# Voucher Audit of the Integration Support Contract – TIRNO-92-C-00014

**September 2005**

**Reference Number: 2005-10-162**

**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

September 27, 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 Integration Support Contract – TIRNO-92-C-00014 (Audit # 200510003)

This report presents the results of our review of the Internal Revenue Service's (IRS) Integration Support Contract – TIRNO-92-C-00014. The overall objective of this review was to determine whether selected vouchers submitted and paid under contract TIRNO-92-C-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 (TIGTA) 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 travel charges of $1,756.18, which consisted of unsupported, unreasonable, and inaccurately recorded charges. Additionally, we identified questionable or inadequately supported award fees of approximately $2.4 million, which consisted of incorrect scoring calculations, ratings not supported by award fee narratives, and contract award fee modifications not supported by corresponding documentation.

As part of this audit, we also examined contract correspondence files and interviewed the Contracting Officer, the Contracting Officer's Technical Representative, and the Government Task Managers 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 our tests except for the Custodial Accounting Project

(CAP).[1] After expending approximately $135 million, the CAP was cancelled in January 2005. Therefore, there was no system deliverable. Nonetheless, the IRS believed some benefit had been derived from this effort. The IRS reported in its April 27, 2005, systems project approval request to the Office of Management and Budget that the CAP alternative will reduce costs by leveraging the CAP lessons learned and reallocating CAP assets. The TIGTA, in an independent review,[2] concluded that while there may be some residual benefit from the CAP work, a significant portion of the $135 million spent on this cancelled project will result in unrecoverable costs.

We recommended the Director, Procurement, ensure the appropriate Contracting Officer reviews the identified questionable charges of $1,756.18 and initiates any recovery actions deemed warranted. We also recommended the Director, Procurement, initiate an independent review of all award fee amounts associated with this contract to ensure they are accurate, supported, and reasonable.

Management's Response: IRS management agreed with our recommendations but did not concur, in total, with the identified benefits related to the questionable or inadequately supported award fees. Concerning the first recommendation, the contractor agreed to reimburse the IRS for travel costs in the amount of $1,756.18. For the second recommendation, the Director, Procurement, will initiate an independent review of all award fee amounts associated with this contract and ensure they are appropriately documented. Should any discrepancies be found, appropriate action will be taken to correct them. Until the IRS' independent review is completed, we believe the ultimate allowability and appropriateness of the award fee amounts will not be known. Therefore, we continue to maintain our position that the $2.4 million identified during the audit represents questionable costs. 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 recommendations. 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.

[1] The CAP, as part of the IRS' business systems modernization, was to implement a single, integrated data repository of taxpayer account information, integrated with the general ledger and accessible for management analysis and reporting.

[2] *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2005-20-102, dated August 2005).

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## Background

In December 1991, the Internal Revenue Service (IRS) awarded contract number TIRNO-92-C-00014, a cost-plus award fee contract for systems automation integration support services. The objective of this contract was to assist the IRS with the implementation of the Tax Systems Modernization program.[1]

The contract was awarded for 1 base year through September 30, 1992, with 11 option years that would extend the contract through September 30, 2003. The IRS exercised all its options under the contract and extended the contract an additional 2 option years. The contract expired on March 31, 2005. According to the IRS Request Tracking System,[2] as of October 4, 2004, the IRS had awarded approximately $371 million on the contract and had approved approximately $295 million for payment since the beginning of Fiscal Year 1998.[3] The Contracting Officer (CO) stated in October 2004 that the contractor had received approximately $604 million since the inception of the contract; approximately $34 million was in award fees.

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, during the period October 2004 through April 2005. Opinions expressed in this report

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[1] The IRS modernization program has changed names throughout the life of the contract. The program is currently referred to as the Business Systems Modernization.

[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.

[3] The Request Tracking System only provides information as of Fiscal Year 1998 when the system was implemented.

pertain only to the 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.

## 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 10 vouchers. The vouchers were selected using a combination of random and judgmental sampling methods (see Appendix I for details). The 10 vouchers had processing dates from August 2002 to August 2004 and involved approximately $40 million in IRS payments.

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

### Questionable contract charges

Based on our audit tests, we identified questionable charges of $1,756.18 as shown in Table 1. We provided details of these charges to the contractor and the IRS.

