

**Voucher Audit of the Treasury Information  
Processing Support Services Contract –  
TIRNO-00-D-00014**

**April 2005**

**Reference Number: 2005-10-076**

**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.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

April 15, 2005

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

FROM: Pamela J. Gardiner  
Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Voucher Audit of the Treasury Information Processing Support Services Contract – TIRNO-00-D-00014 (Audit # 200410027)

This report presents the results of our review of the Internal Revenue Service's (IRS) Treasury Information Processing Support Services Contract – TIRNO-00-D-00014. The overall objective of this review was to determine whether selected vouchers submitted and paid under contract TIRNO-00-D-00014 were appropriate and in accordance with the contract's terms and conditions.

Contract expenditures represent a significant outlay of IRS funds. The Treasury Inspector General for Tax Administration has made a commitment to perform audits of these expenditures. We initiated this audit to determine whether the vouchers submitted by the contractor and paid by the IRS were accurate, supported, and allowable.

Our review resulted in the identification of questionable charges of \$745. Specifically, these charges consisted of \$223 in unsupported costs and \$676 in unreasonable costs, less \$154 in inaccurately recorded costs. While we recognize that the identified questionable charges are relatively small in relation to the total amounts reimbursed to the contractor, we believe the Contracting Officer (CO) should determine whether recovery actions against the contractor are warranted for these amounts.

As part of this audit, we also examined contract correspondence files and interviewed the CO and Contracting Officer's Technical Representatives to determine whether the contractor's performance was satisfactory. Based on these limited auditing procedures, nothing came to our attention that would lead us to believe there were problems with any of the deliverables associated with the task orders included in our tests.

Management's Response: We did not have any specific recommendations to offer as a result of our review. In providing comments to this report, IRS management stated any questioned costs will be resolved by the CO as part of the IRS' established procedures for task order/contract closeout.

Opinions expressed in this report pertain only to the task orders and vouchers included in our random and judgmental samples.

Copies of this report are also being sent to the IRS managers affected by the report findings. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organization Programs), at (202) 622-8500.

## Table of Contents

Background .....	Page 1
Questionable Contract Charges and Voucher Verification Process .....	Page 2
Acceptable Existence of Contract Deliverables.....	Page 4
Appendix I – Detailed Objective, Scope, and Methodology.....	Page 6
Appendix II – Major Contributors to This Report .....	Page 8
Appendix III – Report Distribution List .....	Page 9

**Voucher Audit of the Treasury Information Processing Support Services Contract –  
TIRNO-00-D-00014**

---

**Background**

---

In June 2000, the Internal Revenue Service (IRS) awarded the indefinite-delivery, indefinite-quantity contract as a part of the Treasury Information Processing Support Services (TIPSS) contracts, the first of which was awarded in 1994. The objective of the June 2000 contract was to provide a continuation of the broad range of information technology-related services initiated by the original TIPSS contracts. The IRS awarded task orders against the contract on either a cost-plus-fixed-fee basis or a firm fixed-price basis.

The contract was awarded for a 1-year base period through May 31, 2001, with 4 option years that would extend the contract through May 31, 2005. The IRS exercised all the options available under the contract. According to the IRS Request Tracking System,<sup>1</sup> as of August 13, 2004, the IRS had awarded 132 task orders, with a total value not to exceed approximately \$334 million, and had recorded approximately \$261 million in transactions against these task orders.

Because contract expenditures represent a significant outlay of IRS funds, the Treasury Inspector General for Tax Administration (TIGTA) made a commitment to perform audits of these expenditures. This audit was designed to determine whether amounts paid by the IRS under this contract were accurate, supported, and allowable through a review of contractor vouchers and supporting documentation.

This review was performed in the Office of Procurement within the Office of Agency-Wide Shared Services in Oxon Hill, Maryland, during the period August 2004 through February 2005. Opinions expressed in this report pertain only to the task orders and vouchers included in our random and judgmental samples.

The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit

---

<sup>1</sup> The Request Tracking System allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The System also allows for electronic acceptance of items delivered and provides an electronic interface with the Integrated Financial System for payment processing.

**Voucher Audit of the Treasury Information Processing Support Services Contract –  
TIRNO-00-D-00014**

---

**Questionable Contract Charges  
and Voucher Verification Process**

objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

We examined supporting documentation obtained from the IRS Office of Procurement, as well as documentation received directly from the contractor, for a sample of 13 vouchers. The vouchers were selected using a combination of random and judgmental sampling methods (see Appendix I for details). The sampled vouchers related to 8 task orders with award amounts totaling approximately \$29 million and transactions of approximately \$26 million. The 13 vouchers had processing dates from February 2002 to March 2004 and involved approximately \$2.9 million in payments by the IRS.

