



**Treasury  
Inspector  
General for Tax  
Administration**



**Recovery Act**

**Office of Audit**

## **DEFICIENCIES CONTINUE TO EXIST IN VERIFYING CONTRACTOR LABOR CHARGES PRIOR TO PAYMENT**

**Issued on September 19, 2012**

# **Highlights**

Highlights of Report Number: 2012-11-101 to the Internal Revenue Service Deputy Commissioner for Operations Support.

### **IMPACT ON TAXPAYERS**

The IRS received an appropriation of \$203 million in American Recovery and Reinvestment Act of 2009 (Recovery Act) funds. TIGTA determined that the IRS did not have documentation supporting \$394,430 of the invoiced labor hours that were paid. When labor hours are not adequately verified, there is no assurance that Recovery Act funds are being used for authorized purposes.

### **WHY TIGTA DID THE AUDIT**

This audit was initiated because TIGTA is required to monitor the IRS's implementation of Recovery Act provisions. The overall objective of this review was to assess the IRS's controls over contract invoice review, approval, and payment processes and to identify improper payments of Recovery Act funds made to contractors.

### **WHAT TIGTA FOUND**

Our review of a statistically valid sample of \$1 million in labor charges identified that the IRS did not have documentation supporting \$394,430 of the invoiced labor hours that were paid. Applying the results of our analysis to the \$5.3 million in labor charges for the procurement in which unsupported payments were identified, TIGTA estimates a total of \$927,992 may have been erroneously paid. IRS Contracting Officer's Technical Representatives (COTR) did not obtain required documentation supporting all billed labor charges. The unsupported labor charges relate to work performed by contractor and subcontractor employees. In contrast, our review of a sample of \$34,306 in travel expenses found that COTRs obtained documentation supporting the travel expenses claimed. TIGTA confirmed that the travel expenses submitted and paid by the IRS were consistent with Federal Travel Regulations.

Our review also identified that some labor hours billed and paid were at higher or lower rates than established in the contract for the qualification level of the individual for whom the hours were billed. Finally, TIGTA found that although the Contracting Officers verified the qualifications and experience levels of those contractor employees who were designated as key personnel, a similar verification of a random sample of the remaining personnel was not performed by the responsible COTR as required by his or her appointment letter.

### **WHAT TIGTA RECOMMENDED**

TIGTA recommended that the Chief, Agency-Wide Shared Services: 1) ensure that established processes and procedures to verify all labor charges are followed prior to payment, 2) ensure the validity of all labor charges associated with the procurement TIGTA identified as having a total of \$394,430 paid for labor charges that were not supported by required documentation and initiate actions to recover any funds identified as being paid erroneously, and 3) ensure COTRs are in compliance with the requirement to perform random checks of resumes of individuals who are not considered to be key personnel if this requirement is included in their appointment letter.

IRS management agreed with our recommendations. In response, the IRS has revised receipt and acceptance policies and procedures, plans to review the labor charges associated with the procurement TIGTA identified as having labor charges not supported by required documentation, and plans to continue to remind the COTRs and their management of the importance of the appointment letter and that all duties within that letter must be fulfilled.

### **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/201211101fr.pdf>.