



**National Science Foundation**

4201 Wilson Boulevard  
Arlington, Virginia 22230

Office of Inspector General

**MEMORANDUM**

**DATE:**

**TO:** David A. Elizalde, Director  
Division of Acquisition and Cooperative Support (DACS)

**FROM:** Deborah H. Cureton  
Associate Inspector General for Audit

**SUBJECT:** NSF OIG Audit Report No. OIG-07-1-003, Audit of Triumph Technologies, Inc.'s Incurred Costs for Fiscal Years 2001 through 2003

In response to NSF's request for audit support, we contracted with the Defense Contract Audit Agency (DCAA), Baltimore Branch Office, to perform an incurred cost audit of Triumph Technologies, Inc.'s (Triumph) cost-plus-fixed-fee Contract No. DMI-0200639. The period covered by the audit was November 15, 2001 through December 31, 2003 [Fiscal Years (FYs) 2001 through 2003]<sup>1</sup>, during which Triumph claimed a total of \$1,759,334. The contractor provides technical support for the NSF's Small Business Innovative Research/Small Technology Transfer Research (SBIR/STTR) Program.<sup>2</sup>

The objectives of the audit were to determine whether:

- Triumph's proposed indirect rates are acceptable for the period January 1, 2003 through December 31, 2003;
- Costs charged to the NSF contract were allowable, allocable and reasonable in accordance with contract terms and applicable government acquisition regulations; and
- Triumph's accounting system and internal controls were adequate for accumulating and billing costs on government contracts, and for administering and monitoring its NSF contract in compliance with contract terms and conditions and federal requirements.

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<sup>1</sup> NSF modified the contract performance period through November 14, 2006. This Modification No. 19 dated June 23, 2006, also allotted an additional \$300,000 to the contract and raised the contract award amount \$4,292,855.

<sup>2</sup> The program is presently being administered by the Engineering Directorate/Industrial Innovation and Partnerships (ENG/IIP).

The DCAA audit was performed in accordance with Generally Accepted Government Auditing Standards. The DCAA audit report is included as an attachment to this memorandum.

DCAA found that Triumph's proposed Customer Site Overhead (CSOH) and General and Administrative (G&A) indirect rates are acceptable for the period January 1, 2003 through December 31, 2003 and that Triumph's accounting system is adequate for the accumulation, segregation, and reporting of costs under Government contracts and subcontracts. However, DCAA questioned a total of \$80,740 in claimed costs for FYs 2001 to 2003. This amount is comprised of \$79,548 of costs incurred in excess of contract indirect rate ceilings and \$1,192 in unsupported subcontract costs. Triumph concurred with all of the questioned costs.

DCAA questioned \$79,548 because Triumph failed to comply with the indirect rate ceilings of its NSF contract by claiming costs in excess of the ceilings in its incurred cost submissions for each of the three years audited. The contract sets forth provisional indirect billing rates of [REDACTED] for CSOH and [REDACTED] for General and Administrative (G&A), and then states:

“A maximum ceiling on overhead and G&A rates of 5% above those rates stated herein is hereby established and will not be exceeded during the life of the contract. The final overhead rate for reimbursement of indirect costs incurred during the period of performance of the contract shall be the contractor's actual rate or the ceiling rate whichever is less.”

However, DCAA found that Triumph correctly billed NSF using the provisional indirect rates specified in the NSF contract. However, in each of its incurred cost claims, Triumph claimed its actual incurred indirect cost rates which exceeded contract ceiling rates, and did not reduce its actual rates to the contract ceiling rates. Based on the above contract language, the ceiling rates (calculated at 105% of the provisional billing rates) were [REDACTED] for Customer Site Overhead and [REDACTED] for G&A. Based on its audit, DCAA recalculated the indirect costs at the reduced contract ceiling rates and questioned \$79,548 of claimed indirect costs.

As for the \$1,192 of unsupported subcontract costs, DCAA Baltimore Branch requested an assist agreed-upon procedures engagement from DCAA Rosslyn Branch of the subcontractor Advanced Resources Technologies, Inc. (ARTI) to compare and agree Triumph's recorded subcontractor costs to ARTI's accounting records. As a result of this engagement, DCAA found Triumph had incorrectly recorded \$18,022 of subcontract costs as direct materials. In addition, DCAA found errors and billings by the subcontractor in excess of costs. After proper reclassification of the costs, the subcontract costs claimed by Triumph overstated the subcontract costs that ARTI actually incurred by \$1,192. Therefore, DCAA questioned \$1,192 of Triumph's unsupported subcontract costs and ARTI agreed to refund Triumph for the unsupported costs.

