



*Invoice Audit of the Management of
Seized and Forfeited Assets Contract –
TIRNO-05-C-00010*

January 11, 2007

Reference Number: 2007-10-025

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.

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3(d) = Identifying Information - Other Identifying Information of an Individual or Individuals

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 11, 2007

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

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

SUBJECT: Final Audit Report – Invoice Audit of the Management of Seized and Forfeited Assets Contract – TIRNO-05-C-00010
(Audit # 200610037)

This report presents the results of our review of the Internal Revenue Service's (IRS) Management of Seized and Forfeited Assets Contract - TIRNO-05-C-00010. The overall objective of this review was to determine whether selected invoices submitted and paid under contract number TIRNO-05-C-00010 were appropriate and in accordance with the contract's terms and conditions.

Impact on the Taxpayer

Contract expenditures represent a significant outlay of IRS funds. The Treasury Inspector General for Tax Administration has made a commitment to perform audits of these expenditures. To the extent our reviews assist the IRS in identifying and recovering inaccurate, unsupported, and unallowable charges, contract expenditures are reduced and taxpayer funds are saved.

Synopsis

Our review identified questionable charges totaling \$21,297.88. The questionable charges consisted of unallowable, unsupported, and unreasonable costs. We provided details of these charges to the contractor and the IRS.

As part of this audit, we also interviewed the Contracting Officer, the Contracting Officer's Technical Representative, and a sample of field coordinators to determine whether the contractor's performance was satisfactory. Based on these limited auditing procedures, nothing



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

came to our attention that would lead us to believe there were significant problems with the deliverables associated with the contract.

Recommendations

We recommended the Director, Procurement, require the appropriate Contracting Officer to (1) review the identified questionable charges of \$21,297.88 and initiate any recovery actions deemed warranted and (2) review all the labor categories to ensure employees meet the qualifications stipulated in this contract and all appropriate labor categories are properly included.

Response

IRS management agreed with our recommendations. Based on the Contracting Officer's research and evaluation of additional supporting documentation provided by the contractor, \$270.10 of the \$21,297.88 remained questionable and will be recovered on an upcoming invoice. To ensure future invoices are properly submitted and paid, the Contracting Officer and the Contracting Officer's Technical Representative will review invoices for insufficient supporting documentation prior to payment. Additionally, the Contracting Officer and the Contracting Officer's Technical Representative will review résumés and ensure all contractor employees meet position qualifications, and the contractor will be required to replace any individuals that fail to meet the qualifications. Further, the contract was modified to ensure all labor categories and associated rates were included in the contract. 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 (Headquarters Operations and Exempt Organizations Programs) (Designee), at (202) 622-8500.



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Table of Contents

BackgroundPage 1

Results of ReviewPage 2

 Questionable Contract Charges and Invoice Verification ProcessPage 2

Recommendations 1 and 2:Page 4

 Contract Deliverables Were AcceptablePage 5

Appendices

 Appendix I – Detailed Objective, Scope, and MethodologyPage 6

 Appendix II – Major Contributors to This ReportPage 8

 Appendix III – Report Distribution ListPage 9

 Appendix IV – Outcome MeasurePage 10

 Appendix V – Management’s Response to the Draft ReportPage 11



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Abbreviations

CO	Contracting Officer
COTR	Contracting Officer's Technical Representative
IRS	Internal Revenue Service



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Background

In March 2005, the Internal Revenue Service (IRS) awarded contract number TIRNO-05-C-00010, a labor-hour contract.¹ The IRS Criminal Investigation function is responsible for the management, administration, organization, and tracking of all seized and/or forfeited assets. This contract provides the support services, including the personnel, equipment, and incidental items, necessary for the management of the seized and forfeited assets program.

The contract was awarded for a base period from March through September 30, 2005. The contract included four option periods that could carry the term of the contract through September 30, 2009. According to the Request Tracking System,² as of May 2006, the IRS had approved approximately \$5.6 million for payment to the contractor.

