

**TIRNO-95-D-00066 and TIRNO-00-D-00020,
Incurred Costs Audit for Fiscal Year
Ended June 30, 2002**

May 2004

Reference Number: 2004-1C-101

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

May 20, 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: TIRNO-95-D-00066 and TIRNO-00-D-00020, Incurred Costs
Audit for Fiscal Year Ended June 30, 2002
(Audit #20041C0227)

The Defense Contract Audit Agency (DCAA) examined the contractor's May 9, 2003, certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year 2002 incurred costs. The purpose of the examination was to determine the allowability of direct and indirect costs and to establish audit determined indirect cost rates for July 1, 2001, through June 30, 2002. The proposed rates apply primarily to flexibly priced contracts.

The DCAA made an adjustment of the contractor's claimed overhead pools to transfer \$15,020 of indirect labor expenses from cost center (CC) 10 to CC 69 and \$7,426 of expenses from CC 70 to the contractor's Technical Services Center. The DCAA also recommended a \$1,334,979 upward adjustment to the material handling allocation base for year-end accruals. Additionally, the DCAA questioned \$27,182 of general and administrative expenses due to unallowable legal expenses and Board of Directors allocations that should have been reported as home office expenses and allocated to all benefiting segments.

The DCAA stated that the contractor's proposed indirect rates are acceptable as adjusted by their examination. The DCAA believes that indirect costs questioned are subject to the penalties provided in the Federal Acquisition Regulation (FAR) Part 42.

Additionally, the DCAA stated that claimed direct costs, except for unresolved subcontract costs, are acceptable as adjusted by their examination. The DCAA determined that the contractor's hardship travel pay policy is unreasonable and, therefore, unallowable under FAR Part 31. The DCAA questioned \$12,196 of hardship travel pay expenses charged directly to government contracts. Of this expense, \$3,069 was charged to an IRS contract. Direct costs not questioned are provisionally accepted pending final acceptance.

The DCAA considers subcontract costs for which they have not yet received assist audit reports to be unresolved. Therefore, the DCAA qualified the results of the audit to the extent that subcontract costs may be questioned as a result of the assist audits.

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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