



*Invoice Audit of the Taxpayer Burden
Simulation Models Contract –
TIRNO-03-D-00001*

March 2006

Reference Number: 2006-10-060

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.

Phone Number | 202-927-7037

Email Address | Bonnie.Heald@tigta.treas.gov

Web Site | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 22, 2006

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Invoice Audit of the Taxpayer Burden Simulation Models Contract – TIRNO-03-D-00001 (Audit # 200510014)

This report presents the results of our review of the Internal Revenue Service's (IRS) Taxpayer Burden Simulation Models Contract – TIRNO-03-D-00001. The overall objective of this review was to determine whether selected invoices submitted and paid under contract number TIRNO-03-D-00001 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 invoices submitted by the contractor and paid by the IRS were accurate, supported, and allowable.

Our review resulted in the identification of questionable charges of \$1,937.61, which consisted of unsupported and unallowable travel costs and unsupported other direct charges.

As part of this audit, we also examined contract correspondence files and interviewed the Contracting Officer, the Government Task Manager, and the Contracting Officer's Technical Representatives 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 task orders included in our tests.



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Recommendation

We recommended the Director, Procurement, ensure the appropriate Contracting Officer reviews the identified questionable charges of \$1,937.61 and initiates any recovery actions deemed warranted.

Response

The IRS agreed with our recommendation. The Director, Procurement, responded that the contractor was able to provide adequate supporting documentation in the amount of \$1,433.29, inclusive of general and administrative expenses, for questioned expenses. The contractor has agreed to reimburse the Federal Government the remaining balance of \$504.32. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. 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 December 2002, the Internal Revenue Service (IRS) awarded contract number TIRNO-03-D-00001, an indefinite-delivery, indefinite-quantity time-and-materials contract which addresses one of the IRS' strategic objectives to reduce taxpayer burden. The contractor served as an expert to develop complex micro-simulation models to measure the pre-filing, filing, and post-filing taxpayer burden of small business income taxes, employment taxes, selected excise and specialty taxes, and other taxes. The development of the models required technical support and expertise in the areas of econometrics, economics, survey design and administration, statistics, tax administration, tax legislation, and tax policy.

The contract was awarded for a base year of December 18, 2002, to December 17, 2003, and 4 option periods. If all options are exercised, the contract has a total award value of approximately \$30 million and would extend through December 17, 2007. According to the IRS Request Tracking System,¹ as of April 19, 2005, the IRS had awarded 5 task orders with a total value not to exceed approximately \$10 million and had recorded approximately \$5.7 million in transactions against these task orders.

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 invoices 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 in Fairfax, Virginia, during the period February through November 2005. Opinions expressed in this report pertain only to the task orders and invoices included in our judgmental sample.

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.

¹ 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 (the IRS' administrative financial accounting system) for payment processing.



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Results of Review

Questionable Contract Charges and Invoice 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 21 transactions. The transactions were selected using a judgmental sampling method (see Appendix I for details). The sampled transactions related to 19 invoices and involved 4 task orders. The 4 task orders had award amounts totaling approximately \$8 million and associated transactions of approximately \$5.6 million. The 21 transactions had processing dates between March 2003 and January 2005 and involved \$734,454.22 in IRS payments.

The primary expenses claimed by the contractor were employee compensation, travel (including associated general and administrative expenses), and other direct costs.

Questionable contract charges

Based on our audit tests, we identified questionable charges of \$1,937.61 as shown in Table 1. We provided details of these charges to the contractor, who agreed with our findings, and the IRS.

Table 1: Schedule of Questionable Charges

Questioned Activity	Questionable Charges
Unsupported Travel Charges	\$1,197.40
Unallowable Travel Charges (net) ²	(\$147.81)
Related Travel General and Administrative Expenses	\$206.77
Unsupported Other Direct Costs	\$681.25
Total	\$1,937.61

Source: Treasury Inspector General for Tax Administration analysis of 21 transactions processed by the IRS.

All the questionable charges related to either travel charges (including related general and administrative expenses) or other direct costs. The majority of the travel expenses were

² The reference to net signifies that both positive and negative amounts were identified.



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questioned because there were no receipts provided to support airfare, lodging, and car rental expenses. The other direct costs were questioned due to the lack of supporting documentation. The Federal Travel Regulation (FTR)³ requires airline, lodging, and car rental receipts to be provided and reimbursement to be based on the actual expense cost not to exceed the per diem rate or other required cost limitation policies. Additionally, the FTR requires that any travel expenses in excess of \$75 must be supported by a receipt when claimed on a travel voucher.

