TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

# The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration

**July 20, 2012**

**Reference Number: 2012-10-076**

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.tigta.gov

# HIGHLIGHTS

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

# Highlights

**Final Report issued on July 20, 2012**

Highlights of Reference 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.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

July 20, 2012

**MEMORANDUM FOR** CHIEF FINANCIAL OFFICER

**FROM:** Michael E. McKenney
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration (Audit # 201110030)

This report presents the results of our review for implementing reimbursable agreements. The overall objective of this review was to evaluate the Internal Revenue Service's (IRS) administration of its reimbursable program to ensure the IRS is being timely and appropriately reimbursed for services provided. The review is included in our Fiscal Year 2012 Annual Audit Plan and addresses the major management challenge of Achieving Cost Savings and Program Efficiencies.

Management's complete response to the draft report is included in 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 Russell P. Martin, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations), at (202) 622-8500.

# *Table of Contents*

# Abbreviations

| | |
|---|---|
| CFO | Chief Financial Officer |
| FMS | Financial Management Service |
| FY | Fiscal Year |
| IRS | Internal Revenue Service |

# Background

The Economy Act, United States Code, Title 31, Sections 1535-1536, authorizes agencies of the Federal Government to enter into agreements to provide goods and services to one another on a reimbursable basis, provided that the head of an agency has determined it is in the best interest of the Federal Government. The Economy Act also requires that the direct and indirect costs of fulfilling a reimbursable agreement be recovered from the agency receiving the goods and services.

The Internal Revenue Service (IRS) uses Form 5181, *Agreement Covering Reimbursable Services*, to enter into reimbursable agreements with requesting parties. The IRS requires that reimbursable agreements be authorized by delegated IRS personnel before work begins and that reimbursable agreements include a description of the scope of work, services and products that must be provided, the period of performance, the dollar amount, and payment method.

The IRS Chief Financial Officer (CFO) has overall responsibility for budgetary oversight and accountability for the IRS reimbursable program. The CFO is also responsible for issuing financial management guidance governing the reimbursable program, ensuring that reimbursable agreements are recorded properly in the IRS's accounting systems, and collecting and posting reimbursable earnings. The IRS business units are responsible for ensuring agreement terms comply with appropriations law principles, developing accurate project cost estimates, and administering the agreement, including ensuring prompt billing in accordance with agreement terms. The IRS business units are also responsible for providing effective financial management oversight of their respective reimbursable agreements. Financial transactions relating to reimbursable agreements are recorded in the IRS's Integrated Financial System.[1]

During Fiscal Year (FY) 2011, the IRS entered into 89 reimbursable agreements and collected approximately $90 million for services performed related to these agreements. The 89 agreements consisted of 74 reimbursable agreements with other Federal agencies and 15 reimbursable agreements with non-Federal entities, such as various State and foreign governments.

This review was performed at the IRS Wage and Investment Division and the Chief Technology Officer's Modernization and Information Technology Services organization in New Carrollton, Maryland; the offices of the IRS Research, Analysis, and Statistics, Criminal Investigation, and the Chief Financial Officer in Washington, D.C.; and the Beckley Finance Center in

[1] The financial management system for the administrative activities in the IRS.

Beckley, West Virginia, during the period August 2011 through March 2012. 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. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

# Results of Review

We found several opportunities where the IRS could improve its process to ensure it is fully reimbursed for services provided to other Federal and non-Federal entities. Our review of six randomly selected reimbursable 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 we reviewed. 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. Complete and reliable accounting and accurate billing of the work performed on reimbursable activities is critical to ensuring the IRS is correctly charging other entities for work performed.

## The Internal Revenue Service Is Not Always Accurately Charging Other Entities for the Costs of Work Performed

We determined that the IRS is not always charging other entities for the full costs of the work performed on reimbursable agreements. In addition, the IRS does not use a consistent approach when calculating overhead[2] 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 we reviewed.

