

TIRNO-00-D-00024
Supplemental Report on Audit of
Contractor's Fiscal Year 2000 Incurred Costs

March 2005

Reference Number: 2005-1C-057

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: TIRNO-00-D-00024 Supplemental Report on Audit of
Contractor's Fiscal Year 2000 Incurred Costs
(Audit #20051C0214)

The Defense Contract Audit Agency (DCAA) examined the contractor's June 27, 2001, certified final indirect cost rate proposal and related books and records for the reimbursement of the contractor's Fiscal Year 2000 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 January 1, 2000, through December 29, 2000. The proposed rates apply primarily to flexibly priced contracts.

The DCAA stated this supplemental report replaces its initial report in its entirety and incorporates the results of three assist audits. This report specifically addresses the unsupported/questioned costs reported previously.

The DCAA stated the contractor's indirect rates are not acceptable as proposed. However, claimed direct costs are acceptable and provisionally approved pending final acceptance. The DCAA also stated the proposed Cost of Money Factors is not acceptable as proposed. Additionally, the DCAA believes the questioned indirect costs are subject to the penalties provided in Federal Acquisition Regulation 42.709.

The DCAA opined that the contractor is not in compliance with Cost Accounting Standard (CAS) 410, Allocation of Business Unit General and Administrative expenses, and CAS 420, Accounting for Independent Research and Development and Bid and Proposal costs. The DCAA qualified its audit report pending resolution of these

potential CAS violations. Also, the results of all assist audits for the subcontractor costs have not been received.

The DCAA recommends it be given the opportunity to review any additional supporting data provided by the contractor to substantiate the questioned costs and be invited to attend the negotiation conference.

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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