

## Questionnaire on Standard Costing of Labor

Does your Lab do Standard Costing for Labor? **Yes**. If not, do you plan to ever convert to standard labor costing? **N/A**.

How do you develop the standard rates? (i.e. Salary Range; Job Description) Explain in detail, please. **Sandia's Standard Labor Rate (SLR) system was developed in FY97 and implemented in FY98, and is based upon a salary structure of 25 bands. Each band represents a particular range of annual base salaries, each band has a specific SLR established for that band, each employee is assigned to one of these 25 bands based upon their base annual salary, and each employee's labor time is charged out at their band's SLR. These SLRs are designed to recover all labor costs, including base salaries/wages, non-base compensation, shift and overtime premiums, salary allowances, and fringe benefits. An analysis of the base compensation distribution provides the information used to develop the SLR band structure. These bands are sized so that, with the exception of the first and last bands, the lower limit of each band is 5% less than that band's mid-point, and the upper limit of each band is 5% greater than that band's mid-point. Thus, no employee's base compensation is more than 5% greater than or less than the mid-point of any band. This band structuring mechanism ensures that the programmatic impact of SLRs will be no greater than 5% over or under our old labor charging system of using actual rates. The band mid-points represent the base compensation component of the SLRs. The non-base component of the SLRs is determined from an analysis of our total compensation package. Compensation elements that represent payments to employees over and above their base salaries are identified and compared to the total base compensation, and the resulting percentage, representing the non-base component of the SLRs, is used to increase the band mid-points to recover total compensation. The fringe benefit package is then compared to total compensation (base and non-base), and the resulting percentage is used to increase the adjusted band mid-points, resulting in our annual SLRs, which are used for budgeting purposes. The annual SLRs are then divided by our estimate of average hours to be worked in a year to generate hourly SLRs. These hourly SLRs are then used to cost out and distribute employees' labor as recorded on their timecards.**

How long did it take, work hours, to complete this development and for how many staff members. **The initial development effort involved a team of 30 staff members and took 15 months to investigate SLR systems, evaluate their applicability to Sandia, develop a recommendation, present these findings to executive management, implement their decision to accept the recommendation, disclose and explain this decision to DOE, modify the financial accounting system to accept SLR charging, communicate this decision and its implementation to employees, and coordinate the transition from charging labor at actual to charging labor at the new SLRs. The subsequent annual development of the SLRs for the next fiscal year involves the efforts of five staff members and takes approximately a week.**

How many rates do you have for each job category or job family? **We do not have job categories or job families incorporated into our SLR system. We have one rate for each salary band, and we have 25 salary bands in our SLR structure.**

What is your hourly basis (Actual hours, 40 hours standard, 2080 year, other)? **The hourly basis is re-calculated and updated each year to reflect our best estimate of worked hours for the next year. For FY03, we used 1768 hours, but for FY04 we will use 1800 hours. These worked hour amounts are divided into the annual SLRs to generate hourly SLRs.**

What is name of the pool and what is included in the pool (such as Labor and Paid Time Off, any other items)? **The SLR pool includes all employee compensation and all fringe benefits.**

For Labs that use a standard costing system, what reconciliations are required? **On a monthly basis we analyze the variances at the band level between SLR charges (recoveries) and actual compensation and fringe costs.**

How do you dispose of your variances? **Any variance between our SLR charges and our actual labor and fringe cost is included in our total year-end variance.** Is this methodology CAS compliant? **Yes.**

Under what conditions would you modify your standard rates? **We modify our SLRs if and when it appears that the SLR variance is becoming significant, thus minimizing our year-end SLR variance.** Is this done Retroactively or Prospectively? **Prospectively.**

What is your threshold as a percentage or dollar amount or both of variances to change your standard rates? **A variance of 1% or more can trigger a change in the SLRs, depending on a variety of other factors, such as the total variance among all indirect areas, time until year-end closing, and anticipated or projected changes in variances.**

What are the resources (how many people, etc.) necessary to maintain Standard Rates:  
In Human Resources **None.**  
In Accounting **None.**  
In Budget and Analysis **One staff member.**

For labs that converted from "actual" to "standard" rates, what benefit did you realize from standard Rates (Who received benefit, Cost savings, etc). **Our SLR system allows for increased consistency between budgeting and costing, thus improving our ability to estimate costs, price out proposals, and monitor variances between estimated and actual costs. Additional benefits include the reduction in our labor wrap rates, ease of implementation of commercial payroll software, and improved security of actual specific individual salary information.**

Have you been on Standard Rates and have gone back to Actual (If so, Why) **No.**

What was the transition process? **If this question relates to the previous question, the answer is "Not Applicable". If it does not relate to the previous question but instead refers to the transition from our old system of charging labor at actual to our new SLR system, the transition process involved the development of the SLR system, the actual implementation of that system, and the huge communication effort we undertook to fully inform employees and DOE about the change to SLRs. If the question relates to some other transition process, then I am absolutely clueless as to what that might be.**

Was this implemented at the start of the fiscal year? **Yes, we implemented our SLR system at the beginning of FY98 (1 Oct 1997).**

Did the lab have to submit a CAS change and if so, was it difficult getting approval from DOE. **We documented the change from actual to standard costing of labor in our CAS Disclosure Statement (DS). DOE reviews our DS annually, and while they do not approve the DS, they can and do approve our cost accounting practices, including our SLR system. There was a fairly significant, and ultimately successful, effort to adequately explain to DOE what we were doing in converting to a SLR system and to prove to DOE that such a change would not adversely impact their work at Sandia.**

What other wisdom would you pass along regarding Standard Costs? **Communicate, communicate, communicate!**

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