



*Invoice Audit of the Financial
Statement/Government Accountability
Office Audit Support Services
Contract - TIRNO-00-D-00022*

June 22, 2009

Reference Number 2009-10-088

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

July 22, 2009

MEMORANDUM FOR ACTING CHIEF, AGENCY-WIDE SHARED SERVICES

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Invoice Audit of the Financial
Statement/Government Accountability Office Audit Support Services
Contract TIRNO-00-D-00022 (Audit # 200910022)

This report presents the results of our invoice review of Financial Statement/Government Accountability Office Audit Support Services Contract TIRNO-00-D-00022. The overall objective of this review was to examine the investigative file for contract TIRNO-00-D-00022 and report any questionable charges identified during the investigation to the Internal Revenue Service (IRS). We initiated this audit at the request of the Treasury Inspector General for Tax Administration (TIGTA) Office of Investigations to determine whether the vouchers submitted by the contractor and paid by the IRS were accurate, supported, and allowable. This review was part of the TIGTA Fiscal Year 2006 Annual Audit Plan risk-based coverage under the major management challenge of Erroneous and Improper Payments. The audit was suspended from 2006 through early 2009 to allow the TIGTA Office of Investigations time to complete its investigation.

Impact on the Taxpayer

Contract expenditures represent a significant outlay of IRS funds. The TIGTA has made a commitment to perform audits of these expenditures. To the extent our reviews assist the IRS in identifying and recovering inaccurate, unsupported, and unallowable charges, contract expenditures are reduced and taxpayer funds are not spent inappropriately.



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Synopsis

Our review identified questionable charges totaling \$781,539.32 of the approximately \$1.24 million audited. The questionable charges consisted of unsupported employee direct labor costs, subcontractor direct labor costs, or subcontractor travel costs. We provided details of these charges to the TIGTA Office of Investigations as part of its review of ITS Services, Inc. We have also provided the details of these charges to the IRS Office of Procurement.

We reviewed the investigative file and the supporting documentation of the contractor's records obtained by a subpoena issued by the TIGTA Office of Investigations. The IRS paid the contractor a total of \$5,249,111.36 for 150 invoices submitted between March 2001 and July 2006. The primary expenses claimed by the contractor consisted of labor costs and travel costs. We selected a random sample of 18 invoices totaling \$1,237,480.37 (24 percent) of the total expenses represented by the invoices.

The Federal Acquisition Regulation¹ stipulates that a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred and that costs shall be allowed to the extent they are reasonable, allocable, and allowable.² Both the employee and subcontractor direct labor charges were considered questionable because the subpoenaed records did not provide the necessary documentation to support that the charges were accurate and allocable to the contract (no employee/subcontractor time cards/reports).

The Federal Travel Regulation³ requires that airline, lodging, and car rental receipts be provided and that reimbursement be based on the actual cost not to exceed the per diem rate or other required cost limitation policies. The travel charges were considered questionable because there were 1) no receipts provided to support such items as airfare, lodging, mileage, and car rental charges and 2) instances of the contractor exceeding the standard rate allowable for per diem.

We believe the identification of a significant amount of unsupported labor charges, which represented the majority of our questioned costs, was directly related to the IRS' incomplete invoice verification process.

Recommendation

We recommended the Director, Procurement, ensure that the responsible Contracting Officer reviews the identified questionable charges of \$781,539.32 and initiates any recovery actions deemed warranted.

¹ 48 C.F.R. pt. 1-53 (2002).

² For definitions of these terms, see page 3 of the report.

³ 41 C.F.R. Chapter 301 (2005).



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Response

IRS management agreed with our recommendation. The Contracting Officer is working with the contractor to obtain any additional documentation. The Contracting Officer will review any additional supporting documentation provided, determine the amount of any recoverable costs, and initiate the appropriate action to recover those costs. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendation. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.



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Abbreviations

COTR	Contracting Officer's Technical Representative
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



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Background

In June 2000, the Internal Revenue Service (IRS) awarded contract number TIRNO-00-D-00022, a cost-plus-fixed-fee contract to assist the IRS in complying with the Chief Financial Officers Act.¹ The contractor provided professional financial and accounting services to assist the IRS in preparing its annual financial statements and in the resolution of material weaknesses and other issues identified in audits of those financial statements. The contract was awarded for a base period from July 7, 2000, through May 31, 2001. The contract included options that extended the term of the contract through May 31, 2005.

The Federal Acquisition Regulation² stipulates that a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred. The Federal Travel Regulation³ requires that airline, lodging, and car rental receipts be provided and that reimbursement be based on the actual cost not to exceed the per diem rate or other required cost limitation policies.

