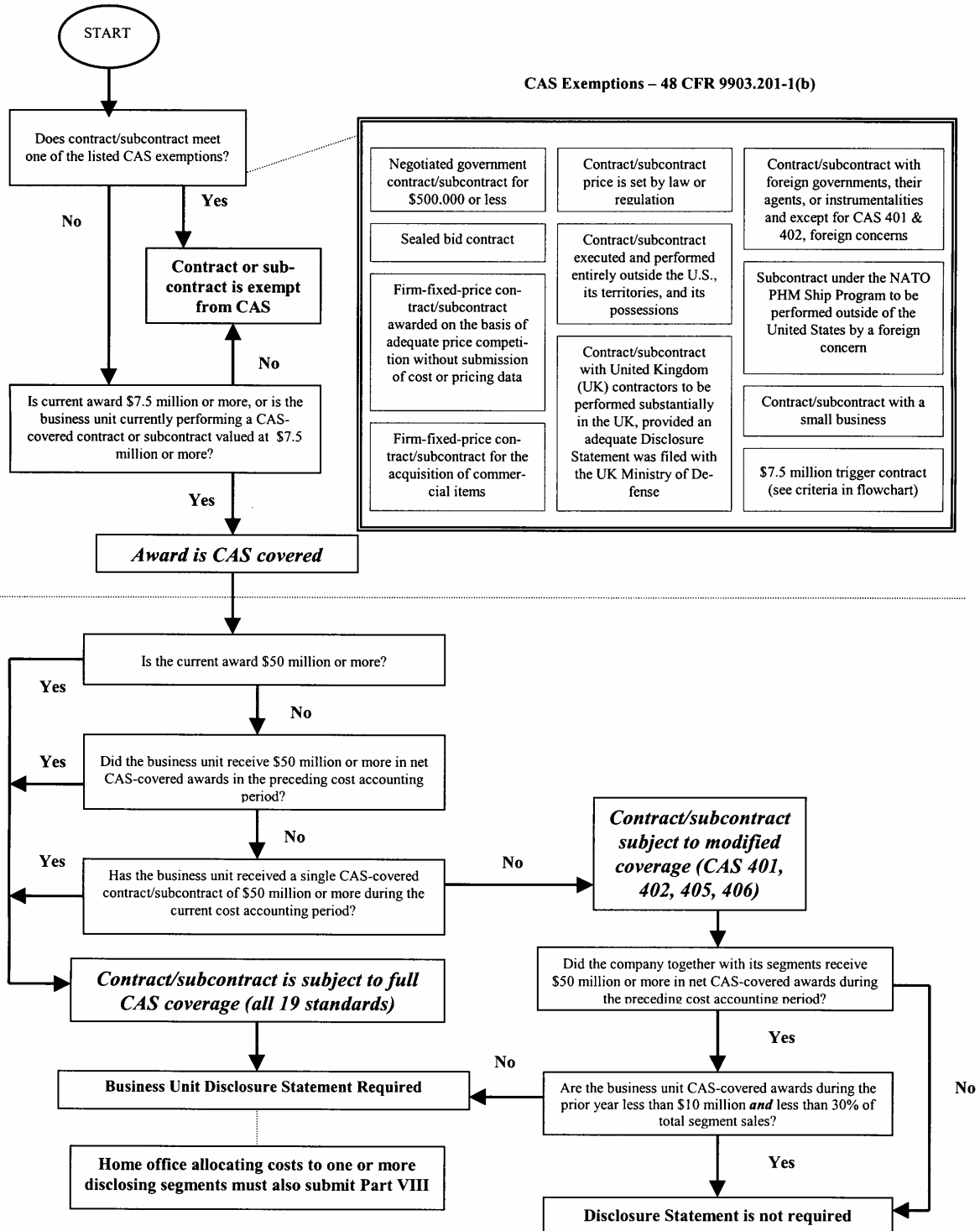
A flowchart for determining CAS applicability and Disclosure Statement submission (see 4-105) is shown in Figure 4-1-1.

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<sup>1</sup> Small businesses are exempt from Cost Accounting Standards requirements per 48 CFR 9903.201-1(b)(3).

Figure 4-1-1

CAS Applicability and Disclosure Statement Determination



a. The CASB has issued 19 cost accounting standards 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 52.230-3). Modified CAS applies to a negotiated non-exempt contract of less than \$50 million but more than \$500,000 awarded to a business unit that received less than \$50 million in net CAS-covered awards during its preceding cost accounting period.

#### **4-103 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 \$500,000. 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 contracting officer 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) 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. Contracts and subcontracts awarded to a United Kingdom contractor for performance substantially in the United Kingdom, provided that the contractor has filed with the United Kingdom Ministry of Defense a completed Disclosure Statement (Form No. CASB DS-1) which shall adequately describe its cost accounting practices.

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

j. Contracts and subcontracts to be executed and performed entirely outside the United States, its territories, and possessions.

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

#### **4-104 Flowdown of CAS Clauses (FAR 52.230-2 and 3)**

The prime contract CAS clauses at FAR 52.230-2 and FAR 52.230-3 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.

#### **4-105 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 \$500,000, 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 corporate or other home office that allocates costs to one or more disclosing segments performing CAS-covered contracts must submit Parts I and VIII of the disclosure statement.



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**4-106 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 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.

**4-107 DCAA Audit Responsibility**

FAR 30.202-6, 30.202-7, 30.602-1, 30.602-2, and 30.602-3 outline the basic functions of the contract auditor in the implementation of the standards. DCAA is responsible for recommendations to the administrative contracting officer regarding whether:

- a. A contractor's disclosure statement adequately describes the actual or proposed cost accounting practices;
- b. A contractor's described practices comply with FAR Part 31 and the applicable cost accounting standards.
- c. A contractor's changed cost accounting practice is adequately described and compliant with FAR Part 31 and the applicable cost accounting standards;
- d. A contractor's cost impact proposal is adequate and reflects the proper amount of contract price adjustments.

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**CHAPTER 5****5-000 Contract Financing and Interim (Billing) Methods****5-101 Introduction**

a. Our discussion on contract financing and interim billing methods begins with terminology. 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. In Government contracting, the work to be performed 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. Additionally, on cost type contracts, the government achieves the same effect by providing interim billing payments.

b. The Government's approach to 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 to date 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. Increasingly, for fixed-priced contracts, the Department of Defense is supporting the use of performance-based payments. Performance-based payments are not based on costs, but on events or other quantifiable measures of results. As of January 1, 2004, there was no specified format or Standard form for the submission of performance-based payments.

c. When the contract performance is assisted by cost-based means, 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 are generally based on costs recorded in the accounting system for the contract and adjusted for unpaid items. 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 allowable recorded year end rates. The estimated allowable rates should be based on the current operating budgets for the fiscal year. 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.

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## **5-201 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 instruction, such as a requirement to bill by contract line item (CLIN) or accounting classification reference number (ACRN). 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 contracting officer.

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.

c. If authorized, contractors may submit all interim public vouchers directly to certain Government paying offices; otherwise the vouchers must go through the DCAA office responsible for the contractor. The contractor should contact its cognizant DCAA office shortly after contract award to determine whether the contractor meets the criteria to submit vouchers directly to Government paying offices or whether the contractor is required to submit vouchers to its cognizant DCAA office (see 5-301 below). The contractor should also ensure that DCAA has the necessary information to process contract billings and to inquire if the DCAA office has any procedures unique to that office.

### **5-301 Direct Billing of Interim Vouchers to Government Paying Offices**

A contractor who: (1) maintains adequate billing system internal controls, and (2) submits timely incurred cost proposals and final vouchers in accordance with FAR 52.216-7, Allowable Cost and Payment contract clause, may be eligible to submit interim public vouchers directly to certain Government paying offices rather than submitting each voucher to DCAA for approval. The Defense Finance and Accounting Service (DFAS), National Aeronautics and Space Administration (NASA), U.S. Army Corps of Engineers (COE), and the Maryland Procurement Office (MPO) paying offices participate in the direct billing program. The elimination of provisional approval on each voucher will reduce payment cycle time and processing costs. Continued participation in the direct billing program is contingent upon maintenance of adequate internal controls for the preparation of public vouchers and submission of incurred cost proposals and final vouchers in accordance with FAR 52.216-7. DCAA will review procedures for preparing vouchers on a periodic basis as part of its ongoing surveillance of contractor billing systems.

#### **5-301.1 Criteria for Adequate Billing System Internal Controls**

A contractor may be eligible to submit public vouchers directly to the paying office if it meets the following criteria:

a. The contractor's accounting system is acceptable for Government contract costing. The suitability of a new contractor's accounting system for Government contract costing is

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normally reviewed as part of an overall "Preaward Survey" conducted by the contracting officer in accordance with FAR 9.106. For billing purposes, the billed costs must be reconcilable to the cost accounting records.

b. The contractor's billing rates are established in accordance with FAR 42.704. FAR 42.704(b) requires the contracting officer or auditor to establish billing rates based on information resulting from recent reviews, previous audits or experience, or similar reliable data or experience of other contracting activities.

c. The contractor maintains cumulative allowable costs by contract to support the preparation of interim and final vouchers. As shown in Schedule I of the sample incurred cost submission in Chapter 6, contractors must maintain cumulative allowable costs by contract for the preparation of Standard Form 1035, Public Voucher Continuation Sheet. Cumulative costs are necessary to assure that the cumulative amounts billed do not exceed the total estimated ceiling costs on the contract and/or the current contract maximum funding levels.

d. The contractor timely adjusts billing rates to reflect actual year-end allowable costs. At the end of the fiscal year, the contractor should compare the recorded allowable rates to the billing rates to determine if the billing rates should be adjusted. If there is a significant difference between billing and actual rates, billings should be adjusted as soon as possible to reflect either: (1) the additional amount due the contractor (if the billing rates have been lower than actuals), or (2) credit due the Government (if the actual rates have been lower). The adjustment to billings can be submitted on a separate voucher or if appropriate on the next voucher submitted for ongoing contracts.

e. Contracts are briefed by the contractor to assure that billings accurately reflect special cost limitations contained in contracts. Each contract brief should contain the specific billing requirements and limitations contained in the contract. (A contract brief is a written summary of the pertinent provisions/terms/requirements, etc. of the contract.)

f. Final year-end incurred cost proposals are submitted as required by the Allowable Cost and Payment clause (FAR 52.216-7) contained in cost type contracts. FAR 52.216-7 requires these incurred cost proposals be submitted within 6 months after the expiration of the contractor's fiscal year. Cost data contained in incurred cost proposals is used to verify the validity of billing rates and the computation of billable indirect costs on interim vouchers. Risk associated with overbilled costs is increased when incurred cost proposals have not been received in a timely manner.

g. Final vouchers are submitted in accordance with FAR 52.216-7, Allowable Cost and Payment clause contained in cost type contracts. Risk associated with overbilled costs is increased when final vouchers are not received in a timely manner.

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### 5-301.2 Participation in the Direct Billing Program

a. A contractor who has not already been contacted by DCAA, but believes that its policies and procedures meet the criteria outlined above, should write to its cognizant DCAA office to request participation in the direct billing program. The letter should include any rationale and/or documentation to support the contractor's belief that its billing system's policies and procedures meet the above criteria. During the next scheduled DCAA audit, the DCAA office will review the documentation and make a determination on eligibility to participate in the program.

b. If DCAA determines that a contractor is eligible to participate in the direct billing program, the contractor will be authorized to submit interim vouchers directly to the designated Government paying office(s) based on a DCAA authorization memorandum. The DCAA authorization memorandum to the paying office (with a copy to the contractor) will be signed by the cognizant DCAA office manager and state that the contractor has adequate internal controls over its billing system and submits incurred cost proposals and final vouchers per FAR 52.216-7; therefore, provisional DCAA approval of interim vouchers is not needed. A contractor cannot begin submitting vouchers directly until the contractor receives this memorandum. When submitting interim vouchers, the paying office requires that one copy of the DCAA authorization memorandum be forwarded with the voucher, *and* that "Direct Submission Authorized" be included in the voucher signature block.

### 5-301.3 Rescission of Authority to Direct Bill

DCAA may rescind the contractor's authorization to direct bill when:

- An audit report to the contracting officer identifies billing system internal control deficiencies;
- A DCAA Form 1, "Notice of Contract Costs Suspended and/or Disapproved" is prepared (See 6-301 for information on DCAA Form 1s);
- The contractor fails to apply approved billing system procedures in preparing vouchers for direct billing;
- Fiscal year-end incurred cost proposals are not submitted timely and in accordance with FAR 52.216-7, "Allowable Cost and Payment" contract clause; or
- The contractor fails to submit final vouchers in accordance with FAR 52.216-7, Allowable Cost and Payment contract clause, or a previously agreed-to plan to get current.

DCAA will immediately notify a contractor of a decision to withdraw its direct billing authority. DCAA will also notify the contracting officer and paying office within 24 hours of notifying the contractor.

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**5-301.4 Electronic Submission of Interim Vouchers**

a. A contractor that participates in the direct billing program may be eligible to submit vouchers electronically via the Defense Finance and Accounting Service (DFAS) paperless initiatives. DFAS allows contractors that participate in the direct billing program to submit vouchers electronically via Electronic Data Interchange (EDI) and/or web invoicing. Contractors participating in the direct billing program that are interested in submitting interim vouchers electronically should contact DFAS, Headquarters, Electronic Commerce Program Office at (614) 693-6868 or visit the DFAS electronic commerce home page at <http://www.dfas.mil/ecedi>.

b. The electronic submission of interim vouchers does not require the submission of SF 1034 and 1035. However, contractors are required to provide SF 1034 and 1035 information to contracting officers and auditors upon request. 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 instruction, 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 contracting officers 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. If a contractor refuses to provide SF 1034 and 1035 information upon request, the contractor's authorization to direct bill will be rescinded and DFAS will be notified that the contractor should not be allowed to submit vouchers via EDI and/or web invoicing.

**5-302 Prescribed Government Forms for Public Vouchers**

a. 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. The original public voucher (SF 1034) may be reproduced; however, it must conform to the official Government form in format, color (white), and quality of paper and must be stamped "Original". A blank SF 1034 can be found in Chapter 8.

b. The SF 1034A is essentially the same as the SF 1034. SF 1034A (copies) may be prepared by using a suitable process that will reproduce it and the typed entries on the original. Snapout public voucher sets are available (note that the snapouts contain the SF 1034 and the SF 1034A in the set). The required number of copies (per the contract or refer to paragraph 5-305.1 of this pamphlet) should be submitted to the auditor. The contractor is not required to certify or otherwise sign the public voucher.

c. SF 1035 and 1035A, "Public Voucher for Purchases and Services Other Than Personal Continuation Sheet", will be used for additional information required by the contracting officer and/or the auditor. The original continuation sheet (SF 1035) may be reproduced, provided it meets the same requirements for a reproduced SF 1034 (reference paragraphs 5-302 and 5-305.1). The contractor may prepare SF 1035A by using a suitable process that will reproduce it and the typed entries on the original. SF 1035 and 1035A should be assembled separately in original and copy sets and submitted with the SF 1034 and SF 1034A. Suitable

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self-designed forms may be submitted instead of SF 1035 and 1035A as long as they contain the information required by the contracting officer and/or auditor.

d. The public voucher forms may be reproduced from Chapter 8 of this pamphlet or obtained from the appropriate administrative contracting officer or, at a nominal cost, from the Government Printing Office.

