

# Cost Vouchers, Settled Rates, or Completion Voucher Requirements

USG Compliance Training

## Vouchers Under Cost Type Contracts- Definitions



**Cost Voucher:** The term used by the government for invoices on flexibly priced contracts. A cost voucher is a voucher containing costs the contractor has incurred and for which they are seeking reimbursement.

**Settled Rates Voucher:** An indirect rate voucher to adjust previously billed amounts due to the determination of settled indirect rates. This can be a variance voucher, or completion voucher.

**Completion Voucher:** Also called Final Invoice. The term of the final invoice at completion of a contract. Often, the settled rates voucher and completion invoice are combined at the end of settled rates and at the end of a contract.

## Vouchers Under Cost Type Contracts- Definitions



**MOCAS:** Mechanization of Contract Administration Services (MOCAS). The system used by the Defense Finance and Accounting Services (DFAS) and the Defense Contract Management Agency to manage payments, appropriations and funding for USG contracts.

DCMA uses this information to manage Expiring Funds and Overage Contracts.

## Regular Activity – Throughout the Year

- **FAR 52.232-16 Progress Payments:** The Government will make progress payments to the Contractor when requested as work progresses, but not more frequently than monthly, in amounts of \$2,500 or more approved by the Contracting Officer.
- **FAR 42.704 Billing Rates:** (a) The contracting officer (or cognizant Federal Agency Official, CFAO) or auditor responsible under [42.705](#) for establishing the final indirect cost rates also shall be responsible for determining the billing rates.
- **Contractor Responsibilities.** Each month the contractor should bill the US Government, monthly for incurred costs for the previous month at billing rates established by the US Government.

## The rules – FAR 42.705(b) Final Indirect Cost Rates

Within 120 days (or longer period, if approved in writing by the contracting officer,) after settlement of the final annual indirect cost rates for all years of a physically complete contract, the contractor must submit a completion invoice or voucher reflecting the settled amounts and rates.

Once a contractor settles rates for a given year, it is “best practice” to produce indirect variance vouchers and submit to the government, when significant variances exist between provisional billing rates and actual final settled indirect rate amounts.

- For instance, let’s say the provisional billing G&A rate was 20% on DL of 100K. The G&A rate applied would be \$20K. But let’s say the final settled rate was 15%, or \$15K. A settled rates voucher should be prepared showing a credit of \$5K.

Why is This Best Practice? Three Reasons. They are:

- 1. MOCAS Reports.** The Government's numbers in MOCAS reflect actual incurred costs that have been billed. As shown on slide 5, incurred cost is \$5K less. The USG does not have this information, and the MOCAS reports would not be correct, potentially leading to payment issues, funding issues, etc.
- 2. Cash Flow.** It helps to manage monies due and cash flow. In the example in slide 5 it is better to give monies back as they are due, than wait for completion of a contract. If a contract last 5 years, then monies due back on multiple contracts could be exponential.
- 3. Managing Funding.** If you do not sync up with the MOCAS reports, they will not make any sense regarding a contractors internal reports, and a reconciliation will have to occur. Better to do it real time, each year. Also, funding levels may be off, payment amounts may need to be adjusted, all of which is better done during contract performance.

## The rules – FAR 42.705(b) Final Indirect Cost Rates

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This may look familiar, because it is. This the same slide as slide #4, however contractors for the reasons in slide 5 and 6 make a distinction. Contractors prefer to manage indirect rates and vouchers year by year.

The rules don't look at separate years until a contract is completed.

## **Clause**

The Government will make progress payments to the Contractor when requested as work progresses, but not more frequently than monthly, in amounts of \$2,500 or more approved by the Contracting Officer.

## **Computation of Amounts**

(1) Unless the Contractor requests a smaller amount, the Government will compute **each progress payment as 80 percent of the Contractor's total costs incurred under this contract** whether or not actually paid, plus financing payments to subcontractors\* less the sum of all previous progress payments made by the Government under this contract.

\* Financing payments to Subcontractors is beyond the scope of this training.

**Clause:** The parties estimate that performance of this contract, exclusive of any fee, will not cost the Government more than (1) the estimated cost specified in the Schedule.

The Contractor shall notify the Contracting Officer in writing whenever it has reason to believe that—

- (1) The costs the Contractor expects to incur under this contract in the next 60 days, when added to all costs previously incurred, will exceed 75 percent of the estimated cost specified in the Schedule; or
- (2) The total cost for the performance of this contract, exclusive of any fee, will be either greater or substantially less than had been previously estimated.
- (c) As part of the notification, the Contractor shall provide the Contracting Officer a revised estimate of the total cost of performing this contract.

Except as required by other provisions of this contract, specifically citing and stated to be an exception to this clause—

- (1) The Government is not obligated to reimburse the Contractor for costs incurred in excess of (i) the estimated cost specified in the Schedule.

**Clause:** The parties estimate that performance of this contract will not cost the Government more than the estimated cost specified in the Schedule.

The Schedule specifies the amount presently available for payment by the Government and allotted to this contract, the items covered, and the period of performance it is estimated the allotted amount will cover. The parties contemplate that the Government will allot additional funds incrementally to the contract up to the full estimated cost to the Government specified in the Schedule, exclusive of any fee. The Contractor agrees to perform, or have performed, work on the contract up to the point at which the total amount paid and payable by the Government under the contract approximates but does not exceed the total amount actually allotted by the Government to the contract.

The Contractor shall notify the Contracting Officer in writing whenever it has reason to believe that the costs it expects to incur under this contract in the next 60 days, when added to all costs previously incurred, will exceed 75 percent of the total amount so far allotted to the contract by the Government.

# Quiz



1. The contracting officer (or cognizant Federal agency official) or auditor responsible for establishing the final indirect cost rates also shall be responsible for determining the billing rates.  
A. True  
B. False
2. A contractor must submit a completion invoice or voucher reflecting the settled amounts and rates within 120 days of receiving settled rates.  
A. True  
B. False
3. It is best practice to recalculate settled rates as compared to provisional rates at the end of each year even if it is not required.  
A. True  
B. False
4. DFAS and DCMA utilize the MOCAS system to manage funding, payments, etc., related to USG contracts.  
A. True  
B. False
5. Contractors must notify the government when they anticipate funding or costs to exceed available funding or costs.  
A. True  
B. False

## Quiz - Answers



1. The contracting officer (or cognizant Federal agency official) or auditor responsible for establishing the final indirect cost rates also shall be responsible for determining the billing rates.  
**A. True – DCMA or DCAA establish billing rates**
2. A contractor must submit a completion invoice or voucher reflecting the settled amounts and rates within 120 days of receiving settled rates.  
**A. True it's a FAR 42 requirement.**
3. It is best practice to recalculate settled rates as compared to provisional rates at the end of each year even if it is not required.  
**A. True – and if the variance is significant, a contractor should submit a variance voucher.**
4. DFAS and DCMA utilize the MOCAS system to manage funding, payments, etc., related to USG contracts.  
**A. True – See slide 3**
5. Contractors must notify the government when they anticipate funding or costs to exceed available funding or costs.  
**A. True – So the government can take action**