

ATTACHMENT D

INDIRECT AND G&A RATES SUPPORTING DOCUMENTATION

INTRODUCTION:

Accounting requirements applicable to AMNOW proposals are delineated in the Defense Federal Acquisition Regulation Supplement (DFARS) and are derived from Generally Accepted Accounting Practices (GAAP). The GAAP is the accounting standard adopted and updated by the US Securities and Exchange Commission that include definitions of concepts and principles as well as industry-specific rules. The purpose of GAAP is to ensure that financial reporting is transparent and consistent from one organization to another.

This document is intended to serve as a guide to better understand how to segregate and accumulate costs at the **project level**, in order to meet the DFARS requirements for an AMNOW proposal.

DEFINITIONS :

Accounting System: *Indirect and G&A rates are extracted from your 'acceptable' or 'adequate' accounting system as specified in Defense Federal Acquisition Regulation Supplement (DFARS) as follows:*

DFARS 252.242-7006(a)(1) defines an acceptable accounting system as: "a system that complies with the system criteria in paragraph (c) of this clause to provide reasonable assurance that— (i) Applicable laws and regulations are complied with; (ii) The accounting system and cost data are reliable; (iii) Risk of misallocations and mischarges are minimized; and (iv) Contract allocations and charges are consistent with billing procedures."

DFARS 252.242-7006(a)(2) defines an accounting system as: "the Contractor's system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions".

DFARS 252.242-7006(c)(2) requires proper segregation of direct costs from indirect costs. Direct Cost is any cost that is identified specifically with a particular final cost objective. Indirect cost means 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.

DFARS 252.242-7006(c)(3) requires identification and accumulation of direct costs by contract. Direct costs are not limited to items that are incorporated in the end product as material or labor. No final cost objective shall have allocated to it as a direct cost any cost that has been included in an indirect cost pool. Direct costs of the contract shall be charged directly to the contract.

DFARS 252.242-7006(c)(4) requires a logical and consistent method for the accumulation and allocation of indirect costs to intermediate and final cost objectives. The term indirect cost covers a wide variety of cost categories and the costs involved are not all incurred for the same reasons.

DFARS 252.242-7006(c) requires: (8) Management reviews or internal audits of the system to ensure compliance with the Contractor's established policies, procedures, and accounting practices.

DFARS 252.242-7006(c) requirements for Accounting for Contract Costs: (5) Accumulation of costs under general ledger control (6) Reconciliation of subsidiary cost ledgers and cost objectives to general ledger (7) Approval and documentation of adjusting entries (11) Interim (at least monthly) determination of costs charged to a contract through routine posting of books of accounts.

DFARS 252.242-7006(c) requirements for Labor accounting: (9) A timekeeping system that identifies employees' labor by intermediate or final cost objectives (10) A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.

Timekeeping System and Billing System are both a sub-set of the Accounting System.

Timekeeping System: Labor should be charged to intermediate and final cost objectives based on a timekeeping document (paper or electronic timecards) completed and certified by the employees and approved by the employees' supervisors. Employees should fill out timesheet on a daily basis and include all hours worked including uncompensated overtime. Labor cost distribution records should be reconcilable to payroll records and labor distribution records should trace to and from the job cost ledger and general ledger accounts.

Billing System: DFARS 252.242-7006(c) requirements: (16) Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms.

One other concept of an acceptable accounting system is allowability of the costs:

Allowability: FAR 31.201-2: A cost is allowable only when the cost complies with all of the following requirements: Reasonableness, Allocability, Terms of the contract; Applicable Cost Accounting Standards (CAS); Any Limitations Set forth in the entire Subpart 31.2.

RATE CALCULATION (Indirect Costs are expressed as a Rate (percentage):

Allocation Base:

Indirect costs should be **allocated** based on benefits accrued to intermediate and final cost objectives. Allocation base must be reasonable. There must be a relationship between the selected allocation base and the pool costs.

Typical allocation bases for Overhead are: Direct Labor Dollars, Direct Labor Hours, Direct Material Dollars.