**5-303 Guidance for Preparing SF 1034****5-303.1 Interim Public Voucher**

a. The information required on interim public vouchers is explained below. The lettered items correspond to entries on Figure 5-3-1.

<b><u>Figure Reference</u></b>	<b><u>SF 1034 Caption</u></b>	<b><u>Description of Data To Be Inserted</u></b>
(a)	U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION	The name and address of the military department or agency that negotiated the contract.
(b)	DATE VOUCHER PREPARED	The date that the public voucher is submitted.
(c)	CONTRACT NUMBER AND DATE	The number and date of the contract and task order (when applicable) under which reimbursement is claimed.
(d)	REQUISITION NUMBER AND DATE	Requisition number if available; otherwise leave blank.
(e)	VOUCHER NO.	Serial number of the voucher. 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.
(f)	SCHEDULE NO.; PAID BY; DATE INVOICE RECEIVED; DISCOUNT TERMS	Leave blank. The payer will fill in these spaces.
(g)	PAYEE'S ACCOUNT NUMBER	Enter the number (if known), or leave blank.



<b>Figure Reference</b>	<b>SF 1034 Caption</b>	<b>Description of Data To Be Inserted</b>
(h)	PAYEE'S NAME AND ADDRESS	<p>Firm's name as it appears in the contract and its correct address, except when another party (e.g., a bank) has been given the right to receive payment (called an assignment) or the right to receive payment has been restricted, as in the case of an advance account. An example of the type of information to be shown in this space (when an assignment has been made) follows:</p> <p>The National Bank, New York, NY Assignee for ABC Corporation New York, NY</p> <p>An example of the type of information to be shown in this space when the right to receive payment is restricted follows:</p> <p>ABC Corporation, New York, NY for deposit in the National Bank, New York, NY, Special Trust Account</p>
(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., 4/1/91 -4/30/91).
(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 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 frame indicated in (k). 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:

<b><u>Figure Reference</u></b>	<b><u>SF 1034 Caption</u></b>	<b><u>Description of Data To Be Inserted</u></b>
(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 printed name, mailing address and telephone number of the auditor who will sign the public voucher. Use both blocks (r) and (s), if required. The contractor can get this information by contacting its cognizant DCAA office. If the contractor is approved for direct billing (see 5-301), the above information should NOT be inserted. The block should state "Direct Submission Authorized".
(s)	TITLE	See reference (r) above. If the contractor is approved for direct billing (see 5-301), no entry is required for this block.

Figure 5-3-1 Sample of SF 1034 Interim Voucher

Standard Form 1034 Revised October 1987 Department of the Treasury 1 TRM 4-2000 1034-121		<b>PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL</b>				VOUCHER NO. (e) 10	
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION (a) USA Rocky Mountain Arsenal Denver, CO 80240			DATE VOUCHER PREPARED (b) 15 May 1991		SCHEDULE NO. (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			CONTRACT NUMBER AND DATE (c) DAAA05-90-C-0001, 8/1/90		PAID BY (f)		
			REQUISITION NUMBER AND DATE (d)		DATE INVOICE RECEIVED (f)		
					DISCOUNT TERMS (f)		
					PAYEE'S ACCOUNT NUMBER (g)		
SHIPPED FROM			TO (i)		WEIGHT		
					GOVERNMENT B/L NUMBER (i)		
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 (1)	
				COST	PER		
(j)	(k) 4/1/91 4/30/91	(l) For detail, see SF 1035 - total amount of claim transferred from page 1 of 1 SF 1035  COST REIMBURSABLE - PROVISIONAL PAYMENT	(m)	(m)	(m)	(n)  \$5,372	
TOTAL							
<i>(Use continuation sheets if necessary)</i>							
(Payee must NOT use the space below)							
PAYMENT: (o)		APPROVED FOR (p)		DIFFERENCE			
<input type="checkbox"/> PROVISIONAL		Provisional payment, subject to later (q)		\$			
<input type="checkbox"/> COMPLETE		BY (r)					
<input type="checkbox"/> PARTIAL		Joel J. Hunt, Auditor					
<input type="checkbox"/> FINAL		Defense Contract Audit Agency		Amount verified; correct for			
<input type="checkbox"/> PROGRESS		TITLE (s)		(Signature or initials)			
<input type="checkbox"/> ADVANCE		123 Anyplace (703) 555-1111					
		Any City, Any State 00000					
Pursuant to authority vested in me, I certify that this voucher is correct and proper for payment.							
(Date)		Authorized Certifying Officer (2)		(Title)			
ACCOUNTING CLASSIFICATION							
PAID BY	CHECK NUMBER ON ACCOUNT OF U.S. TREASURY		CHECK NUMBER ON (Name of bank)				
	CASH DATE		PAYEE (3)				
\$				PER			
				TITLE			

Previous edition usable.

**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 disbursing 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

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**5-303.2 Completion Voucher**

a. The completion voucher is the last voucher to be 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)(4) 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 contracting officer. However, prior to submitting the completion voucher, DCAA must have completed an audit of the contractor's incurred costs relating to the contract. Within 6 months after the end of each of its fiscal years for estimating, accumulating, and reporting contract costs, the contractor shall submit to the contracting officer and to the cognizant DCAA office, a proposed final incurred cost proposal for the period (reference FAR 52.216-7(d)(2)(i)). 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 submission is contained in Chapter 6 of this pamphlet.

c. After the incurred cost proposal is submitted, the contractor's costs will be audited as soon as possible. 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 5-3-1):

<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).

<b>Figure Reference</b>	<b>SF 1034 Caption</b>	<b>Description of Data To Be Inserted</b>
(s)	TITLE	“Auditor, Defense Contract Audit Agency” should NOT be inserted since DCAA does not sign the final voucher. This is done by the contracting officer, based on DCAA’s final report.

**5-304 Guidance for Preparing SF 1035**

The SF 1035 is used for additional information required by the contracting officer and/or auditor. Depending on the type of cost contract (e.g., cost plus fixed fee, cost-sharing no fee, etc.) the information required on the SF 1035 may differ in format and content. Figures 5-3-2 and 5-3-3 represent examples of SFs 1035 for cost plus fixed fee and cost-sharing no fee contracts, respectively.

**5-304.1 Interim Public Voucher – Cost Plus Fixed Fee Contract**

- a. The lettered items correspond to entries on Figure 5-3-2.

<b>Figure Reference</b>	<b>SF 1035 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.
(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 contracting officer or the auditor.

b. 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 contracting officers require on the SF 1035. Discuss 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.

<b>Figure Reference</b>	<b>Description of Data To Be Inserted</b>
(e)	Payee's name and address as shown on SF 1034.
(f)	The contract number and the task order number when applicable.

Figure Reference	Description of Data To Be Inserted
(g)	Target or estimated costs, target or fixed-fee, total contract value, and amount of fee payable. FAR 52.216-8(b) states that "...after payment of 85 percent of the fixed fee, the Contracting Officer may withhold further payment of fee until a reserve is set aside in an amount that the Contracting Officer considers necessary to protect the Government's interest. This reserve shall not exceed 15 percent of the total fixed fee or \$100,000, whichever is less." Therefore, the amount of fee payable is normally 85 percent of the total fee payable.
(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 transportation charges and the computations of overhead adjustments from provisional rates to final audited rates (allowable actual rates).
(j)	The amount billed by the major cost elements, contract reserves and adjustments, and adjusted amounts claimed for the current period.
(k)	The cumulative amounts billed by the major cost elements, contract reserves, and adjusted amounts claimed to date of this billing.
(l)	The total costs for current and cumulative periods.
(m)	The target or fixed-fee earned and due for the current and cumulative periods, and the formula for the computation (percentage of costs, percentage of completion, etc.).
(n)	The total costs claimed and the target or fixed-fee due for the current and cumulative periods.
(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 Contracting Officer's authority to establish contract reserves and under what circumstances these reserves can be established. The contracting officer 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 contracting officer authority to withhold 15% of the fee payable (refer to (g) above).

Figure Reference	Description of Data To Be Inserted
(p)	<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 large 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 which 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."</p>
(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 SF 1034.

Figure 5-3-2 Sample of SF1035 Interim Voucher

Standard Form 1035 September 1973 4 Treasury Form 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 (Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)	QUAN- TITY	UNIT PRICE		AMOUNT
				COST	PER	
(e) ABC Corporation 100 Main Street New York, NY		(f) Contract No. DAAA05-90-C- 0001	(g) Target/Estimated Costs			\$250,000
			(g) Target/Fixed Fee			15,000
			(g) Total			\$265,000
			(g) 85% of Fixed Fee			12,750
		(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) <u>Major Cost Elements:</u>						
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			650			60,000
		- (Manufacturing, Engineering, etc.)				
Overhead			925			90,000
General & Administrative Expenses			435			18,860
(l) Total Costs			\$ 4,785			\$ 207,520
(m) Fixed Fee Earned (Formula i.e. Total Costs x 6%)			287			12,451
(n) Total Amounts Claimed			\$ 5,072			\$ 219,971
		<u>Contract Reserves and Adjustments:</u>				
(o) Contract Reserves Withheld -(Identify)			\$ (500)			\$ (15,000)
(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			\$ 300			\$ ( 9,300)
(r) <u>Adjusted Amounts Claimed:</u>						
Current and Cumulative Costs			\$ 5,085			\$198,220
Fixed Fee			287			12,451
Total			(s) \$ 5,372			\$210,671



**5-304.2 Interim Public Voucher – Cost-Sharing No Fee Contract**

a. The following is an example of a SF 1035 for a cost-sharing no fee contract. The example of the SF 1035 (Figure 5-3-3) is separate and distinct from the preceding SF 1034 (figure 5-3-1) and SF 1035 (Figure 5-3-2).

<b>Figure Reference</b>	<b>SF 1035 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.
(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 contracting officer or the auditor.

b. 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 contracting officers require on the SF 1035. Discuss 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.

<b>Figure Reference</b>	<b>Description of Data To Be Inserted</b>
(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 1% 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 Contracting Officer may withhold further payment of allowable cost until a reserve is set aside in an amount that the Contracting Officer 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 1 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).
(j)	The amount billed for the current period, and cumulative amount from contract inception to date of this billing.

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(k)	The Government's share of amount billed for the current period and Government's share of the cumulative amount billed from contract inception to date of this billing.
(l)	The contractor's share of amount billed for the current period and contractor's share of the cumulative amount billed from contract inception to 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)	Total amount claimed by the contractor for current period and cumulative from contract inception to date of this billing. The current period amount is to be carried forward to the SF 1034.

Figure 5-3-3 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 <hr/> SCHEDULE NO. (c) <hr/> 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>	QUANTITY	UNIT PRICE COST      PER	AMOUNT	
(e) DEF Corporation 100 Any Street Baltimore, MD		(f) Contract No. DAAA09-96-C-0002		(g) Estimated Costs  (g) Contractor Share  (g) Gov't Share  (g) 1% of Gov't Share	\$250,000  \$150,000  \$100,000  \$ 1,000	
(h) Analysis of Claimed Current and Cumulative Costs						
(i)	(j) Total	(k) Gov't Share (40%)	(l) DEF Corp. Share (60%)			
Major Cost Elements	Current Period Costs	Cumulative Costs From Inception to Date of This Billing	Amount Billed for Current Period Costs	Cumulative Amount From Inception to Date of This Billing	Amount Billed for Current Period Costs	Cumulative Amount From Inception to Date of This Billing
Direct Material	\$6,000	\$30,000	\$2,400	\$12,000	\$3,600	\$18,000
Subcontracts	\$2,500	\$15,000	\$1,000	\$6,000	\$1,500	\$9,000
Interplant Charges	\$1,020	\$8,300	\$408	\$3,320	\$612	\$4,980
Special Tooling	\$250	\$2,500	\$100	\$1,000	\$150	\$1,500
Direct Travel Costs	\$210	\$1,000	\$84	\$400	\$126	\$600
Direct Labor	\$12,000	\$60,000	\$4,800	\$24,000	\$7,200	\$36,000
Overhead (150%)	\$18,000	\$90,000	\$7,200	\$36,000	\$10,800	\$54,000
G & A Expenses (15%)	<u>\$5,997</u>	<u>\$31,020</u>	<u>\$2,399</u>	<u>\$12,408</u>	<u>\$3,598</u>	<u>\$18,612</u>
(m) Total Costs	<u>\$45,977</u>	<u>\$237,820</u>	<u>\$18,391</u>	<u>\$95,128</u>	\$27,586	\$142,692
(n) Contract Reserves and Adjustments					\$(276)	\$(1,000)
(o) Total Amount Claimed					<u>\$27,310</u>	<u>\$141,692</u>

PerFORM (DLA)

**5-304.3 Completion Voucher**

a. The following is a sample SF 1035 for a completion invoice. Delay in processing completion invoices can be avoided if these instructions are followed. Note: The example of the SF 1035 (Figure 5-3-4) for the completion voucher is separate and distinct from the preceding SF 1034 (Figure 5-3-1) and SFs 1035 (Figure 5-3-2 and 5-3-3) examples.

<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 contracting officer or the auditor.

b. 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 contracting officers require on the SF 1035. Discuss SF 1035 requirements with the local audit office to be sure that there are no unique local requirements that could impact preparation of the SF 1035.

<b>Figure Reference</b>	<b>Description of Data To Be Inserted</b>
(e)	Payee's name and address as shown on SF 1034.
(f)	The contract number and the task order number when applicable.
(g)	The latest; target or estimated costs, target or fixed-fee 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, overrun costs cannot be claimed. Any amount in excess of the contract value should be subtracted from the total.

