



*Voucher Audit of the Treasury Information
Processing Support Services Contract -
TIRNO-00-D-00013*

September 2005

Reference Number: 2005-10-145

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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 9, 2005

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

Pamela J. Gardiner

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-00013
(Audit # 200510015)

This report presents the results of our review of the Internal Revenue Service's (IRS) Treasury Information Processing Support Services Contract – TIRNO-00-D-00013. The overall objective of this audit was to determine whether selected vouchers submitted and paid under contract number TIRNO-00-D-00013 were appropriate and in accordance with the contract's terms and conditions.

Synopsis

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 \$1,809, which consisted of unallowable costs, unsupported cost, unreasonable cost, miscalculated indirect cost, 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 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 significant problems with the deliverables associated with the task orders included in our tests.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Recommendation

We recommended the Director, Office of Procurement, ensure the appropriate Contracting Officer reviews the identified questionable charges of \$1,809 and initiate any recovery actions deemed warranted.

Response

The IRS agreed with our recommendation. The Office of Procurement has accepted a credit of \$1,809 from the contractor and has processed the appropriate documentation, which has become part of the task order file. Management's complete response to the draft report is included as Appendix V.

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 questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Table of Contents

Background	Page 1
Results of Review	Page 2
Questionable Contract Charges and Voucher Verification Process	Page 2
<u>Recommendation 1</u> :	Page 5
Contract Deliverables Were Acceptable	Page 5
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 7
Appendix II – Major Contributors to This Report	Page 9
Appendix III – Report Distribution List	Page 10
Appendix IV – Outcome Measures	Page 11
Appendix V – Management’s Response to the Draft Report	Page 12



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Background

In June 2000, the Internal Revenue Service (IRS) awarded contract number TIRNO-00-D-00013, an indefinite-delivery indefinite-quantity contract as a 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 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,² as of February 17, 2005, the IRS awarded 24 task orders with a total value not to exceed approximately \$60.7 million, and recorded approximately \$54 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 audit was performed at the Office of Procurement in the Office of Agency-Wide Shared Services in Oxon Hill, Maryland, and the contractor's facility located in Andover, Massachusetts, during the period February through May 2005. Opinions expressed in this report only pertain 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 objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ The TIPSS contracts provide services to the IRS in the four principal 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 and 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 processing.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Results of Review

Questionable Contract Charges and Voucher Verification Process

We examined supporting documentation obtained from the IRS Office of Procurement, as well as documentation received directly from the contractor, for a sample of 25 vouchers. The vouchers were selected using a combination of a random and judgmental sampling method (see Appendix I for details). The sampled vouchers related to 11 task orders with award amounts totaling approximately \$53.1 million and transactions of approximately \$46.6 million. The 25 vouchers had performance dates from December 2002 to September 2004 and involved approximately \$5.8 million in IRS payments.

The primary expenses claimed by the contractor were employee compensation, 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 \$1,809, as shown in Table 1. We provided details of these charges to the contractor and the IRS.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Table 1: Schedule of Questionable Charges

Questioned Activity	Questionable Charges³
Contractor Unallowable Labor Cost	\$712
Contractor Unsupported Labor Cost (net)	\$133
Contractor Unallowable Other Direct Cost	\$106
Contractor Unreasonable Cost	\$110
Subcontractor Unallowable Other Direct Cost	\$276
Miscalculated Indirect Cost (net)	\$472
Total	\$1,809

Source: TIGTA analysis of 25 vouchers submitted to the IRS.

The contractor unallowable labor cost related to the use of incorrect labor rates, and the unsupported labor cost related to inconsistencies with supporting time records. The contractor and subcontractor unallowable costs and the contractor unreasonable cost related to travel charges.

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

³ Questionable charges include related indirect costs and fees. The reference to net signifies that both positive and negative amounts were identified.

⁴ 48 C.F.R. pt 1-53 (2002).



