



Treasury Inspector General for Tax Administration Office of Audit

THE FULL COSTS OF WORK PERFORMED ON REIMBURSABLE AGREEMENTS ARE NOT ALWAYS CHARGED, RESULTING IN REDUCED FUNDS AVAILABLE FOR TAX ADMINISTRATION

Issued on July 20, 2012

Highlights

Highlights of Report Number: 2012-10-076 to the
Internal Revenue Service Chief Financial Officer

IMPACT ON TAXPAYERS

During Fiscal Year 2011, the IRS entered into 89 agreements to perform services on a reimbursable basis. These services were conducted primarily on behalf of other Federal agencies with the IRS collecting approximately \$90 million related to these agreements. However, our review identified significant costs incurred by the IRS that were not reimbursed. When the IRS is reimbursed less than the cost of performing reimbursable work, it must fund this work using its own operating budget, thereby reducing funds available for tax administration.

WHY TIGTA DID THE AUDIT

This audit was initiated to evaluate the IRS's administration of its reimbursable program to ensure the IRS is being timely and appropriately reimbursed for services provided.

WHAT TIGTA FOUND

The IRS is not always charging other entities for the full costs of the work performed on reimbursable agreements, resulting in the IRS not being fully reimbursed for services performed. Our review of six randomly selected agreements identified more than \$28 million in costs incurred by the IRS that were not reimbursed. These unreimbursed costs related to three (50 percent) of the six agreements TIGTA reviewed. In addition, the IRS did not use a consistent approach when calculating overhead to be included in the costs of the reimbursable services performed. Finally, the IRS could not always provide verifiable information supporting all of the costs associated with the agreements reviewed.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS Chief Financial Officer ensure that all active reimbursable agreements are based on the full costs estimated for the services provided. In addition, the IRS Chief Financial Officer should reconcile the identified difference between reimbursement receipts recorded in the IRS's Integrated Financial System and the expected reimbursement for one of the agreements TIGTA reviewed and pursue collection of additional funds, as applicable. Finally, the IRS Chief Financial Officer should ensure guidelines are updated to require overhead be included in reimbursable work cost estimates and provide refresher training on a periodic basis to responsible business unit personnel.

In their response, IRS management agreed with our recommendations. The IRS plans to conduct an on-going, full review of all reimbursable agreements beginning in Fiscal Year 2013; review one agreement to reconcile differences and determine the reason for the differences; develop interim guidance on reimbursable work cost estimates; and develop and hold training on current and upcoming procedure changes.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201210076fr.pdf>.