Typical allocation bases for G&A are: Total Cost Input (Total direct and indirect costs minus G&A), Value Added (Total Cost Input less subcontracts and direct materials), or Single Cost Element (e.g., Direct labor dollars).

Pool (Expense) Accumulation:

Note: The number of indirect cost accounts in a single company can range from one to hundreds. The indirect structure needs to be tailored to your company and how it operates. In general, indirect cost accounts fall into two broad categories: Overhead and General & Administrative.

Overhead Rates: All those **expenses** that are incurred in common for different projects, products, or business activities and cannot be easily divided for individual projects, products, or activities are called indirect costs. We also could say all the costs that could not be allocated to direct costs are indirect costs. Examples of indirect cost rates include: Material Handling (or Overhead), Manufacturing Overhead, Engineering Overhead, Labor Overhead.

- Material Handling Cost pool includes cost of equipment to move materials, warehouse labor, warehouse storage, etc.
- Labor Overhead Cost pool includes cost of indirect labor (example: managers) fringe benefits relating to that labor, supplies for the labor, etc. Can be subdivided into Engineering, Shop Floor, Manufacturing, etc. These subdivisions allow for a deeper, clearer look by major expenses.

General & Administrative (G&A): These are management, financial, and other **expenses** related to the general management and administration of the business unit as a whole. To be considered a G&A expense of a business unit, the expenditure must be incurred by, or allocated to, the general business unit. G&A includes the day-to-day operational cost of running a business.

Examples of G&A expenses include: Salary and other costs of the executive staff of the corporate or home office, salary and other costs of such staff services as legal, accounting, public relations, and financial offices, selling and marketing expenses, building rent, utilities, senior managers, Human Relations, IT expenses, legal fees etc.

Indirect and General & Administrative Rates are calculated as follows:

$$\frac{\text{Total indirect costs in cost pool}}{\text{Applicable cost allocation base}}$$

In your proposal, for Attachment D, please provide the following information:

1. A narrative description of each indirect rate base and pool. For example:

The material handling rate **BASE** is the total direct material dollars of all current manufacturing projects. The direct material is any material that becomes a piece or portion of the final end product to be delivered to our customer.

The material handling rate **POOL** is the total warehousing expenses that include tow motor operation and maintenance expenses, warehouse utility personnel responsible to move materials within the factory, costs to receipt materials at our receiving dock; an apportioned expense of storage square footage, and other cost associated with material in and out of the facility.

2. Provide status of your accounting system approval if previously reviewed and approved by the government. Attach a copy of the approval letter if possible. At a minimum, provide the name of the approval official and date the system was approved.
3. Current status of overhead rate submission *if applicable*. (Regardless of your business size, if you have cost contracts or awards, you will have had your accounting system reviewed and must submit yearly overhead rate submissions to the government.)
4. Provide status of your current Disclosure Statement and any Cost Accounting Standards (CAS) non-compliance audits. (Note: Small business are exempt from the requirements of a Disclosure Statement and CAS applicability.)
5. If you are utilizing a loaded labor or material rate (costs include overhead rate in the stated cost) or a fully loaded rate (costs include overheads, G&A, and profit), please describe how the costs is calculated and how often this calculation is updated.
6. Provide any other information you believe important to support your rates and factors. For example: the latest company profit and loss statement if you are willing to disclose this document. ***It is not a requirement.***

HOW TO CALCULATE INDIRECT RATES

		Pool divided by Base
Material Handling Cost Pool	\$ 500	
Direct Material Cost (base)	\$5,000	Material Handling O/H Rate: 10%
Labor Overhead Cost Pool	\$ 320	
Direct Labor Cost (base)	\$ 400	Direct Labor O/H Rate: 80%
Other Direct Costs	<u>\$1,600</u>	(Only receives G&A O/H)
Total Cost Input (base)	\$7,820	
G&A Expense Pool	\$1,680	
Total Cost Input (base)	\$7,820	G&A O/H rate: 21.48%