Audit Report

OFFICE OF THE INSPECTOR GENERAL

DEPARTMENT OF DEFENSE COMPLIANCE WITH FEDERAL TAX REPORTING REQUIREMENTS

Report No. 95-234 June 14, 1995

Department of Defense

Additional Copies

To obtain additional copies of this audit report, contact the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, at (703) 604-8937 (DSN 664-8937) or FAX (703) 604-8932.

Suggestions for Future Audits

To suggest ideas for or to request future audits, contact the Planning and Coordination Branch, Audit Planning and Technical Support Directorate, at (703) 604-8939 (DSN 664-8939) or FAX (703) 604-8932. Ideas and requests can also be mailed to:

Inspector General, Department of Defense
OAIG-AUD (ATTN: APTS Audit Suggestions)
400 Army Navy Drive (Room 801)
Arlington, Virginia 22202-2884

Defense Hotline

To report fraud, waste, or abuse, contact the Defense Hotline by calling (800) 424-9098; by sending an electronic message to Hotline@DODIG.OSD.MIL; or by writing the Defense Hotline, The Pentagon, Washington, D.C. 20301-1900. The identity of each writer and caller is fully protected.

Acronyms

CY	Calendar Year
DFAS	Defense Finance and Accounting Service
FAR	Federal Acquisition Regulation
FARS	Federal Acquisition Regulation Supplement
IG	Inspector General
IRS	Internal Revenue Service

Office of the Inspector General, DoD

Report No. 95-234 **June 14, 1995**
(Project No. 4FI-7004)

DEPARTMENT OF DEFENSE COMPLIANCE WITH FEDERAL TAX REPORTING REQUIREMENTS

EXECUTIVE SUMMARY

Introduction. Sections 6041 and 6041A of title 26, United States Code, as implemented in title 26, Code of Federal Regulations, parts 1.6041-1 and 1.6041-3, require payors, including Federal Government agencies, to report to the Internal Revenue Service certain payments for services obtained from noncorporate contractors, and some medical service corporations, when the costs of those services total $600 or more in a calendar year. The payments are reported on Internal Revenue Service Form 1099-MISC, "Miscellaneous Income" (Internal Revenue Service Form 1099). Section 6050M of title 26, United States Code, as implemented in title 26, Code of Federal Regulations, part 1.6050M, requires Government contracting offices to provide information to the Internal Revenue Service for certain contracting actions. That information should include the name, address, and taxpayer identification number of contractors. The Federal Acquisition Regulation, subpart 4.203, requires contracting offices to collect taxpayer identification numbers and corporate status from every contractor. Federal Acquisition Regulation, subpart 4.203, also requires that the contracting offices provide the information collected in accordance with Federal Acquisition Regulation subpart 52.204-3 to the paying offices for use in preparation of Internal Revenue Service Forms 1099.

Objectives. Our primary audit objective was to evaluate whether DoD activities were complying with Federal requirements for tax reporting. Specifically, we determined whether information on certain contracting actions over $25,000 was properly reported to the Internal Revenue Service when appropriate. We also determined whether payments to noncorporate contractors and certain medical service corporations were reported to the Internal Revenue Service as required, using Internal Revenue Service Form 1099. We evaluated the annual reviews and reports required by the DoD Internal Management Control Program.

Audit Results. DoD contracting offices were doing a commendable job of obtaining and submitting the information required to be reported to the Internal Revenue Service. However, DoD management of the Internal Revenue Service Form 1099 reporting process was inadequate and there were material management control weaknesses. Ten of 11 DoD paying offices we visited were not obtaining the needed information, maintaining accurate records, or reporting payments for services obtained from noncorporate contractors and medical service corporations to the Internal Revenue Service when appropriate. The Defense Accounting Office, San Diego, California, was the only activity visited that properly fulfilled the reporting requirements. Also, the paying offices did not initiate backup withholding for contractors who did not provide valid taxpayer identification numbers. As a result, the U.S. Treasury could lose tax revenue. See Appendix C for a listing of the potential benefits from implementing the audit recommendations.

Summary of Recommendations. We recommended that the Under Secretary of Defense for Acquisition and Technology instruct DoD contracting offices to establish management control procedures that assure compliance with the Federal Acquisition Regulation subparts 4.203 and 52.204-3, which require contracting officers to obtain taxpayer identification numbers and corporate status for all procurement actions and submit the information to DoD paying offices.

We also recommended that the Under Secretary of Defense (Comptroller):

o direct the Defense Finance and Accounting Service to establish a standard system for collecting information for Internal Revenue Service Form 1099 reporting;

o direct all paying offices to use the standard Internal Revenue Service Form 1099 reporting system established by the Defense Finance and Accounting Service;

o require that compliance with Internal Revenue Service Form 1099 reporting be evaluated and certified in conjunction with the DoD Internal Management Control Program; and

o require DoD paying offices to thoroughly review all calendar year 1994 payments to ensure that they have been reported in compliance with tax reporting requirements.

