

**Audit of Fiscal Years 1996 and 1997  
Incurred Costs for TIRNO-94-D-00089**

**October 1999**

**Reference Number 20001C003**

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:**

10 = Trade Secrets or Commercial/Financial Information



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

October 13, 1999

MEMORANDUM FOR JAMES A. WILLIAMS  
ASSISTANT COMMISSIONER (PROCUREMENT)  
INTERNAL REVENUE SERVICE

A handwritten signature in black ink that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Audit of Fiscal Years 1996 and 1997 Incurred Costs  
for TIRNO-94-D-00089

In response to your request, the Defense Contract Audit Agency (DCAA) audited the contractor's certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Years 1996 and Fiscal Year 1997 incurred costs. DCAA performed sufficient audit tests to obtain reasonable assurance about whether the proposal is free of material misstatement.

DCAA qualified its report for the following reasons:

- Labor floor checks were not performed during fiscal year 1997.
- Assistance audits for the subcontractor costs were not received.
- DCAA could not determine if the allocation method for overhead resulted in an equitable allocation.

In summary, the contractor's system for accumulation, reporting, and billing of costs on government contracts may be considered inadequate in part. In addition, DCAA questioned excess per diem/airfare, the anticipated loss on fixed price contracts, and certain costs related to independent research and development (IR&D) and bid and proposal (B&P) costs. The effect of these questioned costs on the indirect cost rates is summarized in the table below.

<b>Indirect Rate Category</b>	<b>Proposed Rate</b>	<b>Questioned Rate</b>	<b>Recommended Rate</b>	<b>Fiscal Year</b>
IMC Site Overhead	10	10	10	1996
Government Site Overhead	10	10	10	1996
General & Administrative	10	10	10	1996
IMC Site Overhead	10	10	10	1997
Government Site Overhead	10	10	10	1997
General & Administrative	10	10	10	1997

The contracting officer will negotiate final indirect cost rates with the contractor. In order to determine the effect on the contract costs, the final negotiated indirect cost rates must be applied to the costs billed for Fiscal Year 1996 and Fiscal Year 1997.

The information in this report should not be used for purposes other than that intended without prior consultation with the Office of 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 & 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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