

**Report on Follow-Up Audit of Labor
Accounting System**

February 2005

Reference Number: 2005-1C-031

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 16, 2005

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

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

SUBJECT: Report on Follow-Up Audit of Labor Accounting System
(Audit #20051C0204)

The Defense Contract Audit Agency (DCAA) examined the contractor's labor accounting system corrective actions as of March 24, 2004, to assure that its system of labor controls is adequate to provide labor costs that are reasonable, compliant with applicable laws, regulations, and contract terms, and subject to applicable financial control systems. The audit was also used to evaluate the contractor's compliance with the system's internal control requirements.

The DCAA opined that the contractor's labor accounting system and related internal control policies and procedures remain inadequate in part. The follow-up examination determined that the corrective action for one of the prior reported conditions was adequate while the corrective action of the second prior reported condition was inadequate.

The DCAA indicated that the contractor has changed its policies and procedures to require adjustments for reclassified labor when it becomes aware that adjustments are necessary. According to the DCAA, this corrective action is adequate to resolve the prior reported condition. However, the contractor has not established specific employee awareness training for managers. As a result, the prior reported condition remains unresolved.

The DCAA examined only the labor accounting system. Accordingly, the DCAA expresses no opinion on the contractor's system of internal controls taken as a whole.

This DCAA report was issued in March 2004; however, the Treasury Inspector General for Tax Administration (TIGTA) did not receive the report until January 2005. The Internal Revenue Service (IRS) previously received a copy of the report directly from the DCAA. We are transmitting this report to you to enable the IRS to track any financial accomplishments derived from negotiations with the contractor based on the results of this DCAA report.

The information in this report should not be used for purposes other than those intended without prior consultation with the TIGTA regarding their applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director, at (202) 927-7077.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 U.S.C. § 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

The TIGTA seal was removed due to its size.