



*Voucher Audit of the Infrastructure
Shared Services Task Order of Contract
TIRNO-99-D-00001*

June 2006

Reference Number: 2006-10-087

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.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

June 15, 2006

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

Michael R. Phillips

FROM:

Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Voucher Audit of the Infrastructure Shared
Services Task Order of Contract TIRNO-99-D-00001
(Audit # 200510034)

This report presents the results of our review of the Internal Revenue Service's (IRS) Infrastructure Shared Services Task Order of Contract TIRNO-99-D-00001. The overall objective of this review was to determine whether selected vouchers submitted and paid under the Infrastructure Shared Services task order¹ of contract TIRNO-99-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 vouchers submitted by the contractor and paid by the IRS were accurate, supported, and allowable.

Our review resulted in the identification of questionable charges of \$8,187.49. The questionable charges consisted of unallowable labor and travel charges, unallowable indirect costs and fee, and unsupported travel charges.

The Treasury Inspector General for Tax Administration Office of Audit Information Systems Programs staff performed a companion audit of this contract's deliverables to determine whether the IRS was receiving full value from the contractor. In a recently issued final report, the

¹ This task order was designed to provide support that encompassed the building and delivery of the common, integrated, and shared infrastructure for the Business Systems Modernization program.



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

Information Systems Programs audit staff reported that the IRS did not receive the anticipated value for 7 of 27 work items and 2 of 11 special projects performed under this contract.²

Recommendations

We recommended the Director, Procurement, ensure the appropriate Contracting Officer reviews the identified questionable charges of \$8,187.49 and initiates any recovery actions deemed warranted. In addition, the Director, Procurement, should consider initiating the following actions due to the identification of duplicate billing of labor hours and travel charges in excess of per diem rates:

- Review a representative sample of previously submitted task order vouchers to determine whether any additional unallowable charges can be identified and recovered.
- Require the contractor to consistently provide travel summary documentation, as evidenced during this audit, with future vouchers to facilitate a more comprehensive review of those vouchers.

Response

IRS management agreed with our recommendations. The Office of Procurement will document the audit findings and issue them to the contractor for a response. Upon agreement from the contractor, unallowable amounts will be deducted from current billings, or a credit will be established. If the contractor provides additional information, or disagrees with the audit findings, a next course of action will be determined. In addition, the Office of Procurement will review an additional voucher sample to determine the existence of questionable labor and travel charges. Finally, the contractor will be requested to submit additional supporting travel information with the travel summary documentation for future vouchers to include the travel documentation used by the auditors. 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 recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Acting Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202)-622-8500.

² *Strengthened Management Processes Are Needed to Assure the Usefulness of Products and Services Received Through the Infrastructure Shared Services Task Order* (Reference Number 2006-20-063, dated March 2006).



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

Table of Contents

Background	Page 1
Results of Review	Page 3
Questionable Contract Charges and Invoice Verification Process	Page 3
<u>Recommendations 1 and 2:</u>	Page 6
Contract Deliverables.....	Page 6
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 8
Appendix II – Major Contributors to This Report	Page 10
Appendix III – Report Distribution List	Page 11
Appendix IV – Outcome Measure	Page 12
Appendix V – Management’s Response to the Draft Report	Page 13



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

Background

In December 1998, the Internal Revenue Service (IRS) awarded task order contract¹ number TIRNO-99-D-00001. This contract was awarded to provide for the design and development of an information system that allows the IRS to effectively and efficiently process tax return information, provide customer service, and maintain accurate financial records. This effort, referred to as Business Systems Modernization, is estimated to span 15 years and cost approximately \$8 billion.

This audit focused specifically on the Infrastructure Shared Services task order of the contract. This task order was designed to provide support that encompassed the building and delivery of the common, integrated, and shared infrastructure for the Business Systems Modernization program. This cost-plus-fixed-fee² task order was awarded in February 2004 and included a base period of performance through November 2004 with two option periods. According to the IRS' Request Tracking System,³ as of September 14, 2005, the IRS had approved approximately \$38 million in payments to the contractor for this task order.

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

We conducted our audit concurrently with a second audit of the Infrastructure Shared Services task order conducted by the TIGTA Office of Audit Information Systems Programs (ISP) staff.⁴ The overall objective of the ISP audit was to determine whether the IRS was receiving full value from the contractor under the terms and conditions of the task order. We did not perform any audit steps concerning the deliverables associated with this task order but do provide a brief synopsis of the ISP audit results on page 6 of this report.

¹ A task order contract means a contract for services that does not procure or specify a firm quantity of services and provides for the issuance of orders for the performance of tasks during the period of the contract.

² A cost-plus-fixed-fee acquisition provides for payment of allowable incurred costs, to the extent prescribed in the contract, and payment of a negotiated fee that is fixed at the inception of the contract.