DCAA found that Triumph's accounting system was acceptable for accumulating and billing costs on government contracts. However, the auditors identified several internal control deficiencies (all stemming from lack of adequate written policies and procedures) that prevented Triumph from adequately administering and monitoring its NSF contract in compliance with contract terms and conditions and federal requirements. These control weaknesses led to the

questioned costs. Specifically, contract briefs did not identify applicable contract ceiling rates, therefore the Triumph staff did not know to apply contract ceiling rates when preparing incurred cost submissions. As a result, the contractor failed to make the proper cost exclusions for the NSF contract in Schedule I<sup>3</sup> of the incurred cost submissions. This Schedule I is designed to ensure that claimed indirect cost rates do not exceed contract ceiling rates, if properly executed. In addition, Triumph's subcontract cost monitoring procedures did not ensure that costs billed by and paid to its subcontractor were accurate and sufficiently documented. DCAA recommended to Triumph that it establish written policies and procedures to correct the deficiencies.<sup>4</sup> Triumph agreed to make the necessary changes to its policies.

## Recommendations

We recommend that the NSF Director of the Division of Acquisition and Cooperative Support:

1. Reduce the FY 2001 to 2003 claimed costs for Contract DMI-0200639 by \$80,740 identified as questioned costs in the accompanying DCAA audit report.
2. Request Triumph to review and resubmit as needed its incurred cost submissions for FYs 2004 and 2005, ensuring that claimed indirect cost rates do not exceed contract ceiling rates and that claimed subcontract costs are accurate, properly supported by and readily reconcilable to subcontractor invoices.
3. To prevent similar issues from recurring in incurred cost submissions beyond FY 2005, ensure that Triumph has established written policies and procedures that require the appropriate Triumph staff to:
  - a. Identify all contract ceiling rates in contract briefs.
  - b. Exclude all costs in excess of contract limitations on Schedule I of the incurred cost submissions to ensure claimed rates are reduced to ceiling rates whenever actual rates are higher than ceiling.
  - c. Monitor all subcontract costs to ensure that costs paid to the subcontractor and claimed on incurred cost submissions are (1) readily reconcilable to subcontractor billing statements, (2) sufficiently detailed on invoices to determine whether they are necessary and allowable in accordance with the terms of the subcontract, and (3) correctly classified in the accounting records as subcontract costs.
4. Whenever NSF issues a contract with indirect ceiling rates, establish a process to perform initial reviews of incurred cost submissions, and, if the contractor claims rates which exceed the contract ceiling rates, require the contractor to resubmit its incurred cost submission to reflect the ceiling rates in accordance with the contract.

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<sup>3</sup> Schedule of Cumulative Direct and Indirect Costs Claimed and Billed on Cost/Flexibly Priced and T&M Contracts and Subcontracts. This schedule includes a deduction for costs in excess of contract ceiling rates.

<sup>4</sup> See Appendix 1, *Other Matters to be Reported*, in the DCAA audit report.

We consider the issues in the audit report to be significant. The findings in the DCAA audit report should not be closed until NSF verifies that our recommendations have been adequately addressed and proposed corrective actions have been satisfactorily implemented.

We are providing a copy of this memorandum to the Engineering Directorate/Industrial Innovation and Partnerships (ENG/IIP). The responsibility for audit resolution rests with DACS. Accordingly, we ask that no action be taken concerning the report's findings without first consulting DACS at (703) 292-8242.

### **OIG Oversight of Audit**

To fulfill our responsibilities under Generally Accepted Government Auditing Standards, the Office of Inspector General:

- Reviewed DCAA's approach and planning of the audit;
- Monitored the progress of the audit at key points;
- Coordinated periodic meetings with DCAA and OIG management to discuss audit progress, findings and recommendations;
- Reviewed the audit report prepared by DCAA to ensure compliance with Government Auditing Standards and Office of Management and Budget Circulars; and
- Coordinated issuance of the audit report.

DCAA is responsible for the attached auditor's report on Triumph and the conclusions expressed in the report. The NSF OIG does not express any opinion on Triumph's incurred cost submissions, accounting system, or the conclusions presented in DCAA's audit report.

We thank you and your staff for the assistance extended to us during the audit. If you have any questions about this report, please contact Jannifer Jenkins at (703) 292-4996 or David Willems at (703) 292-4979.