The primary expenses claimed by the contractor were employee compensation, indirect costs (i.e., fringe benefits, overhead, general and administrative expenses, and cost of money for capitalized assets), and to a lesser extent, other direct costs, such as travel, copying and reproduction, and communications.

**Questionable contract charges**

Based on our audit tests, we identified questionable charges of \$745, as shown in Table 1. We provided details of these charges to the contractor and the IRS.

**Table 1: Schedule of Questioned Charges**

Questioned Activity	Questioned Charges
Unsupported other direct costs	\$223
Unreasonable travel expenses	\$676
Inaccurately recorded expenses	(\$154)
<b>Total</b>	<b>\$745</b>

*Source: TIGTA analysis of 13 vouchers submitted to the IRS.*

The Federal Acquisition Regulation (FAR)<sup>2</sup> stipulates that a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that

---

<sup>2</sup> 48 C.F.R. pt 1-53 (2002).

costs claimed have been incurred. The FAR also provides that costs shall be allowed to the extent they are reasonable, allocable, and allowable under the FAR.

While we recognize that the identified questionable charges are relatively small in relation to the total amounts reimbursed to the contractor, we believe the Contracting Officer (CO) should determine whether recovery actions against the contractor are warranted for these amounts. In providing comments to this report, IRS management stated any questioned costs will be resolved by the CO as part of the IRS' established procedures for task order/contract closeout.

#### **Voucher verification process**

The CO is the primary responsible official regarding contract administration. The CO signs the contract on behalf of the Federal Government and bears legal responsibility for the contract. The Contracting Officer's Technical Representative (COTR) is the designated program office official. The COTR's responsibilities include monitoring the contractor's performance in reference to contract requirements and reporting deviations to the CO.

Further, the Department of the Treasury Contracting Officer's Technical Representative's Handbook, Part IV states, in part, that COTRs are responsible for reviewing and approving invoices and vouchers on contracts. It also states that the COTR will receive instructions regarding involvement in the review and approval of invoices and vouchers from the CO. Attachment E of the Handbook states that COTRs are responsible for reviewing and signing off on the invoices, attesting to their accuracy.

The CO advised that the COTRs' voucher verification process for this contract was based upon reliance on the judgment of the Defense Contract Audit Agency (DCAA). The DCAA deemed the contractor eligible for direct billing, which allowed the contractor to submit its vouchers directly to Federal Government disbursing offices without extensive supporting documentation. Contractors eligible for direct billing are certified by the DCAA as being financially sound and having low- to moderate-risk billing systems.

**Voucher Audit of the Treasury Information Processing Support Services Contract –  
TIRNO-00-D-00014**

---

The COTRs we interviewed generally reviewed hours worked and travel expenses for reasonableness. The COTRs were usually, but not always, directly involved in the day-to-day oversight of the work done by the contractor. When not directly involved, the COTRs communicated extensively with program personnel who did work directly with the contractor to verify that the hours claimed by the contractor were reasonable.

We did not identify any type of verification performed by the COTRs of actual hours worked by direct means, such as a review of contractor-provided payroll or related payment records. During our audit, we identified vouchers in which employees were often paid at more than one hourly rate during a month. However, when asked, the COTRs could not explain why this was the case. We verified that these charges were accurate and supported, based on the contractor's description of its billing methodology.

The COTRs stated they did receive and review details of other direct costs during the early years of the contract. However, pursuant to Office of Procurement instructions dated June 20, 2002, the contractor was no longer required to provide support for other direct costs (i.e., the IRS accepted the DCAA's opinion that the contractor can use a direct billing process). Some COTRs stated they partially compensated for this revised process by requiring email notification or a list of all planned travel and reviewing these amounts on submitted vouchers for reasonableness. As a result, there was no consistency among COTRs as to the procedures they used to review other direct costs on vouchers.

We did not identify a significant amount of questioned costs on the vouchers we reviewed, notwithstanding the inconsistent or incomplete voucher verification process described above. We will continue to include a review of the IRS' voucher verification process in future contract voucher audits and, if warranted, recommend improvements to the process.

---

**Acceptable Existence of Contract  
Deliverables**

---

We examined contract correspondence files and interviewed COs and COTRs to determine whether the contractor's performance was satisfactory for five task orders related to our sampled transactions. The task orders involved



**Voucher Audit of the Treasury Information Processing Support Services Contract –  
TIRNO-00-D-00014**

---

performing nonpersonal information processing support services in the areas of Information Systems, Telecommunications Support, Organizational/Management, and Operational Support. These services were performed for various IRS projects such as the:

- Wage and Investment Business Unit Stakeholder Partnerships, Education, and Communication Management Information System.
- Small Business/Self-Employed Business Unit Examination Re-Engineering.
- Communications and Liaison Division Interactive Operational Directory.
- Criminal Investigation Division Automation and Integration Support.