³ 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.

⁴ *Strengthened Management Processes Are Needed to Assure the Usefulness of Products and Services Received Through the Infrastructure Shared Services Task Order* (Reference Number 2006-20-063, dated March 2006).



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

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 Falls Church, Virginia, during the period September 2005 through February 2006. Opinions expressed in this report pertain only to the vouchers included in our 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.



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

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 judgmental sample of four vouchers (see Appendix I for details). The 4 vouchers included in our sample were issued between April 2004 and August 2005 and involved approximately \$10.8 million in IRS payments. The primary expenses claimed on the vouchers were contractor and subcontractor labor costs, including associated indirect costs.

Questionable contract charges

Based on our audit tests, we identified questionable charges of \$8,187.49 as shown in Table 1. We provided details of these charges to the contractor and the IRS.

Table 1: Schedule of Questionable Charges

Questioned Activity	Questionable Charges
Unallowable Subcontractor Labor Charges	\$4,496.26
Unallowable Inter-/Intra-Company Work Order (IWO) Labor Charges	\$1,611.25
Unallowable IWO Travel Charges (net) ⁵	\$653.54
Unsupported IWO Travel Charges	\$1,360.88
Unsupported Contractor Travel Charges	\$31.25
Unallowable Indirect Costs and Fee	\$34.31
Total	\$8,187.49

Source: TIGTA analysis of four vouchers submitted to the IRS.

⁵ The reference to net signifies both positive and negative amounts were identified.



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

A majority of the unallowable labor charges related to multiple instances in which the same labor hours were billed twice. A majority of the unallowable travel charges related to costs that exceeded Federal Government-established per diem rates. Finally, all of the unsupported travel charges involved instances in which the contractor was either unable to provide supporting documentation or the documentation provided did not support the full amount of the expense claimed.

The Federal Acquisition Regulation (FAR)⁶ stipulates a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed were incurred. The FAR also provides that costs shall be allowed to the extent they are reasonable, allocable, and allowable under the FAR. In addition, the contract stipulates that the IRS shall reimburse the contractor for authorized actual expenses incurred, up to the limit prescribed in the Federal Travel Regulation,⁷ which, among other things, requires travelers to provide receipts for lodging and any authorized travel expenses in excess of \$75.

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 the 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.⁸ Part IV of the *Handbook* stated, in part, that 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. Only one of the four vouchers included in our sample was subject to this guidance.

⁶ 48 C.F.R. pt 1-53 (2002).

⁷ 41 C.F.R. Chapter 301 (2005).

⁸ 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*.



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

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 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.

The IRS has also issued specific guidance relative to the voucher review process for this contract. Effective October 1, 2001, the IRS established a standard review process and audit plan. In addition, effective November 4, 2005, the IRS Office of Modernization Acquisition defined a comprehensive process for the receipt, review, and approval of vouchers under this contract. As specifically stated in the October 2001 directive, and as can be inferred from the November 2005 guidance that includes the same procedures, the IRS has based its voucher review process “on the generally accepted practice of reliance on approved accounting and billing systems as a basis for provisional payment of costs.”

While both IRS documents provide specific guidance regarding the voucher review process, the process outlined is mainly a high-level review consisting of the following:

- Ensuring costs are commensurate with the task order.
- Checking for compliance with special contract terms and conditions.
- Verifying indirect billing rates.
- Verifying the criteria and computations for claiming interim fee payments.
- Verifying mathematical accuracy.

Discussions with IRS personnel, including the CO, COTR, and four Acquisition Project Managers, confirmed this high-level review of the vouchers. Examples of review steps performed by these personnel included checking mathematical accuracy, checking indirect and fee rates, reviewing hours and funding, and checking travel for anomalies. While this type of review may provide some level of assurance regarding reasonableness, it does not provide a sound basis for verifying the allowability of costs claimed. We did not identify any type of verification performed of actual hours worked, such as a review of time reports, or a detailed review of travel expenses through verification of supporting receipts.

In conducting our audit, we did identify one contractor-produced report that may provide benefit to the IRS in its review of contractor travel charges. This report provided details of the travel expenses incurred, including the per diem rates used, by traveler and trip. While we observed only one instance in which the contractor had included a copy of this report in supporting documentation provided to the IRS, the contractor regularly provided this same report to us as part of the documentation supporting travel charges.



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

We did not identify a significant amount of questionable charges on the vouchers we reviewed, notwithstanding the incomplete voucher verification process described above. 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.

Recommendations

Recommendation 1: The Director, Procurement, should ensure the appropriate CO reviews the identified questionable charges of \$8,187.49 and initiates any recovery actions deemed warranted.

