



*The Internal Revenue Service
Can Make Better Use of
Defense Contract Audit Agency Reports*

September 14, 2010

Reference Number: 2010-10-115

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.



HIGHLIGHTS

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

Highlights

Final Report issued on September 14,
2010

Highlights of Reference 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. These reports 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.

The IRS agreed with the recommendations and plans to take appropriate corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

September 14, 2010

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

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

SUBJECT: Final Audit Report – The Internal Revenue Service Can Make Better Use of Defense Contract Audit Agency Reports (Audit # 201010006)

This report presents the results of our review of the Internal Revenue Service's (IRS) use of Defense Contract Audit Agency audit services. The overall objective of this review was to determine whether the IRS requested Defense Contract Audit Agency contract audit services when needed (required by law or needed to manage contracts) and whether the IRS used Defense Contract Audit Agency audit results appropriately when awarding and administering contracts. This audit was conducted as part of the Treasury Inspector General for Tax Administration's Fiscal Year 2010 Annual Audit Plan and addresses the major management challenge of Erroneous and Improper Payments and Credits.

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 recommendations. 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

DCAA	Defense Contract Audit Agency
IRS	Internal Revenue Service
JAMES	Joint Audit Management Enterprise System
TIGTA	Treasury Inspector General for Tax Administration



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Background

The Federal Acquisition Regulation¹ stipulates that the Defense Contract Audit Agency (DCAA) is normally the responsible Federal Government agency for contract audit services. Contract audits provide Federal Government procurement personnel financial information; advice on contractual matters; and opinions on the effectiveness, efficiency, and economy of the contractor's operations. DCAA contract 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,² and contract terms.

Contract audits provide financial information; advice on contractual matters; and opinions on the effectiveness, efficiency, and economy of the contractor's operations.

The DCAA performs many different types of contract audits. The four principle types are:

- Pre-negotiation audits. These audits assist contracting officers in reviewing a contractor's proposed costs before the contract is awarded. The Internal Revenue Service (IRS) requests these audits to assist cost and pricing analysts and contracting officers in determining fair and reasonable prices.
- Incurred cost³ audits. The primary objective of incurred cost audits is to examine the contractor's costs and determine whether the costs are reasonable and applicable to the contract. The IRS requests these audits before the contract is closed out to establish actual indirect cost rates and to ensure all costs paid to the contractor are appropriate.
- Contract cost and pricing data⁴ audits. These audits include determining whether the contract price was increased by a significant amount because the contractor did not submit or disclose accurate, complete, and current cost and pricing data.
- Cost accounting standard audits. The purpose of these audits is to determine whether a contractor complied with cost accounting standards and has consistently followed disclosed cost accounting practices.

¹ 48 C.F.R. ch. 1.

² Cost accounting standards are a series of accounting standards issued to achieve uniformity and consistency in measuring, assigning, and allocating costs to Federal Government contracts.

³ Incurred cost is a cost identified through the use of an accounting method in which revenue is recorded when earned and costs are recorded when made.

⁴ Cost and pricing data are all facts that can be reasonably expected to contribute to the soundness of estimates of future costs and to the validity of determinations of costs already incurred.



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The IRS uses the DCAA to perform audits of its cost-reimbursement contracts. These contracts are considered high risk because the Federal Government does not contract for performance of a specified amount of work for a predetermined price, but instead agrees to pay the contractor's reasonable cost of performance whether or not the work is completed. As a result, the Federal Government has a high risk of incurring cost overruns and there is little incentive for the contractor to control costs.

The IRS most commonly requests incurred cost audits. These audits test the allowability of invoiced costs submitted by contractors for reimbursement under the contract. In most cases, the cost being reviewed will have already been paid to the contractor during the performance of the contract under interim payment⁵ procedures. The invoices submitted during the contract often include an estimated indirect cost⁶ rate based on historical data. The Federal Acquisition Regulation requires final indirect cost rates be established before the end of each contract, which is done during the incurred cost audits. Federal agencies make cost adjustments with the contractor during contract closeout based on the final indirect cost rates. In addition, as part of the incurred cost audits, the DCAA determines whether the contractor's accounting system is adequate to ensure costs and other financial information are reliable.