**Table 1: Schedule of Questionable Charges**

| Questioned Activity | Questionable Charges |
|---|---:|
| Unsupported Travel Charges | $1,251.83 |
| Unreasonable Travel Charges | $452.93 |
| Inaccurately Recorded Travel Charges | $51.42 |
| **Total** | **$1,756.18** |

*Source: TIGTA analysis of 10 vouchers submitted to the IRS.*

All the questionable charges related to travel expenses. The majority of these charges were questioned because there were no receipts provided to support lodging expenses. The contractor explained that their policy does not require lodging receipts. Reimbursement is made at the per diem rate and not the actual rate. The Federal Travel Regulations require a lodging receipt be provided and that reimbursement is based on the actual lodging cost not to exceed the per diem rate.

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 COs. 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 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

[4] 48 C.F.R. pt. 1-53 (2002).
[5] Department of the Treasury Acquisition Circular No. 02-01, dated April 28, 2004, deleted references to the COTR Handbook. The Circular also stated the Department of the Treasury would no longer maintain the Handbook.

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. Six of the 10 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 directions to review major cost categories such as subcontractor charges to again determine the reasonableness of the claimed costs.

The COTR advised us that he or she relies on the Government Task Managers (GTM) to review the vouchers for accuracy. The GTMs indicated they were involved in the day-to-day oversight of the work done by the contractor. Further, the GTMs we interviewed generally reviewed the vouchers to determine the reasonableness of hours worked and travel expenses claimed.

We did not identify any type of verification performed by the GTMs of actual hours worked by direct means, such as a review of contractor-provided payroll or related payment records, or travel receipts. We verified these charges were accurate and supported on the vouchers we reviewed, based on the contractor's description of its billing methodology.

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

1. The Director, Procurement, should ensure the appropriate CO reviews the identified questionable charges of $1,756.18 and initiates any recovery actions deemed warranted.

Management's Response: The contractor has agreed to reimburse the IRS for travel costs in the amount of $1,756.18.

### Questionable or Inadequately Supported Award Fees

We interviewed the CO, COTR, GTMs, and Fee Determining Official (FDO) to gain an understanding of the process used to arrive at the amount of award fees paid to the contractor. We also reviewed documentation in support of the award fees paid to the contractor. We identified several issues pertaining to the process and associated documentation.

According to the contract's award fee plan, the contractor is evaluated twice a year to determine the amount of award fees to be paid. Written narratives are prepared using four specified factors: quality of work, program management, timeliness of delivery, and internal management. Numerical rating scores are then assigned to each factor. The contractor must score higher than 59 to receive any award fees.

Because several project offices use this contract, the GTM for each project prepares the written narrative and assigns the numerical scores. The narratives and scores are submitted to the COTR. The COTR combines the narratives into one and enters the scores into a schedule that calculates an overall rating. This overall rating is entered into another schedule that calculates the award fees. The award fees are based on the number of actual hours worked. The COTR then submits the narrative and proposed award fees to the CO for approval and then to the FDO for final review and approval. A contract modification is issued to establish the award fees so the contractor may submit an invoice for it.

**Incorrect scoring calculations**

We identified an instance where the actual scores were not used in the calculation of the overall rating. On 1 of the projects, the contractor was given a score of 59 for 2 of the 4 evaluation factors and a score of 69 for the other 2 factors. When the schedule was completed to calculate the overall rating, an average score of 64 was used. Neither the CO nor the COTR knew why the 64 was used; both explained that the 4 individual scores should have been used.

Because of the way the award fees are calculated, by using a score of anything higher than zero, the contractor will still get some award fees for that evaluation factor. Since scores of 59 or below should not receive any award fees, we believe the scores of 59 should be replaced with 0s. We recalculated the award fees for this period without averaging, instead using the individual scores of 69, 69, 0, and 0. The overall rating is lower, resulting in approximately $77,000 that we believe should not have been paid to the contractor as award fees.

**Ratings not supported by narratives**

Additionally, we noted an instance where the award fee narrative did not support the scores given. For 3 of the evaluation factors, the narrative used words such as "unacceptable," "not timely supplied," and "unsatisfactory" with numerical scores of 75-85, placing the rating in the good range. We believe that the narrative did not support ratings in the good range.