Because contract expenditures represent a significant outlay of IRS funds, the Treasury Inspector General for Tax Administration made a commitment to perform audits of these expenditures. This audit was designed to determine whether amounts paid by the IRS under this contract were accurate, supported, and allowable through a review of the contractor invoices and supporting documentation.

This audit was performed at the Office of Procurement in the Office of the Agency-Wide Shared Services in Oxon Hill, Maryland, and the contractor's facility in Greenbelt, Maryland, during the period May through October 2006. Opinions expressed in this report pertain only to the tasks and invoices included in our sample. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

¹ A labor-hour contract provides for acquiring direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit.

² The Request Tracking System is a web-based application that allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The System also allows for electronic receipt and acceptance of items delivered and provides an interface with the Integrated Financial System (the IRS financial accounting system) for payment processing.



**Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010**

Results of Review

Questionable Contract Charges and Invoice Verification Process

We examined supporting documentation obtained from the IRS Office of Procurement, as well as documentation received directly from the contractor, for a judgmental sample of 10 invoices (see Appendix I for details). The 10 invoices were issued between May 2005 and April 2006 and involved approximately \$2.3 million in IRS payments. The primary expenses claimed on the invoices were labor costs, subcontractor costs, and travel costs.

Questionable contract charges

We identified questionable charges of \$21,297.88, as shown in Figure 1. We provided details of these charges to the contractor and the IRS.

Figure 1: Schedule of Questionable Charges

Questioned Activity	Questionable Charges
Unallowable Labor	\$19,708.68
Unallowable Travel	\$98.88
Unsupported Travel	\$638.93
Unreasonable Travel	\$851.39
Total	\$21,297.88

Source: Treasury Inspector General for Tax Administration analysis of 10 invoices submitted to the IRS.

The unallowable labor charges involved two instances of employees not meeting the qualifications for the labor category as stipulated in the contract, two labor categories charged on the invoices that were not part of the contract, and an employee erroneously billed as working on a holiday. The employees not meeting the qualifications stipulated in the contract were billed for labor categories with an education requirement the employees did not meet. ^{3(d)}

During the course of our audit, which included written communication and conversations with IRS managers concerning this issue, a contract modification was issued in August 2006 to add the new labor category.



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

The unallowable travel charges involved an instance in which meals and incidental expenses were claimed for a trip that was fewer than 12 hours in duration and other travel costs that exceeded Federal Government-established per diem rates. The majority of the unsupported travel charges were questioned because there were no receipts provided to support lodging expenses and no travel vouchers were provided for mileage reimbursement. Finally, the unreasonable travel charges involved an instance in which an employee was reimbursed for travel expenses, including lodging, meals, and incidental expenses, that occurred in the same city as the employee's post of duty. In this instance, no prior approval for travel was prepared as with all other travel charges we reviewed. This type of travel is generally unallowable without special authorization describing extenuating circumstances for such expenses to be allowable in the same city as the employee's duty station.

The Federal Acquisition Regulation³ stipulates a contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed were incurred. The Federal Acquisition Regulation also provides that costs shall be allowed to the extent they are reasonable, allocable, and allowable under the Federal Acquisition Regulation. In addition, the contract stipulates the contractor may be reimbursed for travel costs in accordance with the Federal Travel Regulation.⁴ The Federal Travel Regulation provides that an employee is eligible for a travel allowance only when in travel status for more than 12 hours, receipts should be provided for lodging and any authorized travel expenses in excess of \$75, and per diem is permitted only for employees performing official travel away from their duty stations.

Invoice verification process

Contracts may be entered into and signed on behalf of the Federal Government only by COs. COs have the authority to administer or terminate contracts and make related determinations and findings. They are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships.

