

**Report on Noncompliance With
Cost Accounting Standard 418**

February 2004

Reference Number: 2004-1C-048

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

February 10, 2004

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

Daniel R. Devlin

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

SUBJECT: Report on Noncompliance With Cost Accounting Standard 418
(Audit #20041C0217)

The Defense Contract Audit Agency (DCAA) performed an audit regarding the contractor's compliance with the Cost Accounting Standards (CAS) and the Federal Acquisition Regulation (FAR). The purpose of the examination was to determine if the contractor complied with the requirements of CAS 418 (Allocation of Direct and Indirect Costs) and any applicable FAR Part 31 requirements. By performing Federal Government contracts covered by Government regulations, the contractor asserts that its cost accounting practices comply with the requirements of the CAS.

The DCAA opined that the contractor complied in all material aspects with the requirements of CAS 418 for Fiscal Year (FY) 2004. However, the DCAA noted one area in which the contractor was in noncompliance with CAS 418 for FY 2003 and prior years. The contractor allocated facility costs using an allocation base of labor hours and subcontract hours. According to the DCAA, the amount of space and the associated facility cost has a limited causal/beneficial relationship to the number of hours worked.

The DCAA recommends that the contractor use a facility allocation base of square footage. The square footage provides a closer causal/beneficial relationship to the space occupied and associated cost. The contractor concurred and demonstrated that it corrected the noncompliance for FY 2004 and forward. The contractor verbally agreed to work with the DCAA during the FY 2003 and prior incurred cost audits to identify the cost impact of the noncompliance.

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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