Attachment: DCAA Audit Report of Triumph Technologies Inc.'s Incurred Costs  
for Fiscal Years 2001 through 2003

cc: Kesh Narayanan, ENG/IIP



**DEFENSE CONTRACT AUDIT AGENCY**  
**AUDIT REPORT NO. 6141-2003V10100009**



July 28, 2006

**PREPARED FOR:** Office of Inspector General  
National Science Foundation  
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Arlington, VA 22230

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E-mail Address dcaa-fao6141@dcaa.mil

**SUBJECT:** Report on Audit of Incurred Cost for Fiscal Year 2003

**REFERENCES:** Contract No.: DMI-0200639  
Relevant Dates: See Page 9  
6141/820.5/dkg

**CONTRACTOR:** Triumph Technologies, Inc. (080F4)  
5203 Leesburg Pike, Suite 1100  
Falls Church, VA 22041

**REPORT RELEASE RESTRICTIONS:** See Page 11

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## **SUBJECT OF AUDIT**

We examined the Triumph Technologies, Inc.'s (Triumph) October 6, 2004 certified final indirect cost rate proposal and related books and records for reimbursement of FY 2003 incurred costs. The purpose of the examination was to determine allowability of direct and indirect costs and establish audit determined indirect cost rates for January 1 through December 31, 2003. The proposed rates apply primarily to the flexibly priced contract listed in Exhibit A. A copy of Triumph's Certificate of Final Indirect Costs was faxed to our office on October 6, 2004 and is included as Appendix 2 to the report.

The proposal is the responsibility of the contractor. Our responsibility is to express an opinion based on our examination.

## **EXECUTIVE SUMMARY**

We questioned a total \$80,740 in proposed costs for Contract No. DMI-0200639. The questioned costs consist of \$79,548 for costs incurred in excess of contract ceilings and \$1,192 in unsupported subcontract costs for Contract No. DMI-0200639. See Exhibit B for details.

## **SCOPE OF AUDIT**

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

We evaluated the proposal using the applicable requirements contained in the:

- Federal Acquisition Regulations (FAR);
- National Science Foundation Acquisition Regulations (NSFAR); and
- Contract provisions.

The contractor claims exemption under 48 CFR 9903.201-1(b)(3) from the practices required by the cost Accounting Standards Board rules and regulations because it considers itself a small business concern.



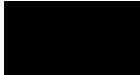
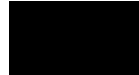


**Audit Report No. 6141-2003V10100009**

Penalties for Unallowable Costs: The affected contract does not contain the FAR 42.709 penalty clause.

Other matters to be reported are discussed in Appendix 1.

**GOVERNMENT PARTICIPATION FOR FY 2003**

	<u>FY 2003 Government Flexibly Priced Contracts/Subcontracts</u>	<u>FY 2003 Government FFP Contracts and Commercial Work</u>
Overhead-Customer Site G&A		

A schedule of flexibly priced contracts is included in Exhibit A of this report.

Cumulative Allowable Cost Worksheet (CACWS): The costs noted on the Schedule of Cumulative Allowable Costs is included in Attachment 1 of the Indirect Cost Rate Agreement and represent costs that are considered allowable under the listed contracts and are, therefore, reimbursable. For those contracts identified as “Ready to Close,” the information on the CACWS should be used to close out contracts. Individual contract audit closing statements will only be issued if requested by the ACO.

We discussed the results of our examination with Ms. Clarissa Van Leuven, Director of Finance, in an exit conference held on June 29, 2006. The contractor concurred with our results. The contractor’s agreement regarding the audit results and calculations of costs in excess of contract ceilings on Contract No. DMI-0200639 is included as Appendix 3 of this report. The Indirect Cost Rate Agreement is included as Appendix 4.



**SCHEDULE OF FLEXIBLY PRICED CONTRACTS**

<u>Internal Job No.</u>	<u>Agency</u>	<u>Contract No.</u>	<u>Penalty Clause for Unallowable Costs</u>
2015	National Science Foundation	DMI-0200639	No

**SUMMARY OF PROPOSED AND ACCEPTED COSTS FOR CONTRACT No. DMI-0200639**

	<u>Proposed</u>	<u>Questioned</u>		
		<u>Total</u>	<u>Concurred</u>	<u>Non-Concurred</u>
FY 2001	\$62,264	\$761	\$761	\$-
FY 2002	666,955	21,590	21,590	-
FY 2003	<u>\$1,030,115</u>	<u>\$58,389</u>	<u>\$58,389</u>	<u>\$-</u>
Total	<u>\$1,759,334</u>	<u>\$80,740</u>	<u>\$80,740</u>	<u>\$-</u>

**QUESTIONED INDIRECT COSTS (Note 1)**

	<u>FY 2001</u>		<u>FY 2002</u>		<u>FY 2003</u>		<u>Total</u>
	<u>CS OH</u>	<u>G&amp;A</u>	<u>CS OH</u>	<u>G&amp;A</u>	<u>CS OH</u>	<u>G&amp;A</u>	
	Claimed	██████	██████	██████	██████	██████	
Questioned	██████	██████	██████	██████	██████	██████	79,548 *

\* - \$1 difference due to rounding.

