



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

March 15, 2017

Reference Number: 2017-10-019

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.

Phone Number / 202-622-6500

E-mail Address / TIGTACommunications@tigta.treas.gov

Website / <http://www.treasury.gov/tigta>



To report fraud, waste, or abuse, call our toll-free hotline at:

1-800-366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration
P.O. Box 589
Ben Franklin Station
Washington, D.C. 20044-0589

Information you provide is confidential and you may remain anonymous.



HIGHLIGHTS

RESOLUTION OF DEFENSE CONTRACT AUDIT AGENCY FINDINGS OF QUESTIONED CONTRACTOR COSTS NEED SIGNIFICANT IMPROVEMENT

Highlights

Final Report issued March 15, 2017

Highlights of Reference Number: 2017-10-019
to the Internal Revenue Service Chief
Procurement Officer.

IMPACT ON TAXPAYERS

Defense Contract Audit Agency (DCAA) audit services are intended to be a key control to help assure that 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. Timely contracting officer determinations, contractor negotiations, and disposition of DCAA audit report findings can help the IRS promptly resolve questioned costs.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine whether the IRS has an effective process in place to use the results of DCAA reports to resolve questioned costs.

WHAT TIGTA FOUND

TIGTA found that resolution of DCAA audit findings and contracting officer actions to recover questioned costs needs significant improvement. The IRS paid nearly \$5.7 million for DCAA audits for Fiscal Years 2005 through 2014 but derived minimal benefit from the audit results in terms of recoupment of questioned costs. TIGTA reviewed 25 DCAA audit reports issued during this period, identifying questioned costs totaling more than \$80 million, and determined that the IRS could only document about \$545,000 in recoveries. IRS contracting officers fully recovered questioned costs in response to six DCAA audit reports. In four of the remaining 19 instances, the IRS was able to justify its decisions not to recover the full amount

of costs questioned by the DCAA. However, in 13 instances, sufficient documentation to justify IRS decisions could not be located or attempts to recover funds from the contractor were unsuccessful. Two instances were still pending a final resolution.

In addition, the IRS did not timely pursue questioned costs. For example, the statute of limitations had expired in four instances before the contracting officer either initiated or completed recovery actions, resulting in the IRS losing the opportunity to recover more than \$22 million of questioned costs. These delays occurred in part because the Office of Procurement had not established specific procedures for monitoring the time remaining to recover questioned costs before the statute of limitations expires and because contracting officers did not place a high priority on cost recovery.

TIGTA also found substantial recordkeeping problems. Specifically, the Office of Procurement was unable to produce any of the 48 contract files TIGTA requested that were associated with the 25 DCAA audits that were the subject of our review.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief Procurement Officer establish procedures to timely resolve audit findings, monitor the statute of limitations so that cost recovery actions can be completed prior to statute expiration, and ensure that all contract files comply with Federal Acquisition Regulation requirements. TIGTA also made several recommendations to the Chief Procurement Officer regarding improvements in internal policies to better communicate and document contracting officer decisions on questioned costs.

In their response, the IRS agreed with TIGTA's recommendations and indicated that five of the eight corrective actions to address those recommendations have been implemented.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 15, 2017

MEMORANDUM FOR CHIEF PROCUREMENT OFFICER

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Resolution of Defense Contract Audit Agency Findings of Questioned Contractor Costs Need Significant Improvement (Audit # 201510015)

This report presents the results of our review to determine whether the Internal Revenue Service has an effective process in place to use the results of Defense Contract Audit Agency reports to resolve questioned costs. This review was included in our Fiscal Year 2016 Annual Audit Plan and addresses the major management challenge of Fraudulent Claims and Improper Payments.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Table of Contents

<u>Background</u>	Page 1
<u>Results of Review</u>	Page 4
<u>Controls Were Ineffective for Ensuring the Timely Resolution and Recovery of Questioned Costs</u>	Page 4
<u>Recommendations 1 through 3:</u>	Page 8
<u>Recordkeeping Needs to Be Significantly Improved</u>	Page 9
<u>Recommendation 4:</u>	Page 10
<u>Recommendations 5 and 6:</u>	Page 11
<u>Audit Follow-Up Processes for Defense Contract Audit Agency Reports Are Not Compliant With Governing Regulations</u>	Page 11
<u>Recommendation 7:</u>	Page 12
<u>Recommendation 8:</u>	Page 13
 Appendices	
<u>Appendix I – Detailed Objective, Scope, and Methodology</u>	Page 14
<u>Appendix II – Major Contributors to This Report</u>	Page 16
<u>Appendix III – Report Distribution List</u>	Page 17
<u>Appendix IV – Outcome Measure</u>	Page 18
<u>Appendix V – Disposition Memorandum</u>	Page 19
<u>Appendix VI – Management’s Response to the Draft Report</u>	Page 20



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Abbreviations

CO	Contracting Officer
DCAA	Defense Contract Audit Agency
FAR	Federal Acquisition Regulation
FY	Fiscal Year
IRS	Internal Revenue Service
JAMES	Joint Audit Management Enterprise System
OMB	Office of Management and Budget
P&P	Policy and Procedures Memorandum
SOL	Statute of Limitations
TIGTA	Treasury Inspector General for Tax Administration



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Background

The Defense Contract Audit Agency (DCAA) is the primary contract audit agency for the Department of Defense and also services Federal civilian agencies.¹ DCAA audit services are intended to be a key control to help assure that 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. During Fiscal Years (FY)² 2005 through 2014, the DCAA billed nearly \$5.7 million for audits it performed on Internal Revenue Service (IRS) contractors.

DCAA audits focus on determining the overall acceptability of a contractor's claimed costs with respect to three key areas:³

- 1) Reasonableness of nature and amount.
- 2) Allocability and capability of measurement by the application of cost accounting standards and generally accepted accounting principles and practices.
- 3) Compliance with applicable cost limitations or exclusions as stated in the contract or the Federal Acquisition Regulation (FAR).