The Treasury Inspector General for Tax Administration (TIGTA) has established an agreement with the DCAA to perform contract audit services for IRS contracts. The TIGTA is responsible for coordinating these services between the IRS and the DCAA. The Cost and Pricing Branch within the Office of Procurement is responsible for the DCAA program within the IRS and coordinates with the TIGTA to request the appropriate contract audits and ensure the DCAA is paid appropriately for the services provided. Specifically:

- The Cost and Pricing Branch is responsible for addressing audit recommendations that are included in the audit reports, assisting with and clarifying audit results for the contracting officer, and reviewing price negotiation memoranda to verify resolution of issues raised in audit reports.
- Contracting officers are responsible for addressing all DCAA audit recommendations, where applicable, in price negotiation memoranda with the contractors.

As of March 2010, the Office of Procurement was administering 839 contracts (including purchase agreements and interagency agreements). These 839 contracts have a value of approximately \$48 billion over the life of the contracts. Thirty-five of the 839 contracts are cost-reimbursement contracts with a value of approximately \$17 billion over the life of the contracts.

⁵ Interim payments are periodic payments made by the Federal Government to a contractor during the performance of a cost-reimbursement contract.

⁶ Indirect costs are any costs not directly identified with a single cost objective.



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This review was performed at the Office of Procurement in Oxon Hill, Maryland, during the period January through June 2010. 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.



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Results of Review

The IRS Office of Procurement 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 DCAA reports. These reports often identify system and/or internal control weaknesses for the contractor that increase the risk of the contractor overbilling the Federal Government. Because the reports are on various aspects of the contractor's financial systems and controls, the reports should be more widely distributed to other contracting officers. This would enable all contracting officers responsible for contracts and task orders for the same contractors to be aware of issues identified during DCAA audits. Contracting officers can then implement additional controls to monitor contractor billing and/or consider the deficiencies when awarding new task orders. Additional controls could prevent potential overpayment to the contractor and the loss of taxpayer funds.

Issues identified in Government Accountability Office reports⁷ regarding the DCAA have hindered the IRS in getting all the needed audits completed, especially incurred cost audits. The Office of Procurement Cost and Pricing Branch has been working closely with the DCAA stressing the importance of these audits; however, the DCAA has been unable to conduct all the necessary incurred cost audits. This has had a severe impact on the IRS' ability to close out contracts and task orders. If contracts and task orders can not be closed out within 5 years after the contract expires, the IRS loses the ability to use any funds recovered for other tax administration needs.

In addition, DCAA audit reports include costs the DCAA believes are questionable, and the TIGTA recommends that contracting officers consider recovering these costs. We found that while the IRS did work with the contractors to recover some of the questionable costs, the IRS could not provide us with documentation showing that \$355,507 of the disallowed⁸ amount was actually repaid to the IRS.

By not ensuring all appropriate contracting officers receive and follow up on DCAA reports and questioned costs are actually repaid, the IRS may not always have assurance that contractors are not overbilling the Federal Government for goods and services.

⁷ *DCAA Audits: Widespread Problems with Audit Quality Require Significant Reform* (GAO-09-468, dated September 2009) and *DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated* (GAO-08-857, dated July 2008).

⁸ A disallowed cost is a cost that the Federal Government refuses to recognize as a cost that should be paid to the contractor.



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Corrective Actions Are Not Always Taken on Deficiencies Identified in Defense Contract Audit Agency Reports

The IRS requests DCAA contract audits to assist contracting officers with awarding and administering cost-reimbursement contracts. We interviewed 16 contracting officers responsible for cost-reimbursement contracts. Eight of the 16 (50 percent) contracting officers indicated they did not regularly receive DCAA reports. As a result, the contracting officers were not aware of the contractors who may need additional monitoring of their monthly invoices. During Fiscal Years 2008 and 2009, the DCAA reported deficiencies with 18 IRS contractors or sub-contractors. These deficiencies included inadequate accounting systems, noncompliance with Federal Government regulations and standards, and inappropriate costs. If DCAA reports were more widely distributed, contracting officers could use the results of DCAA audits to ensure contractors are properly billing the IRS and future contract actions include the appropriate pricing.

