



Treasury Inspector General for Tax Administration Office of Audit

THE INTERNAL REVENUE SERVICE CAN MAKE BETTER USE OF DEFENSE CONTRACT AUDIT AGENCY REPORTS

Issued on September 14, 2010

Highlights

Highlights of Report Number: 2010-10-115 to the Internal Revenue Service Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

Defense Contract Audit Agency (DCAA) audit services are intended to be a key control to help assure prices paid by the Federal Government for goods and services are fair and reasonable, and that contractors bill the Federal Government in accordance with applicable laws, cost accounting standards, and contract terms. The Internal Revenue Service (IRS) is not using the DCAA reports to implement additional controls to monitor contractor billing and/or considering deficiencies when awarding new task orders. In addition, the IRS is not ensuring that overbilled costs are repaid by the contractor. As a result, the IRS may not always have assurance that the Federal Government is paying the correct amounts for goods and services.

WHY TIGTA DID THE AUDIT

This audit was conducted as part of TIGTA's Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits. The overall objective of this review was to determine whether the IRS requested DCAA contract audit services when needed (required by law or needed to manage contracts) and whether the IRS used DCAA audit results appropriately when awarding and administering contracts.

WHAT TIGTA FOUND

The IRS is requesting DCAA contract audit services when needed and documenting determinations of fair and reasonable prices. However, the IRS can make better use of the findings included in the DCAA reports, which often identify system and/or internal control weaknesses for the contractor that increase the risk of contractor overbilling. The reports should be more widely distributed to assist contracting officers in determining whether additional monitoring of contractor invoices is necessary to ensure the Federal Government is being billed appropriately.

In addition, TIGTA identified \$355,507 in questioned costs that the IRS reported as being disallowed and the contractor should repay, but TIGTA could not find documentation showing the money was actually repaid to the IRS. This occurred because the IRS reports corrective actions as closed when the contractor agrees to repay the questionable charges and not when the money is actually received by the IRS.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Procurement, establish a policy that DCAA reports be distributed to all appropriate procurement staff emphasizing the importance of DCAA audit reports and requiring contracting officers to evaluate the deficiencies identified. The Director, Procurement, should also establish a training program to provide an understanding of the contracting officers' responsibility to use the DCAA audit results in providing proper contract administration. In addition, the Director, Procurement, should change the corrective action reporting process to ensure that all agreed-to questionable charges are repaid before the corrective action is closed and ensure that contracting officers recover the questioned costs TIGTA identified in this audit that were not repaid by the contractors.

In their response to the report, IRS officials agreed with the recommendations and plan to take appropriate corrective actions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201010115fr.pdf>.

Email Address: inquiries@tigta.treas.gov
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