

**Incurred Cost Audit for
Fiscal Year 2000**

March 2005

Reference Number: 2005-1C-034

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 7, 2005

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: Incurred Cost Audit for Fiscal Year 2000
(Audit #20051C0207)

The Defense Contract Audit Agency (DCAA) examined the Civil Division's April 24, 2001, certified final indirect cost rate proposal and December 13, 2002, revised cost of money factors proposal and related books and records for reimbursement of Fiscal Year 2000 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs and cost of money factors. The examination was also used to establish audit-determined indirect cost rates and cost of money factors for the fiscal year ended March 31, 2000.

The DCAA questioned \$46,490 of executive compensation and \$198,626 in Interdivisional Work Order labor, travel, and relocation costs directly related to IRS contract TIRNO-99-D-0001. In a previous audit, the Treasury Inspector General for Tax Administration (TIGTA) noted similar issues when it performed a limited sample of direct charges on contractor invoices and identified direct charges for which neither the Internal Revenue Service nor the contractor provided any supporting documentation, the supporting documentation did not adequately support the charge, or the charge was unallowable.

The DCAA reclassified \$2,396,420 in residual expenses from the material handling pool to the General and Administrative (G&A) pool. The DCAA also reduced the contractor's claimed G&A base by \$4,933,785 as a result of the reclassification of material handling expenses and because the contractor included subcontract costs in the G&A base in noncompliance with Cost Accounting Standards (CAS). Additionally, the DCAA

reduced the contractor's claimed material handling base by \$1,101,159 because the contractor included technical publication costs in the material handling base in noncompliance with CAS. The DCAA also classified \$6,006,721 as unresolved costs because the results of the assist audits have not been received. Therefore, the DCAA qualified the results of the audit to the extent that subcontract audits may disclose additional questioned costs.

The DCAA stated that the contractor's proposed indirect rates are acceptable as adjusted by its examination. Additionally, the DCAA stated that the contractor's claimed direct costs, except for the qualification noted above and the potential impact on the audit results, are acceptable as adjusted by its examination. Direct costs not questioned are provisionally accepted pending final acceptance.

The information in this report should not be used for purposes other than those intended without prior consultation with the TIGTA regarding their applicability.

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

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 U.S.C. § 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

The TIGTA seal was removed due to its size.