



*Report on Labor Cost Charging and
Allocation*

September 2005

Reference Number: 2005-1C-113

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.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 9, 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 Labor Cost Charging and Allocation
(Audit # 20051C0223)

The Defense Contract Audit Agency (DCAA) performed physical observations (floor checks) to determine whether employees were actually at work, they were performing in their assigned job classifications, and their time was charged to the appropriate jobs. The floor checks also included determining whether the contractor consistently complies with established timekeeping system policies and procedures for recording labor charges. The floor checks were conducted during August 2004, with follow-up interviews conducted in November 2004 for August 2004 time charges.

Synopsis

The DCAA believes certain contractor labor practices require corrective action to improve the reliability of the contractor's labor accounting system. The DCAA examination noted a deficiency that is consistent with the deficiency in the labor system review in Fiscal Year 2002 and in the follow-up review performed in Fiscal Year 2004. The DCAA stated this deficiency continues to support the DCAA's opinion of inadequate in part for the contractor's labor system. The DCAA also stated that, although the contractor has implemented changes that would improve the system, the same deficiency is recurring. The DCAA indicated management needs to respond with a serious plan to change the attitudes on indirect labor charging for direct employees. There seems to be a perceived emphasis for employees to charge direct time. According to the DCAA, this deficiency could adversely affect the organization's ability to



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record, process, summarize, and report incurred labor costs consistent with applicable Federal Government contract laws and regulations.

This DCAA report is limited to the cited deficiency. Accordingly, the DCAA expresses no opinion on the adequacy of the contractor's labor accounting system taken as a whole.

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.