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<b>Figure Reference</b>	<b>Description of Data To Be Inserted</b>
(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 5-3-4 Sample of SF 1035 Completion Voucher

Standard Form 1035 September 1973 & Treasury Form 2000 1035-110		PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL				VOUCHER NO (b) 30 7	
		CONTINUATION SHEET				SCHEDULE NO (c)	
						SHEET NO (d)	
U.S. DEPARTMENT OF THE ARMY, BUREAU OF ESTABLISHMENTS (a) Navy Regional Medical Center, San Diego, CA							
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES (Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)		QUAN- TITY	UNIT PRICE		AMOUNT
					COST	PER	
(e) XYZ Corporation 200 Euclid St. Tampa, Florida 20005		(f) Contract No. N66818-91-C- 0091					
		(h) Contractor's Cumulative Claim Reconciliation Statement					
(j) Final Rates		FY 87	FY 88				(g) Target/Estimated Costs \$400,000
Fringe Benefit Rate		10.93%	12.15%				(g) Fixed Fee 36,000
Overhead Rate		112.99	92.30				(g) Total \$436,000
G&A Rate		2.91	14.97				(k) Total
(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	\$6,613.70			\$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

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## 5-305 Submission Requirements

### 5-305.1 General

Unless otherwise notified or specified differently in the contract, public vouchers must be submitted according to the following requirements:

a. Direct Billing of Interim Vouchers to Government Paying Offices

Original SF 1034, SF 1035, or equivalent contractor's attachment. If the snapout forms available from the Government Printing Office are not used, mark the words "ORIGINAL" on this sheet. A copy of the DCAA Authorization Memorandum for direct billing should be forwarded with the original voucher. The signature block on the voucher should state "Direct Submission Authorized".

b. Auditor Approval of Interim Vouchers

(1) Original SF 1034, SF 1035, or equivalent contractor's attachment. If the snapout forms available from the Government Printing Office are not used, mark the words "ORIGINAL" on this sheet.

(2) 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

(3) For contractors submitting interim vouchers to other than the four addresses listed in (2) above, six copies of SF 1034A, SF 1035A, or equivalent contractor's attachment are required. If the snapout forms available from the Government Printing Office are not used, mark the words "COPY" on these sheets.

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### 5-305.2 Completion Voucher

a. When a voucher is identified as the "Completion Voucher", the voucher should be submitted to DCAA. An additional copy should be submitted to the administrative contracting officer (ACO).

b. In addition to the SF 1034s and SF 1035s, the contractor is required to submit an original and four copies of the following documents to DCAA:

(1) Contractor's release of claims, and, if applicable, an Assignee's release of claims in a form acceptable to the contracting officer. 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. Refer to Chapter 8 for the format.

(2) 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 contracting officer.

### 5-305.3 Separate Public Voucher Submission Requirements

A separate public voucher (or if appropriate, a separate series of public vouchers) should be submitted for:

a. Amounts previously disallowed by the General Accounting Office.

b. 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 contracting officer for resolution.

c. Each portion of a contract which is payable by a different disbursing office.

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

e. On contracts administered by the Defense Logistics Agency, separate public vouchers are required where the claim is for:

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

(2) 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 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.



(3) 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 administrative contracting officer 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.

### **5-306 Requirements for Supporting Fee Claims**

Each SF 1035 (or contractor equivalent form) should include the basis of the claim for earned fee.

### **5-307 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.

### **5-308 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.

### **5-309 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 contracting officer's satisfaction (e.g. Patent Rights - Retention by the Contractor (Long Form), FAR 52.227-12). 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.

### **5-401 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, in amounts approved by the contracting officer. Unless a contractor requests a smaller amount, each progress payment shall be computed at the rate stipulated in the progress payment clause of the contract, using the total costs under the contract as shown by the accounting books and records. The contractor may add to this amount progress payments made to subcontractors or other company divisions. The progress payment request must also be adjusted for the sum of

all previous progress payments. Contracts awarded to small business concerns are handled in a similar fashion but the rate of recovery is normally higher.

### **5-402 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 when incurred:

- (1) 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 prior to submission of the contractor's next payment request.
- (2) Properly allocable and allowable indirect costs.
- (3) Cost of Money that would be allowable under FAR 31.205-10 (deemed an incurred cost for progress payment purposes).

b. Item 12b (reference figure 5-4-1), "Estimated additional cost to complete the contract", is of special interest to the auditor and the contracting officer. 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 estimate may be the last estimate made, adjusted for costs incurred since the last estimate; however, estimates shall be updated at least every 6 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 5-4-1). Refer to Figure 5-4-1 for an example of a completed form.

### **5-403 Treatment of Contract Overruns on Progress Payments**

If the sum of the estimate to complete 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 (reference FAR 32.503-6) and attached to the progress payment request. (Refer to Figure 5-4-2 for an example of this analysis. This example is separate and distinct from example 5-4-1.).

Figure 5-4-1 Sample Standard Form 1443

CONTRACTOR'S REQUEST FOR PROGRESS PAYMENT						Form Approved OMB No. 9000-0010
<b>IMPORTANT:</b> This form is to be completed in accordance with instructions on reverse.						
SECTION I - IDENTIFICATION INFORMATION						
<b>1. TO: NAME AND ADDRESS OF CONTRACTING OFFICE (Include ZIP Code)</b> DCMAO, Baltimore 200 Towsontown Blvd., West Towson, Maryland 21204-5299  <b>PAYING OFFICE</b> DPSC-DCMA, PHILADELPHIA 2800 South 20th Street Philadelphia, PA 19101-4178				<b>2. FROM: NAME AND ADDRESS OF CONTRACTOR (Include ZIP Code)</b> Advance Tank Technology 500 East Highway Washington, DC 20001		
<b>3. SMALL BUSINESS</b> <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO		<b>4. CONTRACT NO.</b> DAAH01-99-C-0001		<b>5. CONTRACT PRICE</b> \$ 5,000,000		
<b>6. RATES</b> A. PROG. PYMTS.    B. LIQUIDATION 8   5   %    8   5   %		<b>7. DATE OF INITIAL AWARD</b> A. YEAR    B. MONTH 99    2		<b>8A. PROGRESS PAYMENT REQUEST NO.</b> 3		<b>8B. DATE OF THIS REQUEST</b> June 15, 2000
SECTION II - STATEMENT OF COSTS UNDER THIS CONTRACT THROUGH						May 31, 2000 (Date)
<b>9. PAID COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE</b>						\$
<b>10. INCURRED COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE</b>						2,293,500
<b>11. TOTAL COSTS ELIGIBLE FOR PROGRESS PAYMENTS (Item 9 plus 10)</b>						2,293,500
<b>12. a. TOTAL COSTS INCURRED TO DATE</b>						\$ 2,293,500
<b>b. ESTIMATED ADDITIONAL COST TO COMPLETE</b>						2,080,730
<b>13. ITEM 11 MULTIPLIED BY ITEM 6a</b>						1,949,475
<b>14. a. PROGRESS PAYMENTS PAID TO SUBCONTRACTORS</b>						
<b>b. LIQUIDATED PROGRESS PAYMENTS TO SUBCONTRACTORS</b>						
<b>c. UNLIQUIDATED PROGRESS PAYMENTS TO SUBCONTRACTORS (Item 14a less 14b)</b>						
<b>d. SUBCONTRACT PROGRESS BILLINGS APPROVED FOR CURRENT PAYMENT</b>						
<b>e. ELIGIBLE SUBCONTRACTOR PROGRESS PAYMENTS (Item 14c plus 14d)</b>						
<b>15. TOTAL DOLLAR AMOUNT (Item 13 plus 14e)</b>						1,949,475
<b>16. ITEM 5 MULTIPLIED BY ITEM 6b</b>						4,250,000
<b>17. LESSER OF ITEM 15 OR ITEM 16</b>						1,949,475
<b>18. TOTAL AMOUNT OF PREVIOUS PROGRESS PAYMENTS REQUESTED</b>						1,702,300
<b>19. MAXIMUM BALANCE ELIGIBLE FOR PROGRESS PAYMENTS (Item 17 less 18)</b>						247,175
SECTION III - COMPUTATION OF LIMITS FOR OUTSTANDING PROGRESS PAYMENTS						
<i>*SEE SPECIAL INSTRUCTIONS ON BACK FOR USE UNDER THE FEDERAL ACQUISITION REGULATION.</i>						
<b>20. COMPUTATION OF PROGRESS PAYMENT CLAUSE (a)(3)(B) or a(4)(B) LIMITATION*</b>						\$ 1,732,060
<b>a. COSTS INCLUDED IN ITEM 11, APPLICABLE TO ITEMS DELIVERED, INVOICED, AND ACCEPTED TO THE DATE IN HEADING OF SECTION II</b>						
<b>b. COSTS ELIGIBLE FOR PROGRESS PAYMENTS, APPLICABLE TO UNDELIVERED ITEMS AND TO DELIVERED ITEMS NOT INVOICED AND ACCEPTED (Item 11 less 20a)</b>						561,440
<b>c. ITEM 20b MULTIPLIED BY ITEM 6a</b>						\$ 477,224
<b>d. ELIGIBLE SUBCONTRACTOR PROGRESS PAYMENTS (Item 14e)</b>						477,224
<b>e. LIMITATION (a)(3)(B) or a(4)(B) (Item 20c plus 20d)*</b>						
<b>21. COMPUTATION OF PROGRESS PAYMENT CLAUSE (a)(3)(A) or a(4)(A) LIMITATION*</b>						
<b>a. CONTRACT PRICE OF ITEMS DELIVERED, ACCEPTED AND INVOICED TO DATE IN HEADING OF SECTION II</b>						2,053,580
<b>b. CONTRACT PRICE OF ITEMS NOT DELIVERED, ACCEPTED AND INVOICED (Item 5 less 21a)</b>						2,946,420
<b>c. ITEM 21b MULTIPLIED BY ITEM 6b</b>						2,504,457
<b>d. UNLIQUIDATED ADVANCE PAYMENTS PLUS ACCRUED INTEREST</b>						
<b>e. LIMITATION (a)(3)(A) or a(4)(A) (Item 21c less 21d)*</b>						2,504,457
<b>22. MAXIMUM UNLIQUIDATED PROGRESS PAYMENTS (Lesser of Item 20e or 21e)</b>						477,224
<b>23. TOTAL AMOUNT APPLIED AND TO BE APPLIED TO REDUCE PROGRESS PAYMENT</b>						1,662,180
<b>24. UNLIQUIDATED PROGRESS PAYMENTS (Item 18 less 23)</b>						40,120
<b>25. MAXIMUM PERMISSIBLE PROGRESS PAYMENTS (Item 22 less 24)</b>						437,104
<b>26. AMOUNT OF CURRENT INVOICE FOR PROGRESS PAYMENT (Lesser of Item 25 or 19)</b>						247,175
<b>27. AMOUNT APPROVED BY CONTRACTING OFFICER</b>						
CERTIFICATION						
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 provision 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		
<small>NSN 7540-01-140-6623 Designed using PerfForm Pro, WASHINGTON, Oct 88</small>				<small>1443-102</small>		<small>STANDARD FORM 1443 (10-61) (20) Prescribed by GSA (FPMR 1-16.608) FAR (48 CFR 53.220)</small>

**Figure 5-4-1 Back of Standard Form 1443****INSTRUCTIONS**

**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 Administration Office; **PAYING OFFICE** - Enter the designation of the paying office, as indicated on 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. **LIQUIDATED 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% as 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 as 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. Total costs include all expenses paid and incurred, including 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 changes 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. For large business contracts, costs to be shown in Item 9 shall include only those recorded costs which have resulted at the time 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, down payments, 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, down payments, 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.

Item 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 contract, 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 costs of items delivered, giving proper consideration to the deferment of the starting load costs of, (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.

**Figure 5-4-2 Loss Ratio Factor Analysis**

XYZ Company  
 Loss Ratio Factor Analysis

Section I:		
Contract price	\$2,850,000	
Change orders and unpriced orders (to the extent funds have been obligated)	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	
Loss ratio factor- =	$\frac{\$3,000,000}{\$3,600,000}$	<u>83.3%</u>
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.

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

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**5-501 Performance-Based Payments - General**

Performance-based payments are the preferred form of government-furnished financing for fixed-price contracts when the contracting officer 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 contracting officer. 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:

- (1) performance measured by objective, quantifiable methods;
- (2) accomplishment of defined events; or
- (3) other quantifiable measures of results.

**5-502 Processing Performance-Based Payments**

a. The contracting officer 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 contracting officer cannot approve a payment until the specified event or performance criterion has been successfully accomplished.

b. The contracting officer is responsible for determining what reviews are needed to protect the government's interests. In determining the need for reviews, the contracting officer will consider the contractor's experience, performance record, reliability, financial strength, and the adequacy of contractor controls over performance-based payments. The contracting officer can request both pre-payment or post-payment reviews. The contracting officer may reduce payment when the contractor fails to comply with a material requirement of the contract, fails to progress on the contract, is in 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 contracting officer to either administer the payment or to determine that an event or other criterion has been successfully accomplished.

d. Auditors will provide assistance to contracting officers 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

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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*.

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**CHAPTER 6****6-000 Incurred Cost Proposals****6-101 Introduction**

a. This chapter covers submission of incurred cost proposals. These would include the various indirect overhead and General and Administrative (G&A) rates incurred by the contractor during its fiscal year. The incurred cost proposal encompasses both the indirect cost pool and base costs applicable to a submitted rate.

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 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 OMB Circular A-122. The nonprofit organizations listed in Attachment C should follow the examples in this pamphlet as well as satisfying the audit and reporting requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**6-201 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 6 months after the end of its fiscal year. An illustration of a Model Incurred Cost Proposal is included in section 6-801 of this pamphlet. The receipt of a 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 field location.

c. Failure to comply with the Allowable Cost and Payment clause requirement to provide a submission will result in a DCAA recommendation for the contracting officer to make a unilateral determination. The DCAA auditor will send several reminder letters to the contractor, but when the submission becomes 6 months overdue (one year after the end of the



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fiscal year) and no extension has been granted, the auditor will provide the contracting officer with a unilateral recommendation. The unilateral recommendation will be based on either a decrement factor applied to indirect rates using relevant contractor historical data or an Agency-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 submissions 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.

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 contracting officer with the authority to unilaterally establish indirect cost rates or total contract costs.

### **6-202 Penalties for Mischarging**

The manipulation of charges to a contract may be subject to criminal penalties under 18 United States Code (U.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.”

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.

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### 6-301 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, the auditor will notify the contractor of the deficiency. Absent a mutually agreeable arrangement, the audit will likely be delayed pending receipt of the necessary documents. The auditor may also have performed certain analyses and tests of the books and records, and internal controls, during the fiscal year the costs were actually being incurred. These tests will supplement the audit work performed after receipt of the proposal.

b. The audit will include an evaluation of both direct and indirect costs. The audit objective is to examine contractor cost representations (i.e., public vouchers, incurred cost proposal, etc.) to determine whether such costs are: reasonable, allocable to the contract(s), in accordance with generally accepted accounting principles (GAAP) and Cost Accounting Standards (CAS), and not prohibited by the contract, Government statute, or regulation (see FAR 31.201-2). During the audit, the auditor will discuss the audit findings with the contractor. The contractor is expected to provide feedback on these findings on a timely basis.

c. After completing the audit, the auditor will discuss the results of audit with the contractor and provide the contractor a copy of the draft audit report. The contractor will be given the opportunity to respond to the draft report and any contractor's comments will be included in the final report. FAR 42.705 discusses the conditions which 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. If agreement with the contractor is not reached, DCAA will forward its audit report concerning the rates to the cognizant contracting officer 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 contracting officer or file a claim under the contract "Disputes" clause (FAR 52.233-1). If rates are to be negotiated by the contracting officer (CO), the audit report and contractor comments will be forwarded to the contracting officer for action.