DCAA audit reports are received and distributed to the contracting officer responsible for the contract by a business operations specialist in the Procurement Policy and Procedures Branch. The reports are also provided to cost and pricing analysts in procurement operations⁹ responsible for providing cost and pricing analysis services for specific Office of Procurement branches. These cost and pricing analysts review DCAA reports and use the results of the audits when preparing cost and pricing reports to assist contracting officers in determining price reasonableness.

DCAA audit reports include important information on deficiencies that may affect contractor billing that would assist contracting officers in properly monitoring their contracts. For instance, the DCAA issued a report in Fiscal Year 2009 that found deficiencies with a contractor's labor practices that required corrective actions to improve the reliability of the contractor's labor accounting system. The DCAA reported that the deficiencies increased the risk of inaccurate and improper labor charges to Federal Government contracts.

When deficiencies are identified during DCAA audits, contracting officers need to take actions on the task orders that are assigned to them, including closer monitoring of other invoices submitted by the same contractors. Each contracting officer should individually assess the deficiency and evaluate the impact of the deficiency on the task orders assigned to him or her. If the same contractor is involved in other task orders, there is a risk that the other invoices also involve overbilling. The contracting officer should work with the contracting officer's technical

⁹ The Treasury Information Processing Support Services Program Branch has a cost and pricing analyst. The Modernization Acquisitions Branch also has a cost and pricing analyst.



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representatives¹⁰ in the business units to establish additional monitoring and verification of all the applicable task order invoices to ensure all costs are appropriate.

The Office of Procurement has taken some actions when the DCAA has found deficiencies. For instance, the DCAA found that a contractor's accounting system is inadequate and suggested that the IRS withhold 10 percent from the contractor's invoices until the accounting system issues have been resolved. The IRS is complying with this recommendation for all contracts and/or task orders that this contractor has with the IRS. However, the IRS does not have the same assurances for other contractors because DCAA reports are not being shared with all applicable contracting officers.

While the IRS has established an internal control by having the DCAA perform contract audits, the IRS did not always effectively use this internal control by strengthening the controls on all applicable contracts when deficiencies were identified by the DCAA. Without strengthening this internal control, the IRS runs the risk of overpaying contractors and wasting taxpayer funds after being advised that the contractors have system and/or internal control weaknesses that affect billing. If the contractors have other contracts and/or task orders with the IRS, the IRS should ensure all of the contractors' invoices are verified and corrected to ensure the Federal Government is paying the appropriate amount for goods and services received.

Recommendations

Recommendation 1: The Director, Procurement, should establish a policy that DCAA reports be distributed to all appropriate procurement staff, including all contracting officers responsible for contracts and task orders for a contractor audited by the DCAA. This policy should emphasize the importance of DCAA audit reports and should add a requirement that contracting officers evaluate DCAA audit reports to determine whether additional controls need to be implemented to monitor contract costs and ensure the IRS pays the correct amount of costs.

Management's Response: The IRS agreed with this recommendation and will revise procurement policy and procedure memorandum 15.4(A) to include a requirement for the cost and price analyst to distribute the audit report to procurement staff and contracting officers, when appropriate, to evaluate applicable audit reports to determine whether additional controls need to be implemented to monitor costs on contracts and task orders. In addition, DCAA audit reports will be posted on an IRS Procurement SharePoint site making them available to all appropriate procurement staff.

¹⁰ A contracting officer's technical representative is the principal program representative assigned to Federal Government procurements and is responsible for providing technical direction, monitoring contract performance, and ensuring that the Federal Government pays only for the services, materials, and travel authorized and delivered under the contract.



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Recommendation 2: The Director, Procurement, should establish a training program for contracting officers and contracting officer's technical representatives to provide an understanding of the impact of DCAA audit results and their responsibility to use the results of DCAA audits in providing proper contract administration.

Management's Response: The IRS agreed with this recommendation and will develop and conduct training outreach sessions for contracting officers. This training will be mandatory for contracting officers and contracting officer's technical representatives employed in the Office of Procurement who are assigned to cost reimbursement contracts or task orders. Contracting officer's technical representatives employed in other business units will be encouraged to attend the training sessions or review the training materials.

