

**Forward Pricing Indirect Rate Review for
Fiscal Year 2003**

March 2005

Reference Number: 2005-1C-043

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

March 29, 2005

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

Daniel R. Devlin

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

SUBJECT: Forward Pricing Indirect Rate Review for Fiscal Year 2003
(Audit #20051C0208)

The Defense Contract Audit Agency (DCAA) examined the contractor's Fiscal Year (FY) 2003 forward pricing proposal dated May 3, 2002. The purpose of the examination was to determine whether the proposed forward pricing indirect rates and costs are acceptable as a basis to negotiate fair and reasonable contract prices.

The DCAA opined that the contractor's original cost or pricing data are inadequate. The original proposal was not prepared in all respects in accordance with applicable Cost Accounting Standards (CAS) and appropriate provisions of the Federal Acquisition Regulation. The DCAA identified questioned costs that significantly changed both the General Overhead and General and Administrative rates. During the examination, the DCAA discussed its position with the contractor, and the contractor concurred with the DCAA's position for FY 2003. In the DCAA's opinion, the final revised cost or pricing data submitted by the offeror in the revised forward pricing budget proposal are adequate because the contractor corrected the areas of CAS noncompliance.

However, the contractor did not agree to revise its indirect rates for FYs 2004 and forward. Rather, the contractor verbally advised the DCAA that it would propose accounting changes effective with FY 2004 and prepare a revised budget. The DCAA has not yet received the revised Disclosure Statements with official notification of any accounting changes. Due to uncertainties associated with the out-years (FYs 2004 – 2006), the DCAA had no basis upon which to evaluate the Civil Group's forward pricing indirect rates beyond FY 2003. Accordingly, the examination was limited to an evaluation of the indirect rates for FY 2003.

The DCAA also stated the contractor is in the process of planning an internal reorganization that will be effective at the beginning of the contractor's FY 2004. However, the contractor has not provided a proposal that identifies the potential impact of the planned reorganization on the proposed forward pricing rates.

This DCAA report was issued in January 2003; however, the Treasury Inspector General for Tax Administration (TIGTA) did not receive copy of the report until February 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.