### The IRS does not always request reimbursement for the full costs of work performed

Our review of six randomly selected reimbursable agreements identified three (50 percent) where significant costs were not reimbursed. For example:

- The IRS was not reimbursed for approximately $26 million in costs incurred during FYs 2010 through 2012 related to the processing of refund offsets. This includes approximately $7.7 million in estimated costs during FY 2012.[3] The under-reimbursement is primarily attributable to a series of errors in the calculation of the cost-per-offset rate by Wage and Investment Division staff, complicated by a misunderstanding of the IRS's reimbursement policy. As a result, the IRS was significantly under-reimbursed by the

[2] Overhead costs include general management and administrative services, procurement and contracting services, facilities management services, and information technology services, *etc*.
[3] FY 2012 estimated costs are based on the projected number of cases to be processed during FY 2012, as provided by the IRS.

Financial Management Service (FMS) for the services it provided during FYs 2010 through 2012. The agreement is between the IRS Wage and Investment Division and the FMS for the costs to process refund offsets of taxpayer debts, such as delinquent student loans and child support. When informed of these errors, Wage and Investment Division staff responsible for administering the agreement acknowledged the calculation mistakes but informed us that they believed the amount of reimbursement under this agreement was capped by the FMS and could not be increased despite the actual cost for the work performed. However, the IRS was not able to provide documentation supporting reimbursement under the agreement being capped.

Further, we found that the reimbursement rate that was established may not have been properly applied. The established reimbursement rate is the reimbursement per refund offset agreed to by the IRS and the FMS. Based on the 3,941,309 refund offsets reported by the IRS in FY 2011, we estimated the IRS should have received approximately $26.4 million in reimbursement from the FMS. However, per reimbursement receipts recorded in its financial management system, the IRS only received approximately $24.6 million, resulting in a potential under-reimbursement of approximately $1.8 million in FY 2011. This potential error was due to the lack of a reconciliation performed by IRS management comparing receipts recorded in its financial management system to the expected reimbursement for this work based on the terms of the agreement. IRS staff responsible for administering the agreement was unable to explain the difference we identified.

- The IRS was not reimbursed for more than $120,000 in overhead costs as the result of incomplete reporting of reimbursable costs incurred. The IRS's supporting cost documentation for this reimbursable agreement included a charge for overhead for services performed for the Department of Education. However, when the responsible IRS business unit reported its costs incurred, it neglected to calculate and include the overhead costs in the reimbursable agreement.
- The IRS was not reimbursed for approximately $24,000 of expenses incurred under a reimbursable agreement with the Department of the Treasury due to a billing error. This error initially occurred due to a miscommunication between the IRS business unit and the CFO regarding whether these expenses were projected or actual costs that should be collected for this agreement. As a result, these expenses were not billed to the Department of the Treasury.

## The IRS does not use a consistent approach when calculating overhead costs

Our review identified that IRS procedures for determining overhead costs were not followed as required for four (66 percent) of the six agreements we reviewed. In addition, we determined that overhead costs were not applied for the remaining two agreements reviewed.

Noncompliance with overhead cost calculations can result in the IRS not being correctly reimbursed for services performed. Because of the complexities involved in calculating overhead, IRS procedures require that the CFO Office of Cost Accounting be contacted regarding the overhead rate to be used on a specific reimbursable agreement. However, we found that the CFO Office of Cost Accounting was not contacted regarding the calculation of overhead in these four agreements and instead management generally calculated overhead based on their own working knowledge of the different costs associated with the service provided.

Business unit representatives informed us they were previously unaware of the requirements to contact the CFO Office of Cost Accounting regarding the overhead rate to be used. During our audit fieldwork, the CFO took action to address this control breakdown. In December 2011, CFO personnel conducted a training session to provide refresher training on reimbursable agreement policies and requirements. This training included instruction on the proper methodologies for determining full costs of reimbursable work. CFO management also informed us that they plan to update the Reimbursable Operating Guidelines to include procedures to require business unit documentation be sent to the CFO for review to ensure that overhead has been included in reimbursable work cost estimates.

For the two remaining agreements, the reimbursement related to a very narrow range of clearly defined and agreed costs (such as travel and equipment costs) and did not include any IRS employee labor costs. Because of the unique nature of these agreements, the IRS business unit involved determined that overhead would not be charged on these two agreements. However, IRS procedures do not directly address whether overhead costs should be applied to these types of reimbursable activities. If IRS personnel do not consistently charge overhead for these types of agreements, this could result in inconsistent treatment of entities with which the IRS enters into reimbursable contracts.

