

**Audit of Fiscal Year 2005 Forward
Pricing Direct Labor Rates**

April 2005

Reference Number: 2005-1C-059

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: Audit of Fiscal Year 2005 Forward Pricing Direct Labor Rates
(Audit #20051C0216)

The Defense Contract Audit Agency (DCAA) examined the contractor's October 11, 2004, direct labor forward pricing rates for the period of August 1, 2004, through July 31, 2005. The purpose of the examination was to determine the reasonableness of the proposed direct labor forward pricing rates.

The DCAA considers the contractor's accounting system to be inadequate in part for segregating, accumulating, and reporting Federal Government contracts costs. The DCAA also stated that the budget and planning system is inadequate to ensure the proposed rates and escalation factors are based on current, accurate, and complete cost and pricing data.

The DCAA opined that the direct labor category rate data submitted by the offeror are adequate. However, the DCAA took exception on two direct labor category rates. According to the DCAA, the audit disclosed no exceptions to the remaining proposed direct labor category rates for the period August 1, 2004, through July 31, 2005, or to grouping of employees into labor categories.

The information in this report should not be used for purposes other than those intended without prior consultation with the Treasury Inspector General for Tax Administration 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.

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