



THE WASTE REPORT

April 20, 2017

NOT ONLY DO THEY TAKE OUR MONEY, BUT NOW THEY WASTE IT, TOO THE IRS FAILS TO RECOVER OVER \$76 MILLION OF UNALLOWABLE CONTRACTING COSTS

Government service contracts are large, complex, and can span years. Because of this, sometimes “unallowable expenses” - things not covered in the contract - mistakenly get paid by Uncle Sam. For this reason, the government employs auditors, such as the Defense Contract Audit Agency (DCAA), to review payments and identify ones that should not have been made. If a payment turns out to be improper, the government agency that made it is supposed to recover the money.

Unfortunately, according to a recent report from the Inspector General (IG) that oversees the IRS, when DCAA notified the IRS of unallowable payments over 10 years, only a miniscule amount was recovered out of over \$77 million, and the agency scrutinizing your records was revealed to have less-than-stellar bookkeeping itself.¹

IGNORED AUDITS

Treasury’s internal guidance² dictates that once a final audit of a contract is issued, unallowable expenses should typically be reconciled within six months. However, DCAA reports are only advisory, and, “[t]he authority and duty to act on these findings rests with the responsible CO [Contracting Officer].”³

The first step when an audit report is issued is for the CO to issue a “disposition memorandum” stating their agreement or disagreement with the audit findings. But in eight percent of cases, it seems even this basic step was not taken. Still, most COs did file a memo, and only in one instance the IG reviewed did the CO actually disagree with the finding of an unallowable payment.

Unfortunately, agreeing with the audit is as far as much of the recovery effort went. In only one case did the IRS take action within six months of receiving a DCAA report, and in 45 percent of the IG’s sampling, no

further action was taken, or the majority of identified costs were not recovered.⁴

MISSING INFORMATION

The IG noted that the IRS was unable to locate ANY of the 48 contract files associated with its review. For 96 percent of cases in the IRS database used to track recoveries, critical information was missing. This includes such basic info as: contract numbers, correct recovery status, accurate contractor names, and contact info.⁵

Even when the IRS claims to have recovered lost taxpayer money, they have difficulty documenting the claim. The IRS says it recovered \$1.4 million identified by DCAA, but the IG could only find documentation of \$545,000 (38%) actually being recovered.⁶

TAXPAYERS PAID TWICE

Not only did the IRS not recover misspent taxpayer money, but they also paid for the audits. DCAA is part of the Department of Defense (DOD) but has been allowed to make their services available to other agencies, which are then charged for the audits. The IRS paid DCAA almost \$5.7 million for the audits that in turn identified close to \$77.6 million in recoverable, unallowable payments.⁷ As noted earlier, the IRS only claims to have recovered \$1.4 million, 3/5th of which they could not substantiate. **In other words, where the IRS potentially could have recovered \$13.61 of every dollar they invested in audits, they actually lost 75¢.**

TAX AND SPEND

As part of their review, the IG interviewed IRS COs and found that **“the organizational focus for the COs at the IRS is to expeditiously make awards and obligate funding, not to recover unallowable costs paid to contractors.”**⁸

IS THIS THE SAME IRS WE ALL DEAL WITH ON TAX DAY?

⁴ Ibid., 5.

⁵ Ibid., 9.

⁶ Ibid.

⁷ Ibid., 6.

⁸ Ibid., 7.

¹ <https://www.treasury.gov/tigta/auditreports/2017reports/201710019fr.pdf>

² Treasury Directive 40-03, *Treasury Audit Resolution, Follow-Up, and Closure* (February 2001)

³ <https://www.treasury.gov/tigta/auditreports/2017reports/201710019fr.pdf>