## ***The IRS could not support all of the costs associated with reimbursable agreements reviewed***

For two (33 percent) of the six agreements we reviewed, documentation supporting the computation of approximately $80,000 for direct labor costs could not be provided. Specifically, business unit management responsible for estimating costs on these two agreements could not provide verifiable documentation for the direct labor costs associated with these agreements. Instead, they informed us that they estimated the direct labor attributable to this agreement based on their general knowledge and experience.

Management further informed us that they do not have a process that allows them to readily track the time that IRS staff work on reimbursable activities. As a result, we could not fully determine whether the costs estimated and billed by the IRS to outside Federal agencies included all the time spent by IRS employees performing the reimbursable work. Although the direct labor costs associated with these reimbursable agreements was relatively low (approximately $80,000), the lack of any actual time record data (including even informal manual records kept by the analyst assigned) puts the IRS at risk of over or undercharging its customers for the services being provided. Accurate and timely identification of costs is critical to the IRS's ability to ensure its reimbursement is consistent with the cost of work performed.

## Recommendations

The Chief Financial Officer should:

***Recommendation 1:*** Ensure that all active reimbursable agreements are based on the full costs estimated for the services provided. In addition, the CFO should require that reimbursable agreements be renegotiated, and additional reimbursement collected, where feasible, if it is determined that the IRS is not being reimbursed based on the full estimated costs, such as with the reimbursable agreement with the FMS.

> ***Management's Response:*** The IRS agreed with this recommendation and will conduct an on-going, full review of all reimbursable agreements beginning in FY 2013.

***Recommendation 2:*** Reconcile the difference identified between the FY 2011 FMS agreement reimbursement receipts recorded in the Integrated Financial System and the expected reimbursement for this work based on the terms of the agreement and pursue the collection of any additional funds identified as not collected, as applicable.

> ***Management's Response:*** The IRS agreed with this recommendation and will review this agreement to reconcile differences and determine the reasons for the differences by December 31, 2012. The IRS will then develop a plan of action.

***Recommendation 3:*** Ensure the Reimbursable Operating Guidelines are updated to require that overhead be included in reimbursable work cost estimates as applicable. The Guidelines should be updated to clearly indicate the types of reimbursable agreements in which overhead costs are not required, if appropriate. These procedures should also be updated to specifically require CFO staff to periodically review agreements to identify instances in which reimbursed funds are less than estimated, or do not include overhead charges, to identify potential under billings.

> ***Management's Response:*** The IRS agreed with this recommendation and is currently developing interim guidance on reimbursable work cost estimates to augment the Reimbursable Operating Guidelines. The guidance requests the business units submit any and all supporting documentation on costing prior to agreement signature.

***Recommendation 4:*** Provide refresher training on a periodic basis to responsible business unit personnel to promote awareness of reimbursable agreement policies, including the need to use documented and reliable sources of information when estimating project costs.

> ***Management's Response:*** The IRS agreed with this recommendation and will work to develop and hold training on current and upcoming procedure changes and review methodologies, forms, the Integrated Financial System, and everyday how-to's.

**Appendix I**

# *Detailed Objective, Scope, and Methodology*

The overall objective of this review was to evaluate the IRS's administration of its reimbursable program to ensure the IRS is being timely and appropriately reimbursed for services provided. To accomplish our objective, we:

I. Determined the procedures used by the IRS to calculate, bill, and account for costs associated with work performed in connection with reimbursable agreements.

   A. Interviewed responsible IRS CFO and project management personnel regarding the process followed in calculating, billing, and accounting for costs associated with work performed in connection with reimbursable agreements.

   B. Reviewed the procedures used by the IRS to calculate, bill, and account for costs associated with work performed in connection with reimbursable agreements and identified key controls.

II. Evaluated controls over the calculating, billing, and accounting for costs associated with work performed in connection with reimbursable agreements.

   A. Identified the population of all reimbursable agreements that had work performed in FY 2011, as of August 2011, and selected a stratified random sample of six agreements (three agreements more than $1 million and three agreements less than $1 million) to obtain a variety of agreements representing both large and small dollar values. The population of reimbursable agreements at the time of our sample selection was 78.

   B. Assessed whether the methodology under which reimbursable expenses were calculated was clearly explained and documented.