The GTM who prepared the narrative stated the original scores were lower than the 75-85 ultimately used, but the CO asked the GTM if the original lower scores were the scores the GTM really wanted to give. The GTM explained that he or she reconsidered what was originally given and decided the lower scores were related to a specific incident and not the contractor's overall performance. Thus, the GTM changed the scores to the 75-85 ultimately used.[6]

Since the narrative states that the contractor's performance was unsatisfactory for three of the evaluation factors and the scores were changed after the GTM was asked to reconsider, we recalculated the award fees using an "Unsatisfactory" score of 0 for these 3 evaluation factors.

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[6] From the documentation reviewed, we could not determine the original lower scores.

Our recalculation resulted in approximately $202,000 in award fees that may have been inappropriately paid to the contractor.

**Contract award fee modifications not supported by corresponding documentation**

We also identified five award fee periods in which the award fee amount calculated in the award fee documentation did not match the award fee amount established in the corresponding contract modifications. The award fees for the 5 award fee periods totaled approximately $7.4 million in the contract modifications, while the documentation only supported approximately $5.3 million. We did not identify any explanation in the contract modifications for the additional $2.1 million in award fees. When questioned, the Office of Procurement explained that the award fee amounts of $7.4 million in the contract modifications were correct, and they would document and reconcile the $2.1 million in discrepancies in the award fee documentation.

**Standard score for administrative tasks not supported**

Finally, we identified that for the administrative tasks, a score of 95 was always given. The COTR explained that 95 was the standard score for these tasks and had been established prior to his or her becoming the COTR. We did not identify any documentation, nor could any be provided, establishing this score as a standard. The Office of Procurement explained that these were administrative tasks and the Integration Support Contract Program Management Office assigned the score. A score of 95 increases the overall rating, which increases the amount of award fees. Due to the complexity of the award fee calculation, we could not, with reasonable precision, associate a dollar amount with this condition. However, we believe an "Excellent" rating (scores of 90 – 100) should be documented to support the amount of award fees paid.

Because of these process and documentation issues, we could not confirm the reasonableness of award fees totaling approximately $2.4 million paid to the contractor. These award fees consisted of approximately $77,000 where we believe incorrect scores were used to calculate the award fees, approximately $202,000 where the narrative did not support the numerical award fee scores given, and approximately $2.1 million where a discrepancy existed between the award fees paid and the documentation to support those award fees.

### Recommendation

2. The Director, Procurement, should initiate an independent review of all award fee amounts associated with this contract to ensure they are accurate, supported, and reasonable, and initiate any recovery actions deemed warranted.

Management's Response: The Director, Procurement, will initiate an independent review of all award fee amounts associated with this contract and ensure they are appropriately documented. Should any discrepancies be found, appropriate action will be taken to correct them.

While IRS management agreed with our recommendation and is taking what we believe to be the appropriate corrective action, IRS management commented in their response that they did not concur, in total, with the identified benefits related to the questionable or inadequately supported award fees. IRS management further stated that they believe all award fees were appropriately awarded.

Office of Audit Comment: Until the independent review is completed, we believe the ultimate allowability and appropriateness of the award fee amounts will not be known. Therefore, we will continue to maintain our position that the benefits of $2.4 million identified during the audit represent questionable costs.

## Nondelivery of the Custodial Accounting Project

We examined contract correspondence files and interviewed the CO, COTR, and GTMs to determine whether there was an acceptable existence of deliverables for the services related to our sampled vouchers. This contract provided support services for the IRS' modernization efforts.

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 vouchers included in our tests except for the Custodial Accounting Project (CAP).[7] The CAP was cancelled in January 2005 and, therefore, it was not delivered. The IRS stated, in response to Congressional Subcommittee Questions for the Record,[8] that approximately $135 million was expended on the CAP.

The IRS, however, reported in its April 27, 2005, systems project approval request to the Office of Management and Budget that the CAP alternative will reduce costs by leveraging the CAP lessons learned and reallocating CAP assets. The TIGTA, in an independent review,[9] concluded that while there may be some residual benefit from the CAP work, a significant portion of the $135 million spent on this cancelled project will result in unrecoverable costs.

Based on an interview with the CAP GTM, the contractor underestimated the complexity of the CAP which led to delays on the project. However, the IRS acknowledged and accepted these delays.

