



MTS SYSTEMS CORPORATION



Labor Charging and Unallowable Cost Training

FY 2021

be certain.

Scope

- All U.S. Test & Simulation and Corporate employees and contractors

Purpose

- Provide general principles on:
 - Charging time
 - Recognizing and charging unallowable costs
- Provide guidance on properly:
 - Charging direct and indirect time
 - Recognizing and charging unallowable costs
- Ensure compliance with applicable regulations and contract requirements

Failure to comply with this policy may result in MTS and its employees being subject to civil and criminal fines, penalties and other sanctions.

MTS Labor Charging Procedure FIN-006.01 -- Section 5.1

Employee

- Be aware of the requirements governing the timekeeping system
- Follow all procedures for documenting all hours worked
- Record total hours worked on a daily basis
- Submit all direct labor hours on a daily basis
- Accurately record hours worked
- Complete own timesheet

Supervisor

- Provide guidance to employees and contractors on proper timekeeping procedures
- Provide correct charge numbers and task descriptions (i.e., activity types)
- Ensure hours are recorded daily
- Ensure all direct hours are submitted daily
- Ensure all hours worked have been recorded to the correct charge number
- Approve completed timesheets

MTS Labor Charging Procedure FIN-006.01 -- Section 3.0

Employee Categories

- Time-reporting employees
 - Required to report time for each workday
 - All non-exempt (hourly) employees
 - Exempt (salaried) employees who charge time to direct labor
- Non time-reporting employees
 - Exempt (salaried) employees who do not charge time to direct labor

Types of Labor

- Direct labor
 - Time that can be traced directly to a project or order
- Indirect labor
 - Time that cannot be traced directly to a project or order

MTS Labor Charging Procedure FIN-006.01 -- Section 5.3

- » U.S. employees and contractors are responsible for maintaining an accurate daily record by task of time spent
- » Only time spent on a properly authorized task may be charged to that task
- » All time spent on a particular task must be charged to that task and not to another task

OLE

- Time worked on customer contracts must be entered and submitted in OLE daily by 9:00 AM the following morning
 - Entering direct labor hours in advance of work being performed is strictly prohibited
- Weekly time entry in OLE is required for all non-exempt and exempt time-reporting employees charging time to non-customer projects
- Non time-reporting employees only use OLE when reporting time that differs from their normal work schedule
- If OLE access is unavailable, time should be recorded using a paper timesheet, then entered and submitted in OLE as soon as access is available
 - Check the “Out” checkbox for each line item entered

Paper Timesheets

- Approved paper timesheets must be submitted to payroll by 9:00 AM Monday following the week of reported time
 - Charging time to short-term disability, workers’ compensation of family and medical leave (FMLA)
 - Any employee who does not meet the OLE submission deadline
 - Any correction to time already submitted to payroll
 - Time must be recorded on paper timesheet daily (for customer contracts) and completed in ink for time-reporting employees who do not use OLE

MTS Labor Charging Procedure FIN-006.01 -- Section 5.4

Exempt – Time-reporting employee

- Account for **all direct hours** worked
- Account for indirect hours up to a total of 40 hours
- Paid for 40 hours

Exempt – Non time-reporting employee

- Report exceptions only
- Account for **all direct hours** worked
- Paid for 40 hours

Non-Exempt – Direct and indirect hours

- Account for all hours worked
- Paid for all hours worked (overtime over 40)

MTS Labor Charging Procedure FIN-006.01 -- Section 5.5

- » Timesheets shall only be approved by duly authorized personnel
 - Employee's or contractor's direct supervisor or supervisor's manager
- » Approving supervisor shall:
 - Carefully review each timesheet for accuracy and completeness
 - Knowledge of hours worked, tasks performed, accuracy of charge numbers
 - Knowledge gained through observation of employee's or contractor's activities or direct communication with employee or contractor
 - Review all corrections and verify the explanation given for each change is appropriate
 - Ensure all employees and contractors are aware of correct charge numbers for each task performed
 - Compile and input employee or contractor time entry data in their absence
 - Approve employee or contractor timesheets in OLE no later than 11:00 AM Monday
 - Supervisor's approval certifies:
 - Timesheet is complete
 - All hours worked have been reported
 - Accounts charged are correct and accurately reflect work performed

MTS Labor Charging Procedure FIN-006.01 -- Section 5.6

Methods

- Timesheet Correction Form (HR Home → Forms → Payroll)
- Creation of new manual timesheet
- Print OLE timesheet submitted and make corrections on the printed timesheet

All timesheet corrections (regardless of timing) shall have a documented explanation

- Use “Note” field within OLE for corrections made prior to timesheet submission
- Document explanation on paper corrections
- Corrections must be approved by both the employee and the employee’s supervisor
- Sign and date in ink by both the employee and employee’s supervisor