This audit was performed at the Office of Procurement in the Office of Agency-Wide Shared Services in Oxon Hill, Maryland, during Fiscal Year 2006. Audit work was suspended that same year to allow the Treasury Inspector General for Tax Administration (TIGTA) Office of Investigations staff to complete their review. Audit work was resumed in January 2009 and concluded in March 2009. The audit team reviewed the contractor's subpoenaed records for the period July 2003 through September 2005 maintained by the TIGTA Office of Investigations in Washington, D.C. Opinions expressed in this report pertain only to invoices included in our sample. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ The Chief Financial Officers Act of 1990 (Pub. L. No. 101-576, 104 Stat. 2838 [codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 42 U.S.C.]) requires Federal agencies to develop auditable financial statements and to present these statements in an annual financial report. The Government Accountability Office audits the IRS' financial statements each fiscal year. These financial statements report the assets, liabilities, net position, net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activity related to the IRS' administration of its responsibilities for implementing Federal tax legislation.

² 48 C.F.R. pt. 1-53 (2002).

³ 41 C.F.R. Chapter 301 (2005).



Results of Review

Questionable Contract Charges of \$781,539.32 Were Identified

According to the IRS' Request Tracking System,⁴ the IRS awarded \$5,344,152.53 for this contract as of September 11, 2006. A total of \$5,249,111.36 was paid by the IRS to the contractor for 150 invoices submitted between March 2001 and July 2006. The primary expenses claimed by the contractor consisted of labor costs and travel costs. Of the 150 invoices, we selected a random sample of 18 (12 percent) totaling \$1,237,480.37 (24 percent of the total paid contract expenses).

We reviewed the TIGTA Office of Investigations' investigative file and also reviewed the supporting documentation of the contractor's records, obtained as a result of a subpoena issued by the Office of Investigations. Our examination of the documents provided by the contractor determined that there were questionable contract charges totaling \$781,539.32 (see Figure 1) of the approximately \$1.24 million audited relating to those 18 invoices. All of the questionable charges consisted of unsupported employee direct⁵ labor costs, subcontractor direct labor costs, or subcontractor travel costs.

We provided details of these charges to the TIGTA Office of Investigations in October 2007 as part of its ongoing investigation of the contractor, ITS Services, Inc. We also provided the results of this review to the IRS Office of Procurement in February 2009.

Figure 1: Schedule of Questionable Charges

	Employee Direct Labor	Subcontractor Direct Labor	Subcontractor Travel	Total
<i>Direct Costs</i>	\$331,850.04	\$173,576.81	\$ 9,243.74	\$514,670.59
<i>Indirect Costs</i>	\$243,652.08	\$ 22,186.38	\$ 1,030.27	\$266,868.73
Total	\$575,502.12	\$195,763.19	\$10,274.01	\$781,539.32

Source: TIGTA analysis of 18 sample invoices submitted to the IRS.

⁴ The Request Tracking System is a web-based application that allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The System also allows for electronic receipt and acceptance of items delivered and provides an interface with the Integrated Financial System (the IRS financial accounting system) for payment processing.

⁵ The amount of labor actually charged absent of indirect labor charges.



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The Federal Acquisition Regulation stipulates that a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred and that costs shall be allowed to the extent they are reasonable,⁶ allocable,⁷ and allowable.⁸ It further states, “The contractor shall substantiate vouchers by evidence of actual payment and by individual daily job timecards, or other substantiation approved by the Contracting Officer.”⁹

Prior to April 28, 2004, the Department of the Treasury *Contracting Officer’s Technical Representatives (COTR) Handbook* was the primary guidance for the COTRs.¹⁰ Part IV of the *Handbook* stated that the COTRs are responsible for reviewing and approving invoices and vouchers on contracts. It also stated that the COTRs will receive instructions regarding involvement in the review and approval of invoices and vouchers from the Contracting Officer. Attachment E of the *Handbook* also offered, as a sample responsibility for time-and-materials contracts, that the COTRs are responsible for reviewing and signing off on the invoices to attest to their accuracy. Ten of the 18 invoices we reviewed during this audit were subject to this guidance.

On April 28, 2004, the IRS replaced the *Handbook* guidance, in part, with a reference to the Office of Federal Procurement Policy document, *A Guide to Best Practices for Contract Administration* (the *Guide*), published in October 1994. The *Guide* offers, as a practical technique, that those COTRs reviewing vouchers under cost-reimbursement contracts should review, among other things, contractor timecards to help assess the reasonableness of direct labor costs. It also contains directions to review major cost categories such as travel, supplies, other direct costs, and subcontractor costs to again determine the reasonableness of the claimed costs. Although the *Guide* does not include a specific reference to labor-hour contracts, we believe it is reasonable to infer that administration requirements for cost-reimbursement contracts would also apply to labor-hour contracts.

