

**Audit of the Adequacy of Disclosure  
Statement, Revision Number 8**

**November 2003**

**Reference Number: 2004-1C-018**

**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 24, 2003

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

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

SUBJECT: Audit of the Adequacy of Disclosure Statement, Revision  
Number 8 (Audit #20041C0209)

The Defense Contract Audit Agency (DCAA) examined the contractor's revised disclosure statement, Revision Number 8, dated October 8, 2003. The purpose of the examination was to determine whether the contractor's revised disclosure statement adequately described the cost accounting practices that the contractor proposes to use in performing Government contracts, and whether the revised practices comply with applicable Cost Accounting Standards and Federal Acquisition Regulation Part 31.

The DCAA opined that the contractor's revised disclosure statement adequately describes the contractor's current cost accounting practices. According to the DCAA, the revision is effective as of March 29, 2003. However, the DCAA expresses no opinion on the contractor's compliance with the revised practices.

The DCAA stated that the contractor is responsible for submitting cost impact proposals and for engaging in negotiations of adjustments resulting from changes to its disclosed accounting practices. The DCAA also stated that it is not practical to estimate the magnitude of the total cost impact for the changes in the revised disclosure statement prior to obtaining this information from the contractor. Additionally, the DCAA indicated that the contracting parties have not agreed to unilateral changes. Therefore, terms and conditions are subject to negotiation.

In the Contractor Organization and Systems section of their report, the DCAA continues to express opinions that the contractor's budget and planning, estimating, indirect and other direct costs, and billing systems are inadequate, and that the DCAA will perform follow-up audits of these systems upon completion of corrective actions taken by the contractor.

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.*