

**Comprehensive Labor Audit for
Fiscal Year 2004**

March 2005

Reference Number: 2005-1C-044

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: Comprehensive Labor Audit for Fiscal Year 2004
(Audit #20051C0209)

The Defense Contract Audit Agency (DCAA) examined the Civil Division's labor cost charging and allocation system to evaluate the adequacy of and the contractor's compliance with the system's internal controls for recording and accumulating labor charges.

The DCAA considers the contractor's labor recording system to be inadequate in part. The DCAA examination of the Civil Division's labor and billing practices for Time and Material subcontractors noted a significant deficiency. According to the DCAA, the contractor's practice does not include a reconciliation of the subcontractor's official labor hour records to the amounts recorded in the contractor's internal system of recording subcontractor labor hours (the Subcontractor Information Management System (SIMS)) until the end of the contract. According to the DCAA, externally generated documents prepared by the subcontractor, not the contractor's internally generated document from the SIMS, are the official source for recorded subcontract costs. Additionally, the DCAA opined that the contractor's current practice of waiting until contract completion to perform this reconciliation significantly reduces the ability of the contractor, the subcontractor, and the Federal Government to evaluate any discrepancies in the recorded subcontract hours. This could result in significant overpayments of labor costs.

Specifically, the DCAA indicated the following deficiencies: subcontractor official labor records are not reconciled to the contractor's internal SIMS; the Time and Expense

Schedule is not completed daily; employee location rosters are not current; and employees are not obtaining a telework agreement prior to working at home.

The DCAA took no exception to the contractor's using the SIMS for interim billing of subcontract labor costs. However, the DCAA believes the contractor should (1) require the subcontractors to periodically submit interim invoices in accordance with Federal Acquisition Regulation 4-705 and the Civil Division's Subcontract Agreements, (2) periodically reconcile these interim invoices to the hours recorded in the contractor's SIMS during the course of contract performance, and (3) adjust billings accordingly. All contractor employees should adhere to the established Timekeeping and Reporting Handbook and record their hours worked on a daily basis, and the contractor should maintain updated employee location information and properly inform all its employees of the policy and procedures for performing work at home. Also, the contractor should document its training to ensure all employees are familiar with its policies and procedures, have attended the training on this subject, and adhere to established policies and procedures.

This DCAA report was issued on June 2, 2004; 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.