

**Report on Audit of Direct and Indirect Costs
for Contractor's Fiscal Year 2003 –
Company 1**

March 2005

Reference Number: 2005-1C-047

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: Report on Audit of Direct and Indirect Costs for Contractor's
Fiscal Year 2003 – Company 1 (Audit #20051C0212)

The Defense Contract Audit Agency (DCAA) examined the contractor's certified final indirect cost rate proposal and related books and records for the reimbursement of Fiscal Year 2003 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs and to recommend Contracting Officer-determined indirect cost rates for the period February 1, 2002, through January 31, 2003. The proposed rates apply primarily to the contractor's flexibly priced contracts.

The DCAA examination of the proposal disclosed questioned costs in various indirect pools. According to the DCAA, the unallowable amount is subject to the level one penalty in accordance with the provisions of Federal Acquisition Regulation 42.709. Additionally, the DCAA identified questioned fringe costs applicable to direct labor.

The DCAA qualified its audit report because the results of the assist audits for the subcontract costs had not been received. The audit may disclose questioned costs.

The DCAA opined that the contractor's proposed indirect rates, except for the qualification above, are not acceptable. Also, claimed direct costs, subject to the qualification, are not acceptable. However, direct costs not questioned are provisionally approved pending final acceptance.

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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