Contractors incur both direct⁴ and indirect costs⁵ in the performance of contracts. Direct costs are those directly attributable to specific activities and contracts. Indirect costs, which cannot be traced to specific contracts (such as administrative expenses), are allocated to individual contracts based on indirect cost submissions. For example, a contractor may have multiple contracts with multiple Federal and non-Federal agencies, and its overhead expenses must be appropriately allocated to individual contracts and agencies rather than directly charged to a

¹ The recent passage of the Fiscal Year 2016 National Defense Authorization Act (Pub. L. No: 114-92 (2015)) required that the DCAA stop work on all nondefense audits until it had cleared its backlog of contract audits for the Department of Defense.

² Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

³ Under a cost-reimbursement contract, the contractor must put forth its best effort in performance of the contract. The best efforts language in cost-type contracts allow for contractors to receive payment even if a final deliverable is not achieved. The cost-reimbursement family of contracts includes Cost; Cost-Sharing; Cost-Plus-Incentive-Fee; Cost-Plus-Award-Fee; and Cost-Plus-Fixed-Fee. All cost-reimbursement contracts are subject to the limitations of Federal Acquisition Regulation § 16.301-3, *Limitations*.

⁴ A "direct cost" is any cost that is identified specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs identified specifically with a contract are direct costs of that contract. All costs identified specifically with other final cost objectives of the contractor are direct costs of those cost objectives.

⁵ "Indirect cost" means any cost not directly identified with a single final cost objective but identified with two or more final cost objectives or with at least one intermediate cost objective.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

single contract or agency. As a result, the DCAA usually performs audits on all contracts with a specific contractor as opposed to performing contract-by-contract audits. The Department of the Treasury and the IRS have an interagency agreement with the DCAA to provide contract audit services. Because of provisions in the FY 2016 National Defense Authorization Act that required the DCAA stop work on all nondefense audits until it had cleared its backlog of contract audits for the Department of Defense, the Treasury Inspector General for Tax Administration (TIGTA) delegated its authority to the IRS to contract for these types of audit services.

The FAR requires agencies to establish files containing the records of all contractual actions and the basis for informed decisions.⁶ As a result, contracting officers (CO) must document within each contract file all actions taken to resolve incurred costs that were reimbursed to the contractor and subsequently questioned in a DCAA audit.

The Office of Management and Budget (OMB) requires agencies to assign a high priority to the resolution of audit recommendations and to the implementation of corrective actions. OMB Circular No. A-50, *Audit Follow-Up* (September 1982), and Department of the Treasury Directive 40-03, *Treasury Audit Resolution, Follow-Up, and Closure* (February 2001), both require the resolution of audit findings within a maximum of six months after issuance or receipt of the final report. OMB Circular No. A-50 also requires that the audit follow-up systems provide for a complete record of action taken on both monetary and nonmonetary findings and recommendations, and establishes 11 standards that follow-up systems must meet, including assuring that performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations. Recipients of DCAA reports are subject to the OMB's requirements.

DCAA audits, generally speaking, are advisory only, meaning the DCAA renders an opinion on its audit results for the subject contractor to the CO.⁷ The authority and duty to act on these findings rests with the responsible CO. For contractor reports issued to the IRS as the cognizant agency,⁸ FAR Section (§) 42.705-1, *Contracting Officer Determination Procedure*, provides guidance to the CO on how to work with the auditor in negotiations with the contractor to resolve questioned costs. For incurred cost audits, the FAR also requires that copies of the CO's negotiation memorandum be furnished to the Government audit office (in this case the DCAA).⁹

Under FAR Subpart 33.2, *Disputes and Appeals*, there are also procedures for the COs and contractors to follow when resolving disputes and appeals covered in the Contract Disputes Act

⁶ FAR Subpart 4.8, *Government Contract Files*.

⁷ FAR § 42.705-1, *Contracting officer determination procedure*.

⁸ FAR § 42.003, *Cognizant Federal agency*. For contractors other than educational institutions and nonprofit organizations, the cognizant Federal agency normally will be the agency with the largest dollar amount of negotiated contracts, including options.

⁹ FAR § 42.706 (b).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

of 1978.¹⁰ The Federal Acquisition Streamlining Act of 1994¹¹ established a six-year Statute of Limitations (SOL) for claims filed under the Contract Disputes Act of 1978. The SOL bars the Government and contractors from bringing claims more than six years after accrual of the claim.¹²

IRS Office of Procurement's Policy and Procedures Memorandum (P&P) Number 15.4(A) provides the procedures for requesting audits from the DCAA.¹³ It establishes the Cost and Price Analysis Branch as the office responsible for conducting all audit-related communications and requesting and obtaining audit assistance from outside agencies, such as the DCAA. According to this guidance, the Cost and Price Analysis Branch is also responsible for addressing audit recommendations, where applicable, in cost or pricing and other audit reports, assisting with and clarifying audit findings for the CO when needed, and reviewing negotiation memoranda to verify resolution of issues raised in audit reports.

We held discussions with IRS personnel and analyzed data obtained from the Office of Procurement in New Carrollton and Oxon Hill, Maryland, during the period of February 2015 through July 2016. 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. However, we were unable to determine, where applicable, CO compliance with FAR § 42.705-1, *Contracting officer determination procedure*, requirements because we could not review all CO negotiation memoranda. Also, we could not review all documentation that supported CO nonconcurrency with DCAA questioned cost amounts in each report for which the IRS was not the cognizant agency due to a scope limitation that restricted our access to records. Specifically, the IRS Office of Procurement was unable to produce any of the 48 contract files we requested that were associated with the 25 DCAA audits that were the subject of our review. Although we could not complete all of our planned audit tests because of these limitations, we were able to accomplish our audit objective by reviewing other evidence that allowed us to support our conclusions. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹⁰ 41 U.S.C. §§ 7101–7109.

¹¹ Pub. L. 103-355 (1994).

¹² FAR § 33.201, *Definitions*, defines the accrual of a claim to mean the date when all events that fix the alleged liability of either the Government or the contractor and permit assertion of the claim were known or should have been known. For liability to be fixed, some injury must have occurred. However, monetary damages need not have been incurred.

