

AUDIT REPORT
12-24

Independent Audit of Harris Corporation
FDsys Master Integrator

September 21, 2012

Date

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To

Director, Acquisition Services

From

Inspector General

Subject

Independent Audit of Harris Corporation – FDsys Master Integrator
Report Number 12-24

REDACTED

The Office of Inspector General contracted with the Defense Contract Audit Agency (DCAA) to determine whether the direct materials, direct labor, travel and other direct costs (ODC) of approximately \$15 million charged by Harris Corporation, the FDsys Master Integrator, were allocable and allowable.

It was not practical to identify during the audit those elements of the data which are proprietary to Harris Corporation. Therefore we restricted the report. In the event of an external request for the report, a determination of proprietary information will be made.

EXECUTIVE SUMMARY

DCAA determined Harris Corporation's claimed direct costs were allocable and allowable as adjusted by their audit. DCAA questioned \$1,178,814 of claimed costs. Of the questioned amount, DCAA questioned \$726,458 of direct material costs related to payments exceeding contract funding limits. They questioned \$240,000 of overtime costs not approved as required by the contract. Additionally, they questioned \$212,456 of ODCs related to field premiums and COLA because field premiums are unreasonable and COLA duplicate other reimbursements for locality adjustments in the Washington, DC area. Harris Corporation disagreed with the audit findings.

We recommend the Director, Acquisition Services recover questioned costs of \$1,178,814.

SUBJECT OF AUDIT

DCAA examined the Harris Corporation, Harris Government Communications Systems Division (HGCS), Voucher No. 0047R2, with total cumulative costs of \$21,798,974 under Contract No. 3000141-0. DCAA did not examine the indirect costs, including overhead, general and administrative (G&A) expenses, and cost of money because the annual incurred cost audits of indirect rates for contractor fiscal years (CFYs) 2007 through 2009 have not been completed. By submitting the voucher, the contractor asserts that it has complied with the criteria outlined in the pertinent contract provisions.

HGCS's voucher, financial records and related supporting data are the responsibility of HSCSD. DCAA's responsibility is to express an opinion on the allocability and allowability of the direct costs based on our examination.

SCOPE OF AUDIT

Although DCAA was requested to perform an examination of the total incurred costs on HGCS's Voucher No. 0047R2 under Contract No. 3000141-0, this report reflects only the results of direct materials, direct labor, travel and ODCs. DCAA conducted the examination in accordance with generally accepted government auditing standards (GAGAS), except DCAA does not currently have an external opinion on its quality control system as required by GAGAS 3.55. The most recent external quality control review opinion expired on August 26, 2009. GAGAS requires that DCAA plan and perform the examination to obtain reasonable assurance that the data and records examined are free of material misstatement. An examination includes:

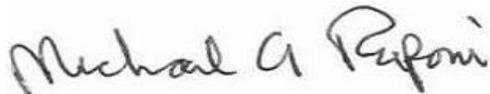
- Obtaining an understanding of the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- Assessing 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.

DCAA evaluated the direct materials, direct labor, travel and ODCs using the applicable requirements contained in the:

- Contract Provision;
- Material Management Acquisition Regulation;
- Joint Travel Regulations.

For CFYs 2007 through 2009, DCAA considers HGCSO's accounting system to be adequate for accumulating and reporting costs on government contracts. They consider the HGCSO's billing system to be inadequate in part. The scope of the examination reflects an assessment of control risk and includes tests of compliance with applicable laws and regulations that they believe provide a reasonable basis for their opinion.

We appreciate the courtesies extended to DCAA and to our audit staff. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 512-0039.

A handwritten signature in black ink that reads "Michael A. Raponi". The signature is written in a cursive, slightly slanted style.

MICHAEL A. RAPONI
Inspector General

cc:
Acting Public Printer
Assistant Public Printer, Operations
General Council