Corrective Actions Were Closed Before Ensuring Questionable Charges Were Recovered

In 14 audit reports issued in Fiscal Years 2005 through 2009, the DCAA questioned approximately \$35.6 million of contractor payments. As of June 2010, the IRS reported that approximately \$1 million of this amount was disallowed, approximately \$2 million of this amount was resolved (not disallowed), and a decision has not been made on the remaining questioned costs.

When questioned costs are identified in a DCAA report, the TIGTA reports the amount questioned in the Department of the Treasury Joint Audit Management Enterprise System (JAMES)¹¹ in order to track the corrective actions taken by the IRS. The Cost and Pricing Branch works with the appropriate contracting officer to determine whether the cost should be disallowed and, if so, to ensure that the contractor repays the costs.

Once a decision has been made, the Office of Procurement reports on the JAMES the action it is taking regarding the questionable charges. For Fiscal Years 2005 through 2009, the IRS reported on the JAMES that it disallowed \$966,423 of the questionable charges reported in DCAA audit reports. Contracting officers provided us with documentation to show that \$610,916 was actually repaid to the IRS. However, contracting officers could not provide us with documentation to support that the contractor repaid the IRS the remaining \$355,507 (37 percent) of these costs. For \$245,116 of the \$355,507, the cost and pricing analyst responsible for the contract believed that the money was repaid by the contractor. However, the analyst could not find documentation to support the recovery of the money and realized the contractor had not repaid the questionable charges as of June 2010.

¹¹ The JAMES is a Department of the Treasury system used to track and report audit recommendations.



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Discussions with a cost and pricing analyst indicated that corrective actions were closed on the JAMES when the contractor agreed to repay the questionable charges and not when the questionable charges are actually received by the IRS. The Office of Procurement closes corrective actions before the money is recovered because some of the questionable charges will not be repaid to the IRS until the contract or task order is completed and closed. This could take years and, therefore, the action on the JAMES would remain outstanding throughout that time. However, this practice allowed the situations we identified to occur without the IRS being aware of them.

This issue was previously reported¹² by the TIGTA in Fiscal Year 2008. During that review, we identified 2 corrective actions that were closed when the contractor agreed to repay questionable charges of approximately \$41,000 without the IRS actually receiving the money. At the time of that review, Procurement management agreed to change the JAMES reporting process and to ensure all agreed-to questionable charges were recovered before the corrective action would be closed. Because we identified additional problems after Fiscal Year 2008, we determined the IRS did not implement this corrective action for all audit reports.

While JAMES actions may remain outstanding for several years, we continue to believe that corrective actions should not be closed until the questionable charges are actually repaid by the contractor. Obtaining agreement with the contractor regarding the questionable charges is the first step. However, if the IRS does not continue to track the corrective action, it has no assurance that the contractor will repay the money and make the IRS whole. As a result, the IRS was not aware that \$245,116 had not been repaid until we brought this to IRS management's attention.

Recommendations

Recommendation 3: The Director, Procurement, should change the JAMES reporting process to ensure that all agreed-to questionable charges are repaid before the corrective actions are closed on the JAMES.

Management's Response: The IRS agreed with this recommendation and has revised its JAMES reporting process to ensure that all agreed-to questionable charges are repaid and documented prior to corrective actions being closed in JAMES.

Recommendation 4: The Director, Procurement, should ensure that contracting officers recover the questioned costs that we identified in this audit that should have been repaid by the contractors but were not and update the JAMES with the questioned costs that were actually received.

¹² *Procurement's Control Environment Was Ineffective and Did Not Prevent Overpayments to Contractors* (Reference Number 2008-10-092, dated March 28, 2008).



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Management's Response: The IRS agreed with this recommendation and is working with the contracting officers to recover the questioned costs identified in this report. Once repayment documentation is received, the JAMES will be updated to reflect the questioned costs that were actually received.



