

**Accounting System Deficiency Found During
Incurred Cost Audit**

August 2004

Reference Number: 2004-1C-137

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

August 9, 2004

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: Accounting System Deficiency Found During Incurred Cost Audit
(Audit #20041C0237)

The Defense Contract Audit Agency (DCAA) audited the contractor's Civil Division incurred costs. The audit included determining whether the contractor consistently complied with established accounting system internal controls for recording and reporting contract cost data for Federal Government contracts. The DCAA indicated that consistent application of sound accounting procedures should reduce errors in contract cost data, reduce the amount of manual processing of invoices for billing, reduce the errors in computing indirect rates, and facilitate the audit and evaluation of contract costs.

The DCAA evaluation was limited to certain contractor accounting practices used in recording contract cost data. The DCAA did not perform sufficient audit procedures to constitute an examination of all applicable accounting system internal controls in accordance with generally accepted government auditing standards.

The DCAA noted that certain contractor accounting practices used for recording and reporting contract cost data in connection with the contractor's Civil Division Fiscal Year (FY) 2001 incurred cost audit require corrective action to improve the reliability of its claimed contract costs. Specifically, the DCAA indicated the contractor misclassifies contract types in its Costpoint accounting system. The DCAA examined 47 projects and found that 45 were misclassified in Costpoint. The most prevalent misclassification involved firm fixed price (FFP) contracts entered in Costpoint as time and materials (T&M) contracts. In a sample of 11 T&M project numbers for the Internal Revenue Service, 8 were misclassified as FFP, and 1 was misclassified as cost-type.

Based on these samples and the confirmation of the results with the contractor's compliance personnel, the DCAA believes many projects have been incorrectly entered into Costpoint. The DCAA noted that this deficiency could adversely affect the reliability and completeness of the contractor's certified incurred cost submissions. Accordingly, the DCAA cannot report accurate contract costs by contract type for FY 2000 and forward.

The DCAA recommended the contractor correct the contract information recorded in Costpoint, establish procedures to ensure all contract information is entered into Costpoint, and ensure the certified incurred cost submissions are accurate and complete. According to the DCAA, the contractor agreed to the recommendations and indicated it has corrected the contract types in Costpoint for FYs 2002 through 2003.

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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