MTS Labor Charging Procedure FIN-006.01 -- Section 5.7

- » Supervisor may submit a timesheet on employee's behalf
- » Employees must notify supervisor of hours worked and proper charge numbers
 - Email communication preferred
 - Supervisors are to retain the communications as documentation
- » Employee must review timesheet submitted upon return
- » Employee sends Payroll an email to certify approval of submitted timesheet

MTS Labor Charging Procedure FIN-006.01 -- Section 5.8

- » All employees and contractors working on customer contracts must be authorized to charge those projects

Manufacturing Services Work Authorization

- Work order packet communicates to the employee or contractor either the production order number or project / WBS element to charge

Engineering Services Work Authorization

- Engineering employees and contractors review the “Aggregate Activity” report
 - In conjunction with project team meetings
 - Updated by Function Managers, as needed

Reviews

- Project engineers review employees charging time to their project

MTS Labor Charging Procedure FIN-006.01 -- Section 5.11

- » Attendance type 9179 – “Invalid Labor”
- » Only to be used when the project / order or activity code is unknown or temporarily unavailable
- » Payroll tracks use and contacts employees to obtain corrections
- » Corrected timesheets are to be submitted to transfer the hours to the correct project / order (MTS Labor Charging Procedure FIN-006.01 – Section 5.6)
- » Use of Code 9179 should be infrequent, immaterial and must be corrected

MTS Labor Charging Procedure FIN-006.01 -- Section 5.12

- » Attendance type 9124 – “IL – FAR Res Labor”
- » Use for indirect labor that is defined as “unallowable” under Government contract regulations
- » “Unallowable” does not mean improper
- » “Unallowable” means costs must be tracked separately

FAR = Federal Acquisition Regulation

MTS Labor Charging Procedure FIN-006.01 -- Section 5.12

- » Preparing and conducting a promotional marketing campaign
- » Merger and acquisition activities, including divestitures
- » Raising capital or other financing activities (i.e., stock / debt issuance, hedging, etc.)
- » Activities related to a lawsuit or investigation (i.e., patent infringement, violation of statutes or regulations, etc.)
- » Entertainment – offsite social events during normal work hours including departmental outings (i.e., golfing, year-end celebrations, sporting events, happy hours, etc.)
- » Activities associated with lobbying and/or lobbyists

MTS Unallowable Cost Procedure FIN-012.01

Employee

- Be aware of the requirements governing unallowable costs
- Follow all procedures for identifying, segregating and recording unallowable costs
- Accurately record hours worked associated with unallowable activities using attendance type 9124

Supervisor

- Provide guidance to employees and contractors on proper unallowable cost tracking procedures
- Ensure hours worked on unallowable activities are recorded to attendance type 9124
- Ensure all other unallowable costs are recorded to the correct charge number

Federal Acquisition Regulations (FAR)

- Body of laws that govern the U.S. Federal Government's procurement process
 - FAR 31.201-6 – Accounting for Unallowable Costs
 - > Expressly unallowable
 - > Directly associated
 - > Mutually agreed
 - FAR 31.201-1 through 52 – Categories / Type of Costs
 - > Expressly unallowable
 - Advertising or promotion 31.205-1
 - > Directly associated
 - Travel costs associated with advertising or promotion campaign

Cost Accounting Standards (CAS)

- 19 standards established to create uniform and consistent accounting practices
 - MTS has “modified” CAS status
 - › Compliance is required with 4 of the 19 standards
 - CAS 405 – Accounting for Unallowable Costs
 - › MTS must comply with CAS 405
 - › Similar to FAR 31.201-6 requirements

Unallowable Costs

- A particular item or type of cost which, under the express provisions of an applicable law, regulation or contract, is specifically named and stated as unallowable
- Normal and legitimate business expenses
- Unallowable costs must be identified and excluded from Government billings, claims and proposals
- Three types of unallowable costs:
 - **Expressly Unallowable** – costs specifically identified in regulation or law
 - **Directly Associated** – costs defined as unallowable through direct association with another unallowable activity
 - **Mutually Agreed** – costs or a cost level negotiated with the government

Expressly Unallowable Cost Examples



Donations and Contributions (FAR 31.205-8) – MTS Accounts 949200, 949500, 949600

- Cash, property (i.e., gifts, products, etc.) or services
- Regardless of recipient
 - Schools, hospitals, organizations, charitable or not-for-profit organizations (i.e., United Way, Feed My Starving Children, etc.)
 - Cultural events or activities

Alcohol (FAR 31.205-51) – MTS Account 943300

- Cost of alcoholic beverages must be identified on all expense reimbursement requests (i.e., travel and business meetings)

Interest (FAR 31.205-20)

- Interest on borrowings
- Costs of financing and refinancing

Expressly Unallowable Cost Examples



Bad Debts (FAR 31.205-3) – MTS Account 949620

- Actual or estimated uncollectible accounts due from customers

Fines and Penalties (FAR 31.205-15)

