

January 26, 2010

John Doe, Controller  
XYZ, Inc.  
1234 Any Street, Suite #1000  
Any Town, WA 98555-1000

RE: XYZ, Inc. Overhead Schedule  
Audited Rate for Fiscal Year End December 31, 2008

Dear Mr. Doe:

In November, 2009 as WSDOT representatives, Jane Doe and Sarah Smith of the Internal Audit Office conducted fieldwork at XYZ, Inc. (XYZ), which included an audit of the Fiscal Year Ended (FYE) December 31, 2008, Overhead Schedule. We audited this schedule for compliance with 48 CFR Federal Acquisition Regulations (FARS) and WSDOT OH Policy. For the audit of this overhead schedule we judgmentally selected transactions for testing from several of the overhead accounts. We applied adjustments to this overhead schedule for those costs not in compliance with FARS or WSDOT OH Policy.

The overhead audit is a part of WSDOT External Audit Report No. 123 which also includes the post audit for agreement Y-4321. The audit is in process and will need to go through our office review process. Upon completion of the review process a draft audit report will be sent to XYZ for review and comment.

Our audit also included an analytical review of the 2008 schedule by comparing it to the accepted FYE 2006 Overhead Schedule and a review of data that WSDOT had collected in our permanent files.

The reviewed data included, but was not limited to: the schedule of the indirect cost rate, a description of the company and their accounting system, and the basis for XYZ's accounting and indirect costs.

During our audit we found that XYZ does not segregate, identify or track all of their unallowable expenses as required in 48 CFR 31.201-6. We found pervasive unallowable costs pertaining to entertainment and marketing.

Based on our review, we are issuing this letter of concurrence establishing XYZ's overhead rate for the FYE December 31, 2008. The audited Company-Wide Rate (Composite Rate) is 145.37% of direct labor.

If you, or any representatives of XYZ, have any questions, please contact Martha Roach at 360-705-7006.

Sincerely,

Martha S. Roach  
Agreement Compliance Audit Manager

MR:ds  
Enclosure

cc: File