

**Audit of Fiscal Year 2005 Forward
Pricing Indirect Rates**

September 2004

Reference Number: 2004-1C-169

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

September 8, 2004

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

FROM: Daniel R. Devlin *Daniel R. Devlin*
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: Audit of Fiscal Year 2005 Forward Pricing Indirect Rates
(Audit #20041C0247)

The Defense Contract Audit Agency (DCAA) examined the contractor's Fiscal Year 2005 forward pricing proposal dated April 16, 2004. The purpose of the examination was to determine the reasonableness of the proposed forward pricing rates.

The DCAA considers the contractor's accounting system to be inadequate in part for segregating, accumulating, and reporting Government contract costs. The DCAA examination noted certain deficiencies in the design or operation of the internal control structure. According to the DCAA, these deficiencies could adversely affect the organization's ability to record, process, summarize, and report costs in a manner that is consistent with applicable Government contract laws and regulations. The DCAA is currently performing a follow-up audit to determine whether the contractor has adequately corrected these deficiencies.

The DCAA opined that the cost or pricing data submitted by the offeror in support of the cost center indirect rates submission and the facilities cost of money portion of the submission is inadequate in part. The indirect rate submission and the Facilities Capital Cost of Money (FCCOM) proposal were not prepared in all respects in accordance with applicable Cost Accounting Standards and appropriate provision of the Federal Acquisition Regulation. However, the FCCOM inadequacies are considered to be insignificant to the audit results, and the DCAA could quantify the adjustments for the noncompliances in the indirect rate submission. Therefore, the DCAA believes that the proposal is acceptable as a basis for negotiation of fair and reasonable rates.

The DCAA questioned a portion of the proposed cost of money factors based on an update in the Treasury rate. Also, the DCAA questioned several home office allocations to the Civil Group and made adjustments within the Civil Group native costs.

The DCAA indicated that an assist audit is not yet complete as of the date of this report. The results of the assist audit are considered essential to the conclusion of this examination. Therefore, the DCAA qualified the audit report to the extent that additional costs may be questioned based on the results of the assist audit.

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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