### 6-401 Contract Costs

Costs must be accumulated by contract 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.

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

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### 6-501 Direct Cost

FAR 31.202 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:

- Costs identified specifically with a contract are direct costs of the contract and are to be charged directly to the contract.
- All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives.
- 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.

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

### 6-601 Indirect Costs

FAR 31.203 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.

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 general and administrative expense (G&A) cost pool. The pools in turn are allocated to final cost objectives using an indirect cost allocation base that best links the cost pool to the cost objectives.

### 6-602 Overhead Costs

Costs that are 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 find separate overhead pools for engineering, manufacturing, material handling, and for certain off-site activities. Yet, it is conceivable that a very small contractor could have only one overhead pool.

Examples of overhead pool costs are:

- Department supervision
- Depreciation of department buildings and equipment
- Training of department employees

- Fringe benefits of department employees

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

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 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.

### **6-603 G&A Expenses**

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.

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).

### **6-701 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 cost accounting standards (reference 48 CFR Chapter 99) if:

- (1) the contractor's capital investment is measured, allocated to contracts, and costed in accordance with CAS 414;
- (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.)

### **6-801 Model Incurred Cost Proposal**

a. This section of the pamphlet presents DCAA's Model Incurred Cost Proposal (Figure 6-8-1) to assist a contractor in meeting its requirement for submitting final indirect cost rate proposals. The model includes example schedules on the following pages. These example schedules present the 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. Note that depending upon the size of the firm, complexity of the accounting system, and type of business, some of the information contained in the schedules may not be necessary to perform the audit. Specific requirements should be coordinated with the cognizant DCAA field audit office.

c. This model incurred cost proposal illustrates only a final overhead and 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 so note on the index.

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 fast and efficient as possible.

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

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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), is the electronic version of the Model Incurred Cost Proposal. It provides contractors with a standard user-friendly ICE submission package that will assist them in preparing adequate incurred cost submissions in accordance with FAR 52.216-7. 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.

**Figure 6-8-1 Model Incurred Cost Proposal**

**MODEL INCURRED COST PROPOSAL  
FISCAL YEAR ENDED 3/31/2000**

Schedule A	Summary of 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
Schedule F	Facilities Capital Cost of Money Factors Computation
Schedule G	Reconciliation of Books of Account and Claimed Direct Costs
Schedule H	Schedule of Direct Costs by Contract/Subcontract and Indirect Expense Applied At Claimed Rates
Schedule H-1	Government Participation in Indirect Expense Pools
Schedule I	Schedule of Cumulative Direct and Indirect Costs Claimed and Billed
Schedule J	Subcontract Information
Schedule K	Summary of Hours and Amounts on T&M/Labor Hour Contracts
Schedule L	Reconciliation of Total Payroll to Total Labor 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

**SUPPLEMENTAL MODEL INCURRED COST PROPOSAL INFORMATION**

1.	Comparative analysis of indirect expense pools detailed by account with prior fiscal year and budgetary data.
2.	General Organization and Executive compensation information for top five executives (see attached form)
3.	List of ACOs and PCOs for each flexibly priced contract
4.	Identification of and information on prime contracts under which the contractor performs flexibly priced effort as a subcontractor
5.	List of work sites and the number of employees assigned to each site (identify the number of Direct and Indirect employees)
6.	Description of accounting system
7.	Procedures for identifying and handling unallowable costs
8.	Certified financial statements or other financial data (e.g., trial balance, compilation, review, etc.)
9.	Management letter from outside CPAs concerning any internal control weaknesses
10.	Actions that have been and/or will be implemented to correct the weaknesses described in number 9 above
11.	List of internal audit reports issued in this fiscal year
12.	Annual internal audit plan of scheduled audits to be performed in this fiscal year
13.	Federal and state income tax returns
14.	Securities and Exchange Commission 10-K Annual Report
15.	Minutes from Board of Directors meetings
16.	Listing of Delay and Disruptions and Termination Claims Submitted Which Contain Costs Relating to the Subject Fiscal Year.
17.	Contract Briefings -- Contract briefings generally include a synopsis of all pertinent contract provisions, such as: contract type, contract amount, product or service(s) to be provided, applicable Cost Principles, contract performance period, rate ceilings, advance approval requirements, precontract cost allowability limitations, and billing limitations. A typical format for the briefings is shown at the end of this model. A contractor need not use the example form if the information is already generated and available within its automated accounting or billing systems.



XYZ CORPORATION  
ANYWHERE, USA

SCHEDULE A

SUMMARY OF CLAIMED INDIRECT EXPENSE RATES  
FISCAL YEAR ENDED 3/31/2000

Description	Amount	Reference
<u>General and Administrative:</u>		
Pool	<u>\$271,022</u>	Schedule B
Base	<u>\$3,151,320</u>	Schedule E
Claimed G&A Rate	<u>8.60%</u>	
<u>Overhead:</u>		
Pool	<u>\$510,610</u>	Schedule C
Base	<u>\$656,824</u>	Schedule E
Claimed O/H Rate	<u>77.74%</u>	
<u>Occupancy Expense (Intermediate):</u>		
Pool	<u>\$178,083</u>	Schedule D
Base (Square Footage)	<u>18,492</u>	Schedule D
Claimed Rate (per Sq.Ft.)	<u>\$9.63</u>	

XYZ CORPORATION ANYWHERE, USA								SCHEDULE B
GENERAL AND ADMINISTRATIVE (G & A) EXPENSES FISCAL YEAR ENDED 3/31/2000								
ACCT NO.	ACCOUNTS	DEPT. A MARKETING	DEPT B CONTROLLER	DEPT. C PRESIDENT	EXPENSES PER G/L	ADJUST- MENTS	CLAIMED COSTS	NOTES
600101	Salaries and Wages	\$25,202	\$30,602	\$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	7,269	12,987	(1,295)	11,692	[2]
600105	Entertainment	300		184	484	(484)	-	[3]
600106	Advertising/ Promotion	354			354	(287)	67	[4]
600107	Bad Debts		3,018		3,018	(3,018)	-	[5]
600108	Periodicals	2,882	1,678	1,875	6,435		6,435	
600109	Conventions/ Seminars	4,920		3,016	7,936	(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	51	62	70	183		183	
600117	SUI	255	309	346	910		910	
600118	Workers' Compensation	144	175	196	515		515	
600119	Health Insurance	2,495	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	<u>\$48,856</u>	<u>\$86,874</u>	<u>\$61,896</u>	<u>\$197,626</u>	<u>\$(8,287)</u>	<u>\$189,339</u>	
	Occupancy Allocation	<u>5,093</u>	<u>6,269</u>	<u>11,789</u>	<u>23,151</u>		<u>23,151</u>	Sched . D
	Subtotal	<u>\$53,949</u>	<u>\$93,143</u>	<u>\$73,685</u>	<u>\$220,777</u>	<u>\$(8,287)</u>	<u>\$212,490</u>	
	IR&D/B&P							
	IR&D Mat'l, 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 Mat'l, Travel, ODCs				6,485		6,485	
	B&P Labor				9,525		9,525	
	B&P Overhead @82.75%				7,882	(477)	7,405	[8]
	Grand Total				<u>\$280,502</u>	<u>\$(9,480)</u>	<u>\$271,022</u>	

**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.

XYZ CORPORATION ANYWHERE, USA								SCHEDULE C
OVERHEAD EXPENSES FISCAL YEAR ENDED 3/31/2000								
ACCT NO.	ACCOUNTS	FABRI-CATION	ASSEMBLY/TEST	MFG. ENG.	EXPENSES PER G/L	ADJUSTMENTS	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	Telecopier	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	<u>257</u>	<u>245</u>	<u>110</u>	<u>612</u>	<u>      </u>	<u>612</u>	
	<b>Subtotal</b>	\$162,910	\$155,135	\$70,545	\$388,590	\$(32,912)	\$355,678	
	Occupancy Allocation	<u>80,565</u>	<u>46,426</u>	<u>27,941</u>	<u>154,932</u>	<u>      </u>	<u>154,932</u>	Sched. D
	<b>Grand Total</b>	\$243,475	\$201,561	\$98,486	\$543,522	\$(32,912)	\$510,610	

**Notes Explaining Adjustments:**

- [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.

XYZ CORPORATION ANYWHERE, USA		SCHEDULE D		
OCCUPANCY EXPENSES (NOTE 1) FISCAL YEAR ENDED 3/31/2000				
ACCT NO.	ACCOUNTS	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>    </u>	<u>1,681</u>
	GRAND TOTAL	<u>\$178,083</u>	<u>\$ -</u>	<u>\$178,083</u>

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>
TOTAL	<u>18,492</u>	<u>100.00%</u>	<u>\$178,083</u>

Explanatory Notes:

- [1] This example would be applicable to any intermediate pool which 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.

XYZ CORPORATION ANYWHERE, USA				SCHEDULE E
CLAIMED ALLOCATION BASES FISCAL YEAR ENDED 3/31/2000				
DESCRIPTION	GENERAL LEDGER	ADJUSTMENTS	CLAIMED COSTS	NOTES
<u>Overhead Base:</u>				Sched. H
Contract Labor	\$633,012	\$ -	\$633,012	
IR&D Labor	14,287		14,287	[1]
B&P Labor	<u>9,525</u>	<u>—</u>	<u>9,525</u>	[1]
<b>Total Labor</b>	<u>\$656,824</u>	<u>\$ -</u>	<u>\$656,824</u>	
Overhead Base: * Straight time direct labor dollars of all contracts and projects including labor costs of IR&D/B&P projects.				
<b>*NOTE: Describe in detail the cost elements in the allocation bases that are used to distribute indirect costs.</b>				
<u>G&amp;A Base:</u>				
Contract direct costs				Sched. H
Labor			\$633,012	
Travel			34,563	
Material			842,981	
Other Direct Costs			172,105	
Subcontracts			<u>944,841</u>	
<b>Total Direct Costs</b>			\$2,627,502	
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%			<u>(7,822)</u>	Sched. B, [3]
<b>Total Cost Input</b>			<u>\$3,151,320</u>	[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>				

**Explanatory Notes:**

- [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.

SCHEDULE F

FACILITIES CAPITAL  
COST OF MONEY FACTORS COMPUTATION  
FISCAL YEAR ENDED 3/31/2000

XYZ CORPORATION  
ANYWHERE, USA

Period	Rate *	Months	COM
Apr-June 99	5.00	3/12	1.25
Jul - Dec 99	6.50	6/12	3.25
Jan-Mar 00	6.75	3/12	1.687
			6.187

CONTRACTOR:		XYZ CORPORATION		ADDRESS: ANYWHERE, USA					
BUSINESS UNIT:									
COST ACCOUNTING PERIOD:									
1. APPLICABLE COST OF MONEY RATE 6.563%		2. ACCUMULATION & DIRECT DISTRIBUTION OF NVB		3. ALLOCATION OF UNDISTRIBUTED		5. COST OF MONEY FOR THE COST ACCOUNTING PERIOD		7. FACILITIES CAPITAL COST OF MONEY FACTORS	
	RECORDED	\$	\$	BASIS OF ALLOCATION	COLUMNS [2] + [3]	COLUMNS [1] X [4]	IN UNITS OF MEASURE	COLUMNS [5] / [6]	
BUSINESS UNIT FACILITIES CAPITAL	LEASED PROPERTY		62,761						
	CORPORATE OR GROUP TOTAL		162,290				(Note 1)		
	UNDISTRIBUTED	\$	225,051						
	DISTRIBUTED		193,290						
OVERHEAD POOLS	Overhead		30,345		167,958	198,303	656,824	0.01868	
	Less:COM on IR&D/B&P Labor					(445)	23,812	0.01868	
G&A EXPENSE POOLS	G&A		8,416		25,332	33,748	2,088		
	Add:COM on IR&D/B&P Labor					445			
						2,533	3,151,320	0.00080	
<b>TOTAL</b>			38,761		193,290	232,051	14,357		

(Note 1) Allocation Bases:  
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, IR&D, 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.

XYZ CORPORATION ANYWHERE USA		SCHEDULE G		
RECONCILIATION OF BOOKS OF ACCOUNT AND CLAIMED DIRECT COSTS FISCAL YEAR 3/31/2000				
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	
Other Direct Costs	187,493	(3,183)	184,310	[2]
Subcontracts	<u>944,841</u>	—	<u>944,841</u>	
<b>Total Direct Costs</b>	<u>\$2,667,523</u>	<u>\$(4,870)</u>	<u>\$2,662,653</u>	
	(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 N00039-96-C-0873 that are unallowable per FAR 31.205-46.

[2] Other Direct Costs – Overtime premium not allowable by terms of contract N00039-96-C-0873.

SCHEDULE H  
SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT  
AND INDIRECT EXPENSE APPLIED AT CLAIMED RATES  
FISCAL YEAR ENDED 3/31/2000

JOB ORDER NO.	CONTRACT NO.	DIRECT LABOR	TRAVEL	MAT'L	ODCs	SUB-CONTRACTS	TOTAL DIRECT COSTS		(NOTE 4) O/H @ 77.74%	DIRECT COSTS PLUS O/H	(NOTE 2) G&A @ 8.60%	COST OF MONEY		GRAND TOTAL		
							DIRECT COSTS	DIRECT COSTS				O/H @ 0.01866	G&A @ 0.0008			
<b>Cost Type (Note 2):</b>																
1201 N00039-96-C-0873																
Claimed																
Not Claimed (Note 1)																
1203	N00040-94-C-0874	16,387	836	312	1,212	15,341	34,088	12,739	46,827	4,027	50,854	306	37	343		
1204	Subcontract-Clark Inc.	8,973	87	9,687	632	7,888	27,267	6,976	34,243	2,945	37,188	(Note 2)	37,188	37,188		
Total Cost Type		\$147,473	\$ 7,841	\$125,067	\$ 48,657	\$ 111,141	\$ 440,179	\$114,646	\$ 554,825	\$ 47,715	\$ 602,540	\$ 2,587	\$ 416	\$ 605,543		
<b>Other Flexibly Priced (Note 3):</b>																
1205 N00060-95-C-0913																
Time & Materials																
1301 N00022-96-D-0111																
Task Order No. 1																
Task Order No. 2																
1305 F66777-97-D-0112																
Task Order No.1																
Various Firm Fixed Price																
Various Commercial Work																
TOTAL CONTRACT COSTS		\$633,012	\$34,563	\$842,981	\$172,105	\$ 944,841	\$2,627,502	\$492,104	\$3,119,606	\$268,286	\$3,387,892	\$ 8,588	\$ 1,179	\$3,397,659		
TOTAL IR&D/B&P COSTS		\$ 14,287	\$ 366	\$ 126	\$ 9,232	\$ 24,011	\$ 11,107	\$ 35,118	\$ 9,525	\$ 244	\$ 85	\$ 6,156	\$ 16,010	\$ 23,415		
GRAND TOTAL		\$ 23,812	\$ 610	\$ 211	\$ 15,388	\$ -	\$ 40,021	\$ 18,512	\$ 58,533	\$ 656,824	\$35,173	\$843,192	\$187,493	\$ 944,841	\$2,667,523	\$510,616

(Sched. A w/ 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 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.). 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 price and commercial work is not necessarily limited to the claimed rates.

