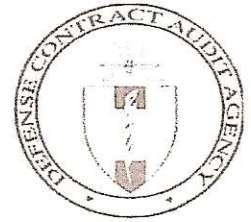




DEFENSE CONTRACT AUDIT AGENCY
AUDIT REPORT NO. 2261-2007G 17740 005



November 8, 2006

PREPARED FOR: Contracting Officer
Department of the Army
Program Executive Office
Ground Combat and Support Systems
ATTN: SFAE-GCS-SBCT (Ms. Amy Bouren)
Warren, Michigan 48397-5000

PREPARED BY: DCAA Great Lakes Branch Office
38701 Seven Mile Road, Suite 460
Livonia, MI 48152-1091
Telephone No. (734) 805-3080
FAX No. (734) 805-3090
E-mail Address dcao-fao2261@dcaa.mil

SUBJECT: Preaward Survey of Prospective Contractor Accounting System Audit

REFERENCES: ACO: AFB045
Relevant Dates: See Page 4

CONTRACTOR: Top Craft Tool, Inc.
33674 Giftos Drive
Clinton Township, MI 48035

REPORT RELEASE RESTRICTIONS: See Page 5

	<u>Page</u>
CONTENTS: Subject of Audit	1
Scope of Audit	1
Results of Audit	2
Contractor Organization and Systems	3
DCAA Personnel and Report Authorization	4
Audit Report Distribution and Restrictions	5
Appendix - Standard Form 1408	6

FOR OFFICIAL USE ONLY

SUBJECT OF AUDIT

As you requested on October 19, 2006, we examined Top Craft Tool, Inc.'s (TCT) accounting system to determine whether the design of the system is acceptable for the award of a prospective contract, in accordance with the criteria set forth in FAR 53.209-1(f), Standard Form 1408, Preaward Survey of Prospective Contractor Accounting System. By submitting a cost proposal to the Government, Top Craft Tool, Inc. asserts that its accounting system is acceptable to perform the prospective contract in accordance with the above FAR criteria.

TCT is responsible for establishing and maintaining an acceptable accounting system for accumulating costs under prospective Government contracts. Our responsibility is to express an opinion on the acceptability of the design of the accounting system for the award of a prospective contract based on our examination.

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:

- obtaining an understanding of internal control for accumulating costs under prospective Government contracts;
- 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; and
- evaluating the overall data and records presentation.

We evaluated the accounting system using the applicable requirements contained in:

- Federal Acquisition Regulation (FAR) and
- Defense FAR Supplement (DFARS).

Our examination was performed from October 25, 2006 to November 6, 2006.

We believe that our examination provides a reasonable basis for our opinion.

Our examination did not include tests to determine whether internal control is in operation or operating effectively. Our examination was limited to determining whether TCT's design of the accounting system is acceptable for award of a prospective contract. Accordingly, we express no opinion on the system's operating effectiveness. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, accounting system internal control is subject to the risk that the design of the internal control may become unacceptable because of changes in conditions.

FOR OFFICIAL USE ONLY

RESULTS OF AUDIT

In our opinion, the design of the accounting system is, in all material respects, considered acceptable for award of a prospective contract in accordance with the criteria contained in FAR 53.209-1(f). The accounting system is in operation. As requested, we have completed a Standard Form 1408, Pre-Award Survey of Prospective Contractor Accounting System (Appendix, see page 6).

We did not perform a comprehensive examination of the contractor's overall accounting system and its related internal control. Accordingly, we express no opinion on TCT's system of internal control taken as a whole.

We discussed the results of our examination with Mr. Gary Kimmon, Co-President, in an exit conference held on November 6, 2006. The contractor has concurred with our results.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization

TCT was incorporated in the state of Michigan in 1968. Sales for fiscal year ended December 31, 2005 were \$2.4 million; approximately eighty percent of the total sales were to commercial customers. TCT currently has 24 employees. TCT specializes in the design and manufacture of tooling and automation equipment.

2. Accounting System

TCT accounting period is from January 1 to December 31. TCT maintains an accounting system on the accrual basis in accordance with generally accepted accounting principles. TCT's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and at year end. TCT uses Quick Books Enterprise software for its accounting system. TCT prepares financial statements on an annual basis. The annual financial statements are not audited by external CPAs. TCT uses a fully burdened labor rate, allocated over direct labor hours.