The Federal Acquisition Regulation (FAR)⁴ 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.

Invoice 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 appointed duties.

Prior to April 28, 2004, the Department of the Treasury *Contracting Officer's Technical Representatives Handbook* was the primary guidance for the COTRs.⁵ Part IV of the *Handbook* stated, in part, the COTRs are responsible for reviewing and approving invoices and vouchers on contracts. It also stated the COTRs will receive instructions regarding involvement in the review and approval of invoices and vouchers from the CO. Attachment E of the *Handbook* also offered, as a sample responsibility for time-and-materials contracts, that the COTRs are responsible for reviewing and signing off on the invoices to attest to their accuracy. Seven of the 21 transactions we reviewed during this audit were subject to this guidance.

On April 28, 2004, the IRS replaced the *Handbook* guidance, in part, with a reference to the Office of Federal Procurement Policy document *A Guide to Best Practices for Contract Administration* (the *Guide*). The *Guide* offers, as a practical technique, that the COTRs

³ 41 C.F.R. Chapter 301 (2005).

⁴ 48 C.F.R. pt 1-53 (2002).

⁵ Department of the Treasury Acquisition Circular No. 02-01, dated April 28, 2004, deleted references to the *Contracting Officer's Technical Representatives Handbook*. The Circular also stated the Department of the Treasury would no longer maintain the *Handbook*.



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reviewing vouchers under cost-reimbursement contracts should review, among other things, contractor timecards to help assess the reasonableness of direct labor costs. The *Guide* also contains directions to review major cost categories such as travel, supplies, other direct costs, and subcontractor costs to again determine the reasonableness of the claimed costs. Although 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 advised us that he or she relies on the Government Task Managers (GTM) to review the invoices for accuracy of the work performed. The GTM we interviewed indicated he or she was involved in the day-to-day oversight of the work done by the contractor. Further, the GTM generally reviewed the invoices to determine the reasonableness of hours worked and travel expenses claimed.

We did not identify any type of verification performed of actual hours worked, such as a review of contractor-provided payroll or related payment records. We also did not identify any type of verification performed to ensure travel and other direct costs were properly supported by receipts.

We did not identify a significant amount of questionable charges on the invoices we reviewed, notwithstanding the incomplete invoice verification process described above. We will continue to include a review of the IRS' invoice verification process in future contract invoice audits and, if warranted, recommend improvements to the process.

Recommendation

Recommendation 1: The Director, Procurement, should ensure the appropriate CO reviews the identified questionable charges of \$1,937.61 and initiates any recovery actions deemed warranted.

Management's Response: The Director, Procurement, responded that the contractor was able to provide adequate supporting documentation in the amount of \$1,433.29, inclusive of general and administrative expenses, for questioned expenses. The contractor has agreed to reimburse the Federal Government the remaining balance of \$504.32.

Contract Deliverables Were Acceptable

We examined contract correspondence files and interviewed the CO, COTR, and GTM to determine whether the contractor's deliverables were acceptable for the four task orders related to our sampled invoices. In general, this contract provided support services for the IRS to reduce taxpayer burden. In doing so, the contractor provided the following deliverables to the IRS:



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- Briefing on Tax Engine Design.
- Briefing on Behavioral and Decision Model.
- Briefing on Attribute Methodology.
- Final Methodology and Sampling Plan Reports.
- Draft Taxpayer Questionnaire.
- Paid Professional Study Design Document.
- Final Questionnaire and Pretest Report.
- Briefing on Forecasting Module.
- Safeguard Procedures Report/Security Briefing.

Based on our limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with the deliverables associated with the task orders included in our test.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether selected invoices submitted and paid under contract number TIRNO-03-D-00001 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) invoice verification process prior to certifying payment to the contractor.
 - A. Interviewed the Contracting Officer and Contracting Officer's Technical Representative to confirm our understanding of the invoice verification process.
 - B. Documented invoice processing risks including accuracy, supportability, and allowability of invoice 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 invoice charges submitted by the contractor and paid by the IRS were accurate, supported, and allowable.
 - A. Identified a sample selection universe of recorded Request Tracking System¹ transactions as of April 19, 2005. This universe contained 58 transactions related to 5 task orders processed between Fiscal Years 2002 and 2005. Further, the universe consisted of approximately \$10 million in awards and \$5.7 million in processed transactions.

