

**Audit of Control Environment and Overall
Accounting System Controls**

July 2004

Reference Number: 2004-1C-125

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

July 29, 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: Audit of Control Environment and Overall Accounting System
Controls (Audit #20041C0235)

The Defense Contract Audit Agency (DCAA) examined the contractor Civil Group's overall accounting system controls as of April 13, 2004. The purpose of the examination was to assure the contractor Civil Group's system of accounting controls is adequate to provide costs that are reasonable, compliant with applicable laws and regulations, and subject to applicable financial control systems. The examination also evaluated the contractor Civil Group's compliance with the system's internal control requirements. The DCAA examined only the overall accounting system. Accordingly, the DCAA expresses no opinion on the contractor Civil Group's system of internal controls taken as a whole.

The DCAA opined that the overall accounting system and related internal control policies and procedures of the contractor's Civil Group are inadequate in part. The DCAA cited four significant deficiencies in the contractor's accounting system. These include lack of complete formal policies; noncompliance with Cost Accounting Standard 403, Allocation of Home Office Expenses to Segments; lack of policies for income, rebate, allowances, or miscellaneous credits; and noncompliance with subcontract costs of implementing the Subcontract Information Management System. The DCAA noted that these deficiencies could adversely affect the organization's overall control environment and its ability to record, process, summarize, and report costs in a manner consistent with applicable Federal Government contract laws and regulations.

The DCAA also indicated that it is the contractor's policy to not provide the DCAA with internal audit workpapers. Accordingly, the DCAA cannot verify the effectiveness of the contractor's management monitoring function. Additionally, the contractor's policy does not require the contractor's Ethics Committee to report the results of internal investigations to the Federal Government.

According to the DCAA, the contractor agrees and has already taken aggressive action to correct these deficiencies. The DCAA will perform a follow-up of the contractor's corrective actions and provide a supplement to the audit upon receiving the contractor's support.

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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