

**Audit of the Asset Seizure and  
Forfeiture Program Contract**

**September 2004**

**Reference Number: 2004-10-174**

**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.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 21, 2004

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Audit of the Asset Seizure and Forfeiture Program Contract (Audit # 200410009)

This report presents the results of our review of the Asset Seizure and Forfeiture Contract. The overall objective of this review was to determine whether the contractor billed the Internal Revenue Service (IRS) accurately and according to the contract's terms and conditions.

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. As a result, we initiated this audit to review the contractor's invoices and determine whether the IRS was billed accurately and according to the contract's terms and conditions.

In summary, the contractor's documentation was not adequate to support all of the costs invoiced to the IRS. Specifically, we identified \$99,613.40 of the \$4.5 million in direct invoiced costs included in our sample for which either the contractor was unable to provide any supporting documentation, or the documentation was not adequate to support the costs. We did not identify any unallowable expenses.

We recommended the Director, Procurement, seek recovery of the unsupported costs of \$99,613.40 unless the contractor provides acceptable support for those costs.<sup>1</sup>

Management's Response: IRS management agreed with the recommendation presented in our report and initiated corrective action. Specifically, the contracting officer (CO) held further discussions with the contractor and received additional

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<sup>1</sup> The draft report recommended recovery of \$99,613.41. The difference of \$.01 is attributable to a recalculation of labor hours invoiced.

documentation to support \$88,767.42 of the questioned labor and travel expenses. The CO will initiate action to recover the remaining unsupported amount of \$10,845.99.

Office of Audit Comment: We reviewed the additional documentation provided by the contractor to the IRS. We were able to verify \$85,781.30 of our original \$99,613.40 of questioned costs. However, we do not believe the contractor provided sufficient additional documentation to support some of the travel expenses. The CO should consider this when seeking recovery of all unsupported costs, totaling \$13,832.10.

Please contact me at (202) 622-6510 if you have any questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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## Audit of the Asset Seizure and Forfeiture Program Contract

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### Background

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In September 1999, the Internal Revenue Service (IRS) awarded a time and materials contract<sup>1</sup> for the Criminal Investigation (CI) function's asset seizure and forfeiture program.<sup>2</sup> The contractor provides support services to the asset forfeiture program, including personnel, supervision, and other related services, and incidental items necessary for the management of seized and forfeited assets.

The contract was awarded for a 1-year base period, with 4 option years. According to the IRS Request Tracking System, as of December 2003, the IRS had approved for payment approximately \$10 million.

Because contract expenditures represent a significant outlay of IRS funds, the Treasury Inspector General for Tax Administration (TIGTA) has made a commitment to perform audits of these expenditures. We initiated this audit to review the contractor's invoices and determine whether the IRS was billed accurately and according to the contract's terms and conditions.

The review was performed in the Procurement directorate within the Office of Agency-Wide Shared Services in Oxon Hill, Maryland, and in the CI function in Washington, D.C., during the period November 2003 through June 2004. In addition, we interviewed accounting personnel and reviewed records in the contractor's office located in Fairfax, Virginia.

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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### Documentation Was Not Adequate to Support All of the Invoiced Costs

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The contractor's documentation was not adequate to support all of the costs invoiced to the IRS. Using a judgmental sample of 21 invoices, totaling approximately \$4.5 million, we examined the contractor's supporting documentation to

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<sup>1</sup> A time and materials contract provides for the acquisition of supplies or services on the basis of direct labor hours at specified fixed hourly rates and materials at cost.

<sup>2</sup> The CI function uses asset seizure and forfeiture authority as an investigative tool and/or to disrupt and dismantle criminal enterprises by depriving criminals of property used in, or acquired through, illegal activities.

## Audit of the Asset Seizure and Forfeiture Program Contract

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verify charges for employee labor hours, as well as travel expenses. We identified \$99,613.40 (2.2 percent) of the \$4.5 million in direct invoiced costs included in our sample for which either the contractor was unable to provide any supporting documentation or the documentation was not adequate to support the cost. We did not identify any unallowable expenses.

Table 1 summarizes the questioned costs identified during our review.