Management Comments. The Director, Defense Procurement concurred stating that the Department proposes to achieve compliance with the Federal Acquisition Regulation requirements via vendor registration for electronic contracting in DoD and expects to complete the process within two years. The Director stated they are working to resolve problems with the Defense Finance and Accounting Service for the automated transfer of millions of identification numbers. The complete text of management comments is in Part IV. Although not required to comment, the Department of the Army Contracting Support Agency issued a message on May 2, 1995, to all contracting officials directing that they implement the necessary local management control procedures for compliance with Federal Acquisition Regulation provision 4.203 and add it as a special interest item on Procurement Management Reviews. We commend the actions of the Army. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report.

Audit Response. Comments from the Director, Defense Procurement, are responsive. The proposed actions satisfy the intent of our recommendation. We request written comments from the Under Secretary of Defense (Comptroller) by August 14, 1995.

Table of Contents

Executive Summary i

Part I - Introduction 1

Background 2
Objectives 3
Scope and Methodology 3
Management Controls 4
Prior Audits and Other Reviews 4
Other Matters of Interest 4

Part II - Finding and Recommendations 7

Internal Revenue Service Form 1099 Reporting 8

Part III - Additional Information 19

Appendix A. Prior Audits and Other Reviews 20
Appendix B. Internal Revenue Service Forms 1099 for Calendar Year 1993 22
Appendix C. Summary of Potential Benefits Resulting From Audit 23
Appendix D. Organizations Visited or Contacted 24
Appendix E. Report Distribution 26

Part IV - Management Comments 29

Office of the Under Secretary of Defense for Acquisition and Technology Comments 30

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, Department of Defense.

Part I - Introduction

Background

Sections 6041 and 6041A of title 26, United States Code, as implemented in title 26, Code of Federal Regulations, parts 1.6041-1 and 1.6041-3, require payors, including Federal Government agencies, to report to the Internal Revenue Service (IRS) certain payments for services obtained from noncorporate contractors, and some medical service corporations, when the costs of those services total $600 or more in a calendar year. This information is reported from the DoD payment offices to the IRS on IRS Form 1099-MISC, "Miscellaneous Income" (IRS Form 1099). The reporting permits the IRS to identify payments that are taxable but are not subject to tax withholding. Examples of reportable payments include janitorial, consultant, expert and professional fees, rents, and health and medical services provided by other than nonprofit providers.

Section 6050M of title 26, United States Code, as implemented in title 26, Code of Federal Regulations, part 1.6050M, requires that the heads of Federal agencies also provide information to the IRS, including name, address, and taxpayer identification number for certain contracting actions. Additionally, section 6050M of title 26, United States Code, requires reporting the date of contract award, the amount of the contract action, and the estimated date of contract completion. This legislation was enacted to provide the IRS with another source of information about contracting actions that can be used to assist in the collection of unpaid taxes. Within DoD, the requirements of section 6050M are met by transferring to the IRS the information gathered by contracting offices on Individual Contracting Action Reports (DD Forms 350).

Subparts 4.203, 4.903, and 52.204-3 of the Federal Acquisition Regulation (FAR) give policies and procedures for collecting and reporting all contractual information required by the IRS, including information required from payment offices as well as contracting offices. Additionally, DoD Manual 7220.9-M, "DoD Accounting Manual," December 14, 1987, gives guidance on statutory requirements for preparing IRS Forms 1099, and the "DoD Financial Management Regulation," Volume 10, chapter 6, provides guidance on the issuance of IRS Forms 1099, including backup withholding of 31 percent of invoice payments for contractors who fail to provide valid taxpayer identification numbers. The backup withholding of 31 percent of invoice payments is generally required when contractors fail to provide valid taxpayer information (including identification number and corporate status) for preparation of an IRS Form 1099.

Objectives

Our primary audit objective was to evaluate whether DoD activities were complying with Federal requirements for tax reporting. Specifically, we determined whether payments to noncorporate contractors and certain medical service corporations were reported to the IRS as required using IRS Form 1099. We also determined whether information on certain contracting actions over $25,000 was properly reported to the IRS when appropriate. We also evaluated the annual reviews and reports required by the DoD Internal Management Control Program.

Scope and Methodology

This financial-related audit was performed from August 1994 through January 1995 in accordance with auditing standards issued by the Comptroller General of the United States and implemented by the Inspector General, DoD. The audit included necessary tests of management controls.