Management's Response: IRS management agreed with our recommendation. The Office of Procurement will have the COTR document the audit findings and issue them to the contractor for a response. For those audit findings with which the contractor agrees, the COTR will deduct the unallowable amounts from current billings, or alternatively, establish a credit for the agreed-upon amounts. For those items that the contractor provides additional information, or disagrees with the audit findings, the COTR will assess the facts provided by the contractor, obtain input from the CO, and jointly determine the next course of action.

Recommendation 2: The Director, Procurement, should consider initiating the following actions due to the identification of duplicate billing of labor hours and travel charges in excess of per diem rates:

- Review a representative sample of previously submitted task order vouchers to determine whether any additional unallowable charges can be identified and recovered.
- Require the contractor to consistently provide travel summary documentation, as evidenced during this audit, with future vouchers to facilitate a more comprehensive review of those vouchers.

Management's Response: IRS management agreed with our recommendation. The Office of Procurement will review an additional voucher sample to determine the existence of questionable labor and travel charges. The COTR will document the findings and recover any amounts found unallowable and unsupported from the contractor. In addition, the contractor will be requested to submit additional supporting travel information with the travel summary documentation for future vouchers to include the same documentation the auditors used.

Contract Deliverables

The TIGTA Office of Audit ISP staff performed an audit of this contract's deliverables; we did not perform any audit steps concerning the deliverables associated with this task order. The



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

overall objective of the ISP audit was to determine whether the IRS was receiving full value from the contractor under the terms and conditions of the task order. In a recently issued final report, the ISP audit staff disclosed that the IRS did not receive the anticipated value for 7 of 27 work items and 2 of 11 special projects performed under this contract. The IRS could have made more efficient use of resources valued at \$310,863 represented by the 2 special projects.⁹

⁹ *Strengthened Management Processes Are Needed to Assure the Usefulness of Products and Services Received Through the Infrastructure Shared Services Task Order* (Reference Number 2006-20-063, dated March 2006).



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether selected vouchers submitted and paid under the Infrastructure Shared Services task order of contract TIRNO-99-D-00001 were appropriate and in accordance with the contract's terms and conditions. To accomplish this objective, we:

- I. Analyzed the Internal Revenue Service's (IRS) voucher verification process prior to certifying payment to the contractor.
 - A. Interviewed the Contracting Officer, Contracting Officer's Technical Representative, and Acquisition Project Managers 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 vouchers.
- II. Verified whether voucher charges submitted by the contractor and paid by the IRS were accurate, supported, and allowable.
 - A. Identified a sample selection universe from the recorded transactions in the IRS' Request Tracking System (RTS)¹ as of September 14, 2005. As of this date, there were 37 transactions in the RTS, which corresponded with 18 vouchers received by the IRS. We judgmentally selected four vouchers for review. These 4 vouchers, which were issued between April 2004 and August 2005, involved approximately \$10.8 million in IRS payments and represented approximately 28 percent of the total amount paid by the IRS. In considering the size and extent of contractor and subcontractor labor against audit resource limitations, we decided to further refine our sample by selecting a judgmental sample of employees within the contractor (87 of 342) and subcontractor (131 of 381) labor categories. In doing this, we selected approximately \$613,000, or 33 percent, of contractor labor charges and

¹ 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.



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

approximately \$2.2 million, or 39 percent, of subcontractor labor charges included on the 4 vouchers. We believed this sampling method would provide sufficient evidence to accomplish our audit objective and result in acceptable management corrective action without the need for precise projection of sample results.

This audit did not include audit procedures to obtain evidence that computer-processed data, within the IRS' RTS, was valid and reliable. Though used during this audit, the data in general was not considered significant to the audit's objective or resultant findings. We only used the data within the RTS to reasonably identify the universe from which we selected our sample of transactions for substantive testing of their accuracy, supportability, and allowability. We only concluded and reported on those substantive tests. Therefore, there was no adverse effect on the audit as a result of not including reliability of computer-processed data audit procedures.

- B. Obtained supporting documentation for the vouchers in the sample from the IRS and the 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 with responsible officials and reviews of project files whether there was acceptable existence of deliverables, as stipulated in the contract, for all tasks.
 - A. This audit subobjective was performed by the Treasury Inspector General for Tax Administration Office of Audit Information Systems Programs staff. Detailed results have been reported under separate cover.²

² *Strengthened Management Processes Are Needed to Assure the Usefulness of Products and Services Received Through the Infrastructure Shared Services Task Order* (Reference Number 2006-20-063, dated March 2006).



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

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

Thomas Dori, Senior Auditor

James Mills, Senior Auditor

Chinita Coates, Auditor



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

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



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective actions 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; \$8,187.49 (see page 3).

Methodology Used to Measure the Reported Benefit:

We examined vouchers and supporting documentation obtained from the Internal Revenue Service Office of Procurement, as well as documentation received directly from the contractor, to verify charges for a judgmental sample of four vouchers. We selected our sample from a universe of 18 vouchers. The 4 selected vouchers involved approximately \$10.8 million in Internal Revenue Service payments.