NOTE: Any indirect costs which exceed contract ceilings should be identified separately as "not claimed".



XYZ CORPORATION ANYWHERE, USA		SCHEDULE H-1		
GOVERNMENT PARTICIPATION IN INDIRECT EXPENSE POOLS FISCAL YEAR ENDED 3/31/2000				
	O/H EXPENSE POOL		G&A EXPENSE POOL	
CONTRACT TYPE	BASE AMOUNT	%	BASE AMOUNT	%
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>	—	—
TOTAL	<u>\$656,824</u>	<u>100.0</u>	<u>\$3,119,606</u>	<u>100.0</u>
	(Schedule H)		(Schedule H)	

NOTE: The purpose of this schedule is to present a general overview of the extent cost-type and flexibly priced contracts participate in the absorption of indirect expenses.

For user 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.

XYZ CORPORATION  
ANYWHERE, USA

SCHEDULE OF CUMULATIVE DIRECT AND INDIRECT COSTS  
CLAIMED AND BILLED ON COST/FLEXIBLY PRICED AND TIME AND MATERIAL CONTRACTS  
FISCAL YEAR ENDED 3/31/2000

SCHEDULE I

CONTRACT NO.	Order No.	Subject to Penalty Clause (Note 2)	Prior Years Settled Total Costs (Note 3)	Unsettled Claimed Direct and Indirect Costs Using Claimed Rates (Note 4) FYE 3/31/99	Total Cumulative Settled or Claimed	Less: Contract Limitations, Rebates & Credits (Note 5)	Net Cumulative Settled or Claimed (Note 6)	PV NO.	Cumulative Costs Billed THRU AMOUNT	OVER (UNDER) BILLED	Physically Complete (Note 7)
N00039-96-C-0873		Yes	\$ -	\$ 126,821	\$ 638,686	\$ -	\$ 638,686	18	2/28/2000 \$ 640,110	\$ 1,424	
N00040-94-C-0874		Yes	382,595	2,867,500	3,301,292	-	3,301,292	30	3/31/2000 3,295,110	(6,182)	
Subcontract-Clark Inc.			359,626	555,311	952,125	-	952,125	24	1/31/2000 960,100	7,975	Yes
N00060-95-C-0913		Yes	591,362	443,916	1,659,476	-	1,659,476	33	3/31/2000 1,640,426	(19,050)	Yes
Subtotal-Cost Type					\$ 6,551,579		\$ 6,551,579		\$ 6,535,746	\$ (15,833)	
Time & Material:											
N00022-99-D-0111	0001		\$ -	\$ -	10,600	\$ -	10,600	6	3/31/2000 \$ 10,848	\$ 248	Yes
N00022-99-D-0111	0002		-	-	5,950	-	5,950	6	3/31/2000 5,000	(950)	
F66777-99-D-0112	0001		-	-	6,000	-	6,000	2	3/31/2000 5,750	(250)	
Subtotal-Time & Material					\$ 22,550		\$ 22,550		\$ 21,598	\$ (952)	
<b>TOTAL</b>					\$ 6,574,129		\$ 6,574,129		\$ 6,557,344	\$ (16,785)	

**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 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, (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.

XYZ CORPORATION ANYWHERE, USA						SCHEDULE J
SUBCONTRACT INFORMATION FISCAL YEAR ENDED 3/31/2000						
SUBCON-TRACT NO.	PRIME CON-TRACT NO.	SUBCONTRAC-TOR'S NAME AND ADDRESS	POINT OF CONTACT AND PHONE NUMBER	SUBCON-TRACT VALUE	COSTS INCUR RED IN FY 1997	AWARD TYPE
<u>Subcontracts Issued:</u>						
P.O. #XYZ0998R	N00039-96-C-0873	Small Company 1445 Southpark Blvd. Buffalo, NY 14206	Ms. Donna Charleston Marketing Manager (716)883-8700 X317	\$110,500.00	\$87,912.00	CPFF
P.O. #XYZ0776R	N00040-94-C-0874	Tanza Enterprises 87B Executive Park Fairfax, VA 22033	Mr. Mike Tanza President (703) 983-5640	\$895,000.00	\$15,341.00	CPFF
P.O. #XYZ1032R	Subcontract to Clark Inc. (Prime N00039-93-C-0875)	Argonautics, Inc. 555 Ocean Parkway Anaheim, CA 92803	Mr. Ted Kessel Marketing Manager (714) 998-2000 X12	\$152,500.00	\$7,888.00	CPIF
P.O. #XYZ1213R	N00060-95-C-0913	DSK Corporation 3559 Vaulting Road York, PA 17405	Ms. Jane Matthews Marketing (717)992-7800	\$236,135.00	\$49,732.00	CPFF
P.O. #XYZ0822R	N00060-95-C-0913	Aristeo Associates 546 Arroyo Drive Carlsbad, MN 87112	Mr. Vince Aristeo President (504)535-1600	\$100,000.00	\$40,000.00	CPFF
					(Schedule H)	

NOTE: Subject schedule is to provide identification of subcontracts you have awarded to companies for which you are the prime or upper-tier contractor. This information is required for all cost type, flexibly priced, T&M, and labor hour subcontract awards.

XYZ CORPORATION ANYWHERE, USA							SCHEDULE K		
SUMMARY OF HOURS AND AMOUNTS ON TIME AND MATERIAL/LABOR HOUR CONTRACTS FISCAL YEAR ENDED 3/31/2000									
	CONTRACT #N00022-96-D-0111						CONTRACT #F66777-97-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>		—	—
<b>TOTAL</b>		<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>
<b>TOTAL</b>			<u>\$10,600</u>			<u>\$5,950</u>			<u>\$6,000</u>
<b>TASK CEILING</b>			<u>\$25,000</u>			<u>\$12,500</u>			<u>\$7,500</u>

**Explanatory Notes:**

- (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.

XYZ CORPORATION ANYWHERE, USA		SCHEDULE L
RECONCILIATION OF TOTAL PAYROLL TO TOTAL LABOR DISTRIBUTION FISCAL YEAR ENDED 3/31/2000		
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 FROM 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.		

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 3/31/2000

A. Decisions/Agreements or Approvals

1. Pension Plan. (Schedules B&C) reference ACO memorandum of negotiations (1999 Overhead) of August 10, 1999 which sets forth pension plan rates, vacation approvals, and certain other matters.
2. Billing Rates. ACO letter of March 3, 1999 setting forth approved billing rates for FY 2000.
3. Salary Approval. See ACO letter of June 19, 1999 approving salaries to top management.
4. Ceiling Rates. Contract N00039-96-C-0873 provides for a ceiling on overhead and G&A rates of 80% and 10%, respectively. Our claimed rates for FY 2000 are less than the ceiling rates.

B. Accounting or Organization Changes.

1. During the period of January 1999, a redirection of contract N00060-95-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, 1999, the staff was reduced to a total of 13 full-time employees by May 30, 1999.
2. Effective April 1, 1999, 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, 2000. 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.

XYZ CORPORATION  
ANYWHERE, USA

SCHEDULE N

CERTIFICATE OF FINAL INDIRECT COSTS  
FISCAL YEAR ENDED 3/31/2000

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 Federal Acquisition Regulation (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.

XYZ CORPORATION ANYWHERE, USA										SCHEDULE O	
SCHEDULE OF CONTRACT CLOSING INFORMATION FOR THOSE CONTRACTS FOR WHICH WORK EFFORT WAS COMPLETED DURING FISCAL YEAR ENDED 3/31/2000											
CONTRACT 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.		2/16/93	2/28/00	Yes	\$1,000,000	\$60,000	15,000	14,558			
N00060-95-C-0913		10/16/94	12/28/99	Yes	\$1,750,000	\$112,000	27,500	28,950			
Time & Material:											
N00022-96-D-0111	0001	7/1/96	12/31/99	Yes	\$25,000						

**Explanatory Notes:**

- (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), 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.



**GENERAL ORGANIZATION AND EXECUTIVE COMPENSATION INFORMATION  
DCAA**

FAO:															
CONTRACTOR:															
CFYE:															
PRIVATE or PUBLIC (circle one)															
<b>CONTRACTOR DATA:</b>															
NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM (NAICS) CODES		DESCRIPTION		YEAR		SALES		% ADV		% GOVT		% NIAT*		# EMPLYS	
				19											
PRIMARY															
SECONDARY				20											
SECONDARY				20											
<b>EXECUTIVE DATA</b>															
CFY	EXEC POSITION	DIRECT CHARGES	OWNER-SHIP %	BASE SALARY	BONUS	PENSION	HEALTH/LIFE INS.	AUTO	DEFERRED COMP.	LTI/ OTHER **	VOL. DELS.	CLAIMED COMP.			
19	1														
	2														
	3														
	4														
	5														
20	1														
	2														
	3														
	4														
	5														
20	1														
	2														
	3														
	4														
	5														
* NIAT (Net Income After Taxes)    ** LTI (Long Term Insurance or Key Man Life Insurance)															

**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 \_\_\_\_\_

**Contract Brief**

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)

14. Brief Statement of Scope of Work:

\_\_\_\_\_  
\_\_\_\_\_

**Contract Brief**

**B. Contract Clauses and Special Provisions**

15. Identify the contract clauses incorporated by reference.

\_\_\_\_\_

16. If this is a Time and Material (T&M) or fixed unit price contract, attach the schedule of negotiated rates.

17. If this is a cost sharing contract, identify the terms of the cost sharing arrangement.

\_\_\_\_\_

	<u>Yes</u>	<u>No</u>
18. Does the contract contain a level of effort clause? If yes, identify the limitations specified in the contract.	<input type="checkbox"/>	<input type="checkbox"/>

19. 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"/>
---	--------------------------	--------------------------

\_\_\_\_\_

20. 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"/>
--	--------------------------	--------------------------

21. Does the contract contain the FAR Penalty Clause (52.242-3)?	<input type="checkbox"/>	<input type="checkbox"/>
--	--------------------------	--------------------------

22. Does the contract contain precontract or cost allowability restrictions? If yes, identify the relevant portions of the contract.	<input type="checkbox"/>	<input type="checkbox"/>
---	--------------------------	--------------------------

\_\_\_\_\_

23. Does the contract contain restrictions on overtime (FAR 52.222-2)?	<input type="checkbox"/>	<input type="checkbox"/>
--	--------------------------	--------------------------

24. 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"/>
--	--------------------------	--------------------------

\_\_\_\_\_

25. Identify any costs made specifically unallowable by the terms of the contract.

\_\_\_\_\_

26. Identify any profit or fee provisions in the contract.

\_\_\_\_\_

27. Identify other special provisions/limitations specified in the contract. \_\_\_\_\_

\_\_\_\_\_

**Contract Brief**

Contractor Name: \_\_\_\_\_

Contract Number: \_\_\_\_\_

C. Summary of Contract Modifications

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

---

**CHAPTER 7****7-000 Contract Types****7-101 Fixed-Price Contracts (FAR 16.201)**

Fixed-price contracts provide for a firm-fixed-price or an adjustable price for the performance of a contract. An adjustable price may include a ceiling price, target price (including target cost), or both.

**7-102 Firm-Fixed-Price (FFP) Contracts (FAR 16.202)**

a. The firm-fixed-price contract provides for a price which cannot be adjusted because of the cost experience of the contractor in performing the contract.

b. Firm-fixed-price contracts are suitable for acquiring commercial items (see FAR Parts 2 and 12) or for acquiring other supplies or services on the basis of reasonably definite functional or detailed specifications (see FAR Part 11) and when the contracting officer can establish fair and reasonable prices at the outset.

**7-103 Fixed-Price Contracts with Economic Price Adjustment (FAR 16.203)**

a. The fixed-price contract with economic price adjustment provides for the revision of contract price upon the occurrence of contingencies specifically defined in the contract. There are three general types (1) adjustments based on established prices, (2) adjustments based on actual costs of labor or material, and (3) adjustments based on cost indexes of labor or material.

b. This contract type is applicable to circumstances where (1) serious doubts exist as to the stability of market or labor conditions that will exist during an extended period of contract performance, and (2) contingencies that would otherwise be included in the contract price can be identified and covered separately in the contract.

**7-104 Fixed-Price Incentive Contracts (FAR 16.204)**

The fixed-price-incentive (FPI) contract provides for adjusting profit according to a formula based on the relationship of final negotiated total cost to total target cost. There are two types of FPI contracts, firm target and successive targets (see 7-104.1 and 7-104.2 below).

**7-104.1 Fixed-Price Incentive (Firm Target) Contracts (FAR 16.403-1)**

a. In a fixed-price incentive (firm target) contract, the following items are negotiated: (1) target cost, (2) target profit, (3) price ceiling (but not a profit ceiling or floor), and (4) percentage sharing formula for establishing final profit and price.

b. After performance of the contract, final costs are negotiated and the contract price is established by using the formula. If the final costs are less than the target costs, then the application of the percentage sharing formula will yield a final profit greater than the target profit; conversely, when final cost is more than target cost, application of the formula results in a final profit less than the target profit, or even a net loss. If the final negotiated cost exceeds the price ceiling, the contractor absorbs the difference as a loss.

c. This contract type is applicable when FFP contracts are inappropriate and it is desirable for the contractor to assume some cost responsibility, and when a firm target and a formula can be negotiated at the outset.

#### **7-104.2 Fixed-Price Incentive (Successive Target) Contracts (FAR 16.403-2)**

a. A fixed-price incentive (successive target) contract is an incentive contract that operates in the same way as an FPI (firm target) contract except that one or more revisions in the target cost and target profit may be made during performance.

b. This contract is applicable under the same circumstances as the FPI (firm target) contract except that realistic firm targets cannot be negotiated at the outset.