¹³ Audit Assistance (May 2012).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Results of Review

Controls Were Ineffective for Ensuring the Timely Resolution and Recovery of Questioned Costs

The IRS paid nearly \$5.7 million for DCAA audits in FYs 2005 through 2014, but it derived minimal benefit from the audit results in terms of recovery of questioned costs. TIGTA reviewed 25 DCAA audit reports identifying questioned costs totaling more than \$80.2 million issued during FYs 2005 through 2014. However, the IRS Office of Procurement reported that only about \$1.4 million (2 percent) of the questioned costs were recovered, of which only \$545,000 could be documented. In some instances, the inability to recover disallowed costs occurred because the SOL expired before CO actions were either initiated or completed. We found that the IRS took action to resolve the findings of DCAA reports within six months of receiving the report in only one (4 percent) instance for the 25 audit reports we reviewed. Action was often deferred until contract closeout. Timely CO determinations, contractor negotiations, and resolution of DCAA audit report findings are critical to ensure that the IRS promptly resolves reported questioned costs.

Untimely resolution of questioned costs

IRS controls were ineffective in ensuring the timely resolution of DCAA audit findings and making cost recoveries. We also found that the IRS Office of Procurement does not provide specific planned corrective actions and associated implementation due dates in response to DCAA audit report findings. Instead, the CO completes a *pro forma* disposition memorandum in which a preliminary decision of concurrence or nonconcurrence with the DCAA audit report is indicated. Our review of related CO disposition memorandums indicates that they were generally completed before all audit findings had been thoroughly reviewed and researched, and a CO determination on the findings and questioned costs had been made. The contract audit follow-up process should ensure proper, timely resolution and disposition of contract audit reports. Resolution is achieved when the CO agrees with the auditor on the actions to be taken on audit report findings or determines another course of action.¹⁴ Contract audit report disposition is achieved when the CO renders a final decision as to the treatment of the audit recommendation and the contractor implements the audit recommendations or otherwise complies with the CO decision.

The IRS Office of Procurement provided TIGTA with disposition memorandums for 23 (92 percent) of our related 25 DCAA audit reports. For 22 (96 percent) of the 23 cases we

¹⁴ OMB Circular No. A-50, Audit Follow-Up (September 1982).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

reviewed, the disposition memorandum indicated that the CO agreed with the DCAA findings overall. However, for 10 (45 percent) of these cases, the COs did not take action in response to the DCAA findings or did not recover the majority of the questioned costs identified in the related DCAA reports. A sample copy of the IRS's disposition memorandum form is available in Appendix V.

OMB Circular No. A-50 requires all agencies, including the IRS, to establish audit follow-up systems to assure the prompt and proper resolution and implementation of audit recommendations. Resolution should occur within a maximum of six months after issuance of a final report, and corrective action should proceed as rapidly as possible.

However, the IRS did not timely resolve questioned costs. The Contract Disputes Act of 1978 imposes a six-year SOL on all claims, whether they are asserted by the contractor or by the Government.¹⁵ The limitations period begins to run upon accrual of a claim (when the contractors certified cost proposal is submitted), which is “the date when all events . . . that fix the alleged liability of either the Government or the contractor and permit assertion of the claim . . . were known or should have been known.”¹⁶ We found that the SOL on recovery of disallowed questioned costs expired in six instances prior to the IRS either initiating or completing actions to recover the related funds, based on the date of the contractors' cost proposal submissions. In two of the six instances, the SOL expired before the IRS received the DCAA report. However, in the remaining four instances, the expiration of the SOL occurred after the IRS received the DCAA report. The IRS was unable to recover the questioned costs in one of the four instances because it did not maintain sufficient documentation to substantiate its position for legal action regarding whether commercial labor rates charged by the contractor were appropriate.¹⁷ In the remaining instances, the IRS discontinued the demand for payment when notified by the contractor that the SOL had expired on the IRS's claims. In these three instances, the IRS COs had time (which ranged from two-to-37 months after receipt of the DCAA report) to research the audit's questioned cost findings, decide if the questioned costs were unallowable, and issue a claim to the contractor to recover funds before the SOL expired. However, while the COs may wait for the receipt of a DCAA audit report before making a decision about whether to bring a potential claim against a contractor, it will not extend the SOL time periods for those claims if the underlying facts should have been known earlier. The COs have authority under FAR § 42.801 to disallow costs on their own authority over the life of the contract. The statutory period begins to run when the Government knows or reasonably should know of an alleged violation and the resulting impact, not when DCAA audits identify it. Because the responsible COs did not take action within the six-year SOL period, the IRS lost the opportunity to recoup

¹⁵ 41 U.S.C. § 7103(a)(4)(A).

¹⁶ FAR § 33.211.

¹⁷ While an estimate of the SOL period can be made by identifying the date when a contractor's cost proposal submission is received and adding six years, a final, legal determination regarding when the SOL period expires can only be made in the Agency's Boards of Contract Appeals or the court of law under the Contract Disputes Act of 1978, when either the Government or the contractor disputes a claim.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

more than \$22 million in questioned costs identified by the DCAA. These delays occurred in part because the Office of Procurement had not established specific procedures for monitoring the date of the contractors cost proposal submission and the time remaining to recover questioned costs before the SOL expires, and because the COs did not place a high priority on making cost recoveries.

The Federal Acquisition Streamlining Act of 1994 established the six-year SOL for claims filed under the Contract Disputes Act of 1978. Agencies have six years to submit a claim against a contractor related to contract costs beginning from the date the alleged liability of either the Federal Government or the contractor were known or should have been known. The DCAA estimates the beginning of the period of the SOL as the date the Federal Government received a contractor's incurred cost submission. However, the IRS had not established specific procedures for monitoring the time remaining to recover questioned costs identified by the DCAA before the SOL expires. Additionally, DCAA officials stated that other Federal agencies that receive their audit reports commonly negotiate with contractors for the recovery of questioned costs even when it appears the SOL may have expired and have had successful outcomes.

