

**Voucher Audit of the Treasury Information
Processing Support Services
Contract – TIRNO-00-D-00015**

August 2005

Reference Number: 2005-10-124

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

August 8, 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-00015 (Audit # 200410023)

This report presents the results of our review of the Internal Revenue Service's (IRS) Treasury Information Processing Support Services Contract – TIRNO-00-D-00015. The overall objective of this review was to determine whether selected vouchers submitted and paid under contract TIRNO-00-D-00015 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 \$370,071.16, which consisted of unallowable, unsupported, unreasonable, and inaccurate charges and related fees.

As part of this audit, we also examined contract correspondence files and interviewed the Contracting Officer and Contracting Officer's Technical Representatives to determine whether there was an acceptable existence of deliverables. Based on these limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with any of the deliverables associated with the task orders included in our tests. However, we did identify where deliverables for one task order could not be verified because work requests describing the specific services to be performed were not prepared. This task order pertained to services provided to the IRS Oversight Board and was administered by the Department of the Treasury, Departmental Offices. Notwithstanding the lack of detailed work requests, our review of

subcontractor status reports and an email provided evidence to support that services were provided to and accepted by the Oversight Board during the period of our audit.

We recommended the Director, Office of Procurement, ensure the appropriate Contracting Officer reviews the identified questionable charges of \$370,071.16 and initiates any recovery actions deemed warranted.

Management's Response: IRS management agreed to conduct an in-depth analysis of the 15 vouchers examined during this audit as well as all supporting documentation obtained from the contractor. If the IRS determines that payment has been made on inappropriate or unsupported charges, the IRS will initiate action to recover costs where warranted. In its response, IRS management commented that it believes that our reported condition concerning the Oversight Board services task order is not appropriate for the report, since its administration was not under its purview, and disagreed with our assessment concerning the unreasonableness of subcontractor labor costs. Management's complete response to the draft report is included as Appendix V.

Office of Audit Comments: Concerning the Oversight Board task order, an IRS Contracting Officer signed the task order in question. Therefore, we believe that official retained some responsibility over the task order even though the contract was administered by the Department of the Treasury, Departmental Office. Further, the corrective action offered by the IRS and included in our report is considered an adequate establishment of internal controls to ensure that this type of condition is prevented in the future for all similar task orders.

Concerning the unreasonableness of subcontractor labor costs, we agree with the IRS that, at times, specialized outside labor is necessary at a higher cost than regular contractor employees and that there is no set requirement that the expertise be acquired at the same level of contractor employee compensation. However, our analysis of the 15 vouchers showed that 8 subcontractor specialists were charged on 15 different occasions with excess labor costs of \$43,717. We believe this regular use of subcontractors is beyond specialized use and, therefore, bordering on unreasonable. Whatever the outcome, the ultimate decision on this matter will be the responsibility of the Contracting Officer.

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

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Background

In June 2000, the Internal Revenue Service (IRS) awarded contract number TIRNO-00-D-00015, an indefinite-delivery, indefinite-quantity contract as part of a series of the Treasury Information Processing Support Services (TIPSS) contracts. 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.¹ The IRS awarded task orders against the contract on either a cost-plus-fixed-fee 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,² as of June 2004, the IRS had awarded 8 task orders, with a total value not to exceed approximately \$59 million, and had recorded approximately \$6.5 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 documentation.

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

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

¹ The TIPSS contracts provide services to the IRS in the four principal modernization task areas of Information Systems, Telecommunications Support, Organizational/Management, and Operational Support.

² The Request Tracking System allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods/services. The System also allows for electronic acceptance of items delivered and provides an electronic interface with the Integrated Financial System (the IRS' administrative financial accounting system) for payment.

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**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 15 vouchers. The vouchers were selected using a judgmental sampling method (see Appendix I for details). The sampled vouchers were selected from 69 vouchers related to 4 task orders with associated transactions of approximately \$4.8 million. The 15 vouchers had processing dates from October 2001 to June 2004 and involved approximately \$2 million in IRS payments.

The primary expenses claimed by the contractor were employee compensation, subcontractor fees, indirect costs (e.g., overhead, and general and administrative expenses), and to a lesser extent, other direct costs such as travel.

