

**Incurring Costs Audit for
Fiscal Year Ended March 31, 2003**

June 2005

Reference Number: 2005-1C-060

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

June 28, 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: Incurred Costs Audit for Fiscal Year Ended March 31, 2003
(Audit #20051C0217)

The Defense Contract Audit Agency (DCAA) examined the contractor's December 12, 2003, certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year (FY) 2003 incurred costs. The purpose of the examination was to determine the allowability of direct and indirect costs and to establish audit determined indirect cost rates for April 1, 2002, through March 31, 2003. The proposed rates apply primarily to flexibly priced contracts.

The DCAA questioned \$30,569,509 of the contractor's claimed overhead and general and administrative (G&A) expenses. The contractor has agreed to all questioned costs except for \$22,898,694 of questioned executive compensation and \$823,699 of questioned overhead effect on the G&A. Also, the DCAA questioned \$4,695,924 in claimed pension cost. According to the DCAA, this questioned cost is the result of their reconciliation of the claimed pension costs to the contractor's pension policies and procedures.

The DCAA opined that the contractor's indirect rates are not acceptable as proposed. However, claimed direct costs, except for the qualifications discussed above, are acceptable and provisionally approved pending final acceptance. The DCAA indicated the questioned indirect costs are subject to the penalties provided in Federal Acquisition Regulation 42.709.

The DCAA classified the subcontract costs for FY 2003 as unresolved, pending receipt of requested assist audits. Also, the contractor's home office has been cited for a noncompliance with Cost Accounting Standard 405 for failing to identify and exclude expressly unallowable costs from its incurred cost submission. Therefore, the audit results are qualified to the extent that a final determination on this noncompliance may lead to additional questioned costs.

The information in this report should not be used for purposes other than those intended without prior consultation with the Treasury Inspector General for Tax Administration 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.

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