**QUESTIONED DIRECT COSTS (Note 2)**

	<u>FY 2002</u>		<u>FY 2003</u>		<u>Total</u>
	<u>Subcontracts</u>	<u>Material</u>	<u>Subcontracts</u>	<u>Material</u>	
Claimed	██████	██████	██████	██████	\$-
Questioned	██████	██████	██████	-	1,192

**EXPLANATORY NOTES**

1. Indirect Costs

a. Summary of Conclusions: We take exception to a total of \$79,548 proposed contract costs because the contractor’s claimed costs exceeded the indirect ceiling rates for Contract No. DMI-0200639.

b. Basis of Contractor’s Cost: The basis of the contractor’s costs for Contract No. DMI-0200639 are the incurred costs for the period November 15, 2001 through December 31, 2003.

c. Audit Evaluation: We reviewed the master Contract No. DMI-0200639 to determine the contract limitations. The contract states, “A maximum ceiling on overhead and G&A rates of 5% over the provisional billing rates was established for the life of the contract.” The provisional billing rates, as stated in the contract, were ██████ for Customer Site Overhead and ██████ for G&A. It was unclear whether the ceiling rates were 5 percentage points or 105%



over the provisional billing rates. The NSF representatives stated the ceiling rates equaled 105% of the provisional billing rates and should be [REDACTED] for Customer Site Overhead and [REDACTED] for G&A. We compared the indirect rates for FY 2001 through FY 2003 to the contract ceiling rates and found the actual indirect rates exceeded the contract ceiling rates every year.

d. Contractor's Reaction: The contractor concurred with our analysis. See Appendix 3 for the contractor's concurrence.

e. Auditor's Response: The auditor suggested the contractor improve their internal controls by listing the contract ceilings in the contract briefs and to exclude costs in excess of ceiling rates from their submissions. See Appendix 1 for Other Matters to be Reported.

## 2. Direct Costs

a. Summary of Conclusions: We take exception to \$1,192 in proposed direct contract costs because the contractor's claimed costs were unsupported by underlying records.

b. Basis of Contractor's Cost: The basis of the contractor's costs for Contract No. DMI-0200639 are the incurred costs for the period November 15, 2001 through December 31, 2003 and amounts recorded in Triumph's books and records.

c. Audit Evaluation: During our review of Triumph's incurred cost proposal, we noted large subcontract costs on Contract No. DMI-0200639 that were related to one subcontractor, Advanced Resource Technologies, Inc. (ARTI). Therefore, we requested an assist audit from the DCAA Rosslyn Branch to verify the [REDACTED] in subcontract costs to ARTI's books and records. The assist audit verified [REDACTED] in subcontract costs to ARTI's books and records (see Assist Audit Report in Appendix 5). We requested that Triumph reconcile the \$16,830 variance between Triumph's claimed costs and ARTI's books and records. Triumph found that in FY 2002, [REDACTED] in subcontract labor costs had inadvertently been recorded as direct material instead of subcontract costs to Contract No. DMI-0200639. For FY 2002, the direct material costs should be [REDACTED], but the contractor claimed [REDACTED]; and the subcontract costs should be [REDACTED] but Triumph's records claimed [REDACTED]. We subtracted the [REDACTED] error from the claimed direct materials and added [REDACTED] to the subcontract costs. We compared the annual subcontract costs to the assist audit report and found there was a \$1,192 variance between Triumph's records and ARTI's books and records. We asked Triumph to once again reconcile the \$1,192 in subcontract costs. Triumph found that ARTI was not able to support \$1,192 the claimed labor costs and agreed to refund Triumph \$1,192. Therefore, we adjusted the allowable subcontract costs by \$1,192 for the unsupported subcontract labor costs. We also verified the costs for Contract No. DMI-0200639 to the contractor's job cost summaries and labor distribution reports for the period November 15, 2001 through December 31, 2003. We also reconciled the allowable contract costs by element from the calendar year to the contract year as requested by NSF to facilitate closeout procedures. The schedule of costs by element is shown below:



**ALLOWABLE COSTS BY ELEMENT FOR CONTRACT NO. DMI-0200639**

<u>Contract Year</u>	<u>Direct Labor</u>	<u>Travel</u>	<u>Material</u>	<u>ODCs</u>	<u>Subcontracts</u>	<u>CS OH</u>	<u>G&amp;A</u>	<u>Total</u>
11/15/01-11/14/02	██████	██████	██████	██████	██████	██████	██████	\$630,482
11/15/02-11/14/03	██████	██████	██████	██████	██████	██████	██████	959,373
11/16-12/31/03	██████	██████	██████	██████	██████	██████	██████	88,739
Total	██████	██████	██████	██████	██████	██████	██████	<u>\$1,678,594</u>

d. Contractor’s Reaction: The contractor concurred with our analysis. See Appendix 3 for the contractor’s concurrence.

e. Auditor’s Response: The auditor suggested the contractor improve their internal controls and monitoring process for subcontract costs to ensure accurate reporting of costs. See Appendix 1 for Other Matters to be Reported.