- Cost of fines or penalties from violations to comply with federal, state or local laws and regulations

Entertainment (FAR 31.205-14) – MTS Account 943300, Activity Code 9124

- Cost of amusement, social activities
- Tickets to shows or sporting events
- Membership to social, dining, country clubs, etc.
- Offsite social event during normal work hours

Lobbying and Political Activity Costs (FAR 31.205-22) – MTS Accounts 944100, 944900

- Includes cash contributions, endorsements or publicity costs
- MTS labor effort plus legal, accounting, etc. related costs

Expressly Unallowable Cost Examples



Organizational Costs (FAR 31.205-27) – MTS Accounts 944100, 944900

- Raising capital
- Merger or acquisition activity
 - MTS labor effort plus legal, accounting, etc. related costs

Professional and Consulting Services (FAR 31.205-33) – MTS Accounts 944100,944900

- Unallowable if legal or related costs are due to violations of statutes or regulations

Patent Costs (FAR 31.205-30) – MTS Accounts 944100, 944900

- Unallowable if:
 - Not required by contract
 - Includes MTS labor effort plus legal, accounting, etc. related costs

Travel Costs (FAR 31.205-46)

- Allowable:
 - Travel must have a business purpose
 - Costs must be ordinary, reasonable and necessary
 - Costs must be supported with adequate explanation / documentation
 - Refer to FIN-008 – Travel Reimbursement Policy

- Unallowable – Reimbursed to employee, but not chargeable to the government
 - First class or business class airfare
 - › Airfare in excess of lowest price available – “lowest logical airfare”
 - Must be recorded to MTS account 943310 – unallowable travel expense
 - Costs for meals, incidentals and lodging in excess of government per diem rates
 - › Expense Anywhere automatically computes unallowable portion and captures it in MTS account 943310 – unallowable travel expense
 - Alcohol – must be tracked and reported separately

Expressly Unallowable Cost Examples



Public Relations and Advertising Costs (FAR 31.205-1) – MTS Account 957800

- Allowable if:
 - Trade show is to promote sale of product normally sold to the U.S. Government
 - Communications are with shareholders or the public
 - › Notice of contract award, plant opening or closing, employee layoffs or rehiring
 - Participation in community service activities
 - › Blood drives, charity drives (United Way), disaster assistance

- Unallowable if “maintaining, protecting or enhancing image or product”
 - Brochures, magazines, commercials, advertising
 - Trade shows that do NOT promote export of sales of product sold to the U.S. Government
 - Gifts displaying the Company logo – models, souvenirs, coffee mugs, clothing
 - Costs of membership in civic and community organizations
 - Corporate ceremonies and celebrations
 - › New product releases

Employee Morale, Health and Welfare Costs (FAR 31.205-13)

- Allowable if:
 - Improves morale, performance or employee-employer relations
 - > Health clinics
 - > Wellness / fitness centers
 - > Employee counseling services
 - > Employee achievement or longevity awards (pin or watch)
 - > Company sponsored sport or employee organization

- Unallowable if:
 - Gifts – clothing, gift certificates
 - Tickets to shows or sporting events
 - Memberships to social, dining or country clubs
 - Offsite social event during normal work hours

Definition

- Any cost which is generated solely as a result of the incurrence of another unallowable cost, and which would NOT have been incurred had the other cost not been incurred – unallowable by association

Examples

- Costs for a consultant specializing in merger and acquisition activity are unallowable
 - Directly associated unallowable costs include:
 - › MTS labor to support this effort (activity code 9124)
 - › Airfare, hotel, per diem or business meals incurred related to this activity
- Costs for an advertising agency are unallowable
 - Directly associated unallowable costs include:
 - › MTS labor to support this activity (activity code 9124)
 - › Costs for binding, printing, distribution, etc.

Definition

- Written advance agreement with the Administrative Contracting Officer (ACO) intended to avoid the possible disallowance or dispute of a specific cost

Benefits

- Pre-established amounts or expectations before costs are incurred
- Eliminates costs of delays relating to disputed costs

Negotiate with the Government Administrative Contracting Officer (ACO)

- Not all costs are clearly allowable or unallowable – gray areas
- Destination or time of year may drive actual hotel costs higher than prescribed Government allowable per diem

Training

- Annual refresher training for all employees
- New hires receive as part of their orientation

Procedure Violations

- Violations will be brought to the attention of the employee's supervisor and Compliance
- Continued noncompliance may result in disciplinary action up to and including termination

Suspected Violations

- Report to manager, MTS Risk & Compliance, Legal or Executive Committee
- Contact MTS Alert Line (1-888-321-5562)
- DOD Hotline (1-800-424-9098)

Contact for Questions

- Manager or leader of the project
- Functional compliance leaders
 - MTS Ethics Committee (see intranet for a list of individuals for each location)
- MTS Risk & Compliance department
 - MTS_Risk_&_Compliance @mts.com
- MTS Legal department