



*Voucher Audit of the Federal Financial  
System Software Technical Support Services  
Contract - TIRNO-04-T-00116*

**December 2005**

**Reference Number: 2006-10-027**

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.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

December 29, 2005

**MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES**

**FROM:** *Michael R. Phillips*  
Michael R. Phillips  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Voucher Audit of the Federal Financial System  
Software Technical Support Services Contract - TIRNO-04-T-00116  
(Audit # 200510033)

This report presents the results of our review of the Internal Revenue Service's (IRS) Federal Financial Systems Software Technical Support Services Contract – TIRNO-04-T-00116. The overall objective of this review was to determine whether selected vouchers submitted and paid under contract number TIRNO-04-T-00116 were appropriate and in accordance with the contract's terms and conditions.

*Synopsis*

Contract expenditures represent a significant outlay of IRS funds. The Treasury Inspector General for Tax Administration has made a commitment to perform audits of these expenditures. We initiated this audit to determine whether the vouchers submitted by the contractor and paid by the IRS were accurate, supported, and allowable.

Except for minimal charges related to courier services that were questionable due to the lack of supporting documentation, we determined the approximately \$1.5 million in charges on the 6 vouchers we reviewed were accurate, supported, and allowable. The contractor indicated the receipts for the courier services were unavailable.

As part of this audit, we also examined contractor performance reviews and interviewed both the Contracting Specialist and Contracting Officer's Technical Representative to determine whether the contractor's performance was satisfactory. Based on these limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with the deliverables associated with the contract.



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*Response*

We did not make any recommendations in this report, and thus did not require a formal written response to this report from the IRS. In providing informal comments to the discussion draft report, IRS management concurred with the results of our review.

Copies of this report are also being sent to the IRS managers affected by the report. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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## *Background*

In March 2004, the Internal Revenue Service (IRS) awarded delivery order number TIRNO-04-T-00116 off of a General Services Administration Schedule contract. The objective of this time-and-materials delivery order was to provide technical support services for the IRS' Automated Financial System.<sup>1</sup>

The delivery order was awarded for 1 year from March 22, 2004, through March 22, 2005. Subsequently, the IRS issued a modification to the delivery order to extend the period of performance to September 23, 2005. According to the IRS' Request Tracking System,<sup>2</sup> as of August 17, 2005, the IRS approved approximately \$4.6 million for payment to the contractor.

Because contract expenditures represent a significant outlay of IRS funds, the Treasury Inspector General for Tax Administration made a commitment to perform audits of these expenditures. This audit was designed to determine whether amounts paid by the IRS under this contract were accurate, supported, and allowable through a review of contractor vouchers and supporting documentation.

This audit was performed at the Office of Procurement in the Office of Agency-Wide Shared Services in Oxon Hill, Maryland, and the contractor's facility located in Fairfax, Virginia, during the period August through November 2005. Opinions expressed in this report pertain only to the vouchers included in our random and judgmental samples.

The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>1</sup> The Automated Financial System was the IRS' customized version of the Federal Financial System software package, which has been subsequently replaced by the new Integrated Financial System (the IRS' administrative financial accounting system).

<sup>2</sup> The Request Tracking System is a web-based application that allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The System also allows for electronic acceptance of items delivered and provides an electronic interface with the Integrated Financial System for payment processing.



## *Results of Review*

### ***Contract Charges and Voucher Verification Process***

We examined supporting documentation obtained from the IRS' Office of Procurement, as well as documentation received directly from the contractor, for a sample of six vouchers. The vouchers were selected using a combination of random and judgmental sampling methods (see Appendix I for details). The 6 vouchers had processing dates from September 2004 to August 2005 and involved approximately \$1.5 million in IRS payments.

The primary expenses claimed by the contractor were employee compensation and subcontractor costs and, to a lesser extent, other direct costs such as communications, clerical, and travel.

#### **Contract charges**

Based on our audit tests, we identified minimal charges related to courier services that were questionable due to a lack of supporting documentation. We provided details of these charges to the contractor and the IRS. The contractor indicated receipts for these charges were unavailable. All other charges related to the \$1.5 million claimed on the 6 vouchers were accurate, supported, and allowable.

The Federal Acquisition Regulation (FAR)<sup>3</sup> stipulates a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred. The FAR also provides that costs shall be allowed to the extent they are reasonable, allocable, and allowable under the FAR.

#### **Voucher verification process**

Contracts may be entered into and signed on behalf of the Federal Government only by Contracting Officers (CO). The COs have the authority to administer or terminate contracts and make related determinations and findings. The COs are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.