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

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 Representatives Handbook* was the primary guidance for the COTRs.⁵ Part IV of the Handbook states, in part, the COTRs are responsible for reviewing and approving invoices and vouchers on contracts. It also states the COTRs 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 COTRs are responsible for reviewing and signing off on the invoices to attest to their accuracy. Eighteen of the 25 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, those 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 directions to review major cost categories such as subcontractor charges to again determine the reasonableness of the claimed costs.

The COTRs we interviewed stated they developed individual verification processes to review their respective contract vouchers. These processes included reviews of the mathematical accuracy of the vouchers, employees assigned to the task orders, reported periods of performance, and travel costs. According to the COTRs interviewed, the individual verification procedures were developed because they did not receive any written procedural guidance from the CO. The COTRs did say, however, the CO provided a contractor presentation explaining voucher preparation to all the COTRs assigned to the contract. However, three of the COTRs interviewed expressed concern the training received was not adequate to prepare them for the responsibilities for which they were tasked.

Neither the CO nor seven of the eight COTRs reviewed indirect costs. However, the remaining COTR, along with the contractor, developed an internal tool called the Budget Actual Tracking System (BATS) to monitor voucher charges. The system is used to forecast and anticipate voucher information and simulate the voucher. The BATS tracks employee hours and rates the contractor lead submits to the COTR biweekly. The hours are uploaded into the system along with other anticipated direct costs, including costs for subcontractors. The system also maintains the indirect cost rates (overhead, general and administrative, and facility capital cost of money). Contract employees receive prior approval for all trips and provide the COTR with estimates of all travel costs to load in the BATS. The COTR is then able to anticipate the amount of the

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



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

voucher prior to its receipt. If information does not match, differences are resolved quickly through the contractor lead employee.

During the course of our audit, the CO and four of the eight COTRs expressed concerns with the contractor's billing process. Billing inconsistencies have the possibility of increasing the risk of the IRS making improper payments to the contractor. However, we believe that administrative enforcement of existing contract clauses would resolve most of the billing concerns expressed by the CO and the COTRs.

We did not identify a significant amount of questionable charges on the vouchers we reviewed, notwithstanding the inconsistent and 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.

Recommendation

Recommendation 1: The Director, Office of Procurement, should ensure the appropriate CO reviews the identified questionable charges of \$1,809 and initiates any recovery actions deemed warranted.

Management's Response: The Office of Procurement has accepted a credit of \$1,809 from the contractor and has processed the appropriate documentation, which has become part of the task order file.

Contract Deliverables Were Acceptable

We examined contract correspondence files and interviewed the CO, the TIPSS Contract Specialist, and 8 COTRs to determine whether the contractor's deliverables were acceptable for the 11 task orders related to our sampled vouchers. For two task orders, we spoke with the customer, since the responsible COTR had retired in September 2004.

The task orders involved performing nonpersonal information processing support services in the areas of Information Systems, Telecommunications Support, Organizational/Management, and Operational Support. The contractor provided support services for the following IRS projects/offices:

- Compliance Research Information System project.
- Business Systems Modernization Office.
- International Business Machine Systems Database.
- Integrated Collection System.
- Mid-America Development Center.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

- Office of Revenue Analysis Enforcement Revenue Information System.
- Tax Return Database Graphic Print project.
- Electronic Tax Administration Payments Product Branch.

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



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether selected vouchers submitted and paid under contract number TIRNO-00-D-00013 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 Contracting Officer and eight 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 vouchers.
- II. Verified whether voucher charges submitted by the contractor and paid by the IRS were accurate, supported, and allowable.
 - A. Our sample selection method involved two stages and various assumptions concerning the universe of the Request Tracking System¹ recorded transactions to sample. First, from a total of 632 transactions, we identified 9 large or unusual transactions for further review. Next, we eliminated 315 transactions prior to 2003 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.