**CONTRACTOR ORGANIZATION AND SYSTEMS**

1. Organization

Triumph Technologies, Inc. (Triumph) was incorporated in the Commonwealth of Virginia on September 22, 1988. Gloria Redman is the President and 100% shareholder of this S-Corporation whose corporate headquarters are located in Falls Church, Virginia. The company has three divisions: Program Management, Information Technology, and Security Services. The majority of the company's \$28 million revenues in FY 2005 is derived from sales to Government entities, with approximately 260 employees.

2. Accounting System

Triumph's accounting period is from January 1 to December 31. The contractor maintains a job order cost accounting system on an accrual basis in accordance with generally accepted accounting principles. Triumph's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and at year end. Triumph uses Deltek software for its accounting system. The contractor prepares financial statements on an annual basis. The annual financial statements are not audited by external CPAs. We performed a Preaward accounting system survey under Assignment No. 6141-2006V17740010 and consider the company's accounting system to be adequate for the accumulation, segregation and reporting of costs under Government contracts and subcontracts.

3. Billing System

We have not reviewed the billing system at Triumph.

4. Estimating System:

We have not reviewed the estimating system at Triumph.

**DCAA PERSONNEL**

Primary contacts regarding this audit:

	<u>Telephone No.</u>
Anne Small, Auditor	(610) 878-2864
James F. Brennan, Jr., Supervisory Auditor	(610) 878-2894

Other contacts regarding this audit report:

Scott C. Hahn, Branch Manager	(410) 962-3857
Ms. Teresa A. Lawson, Sr. Non-DoD FLA	(703) 767-2265

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General information on audit matters is available at <http://www.dcaa.mil>.

**RELEVANT DATES**

Request for audit: dated July 21, 2005; received August 3, 2005.  
Request for Assist Audit: dated November 7, 2005.  
Assist Audit Report: dated December 21, 2005; received December 21, 2005;  
Supplemental Assist Audit Report: dated December 28, 2005; received December 29, 2005.  
Request for 30 additional hours: dated March 21, 2006; request granted April 13, 2006.  
Request for extension of due date: July 5, 2006; extension granted to July 21, 2006.

**AUDIT REPORT AUTHORIZED BY:**

/s/ Joseph Baron  
/for/ SCOTT C. HAHN  
Branch Manager  
DCAA Baltimore Branch Office

**AUDIT REPORT DISTRIBUTION AND RESTRICTIONS**

**DISTRIBUTION**

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**RESTRICTIONS**

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act requests for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.



**OTHER MATTERS TO BE REPORTED**Internal Control System

We have not performed a formal review of the internal control system of Triumph. Previous examinations have not disclosed significant deficiencies in the contractor's internal control system. The scope of our examination reflects our assessment of control risk and includes tests of compliance with laws and regulations that we believe provide a reasonable basis for our opinion. Our assessment of control risk reflects that we have not specifically tested the effectiveness of Triumph's systems of internal controls.

We performed an accounting system survey under Assignment No. 6141-2006V27000010 and consider the company's accounting system to be adequate for the accumulation, segregation and reporting of costs under Government contracts and subcontracts.

At the conclusion of the audit, on June 29, 2006, the auditor e-mailed Ms. Clarissa Van Leuven, Director of Finance, three suggestions to improve Triumph's internal controls. They were as follows:

- **Contract Briefs:** The contract briefs should provide the actual ceiling rates. Currently, the brief merely stated that there are ceilings. We would have avoided months of deliberations on what the actual ceiling rates were on Contract No. DMI-0200639. There should be written policies and procedures in place regarding the preparation of contract briefs. The contract briefs should be prepared as soon as possible after the contract has been negotiated and the actual ceiling rates should be written in the briefs.
- **Schedule I of the Incurred Cost Submissions:** The contractor is supposed to exclude costs in excess of contract limitations on the Schedule I of the incurred cost submissions. Triumph's FY 2003 incurred cost proposal had no costs excluded from the claimed costs on the NSF contract. We recommend written procedures so that employees preparing the incurred cost submission are aware of the importance of excluding costs in excess of contract ceilings or other limitations.
- **Subcontract Costs:** During the audit, we found errors and billings by the subcontractor in excess of costs. We recommend you improve the policies and procedures regarding subcontract costs to make certain your costs and the subcontractor's claimed costs are accurate. The policies and procedures should be documented so that all employees know how to monitor the subcontract costs to assure accuracy.

Ms. Clarissa Van Leuven responded by stating the following: "Thank you for the recommendations. I will pass them on and we will make the necessary changes to our policies. I appreciate any information that helps us do a better job."

FY 2003 CERTIFICATE OF FINAL INDIRECT COSTS

Triumph Technologies, Inc.  
Falls Church, VA

Certificate of Indirect Costs  
Fiscal Year Ended 12/31/04

This is to certify that I have reviewed this proposal to establish final indirect cost rates and to the best of my knowledge and belief:

1. All costs included in the proposal to establish final indirect cost rates for the period ended 12/31/04 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates will apply; and
2. This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements.

