

**Report on Audit of Forward Pricing Indirect
Rates and Facilities Capital Cost of Money
Factors**

February 2004

Reference Number: 2004-1C-050

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 18, 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 Audit of Forward Pricing Indirect Rates and Facilities
Capital Cost of Money Factors (Audit #20041C0219)

The Defense Contract Audit Agency (DCAA) examined the contractor's November 3, 2003, proposal for indirect forward pricing rates for Fiscal Years (FY) 2004 through 2006 and facility capital cost of money factors for FY 2004. The purpose of the examination was to determine if the contractor's proposed forward pricing rates and factors are reasonable.

The DCAA made adjustments to the contractor's indirect expense rate forecast for additional labor dilution, legal expenses, audit fees, and internal growth assumptions. However, the DCAA did not adjust the contractor's proposed facility capital cost of money factors.

The DCAA opined, subject to the qualification noted below, that the cost or pricing data submitted by the contractor are inadequate in part. The inadequacies are considered to have limited impact on the subject proposal. The proposal was not prepared in all respects in accordance with applicable Cost Accounting Standards (CAS) and appropriate Federal Acquisition Regulation provisions. However, the impact of the noncompliance is considered relatively insignificant. Because the noncompliances and inadequacies are considered insignificant, the DCAA believes the proposal is an acceptable basis for negotiation of fair and reasonable indirect forward pricing rates and facility cost of money factors.

The DCAA qualified its audit report because it was unable to determine the impact that a CAS 409 noncompliance would have on both cost of money calculations and

projected depreciation. This CAS 409 noncompliance relates to the lack of studies concerning useful lives and residual values on capitalized assets.

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.