



*Report on the Audit of Adequacy and
Compliance of Disclosure Statement
Revision 15, Effective January 1, 2005*

September 2005

Reference Number: 2005-1C-176

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 29, 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 the Audit of Adequacy and Compliance of Disclosure
Statement Revision 15, Effective January 1, 2005
(Audit # 20051C0242)

The Defense Contract Audit Agency (DCAA) examined the contractor's revised disclosure statement revision 15, effective January 1, 2005, to determine whether the revision adequately describes the cost accounting practices the contractor proposes to use in performing Federal Government contracts and whether the revised practices comply with applicable Cost Accounting Standards and Federal Acquisition Regulation¹ Part 31. The DCAA also evaluated the consistency of the revised cost accounting practices with actual practices.

According to the DCAA, the subject revision adequately describes the contractor's revised cost accounting practices. However, during the examination, the DCAA identified certain of the contractor's disclosed practices that the DCAA believes are in noncompliance with Cost Accounting Standard 409, Depreciation of Tangible Capital Assets. The areas of noncompliance cited in the report are:

- No policies and procedures for determining residual value.
- No useful life study and physical inventory on tangible capital assets.

¹ 48 C.F.R. pt 1-53 (2002).



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- Failure to credit gains for disposition of tangible capital assets to appropriate expense pool.

The DCAA stated the contractor recently submitted a proposal to the Contracting Officer claiming that the noncompliances cited by the DCAA have no significant impact to the Federal Government. The DCAA is currently assessing this claim separately from this report.

The DCAA considers the contractor's accounting system to be generally acceptable for accumulating, reporting, and billing costs on Federal Government contracts.

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.