Questionable contract charges

Based on our audit tests, we identified questionable charges of \$370,071.16 (approximately 18 percent of the total charges reviewed), 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 ³
Unallowable Travel	\$573.03
Unsupported Travel	\$11,890.81
Unallowable Charges (net)	\$31,454.85
Unsupported Charges	\$266,186.20
Unreasonable Charges	\$43,717.07
Inaccurate Charges (net)	(\$1,373.24)
Related Fees	\$17,622.44
Total	\$370,071.16

Source: TIGTA analysis of 15 vouchers submitted to the IRS.

³ Questioned charges include associated indirect costs. The reference to net signifies that both positive and negative amounts were identified.

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A majority of the unallowable charges related to billed subcontractor services provided outside of the subcontract's period of performance; not using correct labor rates; and not using Defense Contract Audit Agency approved provisional overhead, and general and administrative rates. A majority of the unsupported charges related to the insufficient provision of subcontractor supporting documentation to substantiate the charges. Finally, a majority of the unreasonable charges related to subcontractor labor costs that were substantially higher than those billed for contractor employees as shown in the contract.

The Federal Acquisition Regulation (FAR)⁴ stipulates a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that 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.

Voucher verification process

Contracts may be entered into and signed on behalf of the Federal Government only by Contracting Officers (CO). The COs have the authority to administer or terminate contracts and make related determinations and findings. The COs are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.

The requesting program office nominates a Contracting Officer's Technical Representative (COTR), who is the CO's technical expert and representative in the administration of a contract or task order. Usually, the CO will appoint the COTR by issuing a signed letter of appointment tailored to meet the needs of each contract. The CO and the COTR are required to jointly review all appointed duties.

Prior to April 28, 2004, the Department of the Treasury's *Contracting Officer's Technical Representative's Handbook*

⁴ 48 C.F.R. pt 1-53 (2002).

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was the primary guidance for the COTRs.⁵ Part IV of the Handbook states, in part, that the COTRs are responsible for reviewing and approving invoices and vouchers on contracts. It also states the COTR will receive instructions regarding involvement in the review and approval of invoices and vouchers from the CO. Attachment E of the Handbook also offers, as a sample responsibility, that the COTRs are responsible for reviewing and signing off on the invoices to attest to their accuracy. Thirteen of the 15 vouchers we reviewed during this audit were subject to this guidance.

Subsequent to April 28, 2004, the IRS replaced the Handbook guidance, in part, with a reference to the Office of Federal Procurement Policy's *A Guide to Best Practices for Contract Administration*. The Guide offers, as a practical technique, that COTRs reviewing vouchers under cost reimbursement contracts should review, among other things, contractor time cards to help assess the reasonableness of direct labor costs. The Guide also contains direction to review major cost categories such as subcontractor charges to again determine the reasonableness of the claimed costs.

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 worked directly with the contractor to verify the hours claimed by the contractor were reasonable. We did not identify any type of consistent verification performed by the COTRs of actual hours worked by direct means, such as a review of contractor-provided employee payroll records or subcontractor records.

We believe that our identification of the questioned charges stated above was a direct result of the lack of an adequate

⁵ Department of the Treasury Acquisition Circular No. 02-01, dated April 28, 2004, deleted references to the COTR's Handbook. The Circular also went on to state the Department of the Treasury would no longer maintain the Handbook.

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voucher verification process. Therefore, we continue to believe that our prior audit⁶ recommendations concerning the institution of a uniform policy to perform a consistent risk-based IRS-wide invoice review, which includes obtaining supporting documentation from the contractor on a sample basis, are still valid.

We are not repeating any specific recommendation within this report that addresses this condition. However, we will continue to include a review of the IRS' voucher verification process in future contract voucher audits and, if warranted, recommend additional improvements to the process.

Recommendation

1. The Director, Office of Procurement, should ensure the appropriate CO reviews the identified questionable charges of \$370,071.16 and initiates any recovery actions deemed warranted.

Management's Response: The IRS will conduct an in-depth analysis of the 15 vouchers examined during this audit as well as all supporting documentation obtained from the contractor. If the IRS determines that payment has been made on inappropriate or unsupported charges, the IRS will initiate action to recover costs where warranted. The IRS disagreed with our assessment concerning the unreasonableness of subcontractor labor costs, stating there are many reasons why a prime contractor subcontracts some of the work, including socio-economic goals or a requirement for specialized labor. The IRS further stated there is no requirement for subcontracted labor to be equal to or less expensive than that of the prime contractor.

