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TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



*TIRNO-95-D-00061 and TIRNO-00-D-00013,  
Incurred Costs Audit for  
Fiscal Year 2003*

**December 2005**

**Reference Number: 2006-1C-014**

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

December 23, 2005

**MEMORANDUM FOR** DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

*Daniel R. Devlin*

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

**SUBJECT:** TIRNO-95-D-00061 and TIRNO-00-D-00013, Incurred Costs Audit for  
Fiscal Year 2003 (Audit # 20061C0205)

The Defense Contract Audit Agency (DCAA) examined the contractor's June 28, 2004, certified final indirect cost rate proposal and related books and records for the reimbursement of Fiscal Year 2003 incurred costs. The purpose of the examination was to determine the allowability of direct and indirect costs and to establish audit-determined indirect cost rates for the fiscal year ending December 31, 2003. The proposed rates apply primarily to flexibility priced contracts.

The DCAA qualified its audit report pending the receipt of the assist audits of subcontract costs and administrative closeout. Upon receipt of the assist audit reports, the recommended subcontract will be reconciled with the claimed subcontract costs and supplemental reports will be issued as required.

The DCAA reported that the contractor's proposed indirect rates are not acceptable as proposed. The DCAA examination of the incurred cost rate proposal questioned legal expenses allocable to several indirect cost pools, an indirect consulting cost, and an adjustment to the claimed material and subcontract handling base. The DCAA indicated the contractor did not concur with all of the questioned corporate legal expenses. Additionally, the DCAA believes indirect costs questioned are subject to penalties provided in the Federal Acquisition Regulation.

Except for potential adjustments that result from assist audits concerning unresolved subcontract costs, the DCAA indicated direct costs are acceptable and provisionally approved pending final



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acceptance. The DCAA also noted that the contractor has been unable to provide schedules of claimed Time and Material amounts by contract with its annual incurred cost submissions. Without this information, the DCAA is unable to establish a Cumulative Allowable Cost Worksheet regardless of the contractor's concurrence or non-concurrence with audit-determined indirect expense rates.

The information in this report should not be used for purposes other than those intended without prior consultation with the Treasury Inspector General for Tax Administration regarding their applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director, at (202) 927-7077.

Attachment

# 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 U.S.C. § 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.