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Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective 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. To accomplish this objective, we:

- I. Determined whether the IRS requested DCAA contract audit services when needed to properly award and administer contracts.
 - A. Selected a judgmental sample of 20 cost-reimbursement contracting actions of more than \$500,000 on contracts active in Fiscal Years 2007 through 2009. The sample was selected from a universe of 1,013 cost-reimbursement contracting actions of more than \$500,000 that were open in Fiscal Years 2007 through 2009. We selected a judgmental sample because we were not planning to project the results to the entire population. We reviewed the contract files for the 20 contracting actions, evaluated the method used to establish a fair and reasonable price, and determined whether DCAA contract audit services were requested when needed.
 - B. Interviewed 16 contracting officers responsible for the 20 cost-reimbursement contracting actions selected for the sample in Step I.A. and determined their involvement with the DCAA contract audit services.
- II. Determined the Cost and Pricing Branch's involvement in the DCAA contract audit services program and whether the proper oversight is being provided.
- III. Determined whether the IRS used DCAA reports to assist it in properly managing and administering contracts.
 - A. Reviewed all DCAA audit reports issued in Fiscal Year 2005 through Fiscal Year 2009 and determined the questioned costs identified in the reports.
 1. Interviewed procurement personnel and determined decisions made regarding the questioned costs.
 2. Requested documentation from contracting officers regarding the questioned costs and ensured that the IRS actually received repayment for the questioned costs from the contractor.



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Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: Office of Procurement policies and procedures for the DCAA audit program and policies and procedures regarding contract administration. We evaluated these controls by interviewing procurement personnel and reviewing applicable documentation.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Debra Kisler, Audit Manager
Robert Beel, Senior Auditor
Theresa Haley, Senior Auditor
Mary Herberger, Senior Auditor



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Chief, Agency-Wide Shared Services OS:A
Director, Procurement OS:A:P
Chief Counsel
National Taxpayer Advocate
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 Liaison: Executive to the Director, Procurement OS:A:P



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Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Reliability of Information – Actual; \$245,116 (see page 7).
- Reliability of Information – Potential; \$110,391 (see page 7).

Methodology Used to Measure the Reported Benefit:

The IRS reported to the JAMES that it disallowed \$966,423 of the questionable charges included in DCAA audit reports issued in Fiscal Years 2005 through 2009. However, contracting officers could not provide us with documentation to show that \$355,507 of these costs were actually repaid by the contractor. For \$245,116 of the \$355,507, the cost and pricing analyst responsible for the contract believed the money was repaid by the contractor. However, the analyst could not find documentation to support the recovery of the money and realized the contractor did not repay the amount. Therefore, the IRS incorrectly reported \$245,116 as having been repaid. In addition, we could not determine whether the IRS actually received \$110,391 of these costs since the contracting officer did not provide the documentation. Therefore, these costs are potentially incorrect in the JAMES.



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Appendix V

Management's Response to the Draft Report



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

August 25, 2010

RECEIVED
AUG 27 2010

BY: *DMS*

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

From: David A. Grant *David A. Grant*
Chief, Agency-Wide Shared Services

Subject: Draft Audit Report – The Internal Revenue Service Can Make
Better Use of Defense Contract Audit Agency Reports
(Audit # 201010006)

Thank you for the opportunity to respond to the subject audit report. The audit was conducted to determine whether we are requesting Defense Contract Audit Agency (DCAA) contract audit services when needed either by law or to manage contracts and using the DCAA audit results appropriately when awarding and administering contracts. Our response is attached.

The audit found that we are requesting DCAA audit services when needed and documenting determinations of fair and reasonable prices. Most commonly, incurred cost audits are requested which test the allowability of invoiced costs submitted by contractors under cost-reimbursement contracts. The report identifies 839 contracts being administered by the IRS Office of Procurement, with a value of \$48 billion over the life of the contracts. Thirty-five of those contracts are cost-reimbursement contracts. The report also states that "issues identified in Government Accountability Office reports, regarding the DCAA, have hindered the IRS in getting all the needed audits completed, especially incurred cost audits." This has had a severe impact on our ability to close out contracts and task orders.

We agree that DCAA audit reports need to be distributed to all appropriate procurement staff. The report states that sixteen contracting officers (COs) were interviewed for this audit and asked if they received copies of DCAA audit reports. Of those sixteen, eight were said to have reported that they do not receive the reports. After reviewing the list of COs interviewed, we have found that two of them do not administer cost reimbursement contracts, and would have no need to receive DCAA reports. Two other COs were working on contracts that did not yet have completed DCAA audit reports, therefore, none had been received.