From the remaining 308 transactions, we randomly selected 35 transactions with posting dates between January 1, 2003, and January 27, 2005. We then chose the first 16 transactions resulting in a total sample of 25 transactions that, for analysis purposes, are synonymous with paid contract vouchers. The task orders represented in the sample total \$53,130,113.40, or 87.54 percent of the \$60,691,545.40 contract

¹ 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 (the IRS' administrative financial accounting system) for payment processing.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

awarded amount; the vouchers sampled equal 10.93 percent of those task orders. We believed this sampling method would provide sufficient evidence to accomplish our audit objective and would result in acceptable management corrective action without the need for a precise projection of sample results.

For reference purposes, the 632 transactions, recorded from the initiation of the contract to February 17, 2005, involved 24 task orders with award amounts of approximately \$60.7 million and acceptance for payment amounts of approximately \$54 million. Our sampling population of 317 transactions involved 18 task orders with acceptance for payment amounts of approximately \$29 million. The final sample of 25 vouchers had performance dates from December 2002 to September 2004 and involved approximately \$5.8 million in IRS payments related to 11 task orders. We verified support for approximately \$5.6 million, which consisted of labor costs greater than \$5,000, Other Direct Cost greater than \$100, all subcontractor labor and Other Direct Cost, and all indirect costs.

- 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 vouchers 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 11 task orders related to our sampled transactions through interviews and reviews of project files.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Appendix II

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
Bobbie Draudt, Lead Auditor
Robert Beel, Senior Auditor
Thomas Dori, Senior Auditor
Richard Loudon, Auditor



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Appendix III

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
 Agency-Wide Shared Services OS:A
 Office of Procurement OS:A:P



*Voucher Audit of the Treasury Information Processing Support
Services Contract – TIRNO-00-D-00013*

Appendix IV

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 – Actual; \$1,809 (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 25 vouchers. We selected our sample from a total population of approximately \$29 million in transactions processed by the IRS. The 25 vouchers had performance dates from December 2002 to September 2004 and involved approximately \$5.8 million in IRS payments.

Our review resulted in the identification of questionable charges of \$1,809. Specifically, these charges consisted of \$1,094 in unallowable costs, \$133 in unsupported costs, \$110 in unreasonable cost, and \$472 in miscalculated indirect cost.



*Voucher Audit of the Treasury Information Processing Support
Services Contract - TIRNO-00-D-00013*

Appendix V

Management's Response to the Draft Report

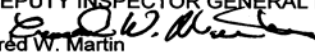


DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 18, 2005

RECEIVED

AUG 22 2005

MEMORANDUM FOR PAMELA J. GARDINER
DEPUTY INSPECTOR GENERAL FOR AUDIT
FROM: 
Fred W. Martin
Deputy Director, Procurement
SUBJECT: Draft Audit Report – Voucher Audit of the Treasury Information
Processing Support Services Contract – TIRNO-00-D-00013
(Audit #200510015)

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 vouchers 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 25 vouchers, selected from a sampling population of 317 transactions, which related to 11 out of 18 task orders. Based on this sampling, the audit team identified \$1,809 in questionable charges out of \$5.8 million in billings.

We approached the contractor about resolving these questioned costs. Based solely on a business decision that investigating these items would cost far more in employee labor than \$1,809, the contractor offered a credit in the amount of the questioned \$1,809.

We agree with the company's position regarding further investigation of these costs. Further, we believe it would also cost the government more than this amount to continue to pursue this. We have, therefore, accepted the contractor's offer of an immediate credit in the amount of \$1,809.

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 Contract - TIRNO-00-D-00013*

ATTACHMENT

RECOMMENDATION 1:

The Director, Office of Procurement, should ensure the appropriate Contracting Officer (CO) reviews the identified questionable charges of \$1,809 and initiates any recovery actions deemed warranted.

CORRECTIVE ACTION:

The Office of Procurement has accepted a credit of \$1,809 from the contractor and has processed the appropriate documentation which has become part of the task order file.

IMPLEMENTATION DATE:

Completed – August 3, 2005

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).