The requesting program office nominates a COTR, who is the CO's technical expert and representative in the administration of a contract or task order. Usually, the CO will appoint the COTR by issuing a signed letter of appointment tailored to meet the needs of each contract. The CO and the COTR are required to jointly review all appointed duties. IRS guidance includes a sample letter of appointment which details responsibilities of the COTR. These responsibilities include reviewing the contractor's invoices to ensure they reflect accurately the work completed in accordance with the requirements of the contract, certifying acceptance, and forwarding a copy of the invoice to the CO.

³ 48 C.F.R. pt 1-53 (2002).

⁴ 41 C.F.R. Chapter 301 (2005).



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Additionally, IRS guidance provides a reference to the Office of Federal Procurement Policy *A Guide to Best Practices for Contract Administration* (the *Guide*), published in October 1994. The *Guide* offers, as a practical technique, that COTRs reviewing vouchers under cost-reimbursement contracts should review, among other things, contractor time cards to help assess the reasonableness of direct labor charges. The *Guide* also contains directions to review major cost categories, such as subcontractor charges, to again determine the reasonableness of the claimed costs. Although the *Guide* does not include a specific reference to labor-hour contracts, we believe it is reasonable to infer that administration requirements for cost-reimbursement contracts would also apply to labor-hour contracts.

The COTR is responsible for receipt and acceptance of the invoices. The COTR reviews and approves the labor hours contained on the invoices and contacts the field coordinators when necessary to verify the labor hours. Based on discussions with a sample of field coordinators, the field coordinators are responsible for overseeing and reviewing the contractor employees' work. Additionally, the field coordinators approve the timesheets of the contractor's employees. However, the COTR does not receive the timesheets, nor do the field coordinators review the invoices. Additionally, the contractor obtains prior approval for travel from the COTR. The COTR indicated he or she receives travel receipts to support travel costs for the contractor,⁵ but the COTR does not receive documentation to support subcontractor travel.

We did not identify a significant amount of questionable charges on the invoices reviewed, notwithstanding the incomplete invoice verification process described above. We will continue to include a review of the IRS' invoice verification process in future contract invoice audits and, if warranted, recommend improvements to the process.

Recommendations

Recommendation 1: The Director, Procurement, should ensure the appropriate CO reviews the identified questionable charges of \$21,297.88 and initiates any recovery actions deemed warranted.

Management's Response: Based on the CO's research and evaluation of additional supporting documentation provided by the contractor, \$270.10 of the \$21,297.88 remained questionable and will be recovered on an upcoming invoice. To ensure future invoices are properly submitted and paid, the CO and the COTR will review invoices for insufficient supporting documentation prior to payment.

Recommendation 2: The Director, Procurement, should require the appropriate CO to review all the labor categories to ensure employees meet the qualifications stipulated in this contract and all appropriate labor categories are properly included.

⁵ Due to the flooding at the 1111 Constitution Avenue building, we were unable to verify the travel receipts the COTR receives. We obtained all our documentation supporting travel directly from the contractor.



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Management's Response: The CO and the COTR will review résumés and ensure all contractor employees meet position qualifications, and the contractor will be required to replace any individuals that fail to meet the qualifications. Additionally, the contract was modified to ensure all labor categories and associated rates were included in the contract.

Contract Deliverables Were Acceptable

We interviewed the CO, COTR, and six field coordinators to determine whether the contractor's performance and deliverables were acceptable. This contract provided support services, including personnel, equipment, and incidental expenses, necessary for the management of seized and forfeited assets. These services included establishing case files for each individual asset and performing legal research, data analysis, data entry, and general clerical support.

Based on our limited auditing procedures, nothing came to our attention that would lead us to believe there were significant problems with contractor performance or any of the deliverables associated with the invoices included in our tests.