The requesting program office nominates a Contracting Officer's Technical Representative (COTR), who is the CO's technical expert and representative in the administration of a contract or task order. Usually, the CO will appoint the COTR by issuing a signed letter of appointment tailored to meet the needs of each contract. The CO and COTR are required to jointly review all

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<sup>3</sup> 48 C.F.R. pt 1-53 (2002).



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appointed duties. IRS guidance includes a sample letter of appointment which details responsibilities of the COTR. One of these responsibilities is to review the contractor's vouchers to ensure they accurately reflect the work completed in accordance with the requirements of the contract, certifying acceptance, and forwarding a copy of the invoice to the CO.

Additionally, IRS guidance provides a reference to the Office of Federal Procurement Policy's, *A Guide to Best Practices for Contract Administration*. The Guide offers, as a practical technique, that COTRs reviewing vouchers under cost reimbursement contracts should review, among other things, contractor time cards to help assess the reasonableness of direct labor charges. The Guide also contains direction to review major cost categories, such as subcontractor charges to again determine the reasonableness of the claimed costs. Though the Guide, which was published in October 1994, does not include a specific reference to time-and-materials contracts, we believe it is reasonable to infer that administration requirements for cost-reimbursement contracts would also apply to time-and-materials contracts.

The COTR stated he or she reviews the vouchers for each task and ensures the labor rates and mathematical calculations are accurate. The COTR also explained that the contractor provided explanations for excessive hours charged for a specific employee. Additionally, the COTR advised us that estimated hours for each task were monitored in weekly progress reports provided by the contractor. However, the COTR stated he or she did not receive documentation supporting labor hours (i.e., time reports) or other direct costs.

We did not identify a significant amount of questionable charges on the vouchers we reviewed, notwithstanding the incomplete voucher verification process relating to documentation supporting labor hours. We will continue to include a review of the IRS' voucher verification process in future contract voucher audits and, if warranted, recommend improvements to the process.

### ***Contract Deliverables Were Acceptable***

We analyzed contractor performance reviews and interviewed both the Contract Specialist and the COTR to determine whether the contractor's deliverables were acceptable. This contract provided technical support services for the IRS' Automated Financial System.

Based on our limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with any of the deliverables associated with the vouchers included in our tests.



## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to determine whether selected vouchers submitted and paid under contract number TIRNO-04-T-00116 were appropriate and in accordance with the contract's terms and conditions. To accomplish our objective, we:

- I. Analyzed the Internal Revenue Service's (IRS) voucher verification process prior to certifying payment to the contractor.
  - A. Interviewed the Contracting Specialist and the Contracting Officer's Technical Representative to confirm our understanding of the voucher verification process.
  - B. Documented voucher processing risks including accuracy, supportability, and allowability of voucher charges and concluded as to the overall control environment.
  - C. Interviewed IRS personnel involved in the administration of the contract to identify any concerns that existed regarding the contractor, its billing practices, or any specific invoices.
- II. Verified whether voucher charges submitted by the contractor and paid by the IRS were accurate, supported, and allowable.
  - A. Used a sample selection method involving both random and judgmental selections from the universe of the Request Tracking System (RTS)<sup>1</sup> recorded transactions. As of August 17, 2005, there were 17 transactions in the RTS, which corresponded with the 17 vouchers received and paid by the IRS. We selected a sample size of 6 vouchers, or approximately one-third of the 17 vouchers available. We judgmentally selected one voucher because we identified a potential error with a labor rate during our initial review of all of the vouchers. Using the Data Analysis tool in Excel, we randomly selected the remaining five vouchers. The 6 vouchers had processing dates from September 2004 through August 2005 and involved approximately \$1.5 million in IRS payments. We believed this sampling method would provide sufficient evidence to accomplish our audit objective and would result in acceptable management corrective action without the need for a precise projection of sample results.

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<sup>1</sup> The RTS is a web-based application that allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The RTS also allows for electronic acceptance of items delivered and provides an electronic interface with the Integrated Financial System (the IRS' administrative financial accounting system) for payment processing.





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- B. Obtained supporting documentation for the vouchers in the sample from the IRS and contractor and performed the following tests:
  - 1. Verified the mathematical accuracy of the vouchers and supporting documentation.
  - 2. Traced voucher charges to supporting documentation.
  - 3. Verified whether voucher charges were actually paid by the contractor through examination of payroll records and extracts from the contractor's financial records.
  - 4. Verified whether voucher charges were allowable under the terms and conditions of the contract.
- III. Verified through interviews and reviews of project files whether there was acceptable existence of deliverables, as stipulated in the contract, for the vouchers included in our sample.



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## **Appendix II**

### *Major Contributors to This Report*

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

John R. Wright, Director

Thomas J. Brunetto, Audit Manager

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**Appendix III**

*Report Distribution List*

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