#### **7-105 Fixed-Price Contracts with Award Fees (FAR 16.404)**

a. Fixed-priced award fee contracts establish a fixed price, which includes normal profit, to be paid for satisfactory contract performance. An award fee earned will be paid in addition to the fixed price. The contract will provide for periodic evaluation of the contractor's performance against an award-fee plan.

b. Contracting officers may use award fees when they want to motivate a contractor since other incentives cannot be used when contractor performance cannot be objectively measured.

#### **7-106 Fixed-Price Contracts with Prospective Price Redetermination (FAR 16.205)**

a. A fixed-price contract with prospective price redetermination provides for: (1) a firm-fixed price for an initial period of contract deliveries or performance, and (2) prospective redetermination, at a stated time or times during performance, of the price for subsequent periods of time.

b. This contract type is applicable for acquisitions of quantity production or services for which it is possible to negotiate a fair and reasonable firm-fixed-price for an initial period, but not for subsequent periods of contract performance.

#### **7-107 Fixed-Ceiling-Price with Retroactive Price Redetermination Contracts (FAR 16.206)**

a. A fixed-ceiling-price with retroactive price redetermination contract provides for a ceiling price and retroactive price redetermination within the ceiling after completion of the

contract. The redetermined price takes into consideration management effectiveness and ingenuity.

b. This contract type is appropriate for research and development contracts estimated at \$100,000 or less when a fair firm-fixed-price cannot be established and the amount involved and short performance period make the use of any other fixed-price contract type impracticable.

### **7-108 Firm-Fixed-Price, Level of Effort Term Contracts (FAR 16.207)**

a. The firm-fixed-price, level of effort term contract has strict limitations. The contract generally is used for studying a specific research and development area with a report as the final product. It specifies the contract performance in general terms, and obligates the contractor to devote a specified level of effort over a stated period of time for a fixed-price. The price is based on effort expended, not results achieved.

b. This contract type may be used only when the following conditions are met: (1) the work to be performed cannot be clearly defined, (2) the desired level of effort can be agreed upon in advance of performance, (3) it is reasonably probable that the goal cannot be achieved with an expenditure of less than the stipulated effort, and (4) the contract price does not exceed \$100,000, except with approval of the chief of the contracting office.

### **7-201 Cost-Reimbursement Contracts (FAR 16.301)**

Cost-reimbursement contracts provide for payment of the allowable costs incurred in contract performance, to the extent prescribed in the contract. An estimate of total cost is established so that the Government can obligate funds. The estimate is also used to establish a ceiling, or limit, on the amount of costs that the contractor may incur without the contracting officer approval and that the contractor exceeds (at his own risk). Cost-reimbursement contracts may be used only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

### **7-202 Cost Contracts (FAR 16.302)**

a. Cost contracts are cost-reimbursement contracts under which the contractor receives no fee. Only costs incurred in the performance of the contract are paid.

b. This contract type is often used in research and development, particularly with nonprofit organizations, or in facilities contracts.

### **7-203 Cost-Sharing Contracts (FAR 16.303)**

a. The cost-sharing contract is a cost-reimbursement contract in which the contractor is reimbursed only for an agreed portion of its allowable costs and receives no fee.

b. This contract type is frequently used for research and development contracts with private companies which stand to benefit from the projects.



### **7-204 Cost-Plus-Incentive-Fee (CPIF) Contracts (FAR 16.304; FAR 16.405-1)**

a. The cost-plus-incentive-fee contract is a cost-reimbursement contract which provides for a fee which is adjusted by formula according to the relationship of total allowable costs to target costs. A target cost, target fee, minimum and maximum fee, and fee adjustment formula are negotiated at the outset. The fee is adjusted after contract performance, using the formula and the maximum and minimum fee limitations.

b. This contract type is appropriate when a cost-reimbursement contract is permissible and a target cost and a fee adjustment formula likely to motivate effective contract performance can be negotiated. (See FAR 16.404-1(b))

### **7-205 Cost-Plus-Award-Fee (CPAF) Contracts (FAR 16.305; FAR 16.405-2)**

a. The cost-plus-award-fee contract is a cost-reimbursement contract with special fee provisions. The fee has two parts: (1) a fixed portion; and (2) an amount to be awarded for excellence in specific contract areas, such as quality, timeliness, ingenuity, and cost effectiveness, as determined by the Government.

b. This contract type is appropriate when achievement is measurable only by subjective evaluation rather than objective data.

### **7-206 Cost-Plus-Fixed-Fee (CPFF) Contracts (FAR 16.306)**

a. The cost-plus-fixed-fee contract is a cost-reimbursement contract that provides for a payment of allowable costs plus a fixed fee. A cost-plus-fixed-fee may take one of two basic forms - completion or term.

b. The completion form describes the scope of work by stating a definite goal or target and specifying an end product. This form of contract normally requires the contractor to complete and deliver the specified end product (e.g., a final report of research accomplishing the goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee. However, in the event the work cannot be completed within the estimated cost, the Government may require more effort without increase in fee, provided the Government increases the estimated amount to cover the increase in estimated cost.

c. The term form describes the scope of work in general terms and obligates the contractor to devote a specified level of effort for a stated time period. Under the term form, if the performance is considered satisfactory by the Government, the fixed fee is payable at the expiration of the agreed-upon period upon contractor certification that the level of effort specified in the contract has been expended in performing the contract work. Renewal for further periods of performance is a new acquisition that involves new cost and fee arrangements.

d. The term type contract is generally used for research and development procurements of such complexity that the cost of performance cannot be reasonably estimated.

---

**7-301 Indefinite-Delivery Contracts (FAR 16.500, 16.501-1, 16.501-2)**

a. Indefinite-delivery contracts may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award. This allows the Government to maintain a minimum amount of stock and to direct ship to users. There are three types of indefinite-delivery contracts: (1) definite-quantity contracts, (2) requirements contracts, and (3) indefinite-quantity contracts.

b. A delivery order contract is a contract for supplies that does not require a firm quantity of supplies, other than a minimum or maximum quantity, and that provides for the issuance of orders for the delivery of supplies during the period of performance. A task order contract is a contract for services that does not require a firm quantity of services, other than a minimum or maximum quantity, and that provides for the issuance of orders for the performance of tasks during the period of the contract.

**7-302 Definite-Quantity Contracts (FAR 16.502)**

a. A definite-quantity contract provides for delivery of a definite quantity of specific supplies or services for a fixed period, with deliveries or performance to be scheduled at designated locations upon order.

b. A definite-quantity contract may be used when the contracting officer can determine in advance that (1) a definite quantity of supplies or services will be required and (2) the supplies or services are regularly available or will be available after a short lead time.

**7-303 Requirements Contracts (FAR 16.503)**

a. A requirements contract provides for ordering from the contractor all actual purchase requirements for supplies or services.

b. A requirements contract may be appropriate for acquiring any supplies or services when the Government anticipates recurring requirements but cannot predetermine the precise quantities of supplies or services the designated Government activities will need during a definite period. The contracting officer will state a realistic estimated total quantity in the solicitation and the resulting contract. If feasible, the contract will state the maximum limit of the contractor's obligation to deliver and the Government's obligation to order. The contract may also specify minimum or maximum quantities that the Government may order, under each individual order, during a specified period of time.

**7-304 Indefinite-Quantity Contracts (FAR 16.504)**

a. An indefinite-quantity contract provides for an indefinite quantity with stated limits of supplies or services during a fixed period.

b. A contract must require the Government to order and the contractor to furnish at least a stated minimum quantity of supplies or services. The contracting officer should establish a reasonable maximum quantity for the contract in total.

### **7-305 Time and Materials Contracts (FAR 16.601)**

a. The time and materials contract provides for payment based on (1) direct and indirect labor, paid at specified labor rates; and (2) materials paid at cost. Material handling costs may be included, if appropriate. These contracts must include a ceiling price.

b. This contract type may be used only if no other contract type is suitable. It would typically be used for service rather than product procurements. It may be appropriate when the extent of labor required or the costs cannot be anticipated at the outset.

### **7-306 Labor-Hour Contracts (FAR 16.602)**

The labor-hour contract is similar to the time and materials contract except that materials are not supplied by the contractor. Price is based on specified fixed labor hour rates.

### **7-307 Letter Contracts (FAR 16.603)**

a. The letter contract is a written preliminary agreement to commence performance on a contract with the requirement that a definitive price be established, usually within 6 months of the date of the letter contract (FAR 16.603-2(c)(3)).

b. The letter contract may be used when procurement needs are urgent and time is not available to negotiate or advertise a procurement.

### **7-308 Basic Agreements (FAR 16.702)**

a. A basic agreement is not a contract. It is a written understanding that sets forth certain clauses that will be applicable to future contracts awarded to a contractor. The basic agreement provides uniform treatment of specific items under several contracts awarded to one contractor. It simplifies the negotiation of future contracts.

b. This agreement may be used if the Government and the contractor are likely to enter into several contracts for specific items over a period of a year or more.

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**CHAPTER 8****8-000 Forms****8-100 Forms**

The following forms are included in this pamphlet for the reader's convenience. They may be reproduced and used. DCAA has avoided marking them with data so that they may be used for this purpose. However, they may differ from the Standard Forms (SF)<sup>1</sup>.

a.(1)	SF 1443	Contractor's Request for Progress Payment (The enclosed form was reduced from its original size of 8.5 by 14 inches.)
a.(2)	SF 1443	Contractor's Request for Progress Payment Instructions
b.	SF 1034	Public Voucher for Purchases and Services Other Than Personal
c.	SF 1035	Public Voucher for Purchases and Services Other Than Personal (Continuation Sheet)
d.		Contract Pricing Proposal Cover Sheet (Former SF 1411). <sup>2</sup>
e.	CASB-CMF	Facilities Capital Cost of Money Computation
f.		Contractor's Release of Claims (2 pages) <sup>2</sup>
g.		Contractor's Assignment of Refunds, Rebates or Credits <sup>2</sup>

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<sup>1</sup> Contractors and other parties may obtain Standard Forms online from General Services Administration (GSA) at:

<http://www.gsa.gov/Portal/gsa/ep/formslibrary.do?formType=SF>

or in hardcopy from the Superintendent of Documents, Government Printing Office, Washington, DC 20402. If such forms are not available from the Superintendent of Documents, or if they are Agency forms, they may be obtained from the prescribing Agency (Reference FAR 53.107).

<sup>2</sup> These are not Standard Forms. They may be reproduced out of this manual or typed locally.

**a.(1) SF 1443 Contractor's Request for Progress Payment**

CONTRACTOR'S REQUEST FOR PROGRESS PAYMENT				Form Approved OMB No. 9000-0010	
<b>IMPORTANT:</b> This form is to be completed in accordance with instructions on reverse.					
<b>SECTION I - IDENTIFICATION INFORMATION</b>					
1. TO: NAME AND ADDRESS OF CONTRACTING OFFICE (Include ZIP Code)			2. FROM: NAME AND ADDRESS OF CONTRACTOR (Include ZIP Code)		
PAYING OFFICE			3. SMALL BUSINESS <input type="checkbox"/> YES <input type="checkbox"/> NO	4. CONTRACT NO.	5. CONTRACT PRICE \$
			6A. PROGRESS PAYMENT REQUEST NO.		6B. DATE OF THIS REQUEST
6. RATES		7. DATE OF INITIAL AWARD			
A. PROG. PMTS	B. LIQUIDATION	A. YEAR	B. MONTH		
	%				
<b>SECTION II - STATEMENT OF COSTS UNDER THIS CONTRACT THROUGH</b>					
					(Date)
9. PAID COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE					\$
10. INCURRED COSTS ELIGIBLE UNDER PROGRESS PAYMENT CLAUSE					
11. TOTAL COSTS ELIGIBLE FOR PROGRESS PAYMENTS (Item 9 plus 10)					
12. a. TOTAL COSTS INCURRED TO DATE					\$
b. ESTIMATED ADDITIONAL COST TO COMPLETE					
13. ITEM 11 MULTIPLIED BY ITEM 6a					
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)					
16. ITEM 5 MULTIPLIED BY ITEM 6b					
17. LESSER OF ITEM 15 OR ITEM 16					
18. TOTAL AMOUNT OF PREVIOUS PROGRESS PAYMENTS REQUESTED					
19. MAXIMUM BALANCE ELIGIBLE FOR PROGRESS PAYMENTS (Item 17 less 18)					
<b>SECTION III - COMPUTATION OF LIMITS FOR OUTSTANDING PROGRESS PAYMENTS</b>					
*SEE SPECIAL INSTRUCTIONS ON BACK FOR USE UNDER THE FEDERAL ACQUISITION REGULATION.					
20. COMPUTATION OF PROGRESS PAYMENT CLAUSE (a)(3)(i) or a(4)(ii) LIMITATION*					\$
a. COSTS INCLUDED IN ITEM 11, APPLICABLE TO ITEMS DELIVERED, INVOICED, AND ACCEPTED TO THE DATE 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)					
c. ITEM 20b MULTIPLIED BY ITEM 6a					\$
d. ELIGIBLE SUBCONTRACTOR PROGRESS PAYMENTS (Item 14e)					
e. LIMITATION (a)(3)(i) or a(4)(ii) (Item 20c plus 20d)					
21. COMPUTATION OF PROGRESS PAYMENT CLAUSE (a)(3)(ii) or a(4)(ii) LIMITATION*					
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 21a)					
c. ITEM 21b MULTIPLIED BY ITEM 6b					
d. UNLIQUIDATED ADVANCE PAYMENTS PLUS ACCRUED INTEREST					
e. LIMITATION (a)(3)(ii) or a(4)(ii) (Item 21c less 21d)					
22. MAXIMUM UNLIQUIDATED PROGRESS PAYMENTS (Lesser of Item 20e or 21e)					
23. TOTAL AMOUNT APPLIED AND TO BE APPLIED TO REDUCE PROGRESS PAYMENT					
24. UNLIQUIDATED PROGRESS PAYMENTS (Item 18 less 23)					
25. MAXIMUM PERMISSIBLE PROGRESS PAYMENTS (Item 22 less 24)					
26. AMOUNT OF CURRENT INVOICE FOR PROGRESS PAYMENT (Lesser of Item 25 or 19)					
27. AMOUNT APPROVED BY CONTRACTING OFFICER					
<b>CERTIFICATION</b>					
<p>I certify that the above statement (with attachment(s)) 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 provision 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.</p>					
NAME AND TITLE OF CONTRACTOR REPRESENTATIVE SIGNING THIS FORM			SIGNATURE		
NAME AND TITLE OF CONTRACTING OFFICER			SIGNATURE		

**a.(2) SF 1443 Contractor's Request for Progress Payment Instructions****INSTRUCTIONS**

**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 Administration 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% as 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 as 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 changes 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.

