

**TIRNO-95-D-00061 and TIRNO-00-D-00013, Report  
on Audit of Incurred Costs for Fiscal Year 2002**

**August 2004**

**Reference Number: 2004-1C-159**

**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 26, 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-95-D-00061 and TIRNO-00-D-00013, Report on Audit of  
Incurred Costs for Fiscal Year 2002 (Audit #20041C0241)

The Defense Contract Audit Agency (DCAA) examined the contractor's June 12, 2003, revised 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 and allocability of direct and indirect costs and to establish audit-determined indirect costs rates for the period January 1, 2002, through December 31, 2002. The proposed rates apply primarily to flexibly priced contracts.

The DCAA examination of the incurred cost rate proposal disclosed questioned indirect expenses allocable to several indirect cost pools, questioned direct travel costs, and adjusted claimed base amounts. The DCAA indicated the contractor does not concur with the questioned corporate legal expenses. Additionally, the DCAA believes indirect costs questioned are subject to penalties provided in the Federal Acquisition Regulation.

The DCAA stated that the contractor's proposed indirect rates are not acceptable as proposed. However, except for potential adjustments that result from assist audits concerning unresolved subcontract costs, the DCAA indicated direct costs are acceptable as adjusted by the examination. Direct costs not questioned are provisionally approved pending final acceptance.

The DCAA has not received the results of the assist audits of subcontract costs and administrative closeout. The assist audits will not affect the audit-determined indirect expense rates but may affect the allowable direct subcontract costs. Therefore, the DCAA qualified its audit report. Upon receipt of assist audit reports, the recommended

subcontract costs will be reconciled with the claimed subcontract costs and supplemental reports will be issued as required.

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.*