We judgmentally selected and reviewed contract files and payment records for the period January 1993 through December 1994 at 18 sites (11 DoD paying offices and 7 of their supporting contracting offices). To determine whether IRS Forms 1099 were accurately and promptly prepared, we reviewed all calendar year (CY) 1993 IRS Forms 1099 issued by each of the 11 paying offices visited. We selected and reviewed a judgmental sample of the remaining CY 1993 contract payments made by each site to determine whether additional contractors should have received an IRS Form 1099 but did not. We selected contractors who appeared to meet the IRS Form 1099 criteria (noncorporate contractors and certain medical service corporations that provide rent, janitorial, and health and medical services) and determined whether they had received more than $600 in payments for CY 1993 and whether IRS Forms 1099 had been issued. In total, 1300 contractors were reviewed.

We tested the adequacy of automated and manual controls for identifying contractors for whom DoD paying offices were required to prepare and submit IRS Forms 1099 to the IRS at the end of CY 1993, and for whom DoD contracting offices were required to enter contractor information on DD Forms 350 for certain contracting actions over $25,000. Except for those tests, we did not assess the reliability of computer systems or computer-generated data. Appendix D lists the organizations we visited or contacted.

Management Controls

The audit identified material management control weaknesses as defined by DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987. Specifically, 10 of the 11 DoD paying offices reviewed had not established adequate management controls to:

o identify contractors whose payments must be reported to the IRS on IRS Forms 1099;

o accurately track annual compensation payments made to certain contractors during a tax year; and

o ensure that required IRS Forms 1099 were prepared and provided to the payees and the IRS at the end of each calendar year.

The weaknesses were not identified in the Annual Statements of Assurance on management controls at the offices visited. With the assessable unit structure used, any weaknesses should have been reported. However, in most cases, the paying offices were aware of some of the problems in their IRS Form 1099 reporting processes, but had not identified them as reportable weaknesses.

The recommendations cited in this report, if implemented, will correct the weaknesses. Potential monetary benefits to be realized from implementing these recommendations were not quantified. A copy of our final report will be provided to the senior official responsible for management controls within the Office of the Secretary of Defense and the Military Departments.

Prior Audits and Other Reviews

Since October 1986, the IG, DoD; the Department of the Treasury IG; and the Office of Management and Budget have published three reports on the issuance of IRS Forms 1099 for nonemployee payments in the Federal Government. The Defense Finance and Accounting Service (DFAS) also published one report on the issuance of IRS Forms 1099 by the DFAS Columbus Center, Columbus, Ohio. See Appendix A for a discussion of these prior reports.

Other Matters of Interest

DoD contracting offices were doing a commendable job of obtaining and submitting the information required to be reported to the IRS by title 26, United States Code, section 6050M, as implemented in the FAR subpart 4.903. Only 73 of the 2,447 judgmentally selected contract actions reviewed at 7 Military

Department contracting offices did not contain taxpayer identification numbers and other information required by the legislation, including name, address, date of contract award, the amount of the contract action, and the estimated date of contract completion. Cases in which the information was not obtained generally involved multiple actions for the same contractors. In those actions, the information had been obtained earlier and entered into the local computer systems. In the few instances where the information had not been obtained, the contracting offices took corrective actions during our audit. Therefore, we are not making any additional recommendations in this report. (Although contracting offices provided information on contractors to the IRS, they did not always provide required information about contractors to the DoD paying offices for use in preparing IRS Forms 1099. See Finding).

Part II - Finding and Recommendations

Internal Revenue Service Form 1099 Reporting

Although DoD contracting offices were obtaining and submitting information required to be reported, the DoD management of the Internal Revenue Service Form 1099 reporting process was inadequate and there were material management control weaknesses. Specifically, 10 of the 11 DoD paying offices we visited were not obtaining needed information, maintaining accurate records, or reporting payments for services obtained from noncorporate contractors and certain medical service corporations. Additionally, the paying offices did not have adequate procedures in place to initiate backup withholding for contractors who did not provide valid taxpayer identification numbers. These conditions existed because DoD contracting offices did not always provide the taxpayer information to DoD paying offices that was needed to perform IRS Form 1099 reporting. Additionally, DoD paying offices did not always comply with requirements to:

- o maintain all the required tax reporting information,
- o report payments and withhold taxes when necessary, and
- o evaluate compliance with tax reporting as part of the DoD Internal Management Control Program.

As a result, the 10 paying offices failed to report at least $15.5 million in CY 1993 payments, and the IRS could not match payments reported as taxable income by the contractors against payments actually made by DoD. The failure to properly report income could result in a loss of revenue to the U.S. Treasury.

Background

IRS Studies. IRS studies have shown that when IRS Forms 1099 are filed, recipients report about 77.2 percent of the income on their tax returns. When the IRS Forms 1099 are not filed, however, only about 28.8 percent of the income is reported.