Firm: Triumph Technologies, Inc.

Signature: 

Name of Certifying Official: 

Title: 

Date of Execution:

FAR Part 52.242-4, Certification of Final Indirect Costs as prescribed in 42.703-2(f), inserts the Certification of Final Indirect Costs. The contractor shall

- (1) Certify any proposal to establish or modify final indirect cost rates;
- (2) Use the format in paragraph © of this clause to certify; and
- (3) Have the certificate signed by an individual of the Contractor's organization at a level no lower than a vice president or chief financial officer of the business segment of the Contractor that submits the proposal.

CONTRACTOR AGREEMENT  
TO DCAA'S CALCULATION OF COSTS IN EXCESS OF CONTRACT CEILINGS



April 28, 2006

Ms. Anne Small, Auditor  
DCAA Baltimore Branch  
700 American Avenue, Suite 105  
King of Prussia, PA 19406

Ref: Triumph Technologies, Inc. Incurred Cost Audit 2003

Dear Ms. Small:

Triumph Technologies, Inc. concurs with your indirect rates stated as:

CS Overhead [REDACTED]  
G&A [REDACTED]

In addition Triumph agrees with your calculation of costs in excess of the contract ceiling amounts on our NSF contract DMI-0200639.

If you have any questions please do not hesitate to contact me at [REDACTED] or via email at [REDACTED]

Sincerely,

[REDACTED]

---

5203 LEEBSBURG PIKE • SUITE 1100 • FALLS CHURCH, VIRGINIA 22041-3471 U.S.A.  
Phone: 703 / 820-7251 • Fax: 703 / 824-5210 • <http://www.triumph-tech.com>



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6141-2003V10100009  
 6143/JB/dkg

July 28, 2006

Triumph Technologies, Inc.  
 5203 Leesburg Pike, Suite 1100  
 Falls Church, VA 22041-3401



This letter sets forth the agreed upon final indirect cost rates established by auditor determination in accordance with FAR 42.705-2(b)(2)(ii) and DoD FAR Supplement 242.705-2(b)(2)(ii).

The final annual indirect cost rates for the fiscal year ended December 31, 2003 are as follows:

<u>Cost Center</u>	<u>Allocation Base</u>		<u>Description</u>
	<u>Rate</u>	<u>Amount</u>	
Customer Site Overhead			(a)
G&A			(b)

Allocation Bases:

- (a) Direct Labor Dollars
- (b) Total Incurred Costs Exclusive of G&A and IR&D/B&P Costs

These rates are applicable to the base costs specified for each of the contracts performed during your fiscal year ended December 31, 2003. The allowable costs by contract for the indicated fiscal year and from inception are shown in Attachment, Schedule of Cumulative Allowable Costs by Contract.

This indirect rate understanding shall not change any monetary ceiling, contract obligation, or specific cost allowance or disallowance provided for in the contracts listed in Attachment. This understanding is incorporated into each of the affected contracts upon execution.

Please confirm your acceptance of the terms of the indirect cost rate agreement by signing and returning this letter to me. A duplicate of this letter is enclosed for your records.

FOR OFFICIAL USE ONLY



6141-2003V10100009  
6143/JB/dkg

July 28, 2006

In accordance with FAR 52.216-7, you are directed to promptly submit adjustment vouchers or final vouchers for all flexibly priced contracts. Audit adjustments should be clearly delineated so as to be readily identifiable for verification by this office. Care should be taken that amounts claimed do not exceed contract limitations or contract indirect cost rate ceilings.

Sincerely,

  
for Scott E. Hahn  
Branch Manager

Enclosures:

Attachment: Schedule of Cumulative Allowable Costs by Contract

Triumph Technologies, Inc. accepts the above stated final indirect cost rates.

Name:   
Title:   
Contractor: Triumph Technologies, Inc.

Signature:   
Date: 7/28/06

6141-2003V10100009  
6143/JB/dkg

July 28, 2006  
ATTACHMENT

Triumph Technologies, Inc.  
Falls Church, VA

Schedule of Cumulative Allowable Costs/Amounts  
Through 12/31/2003  
For Flexibly Priced Contracts and Subcontracts

<u>Contract No</u>	<u>Account No.</u>	<u>Subject To Penalty Clause</u> (1)	<u>Prior Audited Years w/Settled Rates</u> (2)	<u>Direct &amp; Indirect Costs Using Settled Rates FYE 12/31/2001</u> (3)	<u>Direct &amp; Indirect Costs Using Settled Rates FYE 12/31/2002</u> (4)	<u>Direct &amp; Indirect Costs Using Settled Rates FYE 12/31/2003</u>	<u>Subtotal</u>	<u>Less Contract Limitations</u> (5)	<u>Total Direct &amp; Indirect Costs Using Settled Rates</u> (6)	<u>Assist Audit Amount</u>	<u>Ready to Close</u>
<b>Cost Plus Fixed Fee</b>											
DMI-0200639	2015	No	\$-	\$62,264	\$666,955	\$1,030,115	\$1,759,334	\$80,740	\$1,678,594	\$-	No