   C. Assessed whether the assigned costing of reimbursable agreements was in accordance with applicable laws and accounting standards.

   D. Ascertained whether the IRS calculated and billed reimbursable expenses in accordance with agreement terms for the sample selected in Step II.A. Our review of reimbursable agreement data in the IRS's Integrated Financial System identified significant differences between reimbursable agreement collections reported and supporting cost documentation. However, in our opinion, using the data for our purposes did not adversely impact our analysis or the results reported.

***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: the IRS's policies and procedures for managing its reimbursable projects. We evaluated these controls by interviewing management, selecting a sample of reimbursable agreements, and reviewing applicable documentation.

**Appendix II**

# Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Russell P. Martin, Acting Assistant Inspector General for Audit (Management Services and Exempt Organizations)
Jeffrey M. Jones, Director
Anthony J. Choma, Audit Manager
Seth A. Siegel, Lead Auditor
Mary F. Herberger, Senior Auditor
James S. Mills, Jr., Senior Auditor

## Appendix III

# Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Operations Support OS
Deputy Commissioner for Services and Enforcement SE
Commissioner, Wage and Investment Division SE:W
Chief Technology Officer OS:CTO
Chief, Criminal Investigation SE:CI
Chief, Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
- Chief Financial Officer OS:CFO
- Director, Office of Research, Analysis, and Statistics RAS

## Appendix IV

# *Outcome Measures*

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

### ***Type and Value of Outcome Measure:***

- Increased Revenue – Potential; $26,009,548 (see page 3).

### ***Methodology Used to Measure the Reported Benefit:***

We estimate the IRS was not reimbursed for $26,009,548 in costs incurred during FYs 2010 through 2012 related to the processing of refund offsets for the FMS. The under-reimbursement is attributable to a series of errors in the calculation of the cost per offset by the Wage and Investment Division staff, complicated by a misunderstanding of the IRS's reimbursement policy. These calculation errors resulted in the IRS establishing an incorrect per-offset reimbursement rate during FYs 2010 through 2012.

On a per-offset basis, the amount understated was $2.54 in FY 2010, $2.31 in FY 2011, and $1.84 in FY 2012. The IRS reported that it processed 3,613,041 offsets in FY 2010 and 3,941,309 offsets in FY 2011. In addition, the IRS estimates that 4,200,000 offsets will be processed during FY 2012. As a result, we estimated the total amount undercharged by the IRS was $26,009,548 for FYs 2010 through 2012.

FY 2010 undercharging: $2.54 x 3,613,041 = $9,177,124.

FY 2011 undercharging: $2.31 x 3,941,309 = $9,104,424.

FY 2012 undercharging: $1.84 x 4,200,000 = $7,728,000.

Total estimated undercharging: $9,177,124 + $9,104,424 + $7,728,000 = $26,009,548.

### ***Type and Value of Outcome Measure:***

- Increased Revenue – Potential; $1,846,851 (see page 3).

### ***Methodology Used to Measure the Reported Benefit:***

We found that the reimbursement rate established for the processing of refund offsets for the FMS may not have been properly applied. The IRS's financial management system recorded $24,602,088 in funds collected during FY 2011 related to its reimbursable agreement with the

FMS for the costs of refund offsets of taxpayer debts, such as delinquent student loans and child support. However, we estimate that, based on the reimbursement rate established with the FMS, the IRS should have been reimbursed $26,448,939 for the 3,941,309 transactions it processed in FY 2011, resulting in a potential under-reimbursement of $1,846,851.

## ***Type and Value of Outcome Measure:***

- Increased Revenue – Potential; $120,755 (see page 3).

## ***Methodology Used to Measure the Reported Benefit:***

The IRS's supporting cost documentation for one reimbursable agreement included a charge for overhead as a percentage of the IRS's expected workload for services performed for the Department of Education. However, when the responsible IRS business unit reported its costs incurred, it neglected to calculate or report the overhead costs specified in the reimbursable agreement support cost documentation.

The IRS originally estimated its costs on this reimbursable agreement at $2,197,708 for FY 2011 ($1,994,289 in nonoverhead costs and $203,419 for overhead costs). As a result, we estimate the overhead costs represented 10.2 percent of the total nonoverhead costs for this reimbursable agreement. In FY 2011, we determined the IRS collected $1,183,877 for services performed associated with this reimbursable agreement, which consisted of nonoverhead costs. We estimate the IRS undercharged this agency $120,755 in overhead costs during this period [$1,183,877 x 0.102 = $120,755].