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2

We would like to acknowledge the cooperation of the TIGTA with resolving one of the issues in the JAMES reporting process. In the past, three years was the standard timeframe entered into the JAMES as the due date for resolution to issues identified in DCAA audit reports. After discussing this with the TIGTA, we have mutually agreed to a seven year window to resolve these issues. This extended time is required to allow for the completion of the performance period of the contract or task orders, settlement of the rates and the completion of the contract closeout process.

The report identifies \$245,116 of actual costs and \$110,391 of potential costs to be repaid to the Government. We concur with these benefits since documentation could not be produced to verify that repayment had occurred.

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 Barry Kearns, Director, Office of Procurement Policy, at (202) 283-1310. For matters concerning audit follow-up, please contact Larry Pugh, Office of Strategy and Finance, Agency-Wide Shared Services, at (202) 622-4541.

Attachment



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RECOMMENDATION #1: The Director, Procurement, should establish a policy that DCAA reports be distributed to all appropriate procurement staff, including all contracting officers responsible for contracts and task orders for a contractor audited by the DCAA. This policy should emphasize the importance of DCAA audit reports and should add a requirement that contracting officers evaluate DCAA audit reports to determine whether additional controls need to be implemented to monitor contract costs and ensure the IRS pays the correct amount of costs.

CORRECTIVE ACTION: We agree with this recommendation. The Office of Procurement Policy's Policy and Procedure (P&P) No. 15.4(A), Audit Assistance, currently sets out the responsibilities of the Contracting Officer, the Cost and Price Analyst and the Audit Database Monitor in regards to DCAA audit reports. During the next annual update, we will revise P&P No. 15.4(A) to include a requirement for the Cost and Price Analyst to distribute the audit report to procurement staff and Contracting Officers when appropriate to evaluate applicable audit reports to determine whether additional controls need to be implemented to monitor costs on contracts and task orders they are responsible for. In addition, DCAA audit reports will be posted on a Procurement SharePoint portal site making them available to all appropriate Procurement staff.

IMPLEMENTATION DATE: March 30, 2011

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: Procurement will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

RECOMMENDATION #2: The Director, Procurement, should establish a training program for contracting officers and contracting officer's technical representatives to provide an understanding of the impact of DCAA audit results and their responsibility to use the results of DCAA audits in providing proper contract administration.

CORRECTIVE ACTION: We agree with this recommendation. The Office of Procurement Policy will develop and conduct training outreach sessions for Contracting Officers. This training will be mandatory for Contracting Officers and Contracting Officer's Technical Representatives employed in the Office of Procurement, who are assigned to cost reimbursement contracts or task orders. Contracting Officer's Technical Representatives employed in other business units will be encouraged to attend the training sessions or review the training materials which will be posted to Procurement's P-101 site.

IMPLEMENTATION DATE: July 15, 2011

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P



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CORRECTIVE ACTION MONITORING PLAN: Procurement will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.

RECOMMENDATION #3: The Director, Procurement, should change the JAMES reporting process to ensure that all agreed-to questionable charges are repaid before the corrective actions are closed on the JAMES.

CORRECTIVE ACTION: We agree with this recommendation. The Office of Procurement Policy has revised their JAMES reporting process to ensure that all agreed-to questionable charges are repaid and documented prior to corrective actions being closed in JAMES.

IMPLEMENTATION DATE: Closed

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION #4: The Director, Procurement, should ensure that contracting officers recover the questioned costs that we identified in this audit that should have been repaid by the contractors but were not and update the JAMES with the questioned costs that were actually received.

CORRECTIVE ACTION: We agree with this recommendation. The Office of Procurement Policy is working with the Contracting Officers to recover the questioned costs identified in this report. Once repayment documentation is received by the Office of Procurement Policy, the JAMES will be updated to reflect the questioned costs that were actually received.

IMPLEMENTATION DATE: February 15, 2011

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: Procurement will enter accepted corrective actions into the Joint Audit Management Enterprise System (JAMES). These corrective actions are monitored on a monthly basis until completion.