

**TIRNO-99-D-0005, Supplemental Report on  
Compliance With Requirements Applicable to  
Major Programs and on Internal Control Over  
Compliance in Accordance With the Office of  
Management and Budget Circular A-133,  
Fiscal Year 2002**

**August 2004**

**Reference Number: 2004-1C-140**

**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 25, 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: TIRNO-99-D-0005, Supplemental Report on Compliance With  
Requirements Applicable to Major Programs and on Internal  
Control Over Compliance in Accordance With the Office of  
Management and Budget Circular A-133, Fiscal Year 2002  
(Audit #20041C0240)

The Defense Contract Audit Agency (DCAA) audited the contractor's compliance with requirements described in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major Federal Government programs. The DCAA also audited the contractor's January 8, 2003, certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year 2002 incurred costs. The purpose of the audit was to determine the allowability and allocability of direct and indirect costs and form the basis for negotiated indirect cost rates for the period ended October 6, 2002.

The DCAA indicated that this supplemental report replaces the original report in its entirety. The OMB Circular A-133 requires report qualifications be treated as an audit finding. According to the DCAA, the original audit report did not include an audit finding for the qualification. Therefore, this supplemental report addresses the qualification as an audit finding.

The DCAA questioned \$30,202 of overhead and General and Administrative (G&A) costs. The Internal Revenue Service's (IRS) portion of the questioned costs is \$1,069. In addition, the DCAA reallocated \$217,014 of corporate G&A expenses to the sponsors. This resulted in an increased allocation to the IRS of \$176,554.

The audit of direct costs disclosed no exceptions at this time. Claimed direct costs are provisionally approved pending final acceptance.

The DCAA stated that another Federal Government audit organization has audit responsibility for the direct costs claimed on programs identified as Special Projects in the contractor's "Supplemental Schedule of Expenditures of Federal Government Awards." The DCAA contacted this organization and discussed the requirements of OMB Circular A-133. However, the DCAA did not have access to the organization's workpapers. Therefore, the DCAA was unable to perform the procedures necessary for relying upon the work performed by others. The DCAA was unable to satisfy itself as to the contractor's compliance with the A-133 requirements or the allowability of the direct costs. Therefore, the DCAA qualified the results of this audit accordingly.

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.*