The Federal Travel Regulation requires that airline, lodging, and car rental receipts be provided and that reimbursement be based on the actual cost not to exceed the per diem rate or other required cost limitation policies. Additionally, the Federal Travel Regulation requires that any travel expenses in excess of \$75 must be supported by a receipt when claimed on a travel voucher.

⁶ A cost is accepted as reasonable if, by its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of a competitive business.

⁷ Costs that are assignable or chargeable to one or more cost objectives on the contract.

⁸ Costs that are reasonable, allocable, conform to the standards of the Cost Accounting Board, meet with the terms of the contract, and are pursuant to any limitations specified in Federal Acquisition Regulation 31.2.

⁹ Federal Acquisition Regulation 52.232-7(a) (1), *Payments Under Time-and-Materials and Labor-Hour Contracts*.

¹⁰ Department of the Treasury Acquisition Circular No. 02-01, dated April 28, 2004, deleted references to the *COTR Handbook*. The Circular also stated the Department of the Treasury would no longer maintain the *Handbook*.



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Both the employee and subcontractor direct labor charges were considered questionable because the subpoenaed records did not provide the necessary documentation to support that the charges were accurate and allocable to the contract (no employee and/or subcontractor time cards or time reports were documented). The travel charges were considered questionable because there were 1) no receipts provided to support such items as airfare, lodging, mileage, and car rental charges and 2) instances of the contractor exceeding the standard rate allowable for per diem.

We believe the identification of a significant amount of unsupported labor charges, which represented the majority of our questioned costs, was directly related to the incomplete invoice verification process described above. We conclude that if the IRS was periodically or routinely requiring the contractor to provide such documentation when the invoices were submitted, the contractor would have been more likely to comply. In 2007, the IRS strengthened its invoice verification procedures. These new procedures, if used consistently by contracting officers and their technical representatives, should minimize or prevent the payment of unsupported, unallowable, and inaccurate charges which will reduce contract expenditures and ensure taxpayer funds are not spent inappropriately.

Recommendation

Recommendation 1: The Director, Procurement, should ensure that the responsible Contracting Officer reviews the identified questionable charges of \$781,539.32 and initiates any recovery actions deemed warranted.

Management's Response: The Contracting Officer is working closely with the contractor to obtain additional documentation. Upon receipt of the supporting documentation, the Contracting Officer will conduct a thorough analysis, determine the amount of any recoverable costs, and initiate the appropriate action to recover those costs.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to review the TIGTA Office of Investigations' investigative file for contract TIRNO-00-D-00022 and report the questionable charges identified during the investigation to the IRS. To accomplish this objective, we:

- I. Reviewed the investigative file (which included the records/documents subpoenaed from the contractor) for:
 - A. A listing of all approved invoices and corresponding task orders (if applicable) from the IRS Request Tracking System.¹ Establishment of this list was the first step in our overall invoice analysis process as it identified the universe of invoices for audit sampling.
 - B. Using these files, we developed a plan for outlining the method to select a sample of invoices for review, e.g., high ten, unusual items, random sample.
 - C. The actual amount paid to the contractor, the actual invoices and all supporting documentation from the contractor, and the analysis conducted to:
 1. Verify the mathematical accuracy of each invoice and any supporting documentation.
 2. Trace all invoice charges to supporting documentation.
 - a. Support for labor charges should include documentation for such things as substantiation for labor category, labor rate, and hours recorded. We were alert to the extent of the use of "Key Personnel" as stipulated in the contract.
 - b. Support for travel charges should include approved travel authorizations and invoices (using appropriate per diem rates if applicable) and original documentation to support such expenses as transportation, hotel, and other expenses meeting the threshold for such documentation.
 - c. Support for charges other than labor and travel should include approved invoices for payment or some other documentation that would evidence the actual acquisition of the items being charged. We paid particular attention to

¹ The Request Tracking System is a web-based application that allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The System also allows for electronic receipt and acceptance of items delivered and provides an interface with the Integrated Financial System (the IRS financial accounting system) for payment processing.



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- subcontract charges. NOTE: The reasonableness of all direct charges should be considered on a negative assurance² basis.
- d. Overhead and General Administration charges should be verifiable to Defense Contract Audit Agency³ established rates for the contractor or as stipulated in the contract.
 - e. Fee charges, if award or incentive, should be based on evaluation criteria provided for in the contract, interim evaluations, and any associated documentation that supports the payment of the fee. Fee charges, if fixed, should not exceed the statutory requirements as established in Federal Acquisition Regulation 15.404-4 (C) (4) (i).
3. Verify, to the extent necessary, that all invoice charges were actually paid by the contractor through payroll records or extracts from the contractor's financial records. We paid particular attention to subcontract charges.
 4. Verify that all invoice charges are allowable under the terms and conditions of the contract (consult the Federal Acquisition Regulation if necessary).
- II. Reported identified questionable charges to the IRS.
- A. Provided the IRS with a copy of the questionable charges, requesting comments and additional documentation.
 - B. Reviewed any additional documentation provided by the IRS and made changes to questionable charges as necessary.

