

**Audit of Noncompliance With Cost  
Accounting Standard 409, Depreciation of  
Tangible Capital Assets**

**September 2004**

**Reference Number: 2004-1C-180**

**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 27, 2004

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

A handwritten signature in cursive script that reads "Daniel R. Devlin".

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

SUBJECT: Audit of Noncompliance With Cost Accounting Standard 409,  
Depreciation of Tangible Capital Assets (Audit #20041C0250)

The Defense Contract Audit Agency (DCAA) performed an examination regarding the contractor's compliance with the Cost Accounting Standards (CAS).<sup>1</sup> The purpose of the examination was to determine whether the contractor had complied with the requirements of CAS 409, Depreciation of Tangible Capital Assets. By performing Federal Government contracts covered by Government regulations, the contractor asserts that its accounting practices comply with the requirements of the CAS.

The DCAA considers the contractor's accounting system and related internal controls to be generally adequate for accumulating and reporting costs on Government contracts. However, the DCAA examination disclosed that the contractor is in noncompliance with the requirements of CAS 409 during the period January 2001 through February 2002. The examination disclosed the following deficiencies: lack of written policies and procedures for determining residual value, lack of useful life study and physical inventory on tangible capital assets, and failure to credit gains for disposition of tangible capital assets to appropriate expense pool. The DCAA indicated that failure to comply with the CAS and failure to follow a disclosed practice may have resulted or may result in increased cost paid by the Government.

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<sup>1</sup> The DCAA also performed a follow-up audit of the contractor's compliance with CAS 409 to address the issues discussed in this report. The follow-up audit report is entitled, *Follow-up Audit of Cost Accounting Standard 409, Depreciation of Tangible Capital Assets* (Reference Number 2004-1C-181, dated September 2004).

The DCAA report is limited to an examination of the cited instances of noncompliance. Accordingly, the DCAA expresses no opinion whether other practices are proper, approved, or agreed to for pricing proposals, accumulating costs, or reporting contractor performance data.

Although this report was dated October 2003, we did not receive a copy of the report until September 2004. Neither the Internal Revenue Service (IRS) nor the Treasury Inspector General for Tax Administration (TIGTA) are shown on the DCAA report distribution list. We are transmitting the report to you to assist in the management of the contract and to enable the IRS to track any financial accomplishments derived from negotiations with the contractor based on results from the 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.*