We found that IRS COs only fully recovered questioned costs in response to six (24 percent) of the 25 DCAA audit reports. Two of the remaining 19 audit reports were still pending a final resolution of the questioned costs, while in four instances the IRS was able to provide documentation and explanations, which were sufficient to justify its decision not to recover the full amount of costs questioned by the DCAA. For questioned costs in the remaining 13 DCAA audit reports, sufficient documentation to justify IRS decisions could not be located or attempts to recover funds from the contractor were unsuccessful.

For DCAA contractor reports in which the IRS is the cognizant agency, FAR § 42.705-1, *Contracting Officer Determination Procedure*, provides guidance to the CO on how to work with the auditor in negotiations with the contractor to resolve questioned costs. When the IRS is not the cognizant Federal agency, another agency's administrative CO is responsible for negotiating any indirect questioned costs identified in the associated DCAA audit report with the subject contractor. However, the IRS is responsible for negotiating the recovery of any direct questioned costs identified in the DCAA's audit reports.

We determined that the IRS was responsible for negotiating with the subject contractors to recover nearly \$77.6 of the \$80.2 million in questioned costs identified in 24 of the 25 DCAA audit reports we reviewed. The Defense Contract Management Agency was responsible for negotiating \$2.5 million in questioned costs. We were unable to determine the responsible negotiating agency in one remaining case totaling \$21,319 in questioned costs. We did not find any evidence that IRS COs monitored the status of actions taken by Defense Contract Management Agency administrative COs to resolve DCAA audit findings and recommendations affecting IRS contracts. Consequently, IRS COs could not ensure that audit findings were timely resolved or if those resolutions were in the IRS's best interest.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

According to the COs we interviewed, the organizational focus for the COs at the IRS is to expeditiously make awards and obligate funding, not to recover unallowable¹⁸ costs paid to contractors. The COs also cited significant workloads, resource constraints, and a dwindling acquisition workforce due to a hiring freeze at the IRS as reasons for not recouping questioned costs. In some cases, the COs indicated that the questioned cost amount did not warrant the effort and potential expense to make the recovery. In another example, IRS Office of Chief Counsel stated that the COs did not sufficiently develop their position or assemble the documentation that was necessary for them to pursue legal actions to recover disallowed costs from the contractor.

Prompt action by the COs to complete their determination on audit findings, initiate contractor negotiations, and resolve questioned costs identified in DCAA reports is necessary to prevent difficulties that arise in cost recoupment efforts as time goes on. For example, lengthy delays in resolving questioned costs may increase the likelihood of losing track of records related to the questioned costs or the attrition of procurement staff who originally worked on the associated contract(s). The inability to maintain and develop necessary documentation also prevents the IRS from successfully responding to contractor disputes on questioned costs, including legal challenges.

The IRS stated that it is developing guidance to establish time frames for tracking and monitoring open planned corrective actions related to DCAA audits and to close those actions out within a six-month period. The IRS also plans to require mandatory periodic reporting on each CO's action or planned action for resolving outstanding questioned costs. The IRS represented that it will encourage the COs to seek assistance from its Cost and Price Analysis Branch and the DCAA to gain a full understanding of the report findings and for assistance in contractor negotiations to resolve questioned costs and in conducting contract closeouts for cost reimbursement type contracts.

Finally, the IRS stated that it provided training to responsible employees on the importance of record management requirements on March 9, 2016. The training materials they provided for our review included instructions on the types of records that must be maintained, the length of time for maintaining records, and proper preparation of materials before they can be stored at the Federal Records Center.

¹⁸ The Federal Government as a matter of law and regulation is prohibited from reimbursing contractors for certain types of costs it may incur during the performance of a contract. These costs are referred to as "unallowable costs."



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Recommendations

The Chief Procurement Officer should:

Recommendation 1: Update the Audit Assistance policy for procurement personnel to include procedures for monitoring the SOL on contract incurred cost proposal submissions so that cost recoupment actions can be completed prior to expiration.

Management's Response: The IRS agreed with this recommendation and stated that monitoring of the SOL will be accomplished by highlighting the SOL status during regularly scheduled briefings to the IRS Chief Procurement Officer and senior managers within the Office of Procurement. The IRS issued revised P&P Memorandum Number 15.4(A), Audit Assistance, on June 27, 2016, requiring the COs to: 1) resolve outstanding audit issues in DCAA audit reports within 90 days of receipt of the report and 2) closeout all DCAA issues in Joint Audit Management Enterprise System¹⁹ within 30 days of resolution of all DCAA issues or within 60 days of receipt of adequate final vouchers.

Recommendation 2: Ensure that findings of questioned costs identified in audits of contractor incurred costs are addressed in conformance with requirements of Treasury Directive 40-03 and the OMB Circular No. A-50, which establishes 11 standards that must be met to assure the prompt and proper resolution of audit findings and implementation of audit recommendations.

Management's Response: The IRS agreed with this recommendation. P&P Memorandum Number 15.4(A), Audit Assistance, will be revised to include reference to OMB Circular A-50 and Treasury Directive 40-03.

Recommendation 3: Ensure that the COs do not provide dispositions of contract audit findings until they render a final decision as to the treatment of the audit recommendation(s), complete the CO determination process, and the contractor has implemented the audit recommendation(s) or otherwise complied with the CO decision.

Management's Response: The IRS agreed with this recommendation. The IRS issued revised P&P Memorandum Number 15.4(A), Audit Assistance, on June 27, 2016, requiring the COs to address and evaluate all audit recommendations in DCAA audit reports, take corrective actions when applicable (incorporating additional controls needed to monitor contract costs and ensure proper payments paid by the IRS), and document corrective actions in the Price Negotiation Memorandums and/or other documentation as necessary.

¹⁹ A Department of the Treasury computer system used by the IRS to track the resolution of audit findings and recommendations.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Recordkeeping Needs to Be Significantly Improved

The IRS could not locate any of the 48 contract files associated with the 25 DCAA audit reports we reviewed. However, responsible COs and other IRS staff did search their records and were able to provide some documentation, such as e-mails or other electronic records to support their explanations of decisions taken in response to questioned cost findings in 10 DCAA audit reports.

