

**Audit of Incurred Cost for the Period
July 1, 1999, through June 30, 2000**

August 2004

Reference Number: 2004-1C-138

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: Audit of Incurred Cost for the Period July 1, 1999, through
June 30, 2000 (Audit #20041C0238)

The Defense Contract Audit Agency (DCAA) examined the contractor's November 13, 2000, incurred cost proposal and related books and records for reimbursement of Fiscal Year 2000 incurred costs. The purpose of the examination was to determine allowability of direct costs and to establish audit-determined indirect cost rates for the period July 1, 1999, through June 30, 2000. The proposed rates apply primarily to the contractor's flexibly priced contracts.

The DCAA opined that, except for the overhead expense rate, the contractor's indirect rates are acceptable as submitted. However, the claimed final overhead rate is acceptable as adjusted by the DCAA's examination. The DCAA questioned .24 percent of the contractor's claimed final overhead rate. The DCAA's evaluation showed the contractor included unallowable costs in its overhead expense pool. The contractor agreed with the final overhead rate. Additionally, claimed direct costs are acceptable and are provisionally approved pending final acceptance.

Further, the DCAA indicated the contractor's accounting system is considered inadequate in part for the accumulation, reporting, and billing of costs on Federal Government contracts. According to the DCAA, the contractor's forward pricing proposals and incurred cost submissions may be overstated because of a lack of policies and procedures to identify and exclude unallowable costs.

The DCAA qualified its audit report because results of the assist audits for the subcontract costs had not been received. The results of the assist audits are

considered essential to the conclusion of the audit and may disclose additional questioned costs.

This DCAA report was issued in September 2001; however, the Treasury Inspector General for Tax Administration (TIGTA) did not receive the report until July 2004. The Internal Revenue Service (IRS) previously received a copy of the report directly from the DCAA. We are transmitting the report to you to enable the IRS to track any financial accomplishments derived from negotiations with the contractor based on the results of this DCAA report.

The information in this report should not be used for purposes other than those intended without prior consultation with the TIGTA 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.