

**Report on Compliance With Requirements
Applicable to Major Programs and on Internal
Control Over Compliance in Accordance With the
Office of Management and Budget Circular A-133,
Fiscal Year 2002, TIRNO-99-D-0005**

July 2003

Reference Number: 2003-1C-150

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

July 25, 2003

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 Compliance With Requirements Applicable to Major
Programs and on Internal Control Over Compliance in
Accordance With the Office of Management and Budget Circular
A-133, Fiscal Year 2002, TIRNO-99-D-0005
(Audit # 200310002.039)

The Defense Contract Audit Agency (DCAA) audited the contractor's compliance with requirements described in the Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major Federal Government programs. The DCAA also audited the contractor's January 8, 2003, certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year 2002 incurred costs. The purpose of the audit was to determine the allowability and allocability of direct and indirect costs and form the basis for negotiated indirect cost rates for the period ended October 6, 2002.

The DCAA questioned \$30,202 of overhead and General and Administrative (G&A) costs. The Internal Revenue Service's (IRS) portion of the questioned costs is \$1,069. In addition, the DCAA reallocated \$217,014 of corporate G&A expenses to the sponsors. This resulted in an increased allocation to the IRS of \$176,554.

The DCAA noted that audit of direct costs disclosed no exceptions at this time. Claimed direct costs are provisionally approved pending final acceptance.

In addition, the DCAA stated that another Federal Government audit organization has audit responsibility for the direct costs claimed on programs identified as Special Projects in the contractor's "Supplemental Schedule of Expenditures of Federal

Awards.” The DCAA contacted this organization and discussed the requirements of OMB Circular A-133. However, the DCAA did not have access to the organization’s work papers. Therefore, the DCAA was unable to perform the procedures necessary for relying upon the work performed by others. The DCAA was unable to satisfy itself as to the contractor’s compliance with the A-133 requirements or the allowability of the direct costs. Therefore, the DCAA qualified the results of this audit accordingly.

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