The TIGTA in a previous audit of the CAP reported in December 2004[10] that:

- The IRS and the CAP contractor did not track system requirements.
- Testing practices did not allow the testers to determine whether system requirements were successfully tested.

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[7] The CAP, as part of the IRS' business systems modernization, was to implement a single, integrated data repository of taxpayer account information, integrated with the general ledger and accessible for management analysis and reporting.
[8] *Questions for the Record, Internal Revenue Service, The Honorable Joseph K Knollenberg, Chairman, Subcommittee on Transportation, Treasury, Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies*; Dated April 19, 2005.
[9] *Annual Assessment of the Business Systems Modernization Program* (Reference Number 2005-20-102, dated August 2005).
[10] *System Requirements Were Not Adequately Managed During the Testing of the Custodial Accounting Project* (Reference Number 2005-20-019, dated December 2004).

- The IRS approved changes to the baseline system requirements without always knowing which system requirements were affected.
- The IRS accepted initial systems testing without knowing or reviewing how many requirements were successfully verified.

Since the TIGTA previously reported on the CAP and the CAP has been cancelled, we have no further recommendations.

## 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-92-C-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 Contracting Officer and Contracting Officer's Technical Representative 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 the Request Tracking System[1] recorded transactions. First, we eliminated all transactions prior to Fiscal Year 2002 from a total universe of 378 transactions[2] to establish our initial sampling universe of 87 transactions as of October 4, 2004. We eliminated the transactions processed prior to Fiscal Year 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.

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[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.

[2] The Request Tracking System only provides information as of Fiscal Year 1998 when the system was implemented.

From this universe, we used the Automated Financial System[3] to associate the transactions to their respective contractor vouchers. This produced a universe of 31 vouchers. Because the vouchers were very voluminous, we decided to select a sample of one-third, or 10, of the vouchers. We judgmentally selected five vouchers. One was selected during our planning phase and we noted there were labor charges in prior months so we selected three vouchers from the prior months to verify that no duplicate labor charges were claimed. The fifth voucher was selected because of its high dollar value. Using the Data Analysis tool in Excel, we randomly selected five vouchers as there was nothing unique about the remaining vouchers. The 10 vouchers had processing dates from August 2002 to August 2004 and involved approximately $40 million in IRS payments. 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.

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 though 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 vouchers included in our sample through interviews and reviews of project files.

[3] The Automated Financial System was a computer-based financial accounting system used by the IRS to track appropriations and expenditures. It was replaced by the Integrated Financial System.

## 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
Debra Gregory, Senior Auditor
Terrey Haley, Senior Auditor
James Mills, Senior Auditor

**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:
    Chief, Agency-Wide Shared Services OS:A
    Director, Procurement OS:A:P

## Appendix IV

### Outcome Measures

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

<u>Type and Value of Outcome Measure:</u>

- Questioned Costs – Actual; $1,756.18 (see page 2).

<u>Methodology Used to Measure the Reported Benefit:</u>

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 10 vouchers. We selected our sample from a total population of approximately $295 million in transactions processed by the IRS for the contract. The 10 vouchers had processing dates from August 2002 to August 2004 and involved approximately $40 million in IRS payments.

Our review resulted in the identification of questionable charges of $1,756.18. Specifically, these charges consisted of $1,251.83 in unsupported travel charges, $452.93 in unreasonable travel charges, and $51.42 in inaccurate travel charges.

<u>Type and Value of Outcome Measure</u>:

- Questioned Costs – Potential; $76,938.79 (see page 5)

<u>Methodology Used to Measure the Reported Benefit</u>:

We interviewed the Contracting Officer, Contracting Officer's Technical Representative, Government Task Managers, and Fee Determining Official to identify how the award fees paid to the contractor was calculated. We also reviewed the documentation that supported the award fees paid.

Our review resulted in the identification of an instance where an average of the award fee scores was used instead of the individual actual award fee scores as prescribed in the contract award fee plan. Two of the four scores awarded would have resulted in no award fees if not first averaged with the other two scores. Our recalculation of the overall award fee score using the individual actual scores resulted in what we believe to be an overpayment of award fee of $76,938.79.

<u>Type and Value of Outcome Measure:</u>

- Questioned Costs – Potential; $201,778.83 (see page 5).

