

**Audit of Revised Budget for
Fiscal Year 2004**

December 2003

Reference Number: 2004-1C-019

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

December 3, 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 Revised Budget for Fiscal Year 2004
(Audit #20041C0210)

The Defense Contract Audit Agency (DCAA) examined the contractor's revised Fiscal Year (FY) 2004 budget, dated October 8, 2003, for the period April 1, 2003, to March 31, 2004. According to the DCAA, this revised budget supersedes the contractor's previous FY 2004 budget and includes some accounting changes. The purpose of this examination was to determine the reasonableness of the revised proposed forward pricing rates.

The DCAA considers the contractor's accounting system to be adequate for segregating, accumulating, and reporting Government contract costs. However, the budget and planning system is inadequate to ensure that the proposed rates and escalation factors are based on current, accurate, and complete cost and pricing data.

The DCAA qualified its audit report because results of an assist audit have not been received. The results of the assist audit are considered essential to the conclusion of this examination. Additionally, the DCAA noted that additional costs may be questioned based on the results of the assist audit of proposed corporate changes.

The DCAA stated that, except as qualified above, the contractor's cost or pricing data submitted in support of the proposed indirect rate budget are adequate. The budget proposal was prepared in accordance with applicable Cost Accounting Standards and appropriate Federal Acquisition Regulations. The DCAA considers the proposal to be acceptable as a basis for negotiation of fair and reasonable indirect rates for use in pricing proposals.

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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