² Negative assurance tells the data user that nothing has come to the auditor's attention of an adverse nature or character regarding the data reviewed.

³ The Defense Contract Audit Agency, under the authority, direction, and control of the Under Secretary of Defense (Comptroller), is responsible for performing all contract audits for the Department of Defense. It also provides contract audit services to some other Federal Government agencies.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Alicia P. Mrozowski, Director
Thomas J. Brunetto, Audit Manager
Mildred Rita Woody, Audit Manager
Terrey A. Haley, Lead Auditor
Richard E. Loudon, Lead Auditor
James S. Mills, Senior Auditor
Tina M. Augustine, Auditor
Niurka M. Thomas, Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Director, Procurement OS:A:P
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Chief, Agency-Wide Shared Services OS:A
 Director, Procurement OS:A:P



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Appendix IV

Outcome Measure

This appendix presents detailed information on the measurable impact that our recommended corrective action will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

Type and Value of Outcome Measure:

- Questioned Costs – Potential; \$781,539.32 (see page 2).

Methodology Used to Measure the Reported Benefit:

We reviewed the TIGTA's Office of Investigations' investigative file and supporting contractor documentation obtained from the IRS Office of Procurement, as well as documentation received directly from the Office of Investigations via a subpoena, to verify charges for a random sample of 18 invoices. We selected our sample from a universe of 150 invoices totaling \$5,249,111.36 in transactions processed by the IRS. The 18 invoices involved totaled \$1,237,480.37 in IRS payments.

Our review resulted in the identification of questionable charges of \$781,539.32. Specifically, these charges consisted of \$771,265.31 in unsupported labor charges and \$10,274.01 in unsupported travel charges.



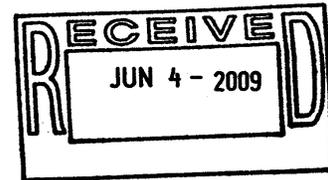
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Appendix V

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D. C. 20224



June 4, 2009

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David A. Grant 
Acting Chief, Agency-Wide Shared Services

SUBJECT: Draft Audit Report – Invoice Audit of the Financial
Statement/Government Accountability Office Audit Support
Services Contract – TIRNO-00-D-00022 (Audit No. 200910022)
(I-Trak #2009-59070)

We appreciate the opportunity to respond to the subject audit report. The audit assessed whether the invoice charges paid under the subject contract were appropriate and in accordance with its terms and conditions.

The audit focused on a judgmental sample of 18 invoices totaling approximately \$1.24 million in contractor charges and identified \$781,539.32 of those charges as questionable. All questioned charges relate to direct labor costs, subcontractor direct labor costs or subcontractor travel costs. These costs are inclusive of General and Administrative, overhead and fee.

We are taking additional steps to validate the accuracy of the \$781,539.32 in charges that you identified in your report as questionable. The Contracting Officer (CO) will work closely with the contractor to obtain additional documentation and supporting records. Once we have completed our analysis of the documentation, we will determine the amount of any recoverable costs and initiate the appropriate action to recover those costs. Our detailed response to the audit findings and recommendations is attached.

We appreciate your continued support and the valuable assistance and guidance that your team provides. If you have any questions, please contact me, or a member of your staff may contact Bobby McCane, Acting Director, Office of Information Technology, at (202) 283-1319.

Attachment

cc: Fred W. Martin, Acting Director, Procurement
Lawrence C. Pugh, Management Controls Coordinator, Strategy & Finance



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Management response to Draft Audit Report – Invoice Audit of the Financial Statement/Government Accountability Office Audit Support Services Contract – TIRNO-00-D-00022 (Audit # 200910022) (I-trak #2009-59070)

RECOMMENDATION #1: We recommend the Director, Procurement, ensure that the responsible Contracting Officer reviews the identified questionable charges of \$781,539.32 and initiates any recovery actions deemed warranted.

CORRECTIVE ACTION #1: We agree with this recommendation. The Contracting Officer (CO) is working closely with the contractor to obtain additional documentation. Upon receipt of the supporting documentation, the CO will conduct a thorough analysis, determine the amount of any recoverable costs and initiate the appropriate action to recover those costs.

IMPLEMENTATION DATE: May 01, 2010

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: The CO and COTR will monitor contractor invoices in accordance with the Federal Acquisition Regulation (FAR) and the contract terms and conditions.