Office of Audit Comment: We agree with the IRS that, at times, specialized outside labor is necessary at a higher cost than regular contractor employees and that there is no set requirement that the expertise be acquired at the same level of contractor employee compensation. However, our

⁶ *Improvements Are Needed in the Invoice Review Process for the Business Systems Modernization Contract* (Reference Number 2004-10-117, dated June 2004).

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**Deliverables for One Task
Order Could Not Be Verified**

analysis of the 15 vouchers showed where 8 subcontractor specialists were charged on 15 different occasions with excess labor costs of \$43,717. We believe this regular use of subcontractors is beyond specialized use and, therefore, bordering on unreasonable. Whatever the outcome, the ultimate decision on this matter will be the responsibility of the CO.

We examined contract correspondence files and interviewed the COs and COTRs to determine whether there was an acceptable existence of deliverables for the four task orders related to our sampled vouchers. The task orders involved performing nonpersonal information processing support services in the areas of Information Systems, Telecommunication Support, and Operational Support. These services were performed for various IRS projects such as assisting the:

- IRS Oversight Board and other oversight entities in the execution of their responsibilities.
- Technical Contract Management with the design, implementation, enhancement, and maintenance on one or more information management initiatives.
- Resources Allocation and Measurement organization and its related division and partners.
- Strategic Planning and Client Services organization and its related divisions.

Based on our limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with any of the deliverables associated with the task orders included in our tests. However, we did identify that deliverables for one task order could not be verified because work requests describing the specific services to be performed were not prepared.

In assigning work on this task order, established contract procedures were not followed. The contract states the applicable Program Office is to develop a work request stating what is required of the contractor; however, these were not prepared. The work request is to clarify the requirements of the Program Office and describe the deliverables expected upon completion of the work. The

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CO stated the original COTR did not believe work requests were needed, and because of limited staffing, the CO did not normally review the COTRs' duties in this area.

After our preliminary discussions with the CO, we subsequently determined that this task order pertained to services provided to the IRS Oversight Board (hereinafter referred to as the Board) and was administered by the Department of the Treasury, Departmental Offices. Contractor vouchers were received and paid by the Departmental Offices, which in turn received reimbursement from the IRS.

We did receive some evidence from the CO that services were provided and accepted by the Board. This evidence was comprised of subcontractor status reports and one email noting an invoice received was approved for payment. Notwithstanding the lack of detailed work requests to describe the specific deliverables expected upon completion of the work as required by the task order, this evidence did provide assurance that services were provided to and accepted by the Board during the period of our audit.

The CO informed us that beginning in April 2005, the Office of Procurement is undergoing a major reorganization. One of the changes is to implement a new TIPSS Section for Analysis Support. This section will incorporate a new area concerning quality control.

As of June 2004, \$39,257 was expended on this task order. Although the amount is relatively low compared to what has been paid to the contractor, the preparation of work requests is essential to ensure only needed services are requested and, upon completion, the contractor is only paid for services delivered.

We believe the IRS Office of Procurement reorganization underway and the CO's steps to address our concerns are positive actions in correcting the process weaknesses mentioned above. We also believe the Director of Procurement needs to ensure that, through the establishment of the Section, sufficient controls are implemented to address the quality of work requests associated with the TIPSS contract.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether selected vouchers submitted and paid under contract number TIRNO-00-D-00015 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. Reviewed IRS policies and procedures to gain an understanding of the voucher verification process.
 - B. Interviewed procurement and project personnel to confirm our understanding of the voucher verification process, including:
 1. How labor hours and labor category rates are verified.
 2. How travel costs are verified.
 3. How hours are projected and documented per task order.
 4. How questioned, unsupported, and unallowable charges are treated.
- II. Verified whether voucher charges submitted by the contractor and paid by the IRS were accurate, supported, and allowable.
 - A. We selected a judgmental sample from all task orders and vouchers processed as of June 2004. From inception of the contract (June 2000) to our selection date, 8 task orders were issued that involved approximately \$6.5 million in processed transactions. We selected the 4 highest dollar value task orders, which totaled approximately \$5.1 million in processed transactions, from the 8 task orders. Next, we eliminated transactions processed prior to October 2001, which left us with a total of \$4.8 million in processed transactions. We did this to ensure supporting documentation would be readily available. It 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. From this population of \$4.8 million, we judgmentally selected (based on the overall total of the voucher, and the extent of travel expenses and other direct charges claimed) 15 vouchers from the 69 vouchers that related to the 4 task orders. Our final judgmental sample of 15 vouchers totaled approximately \$2 million. 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.