From this universe, we judgmentally selected 21 transactions that contained labor, travel, and other direct costs. The judgmentally selected transactions related to 4 task orders, which had award amounts totaling approximately \$8 million and associated transactions of approximately \$5.6 million. Specifically, the sampled transactions had processing dates between March 2003 and January 2005 and involved \$734,454.22 in IRS payments. We believed this sampling method would provide sufficient evidence to accomplish our audit objective and would result in acceptable

¹ 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 (the IRS' administrative financial accounting system) for payment processing.



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- management corrective action without the need for a precise projection of sample results.
- B. Obtained supporting documentation for the invoices in the sample from the IRS and contractor and performed the following tests:
1. Verified the mathematical accuracy of the invoices and supporting documentation.
 2. Traced invoice charges to supporting documentation.
 3. Verified whether invoice charges were actually paid by the contractor through examination of payroll records and extracts from the contractor's financial records.
 4. Verified whether invoice charges were allowable under the terms and conditions of the contract.
- III. Verified through interviews with responsible officials and reviews of project files whether there was acceptable existence of deliverables, as stipulated in the contract, for the invoices 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

Gary D. Pressley, Lead Auditor

Richard E. Loudon, Auditor

Rashme Sawhney, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Director, Procurement OS:A:P
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Management Controls OS:CFO:AR:M
Audit Liaisons:
 Chief, Agency-Wide Shared Services OS:A
 Director, Procurement OS:A:P



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Questioned Costs – Potential; \$1,937.61 (see page 2).

Methodology Used to Measure the Reported Benefit:

We examined invoices and supporting documentation obtained from the Internal Revenue Service's (IRS) Office of Procurement, as well as documentation received directly from the contractor, to verify charges for a judgmental sample of 21 transactions. We selected our sample from a universe of approximately \$5.7 million in transactions processed by the IRS. The 21 transactions involved \$734,454.22 in IRS payments.

Our review resulted in the identification of questionable charges of \$1,937.61. Specifically, these charges consisted of \$1,197.40 in unsupported travel charges, \$681.25 in unsupported other direct costs, \$206.77 in unallowable general and administrative expenses, and (\$147.81) in net¹ unallowable travel charges.

¹ The reference to net signifies that both positive and negative amounts were identified.



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Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D. C. 20224

RECEIVED
MAR 08 2006

March 8, 2006

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David A. Grant *David A. Grant*
Director, Procurement

SUBJECT: Draft Audit Report – Invoice Audit of the Taxpayer
Burden Simulation Models Contract TIRNO-03-D-0001
(Audit No. 200510014)

We appreciate the opportunity to respond to the subject draft audit report. The report provides your assessment of whether the vouchers submitted by the contractor and paid by the IRS were accurate, supported, and allowable. We share your commitment to ensure the IRS pays the contractor only for supplies and services provided in accordance with the contract terms and conditions.

The audit focused on 21 transactions relating to 19 invoices and four task orders with award values of \$8 million. The 21 transactions were selected using a judgmental sampling method. Based on this sampling, the audit team identified \$1,937.61 in questionable charges, specifically citing unsupported/unallowable travel charges, unallowable travel general and administrative (G&A) expenses and other unsupported direct costs.

When we approached the Contractor about resolving these questioned costs, he was able to provide adequate documentation to support \$1,433.29 of the charges, inclusive of the associated G&A. The contractor has agreed to reimburse the Government the balance of \$504.32. We therefore concur only in part with the measurable benefits claimed by this report.

If you have any questions, please call me at (202) 283-1200 or John T. Smith, Director, Office of Business Operations at (202) 283-1710.

Attachment

cc: Chief, Agency-Wide Shared Services OS:A
Management Controls Coordinator OS:A:F



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ATTACHMENT

RECOMMENDATION 1:

The Director, Procurement, should ensure the appropriate CO reviews the identified questionable charges of \$1,937.61 and initiate any recovery actions deemed warranted.

CORRECTIVE ACTION:

The Contractor was able to provide adequate supporting documentation in the amount of \$1,433.29, inclusive of G&A, for questioned expenses. The Contractor has agreed to reimburse the Government the remaining balance of \$504.32.

IMPLEMENTATION DATE:

May 1, 2006

RESPONSIBLE OFFICIAL:

Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN:

The Contracting Officer and the Contracting Officer's Technical Representative will monitor Contractor invoices pursuant to the Federal Acquisition Regulations (FAR).