

**Agreed Upon Procedures for
TIRNO-98-C-00041**

August 2000

Reference Number: 2000-1C-113

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:

1 = Tax Return/Return Information

10 = Trade Secrets of Commercial/Financial Information



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

August 1, 2000

MEMORANDUM FOR JAMES A. WILLIAMS
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

A handwritten signature in black ink, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Agreed Upon Procedures for TIRNO-98-C-00041

In response to your request, the Defense Contract Audit Agency (DCAA) audited the general and administrative (G&A) expenses included in the termination settlement proposal. The DCAA audited the G&A expenses amount of 10 included in the 10 termination settlement proposal to the extent possible.

The DCAA qualified its audit report because its work was limited to reviewing the G&A expenses, and it did not include other elements of the termination settlement proposal. The DCAA noted that the G&A expenses included in this DCAA audit may also be included in individual elements elsewhere in the termination settlement proposal such as Direct Labor, Other Costs, or Unabsorbed Overhead.

Due to the above qualification, the DCAA recommended that an additional review be performed to ensure that the G&A expenses are not included in other cost elements of the termination settlement proposal, and to reconcile the total contract cost base data used in this DCAA report with corresponding data elsewhere in the contractor's termination settlement proposal.

In summary, the DCAA does not believe that the G&A portion of the termination settlement proposal is acceptable as a basis for negotiation of a fair and reasonable price. This belief is based on the contractor's noncompliance with Federal Acquisition Regulations and cost or pricing data inadequacies that are considered significant. Nevertheless, the DCAA evaluated the G&A portion of the proposal to the extent possible under the circumstances and questioned 10 of the 10 G&A expenses in the termination settlement proposal.

Finally, the DCAA was unable to obtain job cost information for the period covered by the contract because the contractor's accounting system deleted job cost information from January 1998 through December 1999. The DCAA was able to obtain a general ledger, income statement, some time keeping records for Calendar Year (CY) 1999, and payroll records. In an effort to further substantiate the various reports obtained, the

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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) 622-6510, or your staff may call Maurice S. Moody, Associate Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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 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.

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