We also found incomplete and inaccurate information entered into the JAMES. Our review of IRS entries in the JAMES for the proposed corrective actions associated with the 25 DCAA audit reports in our review showed that entries for 24 (96 percent) reports were missing key information necessary for the COs and IRS management to monitor the progress of cost recoveries and related corrective actions. For example, JAMES entries included the contractor name in only six (24 percent) instances and the contract number or related task order numbers in only eight (32 percent) instances. For 12 (48 percent) of the 25 reports, related entries in the JAMES did not reflect the correct status as required in the status/comment log section. Specifically, the correct status of these cases' latest actions was not captured and the IRS Office of Procurement could not rely on this information to monitor all actions taken to recover funds. As a result of these inaccurate JAMES entries, the reliability of the information contained within the JAMES is in question. These 12 entries represented approximately \$31 million in questioned costs identified by the DCAA. Additionally, we found that the IRS does not capture key elements of the DCAA audit report findings in the JAMES, which prevented the IRS from having all details necessary to monitor the disposition of questioned costs and presented an inaccurate picture of IRS COs' progress in resolving DCAA findings and making cost recoveries. OMB Circular No. A-50 requires that audit follow-up systems provide for a complete record of actions taken on both monetary and nonmonetary findings and recommendations.

Finally, we found that the IRS could only provide information to support that it recovered \$545,000 in disallowed costs out of nearly \$1.4 million it had reported in the JAMES as recovered. A prior TIGTA report in 2010²⁰ identified that the IRS could not always document that it had received payments from contractors in response to disallowed contract costs. In response, the IRS agreed to ensure that all agreed-to questionable charges are recovered and documented prior to corrective actions being closed in the JAMES. However, we found that the IRS could not document the receipt of all of the nearly \$1.4 million in disallowed questioned costs it reported as recovered because the responsible COs could not locate the subject contract files. We sought confirmation from staff in the Office of the Chief Financial Officer located in the Beckley Finance Center on the claimed recoupments for which there was no documentation, but they were unable to confirm that the IRS received these payments from contractors.

²⁰ TIGTA, Ref. No. 2010-10-115, *The Internal Revenue Service Can Make Better Use of Defense Contract Audit Agency Reports* p. 7 (Sept. 2010).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

The FAR requires agencies to establish files containing the records of all contractual actions.²¹ The documentation in the files is required to be sufficient to constitute a complete history of the transaction for the purposes of (but not limited to):

- 1) Providing a complete background as a basis for informed decisions at each step in the acquisition process.
- 2) Supporting actions taken.
- 3) Providing information for reviews and investigations.

The FAR also prohibits the closeout of a contract (and subsequent disposition of the contract) until specific contract administration actions have been taken.²² Such actions include the settlement of final indirect cost rates and resolution of any disallowed costs with the contractor. IRS Office of Procurement officials stated that their lack of recordkeeping was an oversight due to a lack of emphasis and CO training opportunities on proper recordkeeping practices. They also stated that contract files archived to National Record Centers were not properly packed, labeled, or cataloged correctly in their containers. As a result, the Office of Procurement does not know what contract file information is housed in the hundreds of boxes it has stored at these facilities and thus was unable to retrieve specific contract files when requested to do so.

We interviewed the individual on the IRS Procurement staff currently responsible for monitoring and updating the status of corrective actions, and uploading and entering all supporting documentation into the JAMES. This employee stated that they believed that their responsibilities did not extend to ensuring the accuracy of information, such as the status of progress made, or the final disposition of questioned costs identified in DCAA audit reports. This employee stated that they relied solely on information provided to them by the Office of Procurement stakeholders and the monthly JAMES validation reports when making entries into the JAMES.

A lack of documentation to support the actions the COs took to address questioned cost issues and inaccurate depictions of those actions in the JAMES may prevent complete or adequate reviews by IRS management officials to determine whether all necessary actions were taken to resolve or recover the more than \$80.2 million in questioned costs identified in DCAA audit reports.

Recommendations

The Chief Procurement Officer should:

Recommendation 4: Ensure that all contract files comply with FAR requirements and that necessary documents are placed in the contract file as they are received or developed (to include

²¹ FAR § 4.801 (a-b).

²² FAR § 4.804-1 (3) and FAR § 4.804-5 (a) (7).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

negotiation memoranda), and develop a process to properly pack, label, catalog, and ship containers for all contract files archived to National Record Centers.

Management's Response: The IRS agreed with this recommendation. P&P Memorandum Number 4.1, File Content Checklists, dated April 11, 2016, requires all contract specialists/COs use specified contract file checklists to ensure all necessary documents are placed in the contract file as they are received or developed (to include Price Negotiation Memorandums). Records management training was held on March 9, 2016, and the IRS Chief Procurement Officer sent an all-hands e-mail to Office of Procurement personnel in December 2016 to remind all contract specialists/COs of these changes to the P&P and their responsibilities for ensuring that contract files are complete and accurate.

Recommendation 5: Ensure that the COs retain records of payments recovered in the settlement of questioned costs in their contract files to support closure of planned corrective actions in the JAMES based on actual (not planned) cost recoupment from contractors.

Management's Response: The IRS agreed with this recommendation. The IRS revised P&P Memorandum Number 15.4(A), Audit Assistance, on June 27, 2016, requiring the COs to provide documentation with either a refund (check) from the contractor or subsequent adjustment billings (vouchers) that include a credit, where indirect and direct costs questioned require payment to the IRS.

Recommendation 6: Establish a process for conveying resolution of planned corrective actions to address contract audit report findings and questioned costs to IRS audit liaison staff to ensure that only complete and accurate information is entered into the JAMES.

Management's Response: The IRS agreed with this recommendation and issued revised P&P Memorandum Number 15.4(A), Audit Assistance, on June 27, 2016, which includes a review of all data to be entered into the JAMES by the Chief, Cost and Price Analysis Branch, as well as a member of the Audit/Risk Management Team.