Our review resulted in the identification of questionable charges of \$8,187.49. Specifically, these charges consisted of \$4,496.26 in unallowable subcontractor labor charges; \$1,611.25 in unallowable Inter-/Intra-Company Work Order (IWO) labor charges; \$653.54 in net¹ unallowable IWO travel charges; \$1,360.88 in unsupported IWO travel charges; \$31.25 in unsupported contractor travel charges; and \$34.31 in unallowable indirect costs and fee.

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



Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001

Appendix V

Management's Response to the Draft Report



AGENCY-WIDE
SHARED SERVICES

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

RECEIVED
MAY 08 2006

April 21, 2006

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report — Voucher Audit of the Infrastructure Shared
Services Task Order of Contract TIRNO-99-D-00001 (Audit No.
200510034)

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. The objective of your audit was to determine whether selected vouchers submitted and paid under contract number TIRNO-99-D-00001 were appropriate and in accordance with the contract terms and conditions.

The audit focused on a judgmental sample of 4 vouchers. Based on the audit sampling, the audit team identified questionable charges in the amount of \$8,187.49 out of the \$10.8 million of invoiced payments reviewed. The primary expenses claimed on the vouchers were contractor and subcontractor labor costs, including associated indirect costs, and travel costs.

We agree with the report recommendations. In accordance with the Office of Modernization Acquisition Deficiency and Issues (D&I) Process for the PRIME contract, we will document the audit findings in a D&I report and submit it to the contractor for a response. Additionally, I will initiate an independent review of another sample of vouchers to ensure the charges are accurate, supported and allowable. Should any discrepancies be found, appropriate action will be taken to correct them.

If you have any questions, please contact me at (202) 283-1200 or Cheri Tyner, Acting Director, Office of Modernization Acquisition, at (202) 283-2704.

Attachment

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



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

ATTACHMENT

RECOMMENDATION 1:

The Director, Procurement, should ensure the appropriate CO reviews the identified questionable charges of \$8,187.49 and initiates any recovery actions deemed warranted.

CORRECTIVE ACTION:

In accordance with Office of Modernization Acquisition procedures under the PRIME contract, the COTR will document the audit findings in a Deficiency and Issue (D&I) report and issue it to the contractor for a response. For those audit findings with which the contractor agrees, the COTR will deduct the unallowable amounts from current billings, or alternatively, establish a credit for the agreed upon amounts. For those items that the contractor provides additional information, or disagrees with the audit findings, the COTR will assess the facts provided by the contractor, obtain input from the CO, and jointly determine the next course of action.

IMPLEMENTATION DATE:

June 30, 2006

RESPONSIBLE OFFICIAL:

Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN:

The Contracting Officer and the Contracting Officer's Technical Representative (COTR) will monitor contractor invoices in accordance with the Federal Acquisition Regulation (FAR).



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

RECOMMENDATION 2:

The Director, Procurement, should consider initiating the following actions due to the identification of duplicate billing of labor hours and travel charges in excess of per diem rates:

- a. Review a representative sample of previously submitted task order vouchers to determine whether any additional unallowable charges can be identified and recovered.
- b. Require the contractor to consistently provide travel summary documentation, as evidenced during the audit, with future vouchers to facilitate a more comprehensive review of those vouchers.

CORRECTIVE ACTION (Recommendation 2a.):

Cost and Price Analysts from the Office of Modernization Acquisition will review an additional voucher sample to determine the existence of questionable labor and travel charges. The COTR will document the findings via the D&I process and recover any amounts found unallowable and unsupported from the contractor.

IMPLEMENTATION DATE:

June 30, 2006

RESPONSIBLE OFFICIAL:

Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN:

The Cost and Price Analysts and the Contracting Officer's Technical Representative (COTR) will monitor a sample of contractor's invoices to ensure that any unallowable or unsupported funds are recovered in accordance with the Federal Acquisition Regulation (FAR).

CORRECTIVE ACTION (Recommendation 2b.):

The Voucher Coordinator for the Office of Modernization Acquisition will request the contractor to submit additional supporting travel information with the travel summary documentation for future vouchers to include the travel documentation used by the TIGTA auditor and forwarded to the COTR to verify the per diem rate and mileage to substantiate travel costs. This additional supporting travel information will allow for a more comprehensive review to be conducted.

IMPLEMENTATION DATE:

June 30, 2006

RESPONSIBLE OFFICIAL:

Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN:



*Voucher Audit of the Infrastructure Shared Services Task Order
of Contract TIRNO-99-D-00001*

The Contracting Officer and the Contracting Officer's Technical Representative (COTR) will monitor contractor invoices in accordance with the Federal Acquisition Regulation (FAR).