For large business contracts, costs to be shown in 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 contract, 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).**

**Items 20 and 20e.** 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.

**b. SF 1034 Public Voucher for Purchases and Services Other Than Personal**

Standard Form 1034 Revised October 1987 Department of the Treasury 1 TFM 4-2000 1034-121		<b>PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL</b>				VOUCHER NO.
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION			DATE VOUCHER PREPARED		SCHEDULE NO.	
			CONTRACT NUMBER AND DATE		PAID BY	
			REQUISITION NUMBER AND DATE			
PAYEE'S NAME AND ADDRESS			DATE INVOICE RECEIVED			
			DISCOUNT TERMS			
			PAYEE'S ACCOUNT NUMBER			
SHIPPED FROM		TO	WEIGHT	GOVERNMENT BIL NUMBER		
NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES <small>(Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)</small>	QUANTITY	UNIT PRICE		AMOUNT <small>(1)</small>
				COST	PER	
<small>(Use continuation sheet(s) if necessary)</small>			<b>(Payee must NOT use the space below)</b>		<b>TOTAL</b>	
PAYMENT:		APPROVED FOR	EXCHANGE RATE	DIFFERENCES		
<input type="checkbox"/> PROVISIONAL		- \$	- \$1.00			
<input type="checkbox"/> COMPLETE		BY 2				
<input type="checkbox"/> PARTIAL						
<input type="checkbox"/> FINAL				Amount verified; correct for		
<input type="checkbox"/> PROGRESS		TITLE		<small>(Signature or initials)</small>		
<input type="checkbox"/> ADVANCE						
Pursuant to authority vested in me, I certify that this voucher is correct and proper for payment.						
<hr/> <small>(Date)</small>		<hr/> <small>(Authorized Certifying Officer) 2</small>			<hr/> <small>(Title)</small>	
ACCOUNTING CLASSIFICATION						
PAID BY	CHECK NUMBER	ON ACCOUNT OF U.S. TREASURY		CHECK NUMBER	ON <small>(Name of bank)</small>	
	CASH	DATE		PAYEE 3		
\$						
1 When stated in foreign currency, insert name of currency. 2 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. 3 When a voucher is receipted in the name of a company or corporation, the name of the person writing the company or corporate 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.				PER		
				TITLE		

Previous edition usable.

Designed using Perform Pro, WHS/DIOR, Jul 94

**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 disbursing 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.

**c. SF 1035 Public Voucher for Purchases and Services Other Than Personal (Cont. Sheet)**

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.
U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT						SCHEDULE NO.
						SHEET NO.
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	

PerFORM (DLA)



Contract Pricing Proposal Cover Sheet

d. Contract Pricing Proposal Cover Sheet (Former SF 1411)

<b>CONTRACT PRICING PROPOSAL COVER SHEET</b> <i>(Cost or Pricing Data Required)</i>	1. SOLICITATION/CONTRACT/MODIFICATION NUMBER.	DMB No.: 9000-0013 Expires: 09/30/98
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Public reporting burden for this collection of information is estimated to average 4 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the 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 the FAR Secretariat (VRS), Office of Federal Acquisition Policy, GSA, Washington, D.C. 20405

2a. NAME OF OFFEROR			3a. NAME OF OFFEROR'S POINT OF CONTACT		3c. TELEPHONE	
2b. FIRST LINE ADDRESS			3b. TITLE OF OFFEROR'S POINT OF CONTACT		AREA CODE	NUMBER
2c. STREET ADDRESS			4. TYPE OF CONTRACT ACTION (Check)			
2d. CITY			2e. STATE		2f. ZIP CODE	
5. TYPE OF CONTRACT (Check)			a. NEW CONTRACT		d. LETTER CONTRACT	
<input type="checkbox"/> FFP <input type="checkbox"/> CPFF <input type="checkbox"/> CPIF <input type="checkbox"/> CPAF <input type="checkbox"/> FPI <input type="checkbox"/> OTHER (Specify)			b. CHANGE ORDER		e. UNPRICED ORDER	
			c. PRICE REVISION/ REDETERMINATION		f. OTHER (Specify)	
			6. PROPOSED COST (A+B=C)			
			A. COST		B. PROFIT/FEE	C. TOTAL

7. PERFORMANCE					
PLACE	a.			a.	
	b.			b.	

8. List and reference the identification, quantity and total price proposed for each contract line item. A line item cost breakdown supporting this recap is required unless otherwise specified by the Contracting Officer. (Continue on reverse, and then on plain paper, if necessary. Use same headings.)

a. LINE ITEM NO.	b. IDENTIFICATION	c. QUANTITY	d. TOTAL PRICE	e. PROP. REF. PAGE

9. PROVIDE THE FOLLOWING (If available)					
NAME OF CONTRACT ADMINISTRATION OFFICE			NAME OF AUDIT OFFICE		
STREET ADDRESS			STREET ADDRESS		
CITY		STATE	ZIP CODE	CITY	
TELEPHONE		AREA CODE	NUMBER	TELEPHONE	
10. WILL YOU REQUIRE THE USE OF ANY GOVERNMENT PROPERTY IN THE PERFORMANCE OF THIS WORK? (If "yes," identify)			11a. DO YOU REQUIRE GOVERNMENT CONTRACT FINANCING TO PERFORM THIS PROPOSED CONTRACT? (If "Yes," complete item 11b)		11b. TYPE OF FINANCING / (Check one)
<input type="checkbox"/> YES <input type="checkbox"/> NO			<input type="checkbox"/> YES <input type="checkbox"/> NO		<input type="checkbox"/> ADVANCE PAYMENT <input type="checkbox"/> PROGRESS PAYMENTS <input type="checkbox"/> GUARANTEED LOANS
12. HAVE YOU BEEN AWARDED ANY CONTRACTS OR SUBCONTRACTS FOR THE SAME OR SIMILAR ITEMS WITHIN THE PAST 3 YEARS? (If "Yes," identify item(s), customer(s) and contract number(s) on reverse of form.)			13. IS THIS PROPOSAL CONSISTENT WITH YOUR ESTABLISHED ESTIMATING AND ACCOUNTING PRACTICES AND PROCEDURES AND FAR PART 31, COST PRINCIPLES? (If "No," explain on reverse of form.)		
<input type="checkbox"/> YES <input type="checkbox"/> NO			<input type="checkbox"/> YES <input type="checkbox"/> NO		

14. COST ACCOUNTING STANDARDS BOARD (CASB) DATA (Public Law 91-379 as amended and FAR PART 30)					
a. WILL THIS CONTRACT ACTION BE SUBJECT TO CASB REGULATIONS? (If "No," explain in proposal)			b. HAVE YOU SUBMITTED A CASB DISCLOSURE STATEMENT (CASB DS-1 or 2)? (If "Yes," specify in proposal the office to which submitted and if determined to be adequate)		
<input type="checkbox"/> YES <input type="checkbox"/> NO			<input type="checkbox"/> YES <input type="checkbox"/> NO		
c. HAVE YOU BEEN NOTIFIED THAT YOU ARE OR MAY BE IN NONCOMPLIANCE WITH YOUR DISCLOSURE STATEMENT OR COST ACCOUNTING STANDARDS? (If "Yes," explain in proposal)			d. IS ANY ASPECT OF THIS PROPOSAL INCONSISTENT WITH YOUR DISCLOSED PRACTICES OR APPLICABLE COST ACCOUNTING STANDARDS? (If "Yes," explain in proposal)		
<input type="checkbox"/> YES <input type="checkbox"/> NO			<input type="checkbox"/> YES <input type="checkbox"/> NO		

This proposal is submitted in response to the solicitation, contract, modification, etc. in Item 1 and reflects our best estimates and/or actual costs as of this date and conforms with the instructions in FAR 15.804-6(b)(1), and Table 15-2. By submitting this proposal, the offeror, if selected for negotiation, grants the contracting officer 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 regardless of whether such items are in written form, in the form of computer data, or any other 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.

15. NAME AND TITLE (Type)		16. NAME OF FIRM	
17. SIGNATURE		18. DATE OF SUBMISSION	

e. CASB-CMF Facilities Capital Cost of Money Computation

Form CASB-CMF		FACILITIES CAPITAL COST OF MONEY FACTORS COMPUTATION					
CONTRACTOR:		ADDRESS:					
BUSINESS UNIT:							
COST ACCOUNTING PERIOD:	1. APPLICABLE COST OF MONEY RATE _____ %	2. ACCUMULATION & DIRECT DISTRIBUTION OF N V S	3. ALLOCATION OF UN-DISTRIBUTED	4. TOTAL NET BOOK VALUE	5. COST OF MONEY FOR THE COST ACCOUNTING PERIOD	6. ALLOCATION BASE FOR THE PERIOD	7. FACILITIES CAPITAL COST OF MONEY FACTORS
	RECORDED						
BUSINESS UNIT FACILITIES CAPITAL	LEASED PROPERTY						
	CORPORATE OR GROUP						
	TOTAL						
	UNDISTRIBUTED						
	DISTRIBUTED						
OVERHEAD POOLS							
G & A EXPENSE POOLS							
TOTAL							//////

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**f. CONTRACTOR'S RELEASE OF CLAIMS**

CONTRACT NO. \_\_\_\_\_

Pursuant to the terms of Contract No. \_\_\_\_\_ and \_\_\_\_\_ in consideration of the sum of Dollars (\$ \_\_\_\_\_), which has been or is to be paid under the said contract to

\_\_\_\_\_ (hereinafter called the Contractor) or its assignees, if any, the Contractor, upon payment of the said sum by the UNITED STATES OF AMERICA (hereinafter called the Government) does remise, release and discharge the Government, its officers, agents, and employees of and from all liabilities, obligations, claims and demands whatsoever arising out of or under this contract, subject only to the following exceptions:

1. Specified claims in stated amounts, or in estimated amounts where the amounts are not susceptible of exact statement by the contractor, as follows:

\_\_\_\_\_;

2. Claims, together with reasonable expenses incidental thereto, based upon the liabilities of the contractor to third parties arising out of the performance of this contract, which are not known to the contractor on the date of the execution of this release, and of which the contractor gives notice in writing to the Contracting Officer not more than six (6) years after the date of the release or the date of any notice to the Contractor that the Government is prepared to make final payment, whichever is earlier; and

3. Claims for reimbursement of costs (other than expenses of the Contractor by reason of his indemnification of the Government against patent liability), including reasonable expenses incidental thereto, incurred by the Contractor under the provisions of the contract relating to patents.

The Contractor agrees, in connection with patent matters and with claims which are not released as set forth above, to comply with all of the provisions of the said contract, including without limitation those provisions relating to notification to the Contracting Officer and relating to the defense of prosecution and of litigation.

IN WITNESS WHEREOF, this release of claims has been executed this \_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_.

[Contractor Name] \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

Witnesses: (1) \_\_\_\_\_

(2) \_\_\_\_\_

(NOTE: In the case of a corporation, witnesses are not required, but the certificate below must be completed.)

CERTIFICATE

I, \_\_\_\_\_ [name], certify that I am the \_\_\_\_\_ [official title] of the corporation named as Contractor in the foregoing release; that \_\_\_\_\_ [name], who signed said release on behalf of the Contractor was the \_\_\_\_\_ [official title] of said Corporation; that said release was duly signed for and in behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

Signed: \_\_\_\_\_

(CORPORATE SEAL)

**CONTRACTOR'S ASSIGNMENT OF REFUNDS, REBATES, OR CREDITS**

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**g. CONTRACTOR'S ASSIGNMENT OF REFUNDS, REBATES, OR CREDITS**

Contract No. \_\_\_\_\_

Pursuant to the terms of Contract No. \_\_\_\_\_ and in consideration of the reimbursement of costs and payment of fee, as provided in the said contract and any assignment thereunder, the \_\_\_\_\_ *[contractor name]* \_\_\_\_\_, (hereinafter called the Contractor) does hereby:

1. Assign, transfer, set over, and release to the UNITED STATES OF AMERICA (hereinafter called the Government) all right, title and interest to all refunds, rebates, or credits (including any related interest), arising out of the materials portion of the said contract, together with all the rights of action accrued or which may hereafter accrue thereunder.

2. Agree to take whatever action may be necessary to effect prompt collection of all refunds, rebates, or credits (including any related interest) due, or which may become due, and to promptly forward to the Contracting Officer checks (made payable to the office designated for contract administration) for any proceeds so collected. The reasonable costs of any such action to effect collection shall constitute allowable costs when approved by the Contracting Officer as stated in the said contract and may be applied to reduce any amounts otherwise payable to the Government under the terms hereof.

3. Agree to cooperate fully with the Government as to any claim or suit in connection with refunds, rebates, or credits (including any related interest); to execute any protest, pleading, application, power of attorney, or any other papers in connection therewith; and to permit the Government to represent him at any hearing, trial, or other proceeding, arising out of such claim or suit.

CONTRACTOR'S ASSIGNMENT OF REFUNDS, REBATES, OR CREDITS

IN WITNESS WHEREOF, this assignment of refunds, rebates, or credits has been executed this

\_\_\_\_\_ day of \_\_\_\_\_ 19 \_\_\_\_.

(Contractor Name) \_\_\_\_\_

BY: \_\_\_\_\_

TITLE: \_\_\_\_\_

Witnesses: (1) \_\_\_\_\_

(2) \_\_\_\_\_

(NOTE: In the case of a corporation, witnesses are not required, but the certificate below must be completed.)

CERTIFICATE

I, \_\_\_\_\_ [name], certify that I am the \_\_\_\_\_ [official title] of the corporation named as Contractor in the foregoing assignment, that \_\_\_\_\_ [name], who signed said assignment on behalf of the Contractor was the \_\_\_\_\_ [official title] of said Corporation; that said assignment was duly signed for and in behalf of said corporation by authority of its governing body and is within the scope of its corporate powers.