Audit Follow-Up Processes for Defense Contract Audit Agency Reports Are Not Compliant With Governing Regulations

We could find no documentation indicating that the IRS COs responsible for resolving seven of the eight questioned cost cases in our review for which the IRS had sole responsibility for negotiating the final indirect cost rates had sent their negotiation memoranda to the DCAA as required by the FAR.²³ Nor that they had collaborated with DCAA auditors to develop a negotiation position or included them in any negotiations held with the contractor. The DCAA confirmed that it had not received negotiation memoranda from the responsible IRS COs in

²³ FAR § 42.705-1(b) (5) (iii).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

response to any of the audit reports we reviewed. Further, officials from the DCAA could only recall one instance in which an IRS CO had contacted them to discuss audit findings. One DCAA audit team we interviewed stated that they had not received any communications from the Office of Procurement related to audit reports they had issued covering IRS contracts, even when the DCAA proactively offered support to assist the IRS in making recoveries.

The FAR directs the COs, as head of the Government negotiation team, to develop a position on the allowability of costs identified in contract audit reports as unallowable or unsupported. The FAR requires the COs not to resolve questioned costs identified in audit reports until the CO has obtained both 1) adequate documentation on the costs and 2) the contract auditor's opinion on the allowability of the costs. Further, the FAR directs the COs, whenever possible, to include the cognizant contract auditor to serve as an advisor at any negotiation or meeting with the contractor on the determination of the contractor's final indirect cost rates whenever possible. Finally, the COs are required to prepare a negotiation memorandum that includes, in part, the disposition of significant matters in the advisory audit report and reasons why any recommendations of the auditor or other Government advisors were not followed. The COs are to provide copies of the negotiation memorandum to the Government audit offices (in this case the DCAA).²⁴

Currently, IRS Office of Procurement policies are not explicit in requiring the COs to provide the DCAA with copies of negotiation memoranda as required by the FAR, nor do they require the CO to contact cognizant DCAA audit staff to discuss the audit reports issued on the contractors whose contracts they are responsible for administering. Involving the cognizant audit staff (DCAA in this instance) in contractor negotiations to recover questioned costs would provide the IRS a better understanding of the audit findings and afford it key technical expertise to assist in the recovery of disallowed costs through negotiations with the contractor. Additionally, providing negotiation memoranda to contract auditors would bring the IRS into compliance with the FAR and allow for increased transparency for CO decisions on the resolution of DCAA questioned costs.

Recommendations

The Chief Procurement Officer should:

Recommendation 7: Develop procedures that require the inclusion of cognizant contract auditor representatives on negotiation teams led by IRS COs.

Management's Response: The IRS agreed with this recommendation. P&P Memorandum Number 15.4(A) will be revised to require inclusion of the cognizant contract auditor representative in all cases, except when a cognizant contract auditor representative is not available or when negotiations are simple.

²⁴ FAR § 42.706 (b).



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Recommendation 8: Ensure that the COs provide the DCAA or other responsible contract audit function with a copy of their negotiation memoranda once all actions have been taken to resolve the audit findings and questioned costs, as required by the FAR.

Management's Response: The IRS agreed with this recommendation and revised P&P Memorandum Number 15.4(A), Audit Assistance, to require that a copy of the negotiation memoranda be sent to the DCAA or other responsible contract audit function once all actions have been taken to resolve the audit findings and questioned costs as required by the FAR.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS has an effective process in place to use the results of DCAA reports to resolve questioned costs. To accomplish this objective, we:

- I. Determined whether the IRS has adequate controls for using DCAA contract audit services to properly use audit findings in the effort to recover questioned costs.
 - A. Researched the laws, regulations, and procurement policies regarding contract audit services and determined the actions required of the IRS when receiving reports that disallow costs submitted by contractors.
 - B. Interviewed IRS procurement personnel (including the COs and cost and pricing analysts, the Procurement Policy Director, the Chief Financial Officer's Agency-Wide Shared Services JAMES Coordinator, Beckley Finance Center staff, Chief Counsel's General Legal Service Attorney, and DCAA personnel knowledgeable of policy and audit report results) to determine the process used to respond to and address questioned costs identified by the DCAA contract audit services.
 - C. Obtained a list of DCAA audits that identified potential questioned costs during FYs¹ 2004 through 2014.
 - D. Identified the contracts associated with the 25 DCAA reports that identified potential questioned costs.
 - E. Determined whether questioned costs identified in DCAA reports were not recovered due to the expiration of the six-year SOL.
- II. Determined whether the IRS has a system in place to follow up on the results of DCAA audits that identify potential questioned costs.
 - A. Determined whether the IRS has an effective control system that allows it to monitor the status of contractor costs questioned in DCAA audit reports.
 - B. Determined from the contract file or the IRS Chief Financial Officer whether the IRS received payment on funds questioned based on DCAA audit results.

¹ Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

- III. Determined whether IRS decisions not to recover costs questioned in DCAA audit reports complied with applicable laws, regulations, and internal procedures and were supported with appropriate and sufficient documentation.
- A. Determined whether decisions not to recover questioned costs were documented in the contract files and whether the actions taken fully address the concerns identified in the DCAA audit report.
 - B. Determined whether the IRS implemented additional controls to address instances in which questioned costs could not be recovered due to inadequate documentation or other limitations related to evidence of contractor costs.

