



*Report on Audit of Forward Pricing Indirect
Rates and Facility Capital Cost of Money
Factors for Fiscal Years 2005, 2006, and
2007*

September 2005

Reference Number: 2005-1C-117

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 15, 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 Audit of Forward Pricing Indirect Rates and Facility Capital
Cost of Money Factors for Fiscal Years 2005, 2006, and 2007
(Audit # 20051C0227)

The Defense Contract Audit Agency (DCAA) examined the contractor's January 10, 2005, proposal for indirect forward pricing rates for Fiscal Years 2005 through 2007 and facility capital cost of money factors for Fiscal Year 2005 to determine if the proposed forward pricing rates and factors are reasonable.

The DCAA made adjustments to the contractor's indirect General and Administrative and Material Handling expense rate forecast for the excess of the rates proposed over the rates calculated by the application of regression analysis. The DCAA also made adjustments to the contractor's overhead rate corporate assessments assumptions. Additionally, the DCAA adjusted the contractor's proposed facility capital cost of money factors for the most recent Department of the Treasury rates.

The DCAA indicated that the contractor converted to a PeopleSoft®-based accounting system in January 2004. The DCAA is not aware of any inadequacies concerning this new system's accumulating, reporting, and billing of costs on Federal Government contracts. The DCAA considers the contractor's planning and budgeting system to be generally adequate for development of forward pricing rate proposals.



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The DCAA opined that the contractor has submitted adequate cost or pricing data. The proposal was prepared in all respects in accordance with applicable Cost Accounting Standards and appropriate provisions of Federal Government regulations. The DCAA believes the proposal is an acceptable basis for negotiation of fair and reasonable indirect forward pricing rates and facility capital cost of money factors, as adjusted by its recommendations.

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.