Signed: \_\_\_\_\_

(CORPORATE SEAL)

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**Appendix A**
**List of Acronyms and Abbreviations**

<b>Acronym/Abbreviation</b>	<b>Description</b>
A-E	Architect-Engineer
ABC	Activity Based Costing
ACMS	Advanced Cost Management Systems
ACO	Administrative Contracting Officer
ACRS	Accelerated Cost Recovery System
ADR	Alternative Dispute Resolution
ADR	Asset Depreciation Range
ADV	Auditable Dollar Volume
AFAA	Air Force Audit Agency
AID	Agency for International Development
AICPA	American Institute of CPAs
APPS	Audit Planning and Performance System
ASBCA	Armed Services Board of Contract Appeals
B&P	Bid & Proposal
BCA	Board(s) of Contract Appeals
BOA	Basic Ordering Agreement(s)
BOM	Bill of Material
CAC	Contract Audit Coordinator (DCAA)
CACO	Corporate/Home Office ACO
CACS	Contract Audit Closing Statement(s) (DCAA)
CACWS	Cumulative Allowable Cost Worksheet
CAD/CAM	Computer-Aided Design & Manufacturing
CAIG	Cost Analysis Improvement Group (DoD)
CAM	Contract Audit Manual (DCAA)
CAOs	Contract Administration Offices
CAS	Cost Accounting Standard(s)
CCDR	Contractor Cost Data Report(s)/ing
CDA	Contract Disputes Act
CECSR	Contractor Employee Compensation System Review
CFAO	Cognizant Federal agency official
CFSR	Contract Funds Status Report(s)/ing
CFY	Contractor Fiscal Year
CHOA	Corporate Home Office Auditor (DCAA)
CIPR	Contractor Insurance/Pension Review
CMTL	Computer Managed Training Library
CO	Contracting Officer
COBOL	Common Business-Oriented Language (EDP)
COE	Corps of Engineers (Army)

## List of Acronyms and Abbreviations

<b>Acronym/Abbreviation</b>	<b>Description</b>
CPA	Certified Public Accountant(s)
CPAF	Cost-Plus-Award-Fee (Contract)
CPFF	Cost-Plus-Fixed-Fee (Contract)
CPIF	Cost-Plus-Incentive-Fee (Contract)
CPR	Cost Performance Report(s)/ing
CPSR	Contractor Purchasing System Review
CPU	Central Processing Unit (EDP)
C/SCSC	Cost/Schedule Control System Criteria
CSRA	Civil Service Reform Act
CSSR	Cost/Schedule Status Report(s)/ing
CY	Calendar Year
DAC	Defense Acquisition Circular
DAR	Defense Acquisition Regulation
DCAAI	Defense Contract Audit Agency Instruction
DCAAM	Defense Contract Audit Agency Manual
DCAAP	Defense Contract Audit Agency Pamphlet
DCAAR	Defense Contract Audit Agency Regulation
DAI	Defense Contract Audit Institute
DCMA	Defense Contract Management Agency
DCMD	Defense Contract Management District
DFARS	Defense Federal Acquisition Regulation Supplement
DHHS	Department of Health & Human Services
DIIS	DCAA Integrated Information System
DL	General Counsel (DCAA Hqs)
DLA	Defense Logistics Agency
DLAD	Defense Logistics Agency Directive
DLAM	Defense Logistics Agency Manual
DMIS	Defense Contract Audit Agency Management Information System
DoDD	Department of Defense Directive
DoDI	Department of Defense Instruction
DoDIG	Department of Defense Inspector General
DOE	Department of Energy
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
DPRO	Defense Plant Representative Offices
DSCA	Defense Security Cooperation Agency
EAC	Estimate At Completion (Cost)
EDP	Electronic Data Processing (Computer(s))
EEO	Equal Employment Opportunity
EEOC	Equal Employment Opportunity Commission



<b>Acronym/Abbreviation</b>	<b>Description</b>
EPA	Economic Price Adjustment
EPA	Environmental Protection Agency
ERISA	Employee Retirement Income Security Act (1974)
ERP	Enterprise Resource Planning
ESOP	Employee Stock Option Plan
ESS	Estimating System Survey
ETC	Estimate to Complete (Cost)
EVMS	Earned Value Management System
FA	Financial Advisor
FAC	Federal Acquisition Circular
FAR	Federal Acquisition Regulation
FASB	Financial Accounting Standards Board
FASC	Financial Advisory Services Center
FAT	First Article Testing
FCR	Federal Contracts Report (BNA)
FCRC	Federal Contract Research Center(s)
FEMA	Federal Emergency Management Agency
FERC	Federal Energy Regulatory Commission
FFP	Firm-Fixed Price (Contract)
FFRDC	Federally Funded R&D Center(s)
FICA	Federal Insurance Contributions Act (Social Security)
FLRA	Federal Labor Relations Authority
FLSA	Fair Labor Standards Act
FMS	Foreign Military Sales
FOUO	For Official Use Only
FPI	Fixed-Price Incentive (Contract)
FPR	Fixed-Price Redeterminable (Contract)
FPRA	Forward Pricing Rate Agreement(s)
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
G&A	General & Administrative (Expense)
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAC	Group Audit Coordinator (DCAA)
GAGAS	Generally Accepted Govt. Auditing Standards (GAO)
GAO	General Accounting Office
GASB	Governmental Accounting Standards Board
GBL	Government Bill of Lading
GFAE	Government-Furnished Aeronautical Equipment
GFM	Government-Furnished Material
GFP	Government-Furnished Property
GOCO	Government-Owned, Contractor-Operated (Plant)

<b>Acronym/Abbreviation</b>	<b>Description</b>
GPO	Government Printing Office
GSA	General Services Administration
GSBCA	General Services Administration Board of Contract Appeals
HCFA	Health Care Financing Administration
I/PS	Insurance/Pension Specialist
ICAPS	Internal Control Audit Planning Summary
ICQ	Internal Control Questionnaire
IG	Inspector General
IIA	Institute of Internal Auditors
IPA	Independent Public Accountant
IPE	Industrial Plant Equipment
IR&D	Independent Research & Development (Cost)
IRC	Internal Revenue Code
IRS	Internal Revenue Service
IS	Information Systems
IT	Information Technology
JCL	Job Control Language (EDP)
JTR	Joint Travel Regulation
MAAR	Mandatory Annual Audit Requirement(s)
MICOM	U.S. Army Missile Command
MOU	Memorandum of Understanding
MRD	Memorandum for Regional Directors (DCAA)
MRP	Material Requirements Planning (Inventory Control System)
MWS	Major Weapon System
NASA	National Aeronautics and Space Administration
NGB	National Guard Bureau (DoD)
NRC	Nuclear Regulatory Commission
OAL	Audit Liaison Division (DCAA Hqs)
ODC	Other Direct Cost
OFPP	Office of Federal Procurement Policy (OMB)
OIG	Office of the Inspector General
OMB	Office of Management and Budget
ONR	Office of Naval Research
OPSEC	DoD Operations Security Program
OT	Other Transactions
OTS	Technical Audit Services (DCAA Hqs)
OWD	Workload and Trends Division (DCAA Hqs)

## TList of Acronyms and Abbreviations

<b>Acronym/Abbreviation</b>	<b>Description</b>
PAC	Accounting & Cost Principles Division (DCAA Hqs)
PACO	Principal ACO
PAS	Auditing Standards Division (DCAA Hqs)
PBIS	Performance Based Incentive System
PCO	Procuring Contracting Officer
PDR	Plantwide Data Report
PL	Public Law
PMM	Personnel Management Manual
PNM	Price Negotiation Memorandum
PPD	Programs Division (DCAA Hqs)
PQA	Quality Assurance Division (DCAA Hqs)
PROCAS	Process Contract Administration Services (DLA)
PS&C	Production Scheduling & Control
PSAD	Planning and Staff Allocation Document
PSP	Special Projects (DCAA Hqs)
R&D	Research & Development (Cost)
RAM	Regional Audit Manager
RD	Regional Director
RFP	Request(s) for Proposal(s)
SAS	Statement on Auditing Standards (AICPA)
SEC	Securities & Exchange Commission
SF	Standard Form
SIC	Suspected Irregular Conduct
SIS	Synopsis Information System(s) (DCAA)
T&M	Time and Material (Contract)
TBSR	Total Business System Review (ONR)
TCO	Termination Contracting Officer
TEFRA	Tax Equity and Fiscal Responsibility Act
TRASOPs	Tax Reduction Act Stock Ownership Plans
TSC	Technical Services Center
U.S.C.	United States Code
VAP	Vulnerability Assessment Procedure(s) (DCAA)
VLSI	Very Large Scale Integration
W/P	Working Papers
WBS	Work Breakdown Structure(s)

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**Appendix B****FAR Subpart 4.7 – Contractor Records Retention****B-101 Scope of Appendix**

This appendix presents a copy of the Federal Acquisition Regulation (FAR) Subpart 4.7 as of the date of this publication. This FAR Subpart provides direction in the area of records retention. 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 FAR and DFARS is available on the Defense Acquisition University's Acquisition Knowledge Sharing System at <http://deskbook.dau.mil>.

**B-201 FAR Subpart 4.7 - Contractor Records Retention****4.700 Scope of Subpart**

This subpart provides policies and procedures for retention of records by contractors to meet the records review requirements of the Government. In this subpart, the terms "contracts" and "contractors" include "subcontracts" and "subcontractors."

**4.701 Purpose**

The purpose of this subpart is to generally describe records retention requirements and to allow reductions in the retention period for specific classes of records under prescribed circumstances.

**4.702 Applicability**

(a) 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).

(b) This subpart is not mandatory on Department of Energy contracts for which the Comptroller General allows alternative records retention periods. Apart from this exception, this subpart applies to record retention periods under contracts that are subject to Chapter 137, Title 10, U.S.C., and the Federal Property and Administrative Services Act of 1949, as amended, 40 U.S.C. 471, et seq.

**4.703 Policy**

(a) Except as stated in 4.703(b), contractors shall 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 for-

- (1) 3 years after final payment or, for certain records;

**4.704 Calculation of retention periods**

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(2) The period specified in 4.705 through 4.705-3, whichever of these periods expires first.

(b) Contractors shall make available the foregoing records and supporting evidence for a longer period of time than is required in 4.703(a) if-

(1) A retention period longer than that cited in 4.703(a) is specified in any contract clause; or

(2) The contractor, for its own purposes, retains the foregoing records and supporting evidence for a longer period. Under this circumstance, the retention period shall be the period of the contractor's retention or 3 years after final payment, whichever period expires first.

(3) The contractor does not meet the original due date for submission of final indirect cost rate proposals specified in paragraph (d)(2) of the clause at 52.216-7, Allowable Cost and Payment, and paragraph (c)(2) of the clause at 52.216-13, Allowable Cost and Payment-Facilities. Under these circumstances, the retention periods in 4.705 shall be automatically extended one day for each day the proposal is not submitted after the original due date.

(c) Nothing in this section shall be construed to preclude a contractor from duplicating or storing original records in electronic form unless they contain significant information not shown on the record copy. Original records need not be maintained or produced in an audit if the contractor or subcontractor provides photographic or electronic images of the original records and meets the following requirements:

(1) The contractor or subcontractor has established procedures to ensure that the imaging process preserves accurate images of the original records, including signatures and other written or graphic images, and that the imaging process is reliable and secure so as to maintain the integrity of the records.

(2) The contractor or subcontractor maintains an effective indexing system to permit timely and convenient access to the imaged records.

(3) The contractor or subcontractor retains the original records for a minimum of one year after imaging to permit periodic validation of the imaging systems.

(d) If the information described in paragraph (a) of this section is maintained on a computer, contractors shall retain the computer data on a reliable medium for the time periods prescribed. Contractors may transfer computer data in machine readable form from one reliable computer medium to another. Contractors' computer data retention and transfer procedures shall maintain the integrity, reliability, and security of the original computer data. Contractors shall also retain an audit trail describing the data transfer. For the record retention time periods prescribed, contractors shall not destroy, discard, delete, or write over such computer data.

**4.704 Calculation of retention periods**

(a) The retention periods in 4.705 are calculated from the end of the contractor's fiscal year in which an entry is made charging or allocating a cost to a Government contract or subcontract.

If a specific record contains a series of entries, the retention period is calculated from the end of the contractor's fiscal year in which the final entry is made. The contractor should cut off the records in annual blocks and retain them for block disposal under the prescribed retention periods.

(b) When records generated during a prior contract are relied upon by a contractor for cost or pricing data in negotiating a succeeding contract, the prescribed periods shall run from the date of the succeeding contract.

(c) If two or more of the record categories described in 4.705 are interfiled and screening for disposal is not practical, the contractor shall retain the entire record series for the longest period prescribed for any category of records.

#### **4.705 Specific retention periods**

The contractor shall retain the records identified in 4.705-1 through 4.705-3 for the periods designated, provided retention is required under 4.702. Records are identified in this subpart in terms of their purpose or use and not by specific name or form number. Although the descriptive identifications may not conform to normal contractor usage or filing practices, these identifications apply to all contractor records that come within the description.

##### **4.705-1 Financial and cost accounting records.**

(a) Accounts receivable invoices, adjustments to the accounts, invoice registers, carrier freight bills, shipping orders, and other documents which detail the material or services billed on the related invoices: Retain 4 years.

(b) Material, work order, or service order files, consisting of purchase requisitions or purchase orders for material or services, or orders for transfer of material or supplies: Retain 4 years.

(c) Cash advance recapitulations, prepared as posting entries to accounts receivable ledgers for amounts of expense vouchers prepared for employees' travel and related expenses: Retain 4 years.

(d) Paid, canceled, and voided checks, other than those issued for the payment of salary and wages: Retain 4 years.

(e) Accounts payable records to support disbursements of funds for materials, equipment, supplies, and services, containing originals or copies of the following and related documents: remittance advices and statements, vendors' invoices, invoice audits and distribution slips, receiving and inspection reports or comparable certifications of receipt and inspection of material or services, and debit and credit memoranda: Retain 4 years.

(f) Labor cost distribution cards or equivalent documents: Retain 2 years.

**4.705 Specific retention periods**

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(g) Petty cash records showing description of expenditures, to whom paid, name of person authorizing payment, and date, including copies of vouchers and other supporting documents: Retain 2 years.

**4.705-2 Pay administration records.**

(a) Payroll sheets, registers, or their equivalent, of salaries and wages paid to individual employees for each payroll period; change slips; and tax withholding statements: Retain 4 years.

(b) Clock cards or other time and attendance cards: Retain 2 years.

(c) Paid checks, receipts for wages paid in cash, or other evidence of payments for services rendered by employees: Retain 2 years.

**4.705-3 Acquisition and supply records.**

(a) Store requisitions for materials, supplies, equipment, and services: Retain 2 years.

(b) Work orders for maintenance and other services: Retain 4 years.

(c) Equipment records, consisting of equipment usage and status reports and equipment repair orders: Retain 4 years.

(d) Expendable property records, reflecting accountability for the receipt and use of material in the performance of a contract: Retain 4 years.

(e) Receiving and inspection report records, consisting of reports reflecting receipt and inspection of supplies, equipment, and materials: Retain 4 years.

(f) Purchase order files for supplies, equipment, material, or services used in the performance of a contract; supporting documentation and backup files including, but not limited to, invoices, and memoranda; *e.g.*, memoranda of negotiations showing the principal elements of subcontract price negotiations (see 52.244-2): Retain 4 years.

(g) Production records of quality control, reliability, and inspection: Retain 4 years.