## ***Type and Value of Outcome Measure:***

- Increased Revenue – Potential; $23,916 (see page 3).

## ***Methodology Used to Measure the Reported Benefit:***

The IRS was not reimbursed for approximately $23,916 of expenses incurred under a reimbursable agreement with the Department of the Treasury. This error occurred due to a miscommunication between the IRS business unit responsible for reporting reimbursable costs incurred and the IRS CFO which is responsible for collecting reimbursement for those costs.

**Appendix V**

# Management's Response to the Draft Report

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

CHIEF FINANCIAL OFFICER

RECEIVED
JUL 2 2012

July 2, 2012

MEMORANDUM FOR MICHAEL PHILLIPS
TREASURY INSPECTOR GENERAL FOR AUDIT

FROM: Pamela J. LaRue
Chief Financial Officer

SUBJECT: Draft Audit Report – The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration (Audit # 201110030)

Thank you for the opportunity to comment on the Treasury Inspector General for Tax Administration's (TIGTA) discussion draft report titled, "The Full Costs of Work Performed on Reimbursable Agreements Are Not Always Charged, Resulting in Reduced Funds Available for Tax Administration". 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. Our response to the four recommendations follows.

**Recommendation 1**: Ensure that all active reimbursable agreements are based on the full costs estimated for the services provided. In addition, the CFO should require that reimbursable agreements be renegotiated, and additional reimbursement collected, where feasible, if it is determined that the IRS is not being reimbursed based on the full estimated costs, such as with the reimbursable agreement with the FMS.

**Response**: The IRS will conduct an on-going, full review of all reimbursable agreements beginning in FY 2013. It is not feasible to complete a full review of the FY 2012 reimbursable agreements and renegotiate agreements with each of our customers by September 30, 2012. It is unlikely customers would agree to renegotiate agreements at a higher cost after the agreements have been signed.

**Recommendation 2**: Reconcile the difference identified between the FY 2011 FMS agreement reimbursement receipts recorded in the Integrated Financial System and the expected reimbursement for this work based on the terms of the agreement and pursue the collection of any additional funds identified as not collected, as applicable.

**Response**: The IRS will review this agreement to reconcile differences and determine the reasons for the difference by December 31, 2012. We will then develop a plan of action. However, if additional funds were to be collected, they would not be available for new obligations because we would be required to post these earnings to an FY 2011 account.

2

**Recommendation 3**: Ensure the Reimbursable Operating Guidelines are updated to require that overhead be included in reimbursable work cost estimates as applicable. The Guidelines should be updated to clearly indicate the types of reimbursable agreements in which overhead costs are not required, if appropriate. These procedures should also be updated to specifically require CFO staff to periodically review agreements to identify instances in which reimbursed funds are less than estimated, or do not include overhead charges, to identify potential under billings.

**Response**: The IRS agrees with this recommendation. CFO is currently developing interim guidance on reimbursable work cost estimates to augment the Reimbursable Operating Guidelines. The interim guidance will be completed by August 31, 2012. The guidance requests the Business Units (BU) submit any and all supporting documentation on costing prior to agreement signature. In the rare case that a BU is requesting an exemption from indirect cost, a waiver is also required. CFO will require that the BUs submit the final signed agreement and FMX1 spreadsheet for all projects.

**Recommendation 4**: Provide refresher training on a periodic basis to responsible business unit personnel to promote awareness of reimbursable agreement policies, including the need to use documented and reliable sources of information when estimating project costs.

**Response**: The IRS agrees with this recommendation. Corporate Budget will work with the Cost Accounting Office and Beckley Financial Center to develop and hold the Reimbursable Kick-Off Meeting by December 31, 2012. The kick-off will include training on current and upcoming procedure changes and review methodologies, forms, the Integrated Financial System, and everyday how-to's.

We appreciate your continued support and the valuable assistance and guidance your team provides. If you have any questions, please contact me at (202) 622-6400, or have a member of your staff contact Ursula Gillis, Associate Chief Financial Officer for Corporate Budget, at (202) 622-8770.