

**Audit of the Adequacy and Compliance of
Disclosure Statement, Revision Number 7**

November 2003

Reference Number: 2004-1C-012

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.

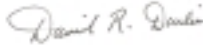


INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 12, 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: Audit of the Adequacy and Compliance of Disclosure Statement,
Revision Number 7 (Audit #20041C0207)

The Defense Contract Audit Agency (DCAA) examined the contractor's revised disclosure statement, Revision Number 7, dated May 12, 2003. The purpose of the examination was to determine whether the contractor's Civil Division's revised disclosure statement, dated May 12, 2003, adequately described the cost accounting practices that the contractor proposed to use in performing Government contracts, and whether the revised practices comply with applicable Cost Accounting Standards (CAS) and Federal Acquisition Regulation (FAR) Part 31.

The DCAA opined that the disclosure statement, Revision Number 7, did not adequately describe the contractor's revised cost accounting practices. Additionally, the DCAA stated that due to significant inadequacies, the DCAA is currently unable to evaluate the disclosure statement revision for compliance with applicable CAS and FAR Part 31. The DCAA cited seven inadequacies in the contractor's disclosed accounting practices, including the Material Handling Allocation Base cost elements, computer usage charges in relation to the General and Administrative Allocation Base, and the use of pre-determined billing or costing rates in the Service Center and Expense Pool Allocation Base. The DCAA recommends that the contractor be required to resubmit a revised disclosure statement.

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.

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