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether selected invoices submitted and paid under contract number TIRNO-05-C-00010 were appropriate and in accordance with the contract's terms and conditions. To accomplish this objective, we:

- I. Analyzed the IRS invoice verification process prior to certifying payment to the contractor.
 - A. Interviewed the CO and COTR to confirm our understanding of the invoice verification process.
 - B. Documented invoice processing risks including accuracy, supportability, and allowability of invoice charges and concluded as to the overall control environment.
 - C. Interviewed IRS personnel involved in the administration of the contract to identify any concerns that existed regarding the contractor, its billing practices, or any specific invoices.
- II. Verified whether invoice charges submitted by the contractor and paid by the IRS were accurate, supported, and allowable.
 - A. Identified the universe of invoices from March 2005 (contract inception) through May 2006. The universe consisted of 26 invoices, which we reconciled to the IRS Request Tracking System.¹ We judgmentally selected 10 of the 26 invoices for review. The 10 invoices, which were issued between May 2005 and April 2006, involved approximately \$2.3 million in IRS payments and represented approximately 42 percent of the total amount paid by the IRS. We believed this sampling method would provide sufficient evidence to accomplish our audit objective and would result in acceptable management corrective action without the need for precise projection of sample results.

This audit did not include procedures to obtain evidence that computer-processed data within the IRS Request Tracking System were valid and reliable. Although used during this audit, the data in general were not considered significant to the audit's objective or resultant findings. We used the data within the Request Tracking System

¹ The Request Tracking System is a web-based application that allows IRS personnel to prepare, approve, fund, and track requests for the delivery of goods and services. The System also allows for electronic receipt and acceptance of items delivered and provides an interface with the Integrated Financial System (the IRS financial accounting system) for payment processing.



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

- only to reasonably verify the universe from which we selected our sample of transactions for substantive testing of their accuracy, supportability, and allowability. We concluded and reported on those substantive tests. Therefore, there was no adverse effect on the audit as a result of not including the reliability of computer-processed data audit procedures.
- B. For the invoices in our sample, obtained supporting documentation from the IRS and the contractor and performed the following tests:
1. Verified the mathematical accuracy of the invoices and supporting documentation.
 2. Traced invoice charges to supporting documentation.
 3. Verified whether invoice charges were actually paid by the contractor through examination of payroll records and extracts from the contractor's financial records.
 4. Verified whether invoice charges were allowable under the terms and conditions of the contract.
- III. Verified through interviews with responsible officials whether the contractor's performance and deliverables were acceptable, as stipulated in the contract.



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs) (Designee)

John R. Wright, Director

Thomas J. Brunetto, Audit Manager

Debra Kisler, Lead Auditor

Joseph F. Cooney, Senior Auditor

Terrey Haley, Senior Auditor



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Chief, Criminal Investigation SE:CI
Director, Procurement OS:A:P
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National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
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 Director, Planning and Strategy, Criminal Investigation SE:CI:S:PS



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

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:

- Questioned Costs – Potential; \$21,297.88 (see page 2).

Methodology Used to Measure the Reported Benefit:

We examined invoices and supporting documentation obtained from the IRS Office of Procurement, as well as documentation received directly from the contractor, to verify charges for a judgmental sample of 10 invoices. We selected our sample from a universe of 26 invoices. The 10 selected invoices involved approximately \$2.3 million in IRS payments.

Our review resulted in the identification of questionable charges of \$21,297.88. Specifically, these charges consisted of \$19,708.68 in unallowable labor charges, \$98.88 in unallowable travel charges, \$638.93 in unsupported travel charges, and \$851.39 in unreasonable travel costs.



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Appendix V

Management's Response to the Draft Report



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

RECEIVED
DEC 15 2006

December 14, 2006

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: David A. Grant *David A. Grant*
Director, Procurement

SUBJECT: Draft Audit Report - Invoice Audit of the Management of Seized
and Forfeited Assets Contract - TIRNO-05-C-00010 (Audit
#200610037)

We appreciate the opportunity to respond to the subject draft audit report dated November 21, 2006. The overall objective of your review was to determine whether selected invoices submitted and paid under contract number TIRNO-05-C-00010 were appropriate and in accordance with the contract's terms and conditions. You initiated the audit to determine whether the invoices submitted by the contractor and paid by the IRS were accurate, supported, and allowable.