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- 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 the four 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

Chinita Coates, Lead Auditor

Melvin Lindsey, Auditor

Rashme Sawhney, Auditor

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Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

Type and Value of Outcome Measure:

- Questioned Costs – Potential; \$370,071.16 (see page 2).

Methodology Used to Measure the Reported Benefit:

We examined vouchers and supporting documentation obtained from the Internal Revenue Service's (IRS) Office of Procurement, as well as documentation received directly from the contractor, to verify charges for a sample of 15 vouchers. We selected our judgmental sample from a total population of approximately \$4.8 million in transactions processed by the IRS. The 15 vouchers had processing dates from October 2001 to June 2004 and involved approximately \$2 million in IRS payments.

Our review resulted in the identification of questionable charges of \$370,071.16. Specifically, we identified \$573.03 in unallowable travel, \$11,890.81 in unsupported travel, \$31,454.85 (net) in unallowable charges, \$266,186.20 in unsupported charges, \$43,717.07 in unreasonable charges, (\$1,373.24) (net) in inaccurate charges, and \$17,622.44 in related fees.

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Appendix V

Management's Response to the Draft
Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

July 18, 2005

RECEIVED
JUL 18 2005

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

David A. Grant *David A. Grant*
Director, Procurement

SUBJECT:

Draft Audit Report – Voucher Audit of the Treasury Information
Processing Support Services Contract – TIRNO-00-D-00015
(Audit #200410023)

We appreciate the opportunity to respond to the subject audit report. The report provides your assessment of whether the IRS is properly reviewing and certifying invoices under one of the Treasury Information Processing Support Services contracts. We share your commitment to ensure the IRS pays the contractor only for supplies and services provided in accordance with the contract terms and conditions.

The audit focused on a sample of 15 vouchers selected from 69 vouchers related to four out of the eight task orders issued under this contract. Based on this sampling, the audit team identified \$370,071 in questionable charges, specifically citing subcontractor services, travel and other related fees. We have two areas of concern with the findings discussed in the report:

1. The audit team reviewed a task order issued and administered by Treasury's Departmental Offices for the IRS Oversight Board. We do not believe it is appropriate for the report to include a discussion of a task order that is not under our purview in the final audit report.
2. We do not agree with your report's assessment that subcontractor labor costs are unreasonable if they are higher than those billed by prime contractor employees. There are many reasons why a prime contractor subcontracts some of the work, including socio-economic goals or a requirement for specialized labor that is not available in-house. Further, there is no requirement for subcontracted labor to be equal to or less expensive than that of the prime contractor.

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2

As the report recommends, the Contracting Officer will perform a thorough analysis of the questioned charges and, if warranted, will take appropriate recovery action. We cannot concur with the measurable benefits claimed by this report until this review is completed. The attachment provides our specific response to the recommendation.

If you have questions, please contact me at (202) 622-8480 or Linda Barrett, Director, Office of Information Technology, at (202) 283-1410.

Attachment

cc: Chief, Agency-Wide Shared Services OS:A
Management Controls Coordinator OS:A:F

**Voucher Audit of the Treasury Information Processing Support Services
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ATTACHMENT

RECOMMENDATION 1:

The Director, Office of Procurement, should ensure the appropriate Contracting Officer (CO) reviews the identified questionable charges of \$370,071.16 and initiates any recovery actions deemed warranted.

CORRECTIVE ACTION:

We will conduct an in-depth analysis of the 15 invoices examined during this audit, as well as all supporting documentation obtained from the contractor. If we determine that payment has been made on inappropriate or unsupported charges, we will initiate action to recover costs where warranted.

IMPLEMENTATION DATE:

February 1, 2006

RESPONSIBLE OFFICIAL:

Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN:

The Contracting Officer and the Contracting Officer's Technical Representative (COTR) will monitor contractor invoices in accordance with the Federal Acquisition Regulation (FAR).