Notes:

- (1) FAR 42.709 implements 10 U.S.C. 2324 (a)-(d), and 41 U.S.C. 256 (a)-(d), which require that penalties be assessed if a contractor claims an expressly unallowable cost in an indirect cost settlement. The FAR 42.709 applies to all cost type and fixed price incentive contracts in excess of \$500,000 issued on or after October 1, 1995. DFARS 231.70 applies to DoD cost type and fixed price incentive fee contracts in excess of \$100,000 issued between February 26, 1987 and October 1, 1995.
- (2) These costs, by contract, are computed using the negotiation or rate agreement document. Direct costs are subject to adjustment until final payment.
- (3) Settled indirect rates for fiscal year ending December 2001 were 31.60% for customer site overhead and 15.08% for G&A (Reference DCAA Audit Report 6141-2001V10100013).
- (4) Settled indirect rates for fiscal year ending December 2002 were 33.06% for customer site overhead and 17.38% for G&A (Reference DCAA Audit Report 6141-2002V10100013).
- (5) Contract limitations include costs incurred that are (i) in excess of contract ceiling rates, (ii) unallowable per contract, (iii) outside the period of performance, or (iv) in excess of contract ceiling amounts that are not already excluded, for contracts identified as ready to close. A maximum ceiling of 32.92% for customer site overhead and 13.67% for G&A was established for the life of Contract No. DMI-0200639.
- (6) The cumulative allowable amounts in this column are not to exceed contract-ceiling amounts.



ASSIST AUDIT REPORT



DEFENSE CONTRACT AUDIT AGENCY

REPORT NO. 6331- 2006D17900001 S1



December 28, 2005

**PREPARED FOR:** Baltimore Branch Office  
King of Prussia Suboffice  
ATTN: James F. Brennan, Jr., Supervisory Auditor  
700 American Avenue, Suite 105  
King of Prussia, PA 19406-4031

**PREPARED BY:** DCAA Rosslyn Branch Office  
6800 Versar Center, Suite 329  
Springfield, VA 22151-4147  
Telephone No. (703) 325-9542  
FAX No. (703) 325-0411  
E-mail Address dcaa-fao6331@dcaa.mil

**SUBJECT:** Supplement to Report on Application of Agreed-Upon Procedures

**REFERENCES:** Prime Contract DM1-0200639  
Subcontract No. 01-2015  
Triumph Technologies, Inc  
Relevant Dates: See Page 4

**CONTRACTOR:** Advanced Resource Technologies, Inc. (ARTI)  
2800 Eisenhower Avenue, 4th Floor East  
Alexandria, VA 22314

**REPORT RELEASE RESTRICTIONS:** See Page 5

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Contractor Organization and Systems	3
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**SUBJECT OF SUPPLEMENTAL APPLICATION OF AGREED-UPON PROCEDURES**

As requested by the Defense Contract Audit Agency, Baltimore Branch Office, King of Prussia Suboffice in a memorandum dated November 7, 2005, modified on November 23, 2005, reference 6141-2003V101000009, and as discussed subsequently with your office, we applied agreed-upon procedures to verify Triumph Technologies' subcontractor costs billed from Advanced Resource Technologies Inc. in correlation to Prime Contract DM1-0200639, Subcontract No. 01-2015 for the period of FY 2001-FY 2003.

**SCOPE OF SUPPLEMENTAL APPLICATION OF AGREED-UPON PROCEDURES**

We have performed the mutually agreed-upon verification procedures listed below solely to assist you in evaluating Triumph Technologies' subcontractor costs billed from Advanced Resource Technologies Inc, in correlation to Subcontract No. 01-2015 for the period of FY 2001- FY 2003. This agreed-upon procedures engagement was performed in accordance with generally accepted government auditing standards. The sufficiency of the procedures is solely the responsibility of the requestor. Consequently, DCAA makes no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The following Agreed-Upon Procedures were applied:

- Reconcile Advanced Resource Technologies Inc.'s regular and overtime hours claimed on Triumph Technologies, Inc. Prime Contract DM1-0200639 Subcontract no. 01-2015 (FY 2001 - FY 2003) to Advanced Resource Technologies Inc.'s labor distribution reports, timesheets, etc.
- Verify the Subcontract Regular and Overtime labor rates.