The audit focused on a judgmental sample of 10 invoices totaling approximately \$2.3 million in contractor charges and identified \$21,297.88 of those charges as questionable. Most of the costs in question pertain to labor rates, the education level of contractor employees for the positions held and travel costs.

When we approached the Contractor about resolving these questioned costs, he was able to provide adequate documentation to support \$21,027.78 charges, inclusive of the associated General and Administrative expense. The contractor has agreed to reimburse the Government the balance of \$270.10. We therefore concur, only in part, with the measurable benefits claimed by this report.

If you have any questions, please contact me at (202) 622-8480 or Susan Dukes, Director, Warrants and Forfeitures, at (202) 622-5231.

Attachment

cc: Chief, Agency Wide Shared Services OS:A
Internal Control Coordinator OS:A:F



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Draft Report – Invoice Audit of the Management of Seized and Forfeited Assets
Contract – TIRNO-05-C-00010 (Audit #200610037)

RECOMMENDATION #1: The Director, Procurement should require the appropriate Contracting Officer to review the identified questionable charges of \$21,297.88 and initiate any recovery actions deemed warranted.

CORRECTIVE ACTION #1: The Contracting Officer (CO) has reviewed the identified questionable charges of \$21,297.88. Based on our research and evaluation of additional supporting documentation provided by the contractor, we do not concur with \$21,027.78 of the \$21,297.88 questioned costs. We do agree that \$270.10 in questioned costs should be returned. The CO intends to recover the \$270.10 by instructing the contractor to withhold that amount from an upcoming invoice. To ensure future invoices are properly submitted and paid, the CO and the Contracting Officer's Technical Representative (COTR) will review invoices prior to payment for insufficient supporting documentation. Should any discrepancies be found, appropriate action will be taken to correct them before the invoices are paid.

IMPLEMENTATION DATE: December 7, 2006

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: The CO and the COTR will monitor contractor invoices in accordance with the Federal Acquisition Regulation (FAR).



*Invoice Audit of the Management of Seized and Forfeited
Assets Contract - TIRNO-05-C-00010*

Draft Report – Invoice Audit of the Management of Seized and Forfeited Assets
Contract – TIRNO-05-C-00010 (Audit #200610037)

RECOMMENDATION #2: The Director, Procurement should require the appropriate Contracting Officer to review all the labor categories to ensure employees meet the qualifications stipulated in this contract and all appropriate labor categories are properly included.

CORRECTIVE ACTION #2: To ensure all contractor employees meet the position qualifications, the Contracting Officer will obtain resumes for all contractor employees (prime and sub) currently performing under this contract. The CO and COTR will review their qualifications and jointly determine whether the individuals are qualified. The contractor will be required to replace any individuals that fail to meet the qualifications. It should be noted that, on August 31, 2006, contract Modification No. 0004 updated the position qualifications for all labor categories, including those added via modifications after award. We agree that some individuals do not meet the stated education requirements, but their experience offsets those requirements. The contract will be modified to give the Government the necessary latitude to substitute experience for education, and vice versa, on a case-by-case basis.

To ensure all appropriate labor categories and associated rates are included in the contract, the CO issued Modification No. 0005 on September 19, 2006 to replace the "Loaded Rates by Location" tables.

IMPLEMENTATION DATE: March 31, 2007

RESPONSIBLE OFFICIAL: Director, Procurement OS:A:P

CORRECTIVE ACTION MONITORING PLAN: The CO and the COTR will continue the qualifications review process described above for all new or replacement individuals proposed by the contractor. Also, the CO will update the "Loaded Rates by Location" tables via contract modification prior to adding any new labor categories and rates to the contract.