

**Audit of Fiscal Years 1997 and 1998
Incurred Costs for Subcontractor
Under TIRNO-95-D-00067**

October 1999

Reference Number 20001C001

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.

Redaction Legend:

10 = Trade Secrets or Commercial/Financial Information



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

October 13, 1999

MEMORANDUM FOR JAMES A. WILLIAMS
ASSISTANT COMMISSIONER (PROCUREMENT)
INTERNAL REVENUE SERVICE

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Audit of Fiscal Years 1997 and 1998 Incurred Costs
for Subcontractor under TIRNO-95-D-00067

In response to your request, the Defense Contract Audit Agency (DCAA) audited the contractor's certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year 1997 and Fiscal Year 1998 incurred costs. The DCAA performed sufficient audit tests to obtain reasonable assurance about whether the proposal is free of material misstatement.

In summary, DCAA questioned various cost elements of the overhead and general and administrative indirect cost rates. These questioned cost elements were not adequately supported or were for unallowable items. The effect of these questioned costs on the indirect cost rates is summarized in the table below.

Indirect Rate Category	Proposed Rate	Questioned Rate	Recommended Rate	Fiscal Year
Division 450 Overhead	10	10	10	1997
Division 460 Overhead	10	10	10	1997
General & Administrative	10	10	10	1997
General & Administrative	10	10	10	1998

The contracting officer will negotiate the final indirect cost rates with the contractor. In order to determine the effect on the contract costs, the final negotiated indirect cost rates must be applied to the costs billed for Fiscal Year 1997 and Fiscal Year 1998.

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

If you have any questions, please contact me at (202) 622-6510, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations & Exempt Organizations Programs), at (202) 622-8500.

NOTICE:

The Office of the 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 USC 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.

TIGTA Seal

(removed due to size)