**RESULTS OF SUPPLEMENTAL APPLICATION OF AGREED-UPON PROCEDURES**

This report pertains only to the performance of agreed-upon procedures to verify subcontractor costs incurred by Triumph Technologies, Inc. from Advanced Resource Technologies Inc. We were not engaged to, and did not perform an examination, the object of which would be the expression of an opinion on the subject matter of this report. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This supplemental report replaces our original report in its entirety.

The application of agreed-upon procedures verified the cumulative total of Triumph Technologies’ subcontractor costs billed from Advanced Resource Technologies Inc. in correlation to Subcontract No. 01-2015 for the period requested.

	<b>Claimed</b>	<b>Verified</b>	<b>Difference</b>
<b>FY2001</b>	<b>\$ 21,335</b>	<b>\$ 21,335</b>	<b>\$ 0.00</b>
<b>FY2002</b>	<b>\$ 175,344</b>	<b>\$ 193,187</b>	<b>\$ (17,843)</b>
<b>FY2003</b>	<b>\$ 243,840</b>	<b>\$ 242,827</b>	<b>\$ 1,013</b>
<b>Total</b>	<b>\$ 440,519</b>	<b>\$ 457,349</b>	<b>\$ (16,830)</b>

Summary of Conclusions: Based on our cost verification, we found a cumulative cost variance of \$(16,830). The negotiated rates were verified to the contract, and the hours claimed were verified to the contractor’s books and records.

Basis of Contractor’s Cost: Advanced Resource Technologies’ invoices used to bill Triumph Technologies, Inc. for subcontract costs from prime contract DM1-0200639, subcontract No. 01-2015.

Agreed-Upon Procedures Evaluation: The application of agreed-upon procedures verified the cumulative total of Triumph Technologies’ subcontractor costs billed from Advanced Resource Technologies Inc. in correlation to Subcontract No. 01-2015 for the period requested.

Contractor’s Reaction: We discussed our findings with Mr. Bill Beavers, CFO, in an exit conference held on November 23, 2005. The contractor concurred with our findings.



## CONTRACTOR ORGANIZATION AND SYSTEMS

### Organization

ARTI and Subsidiaries (Q Systems, Inc. and Data Base Architects, Inc.) provide technical and professional services to the US Government and commercial customers. Advanced Resource Technologies Inc, and Subsidiaries reported fiscal year 2001 revenues of \$36,001,015 with the US Government accounting for approximately 98 percent of its business. The contractor has approximately 384 employees.

### Contractor's Accounting System

- (1) The contractor maintains a job order cost accounting system utilizing the DELTEK software accounting system.
- (2) Direct costs are accumulated and segregated by a project number associated with a particular contract number.
- (3) Indirect costs are accumulated in eight expense pools: Overhead RMO (ARTI), Overhead ITO (ARTI), Overhead Oakridge (Q Systems), Overhead Customer site (Q Systems), Overhead DBA (DBA), G&A Expenses and Subcontract Administration.
  - (a) The overhead pools consist of operational costs such as project management salaries, office expense, computer expense, incentive bonus, insurance expense, facilities cost, and fringe benefit expenses. The allocation base is direct labor and IR&D/B&P labor dollars.
  - (c) The G&A pool is composed of expenses incurred for the company as a whole, such as executive salaries, support salaries, legal services, accounting, and B&P expenses. The allocation base is value added.
  - (d) The subcontract administration pool is composed of expenses incurred for the administration of subcontracts. The allocation base is total subcontract costs.
- (4) We consider the contractor's accounting system to be adequate for the accumulation, segregation and recording of costs incurred under US Government contracts.

**DCAA PERSONNEL**

	<u>Telephone No.</u>
Primary contact regarding this agreed-upon procedures evaluation: Sherry D. Konzman, Supervisory Auditor	(703) 325-9542
Other contact regarding this agreed-upon procedures report: Donald J. McKenzie, Branch Manager	(703) 325-9542
	<u>FAX No.</u>
Rosslyn Branch Office	(703) 325-0411
	<u>E-mail Address</u>
Rosslyn Branch Office	<a href="mailto:dcaa-fao6331@dcaa.mil">dcaa-fao6331@dcaa.mil</a>

General information on audit matters is available at <http://www.dcaa.mil>.

**RELEVANT DATES**

Request for Agreed-Upon Procedures Evaluation: Original request dated September 23, 2005  
Rescinded on October 26, 2005  
Revised Request Dated November 7, 2005  
Revised Request Dated November 23, 2005

**REPORT AUTHORIZED BY:**

/Signed/  
Donald J. McKenzie  
Branch Manager  
DCAA Rosslyn Branch Office

**REPORT DISTRIBUTION AND RESTRICTIONS**

DISTRIBUTION

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King of Prussia Suboffice  
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RESTRICTIONS

1. Information contained in this report may be proprietary. It is not practical to identify during the conduct of the evaluation those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
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3. Do not use the information contained in this report for purposes other than action on the subject of this evaluation without first discussing its applicability with the auditor.