



Sandia National Laboratories

Operated for the U.S. Department
of Energy by

Sandia Corporation

Albuquerque, New Mexico 87185-1029

Date

Contractor Name

Address

Attention:

Based on our earlier discussions, the Contract Audit Department at Sandia National Laboratories (SNL) will audit costs incurred through your fiscal year ending XXXXXX on the following contracts placed with your company:

Contract(s) Type of Contract

This letter explains the scope and objectives of the audit engagement with your company. We would appreciate your acknowledgement that this is your understanding of the engagement and the preliminary contract listing represents all of your entity's auditable contracts with SNL.

Please note that the purpose of this audit is to ensure U.S. taxpayers that SNL contracts are settled for a reasonable amount, and no instances of fraud related to these contracts is apparent. We will not report on the adequacy of your company's accounting information system and related control procedures, nor provide you early warning as to the likelihood of business failure. However, if during the course of our audit we become aware of any fraud or significant weaknesses that impact the auditable contract(s), we may notify you if deemed appropriate.

We will conduct the audit in accordance with Generally Accepted Government Auditing Standards. The objective of our audit is to form an opinion as to whether all contract costs, in all material respects, are reasonable as to the nature and amount, allocable and allowable in accordance with Cost Accounting Standards and Generally Accepted Accounting Principles. We audit per the contract terms and conditions, Department of Energy Acquisition Regulations and Federal Acquisition Regulations (FARs). We will communicate the results of our audit and the associated opinion to the appropriate Sandia Contracting Representative(s).

Please note that your company is responsible for preparation of the cost claim and this allows us to provide an independent opinion on its presentation. Based on the adequacy

and timely completion of your cost claim, we will notify you of our audit sample selection. We will schedule a mutually agreeable date that allows you sufficient time to retrieve the supporting source documentation and prepare for the audit.

With regard to the audit sample, we request that you provide us with the cost and transactions detail directly from your accounting system. You should then copy that information into Excel and forward that to us. We will provide you with more explicit directions when we provide you with the audit sample selection.

We require access to selected documentation, including, but not limited to, general and subsidiary ledgers, timesheets and timekeeping records, payroll registers and payroll records, expense vouchers, subcontractor agreements and invoices, and vendor invoices. We must have access to various documents and have meetings or interviews with relevant personnel. We have the right to examine all costs associated with any contract that you have executed with any entity in accordance with the FAR.

Please be aware that there is a potential for adjusted costs or charges if supporting documentation is not available during scheduled testwork. It is Contract Audit's policy to allow a one- to two-week extension for supporting documentation that is not available during scheduled testing. After that time, an audit adjustment may be generated due to unsupported costs or charges. This may result in you being billed back for the unsupported amounts.

At the completion of audit testwork, we will require you to provide us with a Management Representation Letter. You will be certifying that you have disclosed all material facts, and that your stated costs are current, accurate and complete. The Management Representation Letter is to be prepared and signed by an officer of your organization. We will provide a letter template to you.

In forming our opinion, we will examine a selection of transactions representative of the contract(s). To examine all transactions would be extremely cost prohibitive. In accordance with appropriate auditing standards, we will form an opinion based on both an examination of a selection of representative transactions and an evaluation of your accounting policies and procedures.

Sandia National Laboratories contract auditors will treat all aspects of this engagement as privileged and confidential. We will not disclose any information related to this engagement without your consent except if required by law. All workpapers, reports, studies, or other information prepared by SNL contract auditors in connection with its work, shall be the property of SNL and may be used only for the specific purposes of this engagement.

We recognize that the company's officers and employees are generally fully occupied attending to their own duties. However, in order for us to conduct our audit effectively, we will need to make inquiries of and receive assistance from some of the company's

officers and employees. We intend to carry out this work with as little disruption as possible.

We trust this letter clearly sets out the scope and objectives of our audit of your company's auditable SNL contract(s)' cost(s). We appreciate your attention to this matter and please call or e-mail if you have any questions.

Sincerely,

**Sandia is a multiprogram laboratory operated by Sandia Corporation, a Lockheed Martin Company, for the United States
Department of Energy's National Nuclear Security Administration under contract DE-AC04-94AL85000.**