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: 1) IRS Office of Procurement policies, procedures, and practices for the DCAA audit program and 2) policies and procedures regarding contract administration and resolution of questioned cost issues. We evaluated these controls and IRS compliance by requesting contract files related to the 25 DCAA audit reports that we reviewed. However, the contract files we requested could not be located by IRS COs. As a result, we reviewed historical IRS Office of Procurement semiannual spreadsheets and narrative responses to TIGTA on the resolution of questioned costs identified in our reports (to include audits completed by the DCAA). We also reviewed JAMES Summary Reports and attached documentation, documentation provided by IRS Office of Chief Counsel, copies of e-mails containing discussions about the questioned costs related to the DCAA audit reports reviewed, and information provided by the DCAA to determine what actions the COs took related to the 25 DCAA audit reports we reviewed.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Appendix II

Major Contributors to This Report

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Alicia P. Mrozowski, Director

Seth Siegel, Audit Manager

Gary D. Pressley, Lead Auditor

Eleonor C. Lindner, Senior Auditor

Melvin Lindsey, Auditor



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Appendix III

Report Distribution List

Commissioner
Office of the Commissioner – Attn: Chief of Staff
Deputy Commissioner for Operations Support
Deputy Commissioner for Services and Enforcement
Chief, Agency-Wide Shared Services
Chief Financial Officer
Director, Office of Audit Coordination



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Appendix IV

Outcome Measure

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

Type and Value of Outcome Measure:

- Reliability of Information – potential; for inaccurate depictions in JAMES status log entries for 12 DCAA reports that identified \$30,890,692 in questioned costs that could not be relied upon by management officials to determine whether all necessary actions were taken to resolve or recover costs from the subject contractors (see page 8).

Methodology Used to Measure the Reported Benefit:

Our review of IRS entries in the JAMES related to the proposed corrective actions associated with the 25 DCAA audit reports in our review showed that 24 (96 percent) JAMES entries were missing key information necessary for the COs and IRS management to monitor the progress of cost recoveries and related corrective actions. For example, JAMES entries included the contractor name audited by the DCAA in only six (24 percent) instances and the contract number or related task order numbers in only eight (32 percent) instances. For 12 (48 percent) of the 25 reports, related entries in the JAMES did not reflect the correct status as required in the status/comment log section, bringing into question the reliability of the information within the JAMES. These 12 entries represented approximately \$31 million in questioned costs identified by the DCAA. Additionally, we found that the IRS does not capture key elements of the DCAA audit report findings in the JAMES, which prevented the IRS from having all details necessary to monitor the disposition of questioned costs and presented an inaccurate picture of IRS COs' progress in resolving DCAA findings and recoveries of questioned costs.



Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement

Appendix V

Disposition Memorandum



DATE

MEMORANDUM TO THE CONTRACTING OFFICER

FROM: Cost and Price Branch/OS:AP:P:C

SUBJECT: Disposition Requested for Audit No.: _____
Contractor: _____
Audit of FY _____

In accordance with OMB Circular A-50, the subject audit is submitted for your review and disposition.

Please review the findings of the audit report and indicate the appropriate disposition action with a check mark and a memorandum, if appropriate; and return this memorandum only (the audit report is for your records) to the attention of **Stephen Manasseh not later than: Date**.

If you have any questions, please contact me at Stephen.Manasseh@irs.gov or *3-8230.

AUDIT REPORT DISPOSITION

_____ I have reviewed the subject audit report and I fully concur with the findings of the audit report.

_____ I have reviewed the subject audit report; and am on notice of the subject circumstances within, which require the resolution of the cognizant Administrative Contracting Officer (ACO) of another Agency. We will consider the circumstances within the audit report and the affects, if any, on our contracts and potential awards until final resolution by the cognizant Agency.

_____ I have reviewed the subject audit report and I fully concur with the findings of the audit report. The final reimbursement amount will be determined at the time of contract closeout and will exclude any unallowable or questionable costs.

_____ I have reviewed the subject audit report and I do NOT fully concur with the findings of the audit report because:

_____ Other Comments:

Signature: _____ **Date:** _____

Title

Source: IRS Cost and Price Analysis Branch.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

February 17, 2017

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Shanna R. Webbers *Shanna R. Webbers*
Chief Procurement Officer

Subject: Draft Audit Report – Resolution of Defense Contract Audit
Agency Findings of Questioned Contractor Costs Need
Significant Improvement (Audit # 201510015)

Thank you for the opportunity to respond to the subject draft audit report. The IRS is committed to having proper controls in place to timely resolve audit findings, which includes monitoring the statute of limitations (SOL) so that cost recovery actions can be completed prior to expiration. We are also dedicated to improving our internal policies and procedures so that Contracting Officer decisions regarding questioned costs are thoroughly documented and appropriately communicated.

Similarly, the IRS is committed to ensuring the proper management of contract files in accordance with the Federal Acquisition Regulation. This audit covered a 10-year time period from Fiscal Years 2005 through 2014 and identified significant gaps in recordkeeping for the 25 contract files reviewed. The IRS agrees improvement in this area was needed and a year prior to commencement of this audit we implemented an automated solution called the electronic Contract File Management System (eCFM). This capability allows for contract files to be uploaded, organized, stored, and retrieved in an electronic format. Due to the age of the contract files reviewed for this audit, our storage system consisted of paper files maintained in cardboard boxes.

We agree with TIGTA's recommendations and in fact, have already implemented corrective actions for five of the eight recommendations (62%). For the remaining three recommendations, we have developed corrective actions that will be implemented this Fiscal Year, as documented in the attachment.

The IRS also agrees with the draft audit report outcome measure, which highlights instances where entries in the Joint Audit Management Enterprise System (JAMES) are lacking in quality and content. For example, TIGTA identified a lack of consistency in entry of contractor names and contract numbers; however, since there are no designated fields for these entries in JAMES, procurement personnel must include it in



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

the open text field. As a result, the IRS Office of Procurement is enhancing internal controls and developing guidance so procurement personnel understand the level of specificity required for documentation in JAMES.

If you have any questions, please contact me or a member of your staff may contact Michael Crawford, Office of Procurement Policy at (240) 613-5838.

Attachment



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

Attachment

RECOMMENDATION 1:

Update the Audit Assistance policy for procurement personnel to include procedures for monitoring the SOL on contract incurred cost proposal submissions, so that cost recoupment actions can be completed prior to expiration.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. The monitoring of the statute of limitation (SOL) will be accomplished by highlighting the SOL status during regularly scheduled briefings to the IRS Chief Procurement Officer (CPO) and senior managers within the Office of Procurement. The IRS issued revised Policy and Procedures Memorandum (P&P) 15.4(A) Audit Assistance on June 27, 2016 requiring Contracting Officers to: (1) Resolve outstanding audit issues in DCAA audit reports within **90 days** of receipt of the report; (2) Closeout all DCAA issues in JAMES within **30 days** of resolution of all DCAA issues or within **60 days** of receipt of adequate final vouchers and not wait for the due date established in JAMES input by TIGTA, however, more time may be allowed if the CO can document why it cannot be closed sooner.

