

**Report on Audit  
of Billing System Internal Controls**

**March 2003**

**Reference Number: 2003-1C-058**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

March 4, 2003

MEMORANDUM FOR DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

*Daniel R. Devlin*

FROM: Daniel R. Devlin  
Assistant Inspector General for Audit (Headquarters Operations  
and Exempt Organizations Programs)

SUBJECT: Report on Audit of Billing System Internal Controls  
(Audit #200310002.022)

The Defense Contract Audit Agency (DCAA) examined the Civil Group's billing system as of June 19, 2002. The purpose of this examination was to assure that the Civil Group's system of billing controls is adequate to provide billed costs that are reasonable, compliant with applicable laws and regulations, and subject to applicable financial control systems. The DCAA also evaluated the Civil Group's compliance with the billing system's internal control requirements.

The DCAA opined that the billing system and related internal control policies and procedures of the Civil Group are inadequate. The examination disclosed significant internal control deficiencies in the Civil Group's billing system that could result in an overpayment on United States Government contracts. The DCAA noted that these deficiencies could adversely affect the organization's ability to prepare billings in accordance with applicable laws, regulations, and contract terms. In addition, the DCAA also indicated that these deficiencies could adversely affect the organization's ability to prevent or detect material misstatements and correct them in a timely manner.

Specifically, the DCAA listed nine significant issues that formed the basis of its opinion, including: lack of consistent "formal" policies and procedures; provisional billing rates not properly adjusted; lack of written policies and procedures for preparing manual bills; lack of separate written policies for Internal Revenue Service billing procedures; lack of written policy for reviewing the adequacy of subcontractors' systems; inadequate written

policies for processing contract overpayments, refunds, and offsets; and, no management reviews or internal audits of the billing system.

The DCAA was unable to determine the precise cost impact of these deficiencies. However, during Fiscal Year 2001, the Civil Group's billing system processed over \$990 million of invoices to the government. The DCAA made numerous recommendations to resolve the deficiencies.

The information in this report should not be used for purposes other than that intended without prior consultation with the Treasury Inspector General for Tax Administration regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

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