DCAA PERSONNEL

Primary contacts regarding this audit:

Judy C. Heater-Unsworth, Auditor
Norman S. Rea, Supervisory Auditor

Telephone No.

(313) 363-8046
(734) 805-3083

Other contacts regarding this audit report:

Richard J. AhKao, Branch Manager
Daniel J. Popovic, Financial Liaison Advisor

(734) 805-3080
(586) 574-7807

FAX No.

Great Lakes Branch Office
Daniel J. Popovic, Financial Liaison Advisor

(734) 805-3090
(586) 574-5678

E-mail Address

Great Lakes Branch Office

dcaa-fao2261@dcaa.mil

General information on audit matters is available at www.dcaa.mil

RELEVANT DATES

Request for Audit Dated October 19, 2006; Received October 19, 2006.

AUDIT REPORT AUTHORIZED BY:

Norman S. Rea
/for / RICHARD J. AHKAO
Branch Manager
DCAA Great Lakes Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

	<u>E-mail Address</u>
Contracting Officer Department of the Army Program Executive Office Ground Combat and Support Systems ATTN: SFAE-GCS-SBCT (Ms. Amy Bouren) Warren, Michigan 48397-5000	bourena@tacom.army.mil

Top Craft Tool, Inc.
33674 Giftos Drive
Clinton Township, MI 48035
(Copy furnished thru ACO)

US Army Tank-Automotive & Armaments Command ATTN: AMSTA-AQ-ASE/DCAA FLA Daniel Popovic BLDG 231, Mail Stop 318 6501 E. 11 Mile Road, Bldg 231 Warren, Michigan 48397-5000	DCAA-FLA-TACOM-1@dcaa.mil
	<u>Telephone</u> (586) 574-7087

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 request 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.

STANDARD FORM 1408

PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM	SERIAL NO. (For surveying activity use)	OMB No.: 9000-0011
	PROSPECTIVE CONTRACTOR: Top Craft Tool, Inc., Clinton Township, MI	

Public reporting burden for this collection of information is estimated to average 24 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to FAR Secretariat (VRS), Office of Federal Acquisition and Regulatory Policy, GSA, Washington, DC 20405; and to the Office of Management and Budget, Paperwork Reduction Project (9000-0011), Washington, DC 20503.

SECTION I - RECOMMENDATION

1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT

YES NO (Explain in 2.)

YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER
(Explain in 2. NARRATIVE)

2. NARRATIVE (Clarification of deficiencies, and other pertinent comments. If additional space is required, continue on plain sheets of paper.)

We consider the contractor's system to be adequate for the accumulation and reporting of costs on government contracts.

IF CONTINUATION SHEETS
ATTACHED - MARK HERE

3. SURVEY MADE BY	a. SIGNATURE AND OFFICE (Include typed or printed name) //s// Judy Heater-Unsworth DCAA, Great Lakes Branch Office	b. TELEPHONE NO. 313/363-8046	c. DATE SIGNED 11/6/06
4. SURVEY REVIEWING OFFICIAL	a. SIGNATURE AND OFFICE (Include typed or printed name) //s// Norman S. Rea DCAA, Great Lakes Branch Office	b. TELEPHONE NO. 734/805-3083	c. DATE SIGNED 11/6/06

AUTHORIZED FOR LOCAL REPRODUCTION
Previous edition is usable

STANDARD FORM 1408 (REV. 9-88)
Prescribed by GSA
FAR (48 CFR) 53.209-1(f)

SECTION II - EVALUATION CHECKLIST

MARK "X" IN THE APPROPRIATE COLUMN (Explain any deficiencies in SECTION 1 NARRATIVE)	YES	NO	NOT APPLICABLE
1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCPETED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES?	√		
2. ACCOUNTING SYSTEM PROVIDES FOR			
a. Proper segregation of direct costs from indirect costs.	√		
b. Identification and accumulation of direct costs by contract.	√		
c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is a final cost objective.)	√		
d. Accumulation of costs under general ledger control	√		
e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives.	√		
f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.	√		
g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.	√		
h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions.	√		
i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract.	√		
j. Segregation of pre-production costs from production costs.	√		
3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION:			
a. Required by contract clauses concerning limitation of cost (FAR 52.232-20 and 21) or limitation on payments (FAR 52.216-16).	√		
b. Required to support requests for progress payments.	√		
4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS?	√		
5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? (If not, describe in Section I Narrative which portions are (1) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent.)	√		