Based on our limited auditing procedures, nothing came to our attention that would lead us to believe there were problems with any of the deliverables associated with the task orders included in our tests.

### Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether selected vouchers submitted and paid under contract TIRNO-00-D-00014 were appropriate and in accordance with the contract's terms and conditions. Specifically, we:

- I. Analyzed the Internal Revenue Service's (IRS) voucher verification process prior to certifying payment to the contractor.
  - A. Interviewed the Senior Contracting Officer and nine Contracting Officer's Technical Representatives to confirm our understanding of the voucher verification process.
  - B. Documented voucher processing risks including accuracy, supportability, and allowability of voucher charges and concluded as to the overall control environment.
  - C. Interviewed IRS personnel involved in the administration of the contract to identify any concerns that existed regarding the contractor, its billing practices, or any specific invoices.
- II. Verified whether voucher charges submitted by the contractor and paid by the IRS were accurate, supported, and allowable.
  - A. Used a sample selection method that involved two stages and various assumptions concerning the universe of Request Tracking System<sup>1</sup> recorded transactions from which to sample. First, to ensure the selection of material transactions, we eliminated all transactions under \$50,000 from a total universe of 1,521 transactions to establish our initial sampling universe of 897 transactions as of August 13, 2004. From this universe, we randomly selected 20 transactions for initial review. Based on this initial review, we eliminated 14 transactions because they either related to a fixed-price contract or were processed prior to 2002. We eliminated the fixed-price task order transactions due to their low risk to the Federal Government. We eliminated transactions processed prior to 2002 to ensure supporting documentation would be readily available. The elimination also afforded us the opportunity to identify current cost-reimbursable internal control problems and the ability to discuss adverse conditions with IRS employees and managers who would be knowledgeable of the current voucher verification process. In our second stage, based on auditor judgment, we judgmentally selected an additional seven transactions, all of which represented cost-reimbursable task orders that were processed after 2001. This method of sample selection resulted in a total sample of 13 transactions that are

---

<sup>1</sup> The Request Tracking System allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The System also allows for electronic acceptance of items delivered and provides an electronic interface with the Integrated Financial System for payment processing.

**Voucher Audit of the Treasury Information Processing Support Services Contract –  
TIRNO-00-D-00014**

---

synonymous with paid contract vouchers. We believed this sampling method would provide sufficient evidence with which to accomplish our audit objective and would result in acceptable management corrective action without the need for a precise projection of sample results.

**NOTE:** The 1,521 transactions, recorded from the initiation of the contract to August 13, 2004, involved 132 task orders with award amounts of approximately \$334 million and acceptance for payment amounts of approximately \$261 million. Our initial sampling universe of 897 transactions, which eliminated all transactions under \$50,000, involved 101 task orders with acceptance for payment amounts of approximately \$249 million. After elimination of transactions processed prior to 2002, the population of transactions was 654 and involved 70 task orders with acceptance for payment amounts of approximately \$134 million. The final sample of 13 transactions had processing dates from February 2002 to March 2004 and involved approximately \$2.9 million in payments by the IRS. The sample of 13 transactions involved 8 task orders with a total award amount of approximately \$29 million, \$26 million of which was vouchered by the contractor and accepted for payment by the IRS.

- B. Obtained supporting documentation for the vouchers in the sample from the IRS and contractor and performed the following tests:
  - 1. Verified the mathematical accuracy of the voucher and supporting documentation.
  - 2. Traced voucher charges to supporting documentation.
  - 3. Verified whether voucher charges were actually paid by the contractor through examination of payroll records and extracts from the contractor's financial records.
  - 4. Verified whether voucher charges were allowable under the terms and conditions of the contract.
  
- III. Verified whether there was acceptable existence of deliverables, as stipulated in the contract, for five task orders related to our sampled transactions through interviews and reviews of project files.

**Major Contributors to This Report**

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

John R. Wright, Director

Thomas J. Brunetto, Audit Manager

Robert W. Beel, Lead Auditor

Bobbie Draudt, Senior Auditor

James S. Mills Jr., Senior Auditor

Richard Loudon, Auditor

**Report Distribution List**

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Director, Procurement OS:A:P  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls OS:CFO:AR:M  
Audit Liaisons:  
    Chief, Agency-Wide Shared Services OS:A  
    Director, Procurement OS:A:P