IMPLEMENTATION DATE: March 15, 2017

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN:

Statute of limitation dates are currently provided as supplemental data in monthly reports to the CPO. Beginning with the next monthly briefing to the CPO, SOL dates will be briefed.

RECOMMENDATION 2:

Ensure that findings of questioned costs identified in audits of contractor incurred costs are addressed in conformance with requirements of Treasury Directive 40-03 and the OMB Circular No. A-50, which establishes 11 standards that must be met to assure the prompt and proper resolution of audit findings and implementation of audit recommendations.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. Policy and Procedures Memorandum (P&P) 15.4(A) Audit Assistance will be revised to include reference to OMB Circular A-50 and Treasury Directive 40-03. Updates to the P&P 15.4(A) are pending further review and approval by the Department of Treasury Senior Procurement Executive.

IMPLEMENTATION DATE: September 15, 2017

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN:

Monthly status updates will be provided to the IRS Chief Procurement Officer.



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

RECOMMENDATION 3:

Ensure that COs do not provide dispositions of contract audit findings until they render a final decision as to the treatment of the audit recommendation(s), complete the CO determination process, and the contractor has implemented the audit recommendation(s) or otherwise complied with the CO decision.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. The IRS issued revised Policy and Procedures Memorandum (P&P) 15.4(A) Audit Assistance on June 27, 2016 requiring Contracting Officers to: Address and evaluate all audit recommendations in DCAA audit reports, take corrective action when applicable (incorporating additional controls needed to monitor contract costs and ensure proper payments paid by the IRS) and document corrective actions in the Price Negotiation Memorandums and/or other documentation as necessary.

IMPLEMENTATION DATE: Implemented on June 27, 2016

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION 4:

Ensure that all contract files comply with FAR requirements and that necessary documents are placed in the contract file as they are received or developed (to include negotiation memoranda), and develop a process to properly pack, label, catalog, and ship containers for all contract files archived to National Record Centers.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. Policy and Procedure Memorandum (P&P) 4.1 File Content Checklists dated April 11, 2016 requires all Contract Specialists/Contracting Officers use specified contract file checklists to ensure all necessary documents are placed in the contract file as they are received or developed (to include Price Negotiation Memorandums). To remind all Contract Specialists/Contracting Officers of these changes to the P&P and their responsibilities for ensuring contract files are complete and accurate, the IRS CPO sent an all-hands email to Office of Procurement personnel in December 2016. The process for properly labeling shipped containers is established by the IRS Privacy and Disclosure, Records and Information Management Program Office. The Analysis and Improvement Teams in the Office of Business Operations and Office of Information Technology Acquisition in coordination with the Office of Procurement Policy and the Records and Information Management Program Office developed a process and a guide on how to catalog all contract files archived to National Record Centers. Records Management Training was held on March 9, 2016 and all slides and process documents have been placed on the Virtual Acquisition Users' Library of Tips (VAULT).

IMPLEMENTATION DATE: Implemented April 11, 2016



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION 5:

Ensure that COs retain records of payments recovered in the settlement of questioned costs in their contract files to support closure of planned corrective actions in the JAMES based on actual (not planned) cost recoupment from contractors.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. The IRS revised Policy and Procedures Memorandum (P&P) 15.4(A) Audit Assistance on June 27, 2016, requiring Contracting Officers to provide documentation with either a refund (check) from the contractor or subsequent adjustment billings (vouchers) that includes a credit, where indirect and direct costs questioned requires payment to the IRS. This documentation is submitted to the Chief, Cost/Price Analysis Branch for review and provided to the Audit/Risk Management Team to upload in the Joint Audit Management Enterprise System. The Contracting Officer retains a copy of documentation in the contract file.

IMPLEMENTATION DATE: Implemented June 27, 2016

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION 6:

Establish a process for conveying resolution of planned corrective actions to address contract audit report findings and questioned costs to IRS audit liaison staff to ensure that only complete and accurate information is entered into the JAMES.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. The IRS issued revised Policy and Procedures Memorandum (P&P) 15.4(A) Audit Assistance on June 27, 2016, which includes review of all data to be entered into the JAMES by the Chief, Cost/Price Analysis Branch as well as a member of the Audit/Risk Management Team.

IMPLEMENTATION DATE: Implemented June 27, 2016

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION 7:

Develop procedures that require the inclusion of cognizant contract auditor representatives on negotiation teams led by IRS COs.

CORRECTIVE ACTION:



*Resolution of Defense Contract Audit Agency
Findings of Questioned Contractor Costs
Need Significant Improvement*

The IRS agrees with this recommendation. P&P 15.4(A) will be revised to require inclusion of the cognizant contract auditor representative in all cases, except when a cognizant contract auditor representative is not available or when negotiations are simple. All exceptions will require approval from one level above the CO. Updates to the P&P 15.4(A) are pending further review and approval by the Department of Treasury Senior Procurement Executive.

IMPLEMENTATION DATE: September 15, 2017

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN:

Monthly status updates will be provided to the IRS Chief Procurement Officer, including all authorized exceptions.

RECOMMENDATION 8:

Ensure that COs provide the DCAA or other responsible contract audit function with a copy of their negotiation memoranda once all actions have been taken to resolve the audit findings and questioned costs as required by the FAR.

CORRECTIVE ACTION:

The IRS agrees with this recommendation. Policy and Procedures Memorandum (P&P) 15.4(A) Audit Assistance was revised to require that a copy of the negotiation memoranda be sent to the DCAA or other responsible contract audit function once all actions have been taken to resolve the audit findings and questioned costs as required by the FAR.

IMPLEMENTATION DATE: Implemented June 27, 2016

RESPONSIBLE OFFICIAL: Chief Procurement Officer

CORRECTIVE ACTION MONITORING PLAN: N/A