



## Treasury Inspector General for Tax Administration Office of Audit

### **COST-REIMBURSEMENT CONTRACTS DID NOT FULLY COMPLY WITH FEDERAL ACQUISITION REGULATION REVISIONS**

Issued on April 30, 2013

## Highlights

Highlights of Report Number: 2013-10-046 to the Internal Revenue Service Deputy Commissioner for Operations Support.

### **IMPACT ON TAXPAYERS**

On October 14, 2008, Congress passed the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009 (hereafter referred to as the Act), in part, to address the use of high-risk contracts awarded throughout the Federal Government. The IRS generally did not comply with the Act and related Federal Acquisition Regulation (FAR) revisions for cost-reimbursement contracts that TIGTA reviewed. Consequently, this noncompliance increases the risk of inefficiency and waste by the IRS.

### **WHY TIGTA DID THE AUDIT**

This audit was initiated because provisions of the Act mandated that Federal Offices of Inspectors General determine agency compliance with new regulatory requirements. In addition, adequate planning and management of cost-reimbursement contracts is imperative given that these high-risk contracts provide few incentives for contractors to control costs.

### **WHAT TIGTA FOUND**

The IRS did not comply with the majority of the new FAR requirements for 46 of the 49 cost-reimbursement contracts entered into between March 17, 2011, and June 30, 2012, totaling nearly \$47 million. Specifically, the IRS did not always document required information to justify the selection of cost-reimbursement contracts and did not always assign acquisition workforce resources prior to award to manage these contracts. This occurred, in part, because the IRS did not develop any specific procurement policies and procedures addressing the revised regulations associated with planning for and awarding cost-reimbursement contracts. As a result, IRS contracting officers were not aware of the new requirements.

For the 46 cost-reimbursement contracts awarded to the IRS's Federally Funded Research and Development contractor, the IRS was noncompliant with nearly all of

the FAR revisions. In IRS management's opinion, there was no need to follow requirements for awards to the contractor because of the unique relationship between the IRS and the contractor. TIGTA found no justification for this opinion in acquisition regulations. Further, the IRS did not document the adequacy of contractor accounting systems prior to the award of cost-reimbursement contracts in the majority of contracts reviewed.

Finally, the IRS's Office of Procurement staff improperly coded three contracts as cost-reimbursement contracts within the Federal Procurement Data System-Next Generation.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the IRS establish and implement procurement policies and procedures that are in compliance with the Act and related FAR revisions, establish oversight procedures to ensure that future cost-reimbursement contracts comply with regulations, and review contracts issued during the audit period to ensure that they were properly coded in the IRS and Federal Procurement Data systems.

In its response, the IRS agreed with the recommendations and plans to develop and update policies and procedures to reflect the new FAR requirements and plans to provide related training to procurement staff. In addition, the IRS plans to implement oversight processes to ensure that FAR regulations are followed. Finally, the IRS agreed to review the IRS and Federal Procurement Data systems to ensure that contracts are properly categorized and coded.

### **READ THE FULL REPORT**

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

<http://www.treas.gov/tigta/auditreports/2013reports/201310046fr.pdf>