

Report on Audit of Labor Internal Controls

May 2004

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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

May 20, 2004

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

FROM: Daniel R. Devlin
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: Report on Audit of Labor Internal Controls
(Audit #20041C0226)

The Defense Contract Audit Agency (DCAA) had examined the contractor's labor accounting system as of January 29, 2004. The purpose of the examination was to assure that the contractor's system of labor controls is adequate to provide labor costs that are reasonable and compliant with applicable laws, regulations, and contract terms. The DCAA examined only the labor accounting system and, accordingly, expresses no opinion on the contractor's system of internal controls taken as a whole.

The DCAA opined that the contractor's labor accounting system is inadequate. The examination noted significant deficiencies in the design or operation of the internal control structure. According to the DCAA, these deficiencies could adversely affect the organization's ability to record, process, summarize, and report labor costs in a manner that is consistent with applicable Federal Government contract laws and regulations. These conditions include the following:

- The contractor lacks adequate written policies and procedures which provide for monitoring of its labor system, including regular compliance audits that ensure the timely and accurate recording, distribution, and payment of labor costs.
- The contractor's written policies and procedures do not adequately address the control and issuance of work authorizations.
- The contractor's DataBasics program, as currently implemented, permits supervisors to modify employee timesheets and submit them without employee recertification.

- The contractor's DataBasics program, as currently designed and implemented, permits alternative timesheet approvers to approve their own timesheets, should the primary approver be unavailable.
- The contractor's timekeeping system, as currently configured, does not prevent employees who normally charge indirect time from charging direct time to a project, nor does the system restrict what indirect accounts an employee who normally charges direct time may charge.
- The contractor lacks adequate written policies and procedures for overtime.

The DCAA indicated that, as a result of control risk assessments, its audit effort will be increased in reviews of incurred labor cost, billing, and contract pricing. The DCAA also indicated that the contractor generally agrees to the findings and is taking aggressive action to correct the deficiencies.

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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