**Table 1: Schedule of Questioned Costs**

Questioned Activity	Questioned Cost
No documentation to support labor hours invoiced	\$83,753.89
No documentation to support travel expense	\$15,646.86
Overcharge of travel expense due to miscalculation	\$212.65
<b>Total</b>	<b>\$99,613.40</b>

*Source: TIGTA analysis of 21 invoices submitted to the IRS.*

The Federal Acquisition Regulation (FAR)<sup>3</sup> stipulates that 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.

The IRS has a process in place to verify the charges included on the invoices. While the contracting officer (CO) is the ultimate authority on administering the contract, the contracting officer's technical representative (COTR) is the designated official for verifying the accuracy of the labor and travel expenses reported on the contractor's invoices. The COTR relies on the CI function's asset forfeiture coordinators (AFC) to verify the contractor's labor hours. The AFCs are responsible for reviewing contractor employee timecards to ensure labor hours are being reported accurately. Additionally, an assistant COTR is responsible for evaluating travel expenses. This consists of a spot check for accuracy and proper authorization.

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

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However, the assistant COTR does not routinely review receipts for the travel vouchers.<sup>4</sup>

Because we were unable to verify all the costs included on the invoices, there is no assurance the contractor billed the IRS accurately. Although our review identified only 2.2 percent in unsupported costs, it would be good practice for the IRS to randomly select charges at irregular intervals to verify to supporting documentation (e.g., time reports, travel receipts) as part of its invoice review process for all contracts.

### Recommendation

1. The Director, Procurement, should seek recovery of the \$99,613.40 in unsupported costs unless the contractor provides acceptable support for those costs.<sup>5</sup>

Management's Response: The CO held further discussions with the contractor and received additional documentation to support \$88,767.42 of the questioned labor and travel expenses. The CO will initiate action to recover the remaining unsupported amount of \$10,845.99.

Office of Audit Comment: We reviewed the additional documentation provided by the contractor to the IRS. We were able to verify \$85,781.30 of our original \$99,613.40 of questioned costs. However, we do not believe the contractor provided sufficient additional documentation to support \$2,986.11 in travel expenses.<sup>6</sup> The CO should consider this additional amount when seeking recovery of all unsupported costs, totaling \$13,832.10.

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<sup>4</sup> Subsequent to the end of our fieldwork, Procurement management advised that all receipts for travel vouchers are reviewed prior to processing invoices for payment. During the time of our review, we were advised that only spot checks were performed. We did not validate if these reviews were being performed.

<sup>5</sup> The draft report recommended recovery of \$99,613.41. The difference of \$.01 is attributable to a recalculation of the labor hours invoiced.

<sup>6</sup> The contractor provided documentation that the contractor believed supported \$5,013.52 in travel costs; however, we concur with only \$2,027.41.

**Detailed Objective, Scope, and Methodology**

The overall objective for this review was to determine whether the contractor billed the Internal Revenue Service (IRS) accurately and according to the contract's terms and conditions. We accomplished this objective by determining whether contractor billings were adequately supported and all costs were allowable. Specifically, we:

- I. Determined whether labor hours, labor categories and rates, and travel costs billed were allowable, accurate and supported by appropriate documentation, and consistent with contract terms and conditions.
  - A. Reviewed the IRS contract files to identify all applicable contract terms and conditions and determined the minimum contract qualifications required for each labor category and corresponding labor rates.
  - B. Interviewed IRS personnel involved in the administration of the contract and payment of the invoices to determine whether concerns exist regarding the contractor, its billing practices, or any specific invoices.
  - C. Prepared a sampling plan and judgmentally selected a sample of invoices. A judgmental sample was used because we did not plan to project the results to the universe. We analyzed all 33 of the contractor's invoices submitted from January 2001 through August 2003 to select our sample. We selected a sample of 21 invoices to verify all direct costs,<sup>1</sup> including labor hours and travel expenses (e.g., airfare, hotel, mileage). Our sample covered approximately \$4.5 million (almost 65 percent) of the nearly \$6.9 million in total invoiced expenses. In addition, the sample included nearly \$174,000 (nearly 55 percent) of the approximately \$317,000 in invoiced travel expenses.
    1. Traced employee hours billed to supporting timesheets and payroll records to verify accuracy.
    2. Compared the labor rates billed to those established in the contract to verify consistency with the contract terms.
    3. Determined whether all charges were allowable in accordance with the contract terms and Federal Government regulations.
- II. Identified control deficiencies that allowed the payment of invoices containing inaccurate, unsupported, and/or unallowable labor and travel costs to occur. We did not review the contractor's entire systems of internal controls.

