

**Supplemental Report on Audit of Direct and  
Indirect Costs for Fiscal Year 2002**

**October 2003**

**Reference Number: 2004-1C-011**

**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.**



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

October 31, 2003

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

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

SUBJECT: Supplemental Report on Audit of Direct and Indirect Costs for  
Fiscal Year 2002 (Audit #20041C0206)

The Defense Contract Audit Agency (DCAA) examined the contractor's Research and Development Company August 1, 2002, certified final indirect cost rate proposal and related books and records for the reimbursement of Fiscal Year 2002 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs and to recommend contracting officer determined indirect cost rates for the period February 1, 2001, through January 31, 2002. The proposed rates apply primarily to the contractor's flexibly priced contracts.

The DCAA stated that this supplemental report incorporates the revised home office questioned costs that were provided subsequent to their original DCAA report. The DCAA also updated the Schedule of Unresolved Subcontract Cost. The remainder of the original audit results remains unchanged. The DCAA qualified its audit report because the results of the assist audits for the subcontract costs had not been received. These audits may disclose questioned costs.

The DCAA indicated that the contractor's indirect rates are acceptable as proposed. According to the DCAA, the examination found expressly unallowable costs in the offsite overhead and General and Administrative pools. However, the questioned costs had no significant impact on the claimed rates. Additionally, claimed direct costs, subject to the qualification, are acceptable and provisionally approved pending final acceptance.

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.

*The TIGTA seal was removed due to its size.*