<u>Methodology Used to Measure the Reported Benefit:</u>

We interviewed the Contracting Officer, Contracting Officer's Technical Representative, Government Task Managers, and Fee Determining Official to identify how the award fees paid to the contractor was calculated. We also reviewed the documentation that supported the award fees paid.

Our review resulted in the identification of an instance where the award fee narrative did not support the scores given. For three of the evaluation factors, the narrative used words such as "unacceptable," "not timely supplied," and "unsatisfactory" with numerical scores of 75-85, placing the rating in the good range. We were informed that the original scores had been lower but were changed after the Government Task Manager was asked to reconsider. Our recalculation of the overall award fee score using an "Unsatisfactory" numerical score of 0 resulted in $201,778.83 in award fees that may have been inappropriately paid to the contractor.

<u>Type and Value of Outcome Measure:</u>

- Questioned Costs – Potential; $2,115,887.82 (see page 5).

<u>Methodology Used to Measure the Reported Benefit:</u>

We reviewed the documentation associated with the award fees and the related modifications.

Our review resulted in the identification of five award fee periods where the award fee amount calculated in the award fee documentation did not match the award fee amount established in the corresponding contract modifications. The award fees for the 5 award fee periods totaled $7,428,065.82 in the contract modifications, while the documentation only supported $5,312,178.00. We did not identify any explanation in the contract modifications for the additional $2,115,887.82 in award fees.

**Appendix V**

## Management's Response to the Draft Report

AGENCY-WIDE
SHARED SERVICES

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

RECEIVED
SEP 09 2005

September 1, 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 Integration Support Contract – TIRNO-92-C-00014

We appreciate the opportunity to respond to the subject draft audit report. The report provides your assessment of whether the vouchers submitted by the contractor and paid by the IRS were accurate, supported, and allowable. The objective of your audit was to determine whether selected vouchers submitted and paid under contract number TIRNO-92-C-00014 were appropriate and in accordance with the contract terms and conditions.

The audit focused on a sample of 10 vouchers selected using a combination random and judgmental sampling methods. Based on the audit samplings, the audit team identified questionable charges in the amount of $1,756.18 out of the $40 million of invoiced payments reviewed. All of these questioned charges related to travel expenses, the majority of which no receipts had been provided to support lodging expenses.

We approached the contractor about these unsupported travel related expenses and he has agreed to reimburse the Government $1,756.18.

In several places you stated a recommendation for the Director, Procurement, to "initiate an independent review of all **award amounts** associated with this contract…" (Emphasis added.) We believe that the area of concern in the report was "award fee amounts" and confirmed with your staff that they intended to address "award fee amounts" where they stated "award amounts." As such, the audit team also questioned $2,394,605.44 in award fee payments for potential recovery. We do not concur, in total, with these identified benefits. The report focuses on scoring calculations and adequacy of supporting documentation relative to the award fee payments. It is our belief that all award fees paid under this contract were appropriately awarded. However, I will initiate an independent review of all award fee amounts associated with this contract and ensure they are appropriately documented. Should any discrepancies be found, appropriate action will be taken to correct them.

If you have any 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
Management Controls Coordinator OS: A: F

**ATTACHMENT**

**RECOMMENDATION 1:**
The Director, Office of Procurement, should ensure the appropriate CO reviews the identified questionable charges of $1,756.18 and initiates any recovery actions deemed warranted.

**CORRECTIVE ACTION:**
The contractor has agreed to reimburse the IRS for travel costs in the amount of $1,756.18.

**IMPLEMENTATION DATE:**
Completed August 24, 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)

**RECOMMENDATION 2:**
The Director, Office of Procurement, should initiate an independent review of all award (fee) amounts associated with this contract to ensure they are accurate, supported, and reasonable, and initiate any recovery actions deemed warranted.

**CORRECTIVE ACTION:**
The Director, Procurement, will initiate an independent review of all award fee amounts associated with this contract and ensure they are appropriately documented. Should any discrepancies be found, appropriate action will be taken to correct them.

**IMPLEMENTATION DATE:**
March 15, 2006

**RESPONSIBLE OFFICIAL:**
Director, Procurement OS:A:P

**CORRECTIVE ACTION MONITORING PLAN:**
The independent review team will provide status to the Director, Procurement, on a monthly basis until the independent review is completed.