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<sup>1</sup> Direct costs are costs that can be identified specifically with a contract.



**Major Contributors to This Report**

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

John R. Wright, Director

Debra Gregory, Audit Manager

Gary Pressley, Lead Auditor

Robert Beel, Senior Auditor

Chinita Coates, Auditor

Melvin Lindsey, Auditor

Niurka Thomas, Auditor

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### Outcome Measures

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 the Congress.

Type and Value of Outcome Measure:

- Cost Savings, Questioned Costs (Unsupported) – Potential, \$13,832.10 (see page 1).

Methodology Used to Measure the Reported Benefit:

To determine the questioned costs, we reviewed a judgmental sample of 21 invoices, including the corresponding supporting documentation. We selected our sample from a total population of 33 invoices the contractor submitted to the Internal Revenue Service (IRS) for services rendered during our review period (January 2001 through August 2003). We identified \$99,613.40 in costs for which the contractor was either unable to provide any supporting documentation or the documentation was not adequate to support the cost.<sup>1</sup>

The IRS' response to the draft report provided that the contracting officer (CO) received additional documentation from the contractor and determined that \$88,767.42 of the questioned costs were supported. Additionally, the IRS stated that the CO will initiate action to recover the remaining unsupported amount of \$10,845.99.

We reviewed this additional documentation and were able to verify \$85,781.30 of our original \$99,613.40 of questioned costs. However, we do not believe the contractor provided sufficient additional documentation to support \$2,986.11 in travel expenses. The contractor provided documentation that the contractor believed supported \$5,013.52 in travel expenses, but we concur with only \$2,027.41. The CO should consider this when seeking recovery of all unsupported costs, totaling \$13,832.10.

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<sup>1</sup> The draft report identified \$99,613.41 in questioned costs. The difference of \$.01 is attributable to a recalculation of the labor hours invoiced.

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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  
AUG 31 2004

August 31, 2004

MEMORANDUM FOR GORDON C. MILBOURN III  
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Audit of the Asset Seizure and Forfeiture  
Program Contract (Audit #200410009)

I have reviewed the subject report and our response to your recommendation is attached. The objective of the audit was to assess whether the contractor accurately billed the IRS. We share your commitment to ensure the IRS pays contractors only for supplies and services provided in accordance with contract terms and conditions. The report concludes the contractor's documentation did not fully support all invoiced costs and recommends that we recover the unsupported costs, unless the contractor presents adequate supporting documentation. Subsequent to your review, we substantiated \$88,767.42 of the questioned costs and will take action to recover \$10,845.99.

If you have questions, please call me at (202) 622-8480 or J.T. Smith, Director, Office of Contract Administration, at (202) 283-1710.

Attachment

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

## Audit of the Asset Seizure and Forfeiture Program Contract

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### ATTACHMENT

#### RECOMMENDATION 1:

The Director, Procurement, should seek recovery of the \$99,613.41 in unsupported costs unless the contractor provides acceptable support for those costs.

#### CORRECTIVE ACTION:

The Contracting Officer and the Contracting Officer's Technical Representative (COTR) have reviewed all documentation for invoices determined to be unsupported by the TIGTA audit team. Based on further discussion with the contractor, and additional documentation provided, the Contracting Officer determined: 1) the questioned labor amount of \$83,753.90 is supported; 2) \$5,013.52 is supported of the \$15,859.51 in questioned travel expenses.

The Contracting Officer will initiate action to recover the remaining unsupported amount of \$10,845.99.

#### IMPLEMENTATION DATE:

January 31, 2005

#### RESPONSIBLE OFFICIAL:

Director, Procurement OS:A:P

#### CORRECTIVE ACTION MONITORING PLAN:

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