

**Report on Audit of Contractor's Compliance  
With Cost Accounting Standard 420,  
Accounting for Independent Research and  
Development and Bid Proposal Costs**

**April 2005**

**Reference Number: 2005-1C-046**

**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.**



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

April 4, 2005

MEMORANDUM FOR DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

*Daniel R. Devlin*

FROM: Daniel R. Devlin  
Assistant Inspector General for Audit (Headquarters Operations  
and Exempt Organizations Programs)

SUBJECT: Report on Audit of Contractor's Compliance With Cost  
Accounting Standard 420, Accounting for Independent Research  
and Development and Bid and Proposal Costs  
(Audit #20051C0211)

The Defense Contract Audit Agency (DCAA) performed an examination regarding the Civil Division's compliance with Cost Accounting Standards (CAS) and the Federal Acquisition Regulation (FAR). The purpose of the examination was to determine if the contractor complied with the requirements of CAS 420, Accounting for Independent Research and Development Costs and Bid and Proposal Costs, and applicable FAR Part 31 requirements during the contractor's Fiscal Year (FY) 2003.

The DCAA opined that the Civil Division complied in all material respects with the requirements of CAS 420 during FY 2003. The DCAA considers the contractor's accounting system adequate for the accumulating, segregating, and reporting of costs incurred under Federal Government contracts.

This DCAA report was issued in April 2004; however, the Treasury Inspector General for Tax Administration (TIGTA) did not receive a copy of the report until February 2005. The Internal Revenue Service (IRS) previously received the report directly from the DCAA. We are transmitting this report to you to enable the IRS to track any financial accomplishments derived from negotiations with the contractor based on results of this DCAA report.

The information in this report should not be used for purposes other than those intended without prior consultation with the TIGTA regarding their applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

# NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 U.S.C. § 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

*The TIGTA seal was removed due to its size.*