Federal Acquisition Regulation. The FAR subpart 4.903, "Payment Information," gives policies to be followed for reporting payment information to the IRS as required by title 26, United States Code, sections 6041 and 6041A. The FAR also requires paying offices to report to the IRS payments made to certain contractors, and outlines the types of payments that are exempt from reporting. It also requires payors to provide the IRS with the names, addresses, taxpayer identification numbers, and corporate status of contractors.

To aid the paying offices in accomplishing their responsibilities, FAR subpart 52.204-3, "Taxpayer identification," requires contracting offices to obtain certain contract information, including taxpayer identification numbers and corporate status, from all contractors. FAR subpart 4.203, "Taxpayer identification number information," requires that the taxpayer information obtained under the solicitation provision of FAR subpart 52.204-3 be attached as the last page of the copy of the contract sent to the paying office.

DoD Manual 7220.9-M. The "DoD Accounting Manual" gives detailed guidance on statutory requirements for preparing IRS Forms 1099. The Manual states that DoD paying offices are responsible for preparing IRS Forms 1099.

DoD Financial Management Regulation. The "DoD Financial Management Regulation," Volume 10, chapter 6, section 060505, guides DoD paying offices on the procedures to be followed in issuing IRS Forms 1099, including withholding 31 percent of invoice payments for contractors who fail to provide valid taxpayer identification numbers.

Obtaining Information, Maintaining Records, and Reporting Payments

We visited 11 DoD paying offices during the audit. Those offices included six Defense Finance and Accounting Service (DFAS) paying offices and five Military Department paying offices. The 11 paying offices had issued 3,191 IRS Forms 1099 during CY 1993. The IRS Forms 1099 accounted for about $61.1 million in payments made during the year. Limited audit tests at DoD paying offices showed that at least $15.5 million in CY 1993 payments was not properly reported on IRS Forms 1099.

Ten of 11 DoD paying offices we visited were not obtaining information, maintaining accurate records, or reporting payments for services obtained from noncorporate contractors and certain medical service corporations. Additionally, the paying offices did not have adequate procedures in place to initiate backup withholding for contractors who did not provide valid taxpayer identification numbers. Appendix B is a numerical summary of the audit results. At each of the 11 sites we visited, the results of our audit were as follows.

Defense Accounting Office, San Diego, California. Of the 11 sites visited, only the Defense Accounting Office, San Diego, California, had effective procedures to ensure proper IRS Form 1099 reporting. The Defense Accounting Office, San Diego, had also developed automated procedures to perform backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. The Defense Accounting Office, San Diego, makes payments for 43 Naval activities, and had issued IRS Forms 1099 since 1991. The Defense Accounting Office, San Diego, issued 780 IRS Forms 1099 totaling about $13.2 million for CY 1993 payments. The Defense Accounting Office, San Diego, effectively

reported payments to the IRS because personnel sought the information needed to prepare the IRS Forms 1099. If the responsible DoD procurement office did not provide the needed information, the paying office contacted the contractor. Because of the effective procedures at the Defense Accounting Office, San Diego, we did not select any additional CY 1993 contractors for further review.

Defense Accounting Office, Huntsville, Alabama. The Defense Accounting Office, Huntsville, Alabama, issued 68 IRS Forms 1099 totaling about $1.5 million for CY 1993 payments, and had implemented manual procedures for backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. However, we noted that voucher examiners did not always correctly identify and track contractors who met IRS Form 1099 criteria. We judgmentally selected an additional 147 CY 1993 contractors for further review. Our sample identified payments to six contractors (totaling about $55,156) for which IRS Forms 1099 should have been issued but were not. Personnel at the Defense Accounting Office, Huntsville, indicated that their manual process was labor-intensive and subject to error. Additionally, the responsible contracting offices did not always provide the Defense Accounting Office, Huntsville, with the information that was needed to prepare IRS Forms 1099. For each of the six contractors we identified, the procurement office had not submitted the required information to the paying office.

DFAS Cleveland Center, Cleveland, Ohio. The DFAS Cleveland Center did not issue any IRS Forms 1099 for payments made during CY 1993 or previous years and had not implemented procedures for backup withholding of 31 percent of payments when contractors failed to provide valid taxpayer identification numbers. Our judgmental sample of 51 contractors (paid during CY 1993) identified an $800 payment made by DFAS Cleveland for which an IRS Form 1099 should have been issued. DFAS Cleveland personnel stated that they had overlooked the reporting requirement, but planned to begin reporting all required payments in CY 1995. In addition to overlooking the requirement, DFAS Cleveland personnel did not receive the required identification and corporate status information from the contracting office for the contractor whose payment we identified.

DFAS Columbus Center, Columbus, Ohio. The DFAS Columbus Center did not issue any IRS Forms 1099 for payments made during CY 1993 or previous years. Also, the DFAS Columbus Center had not implemented procedures for backup withholding of 31 percent of payments if contractors failed to provide valid taxpayer identification numbers. During the audit, we identified three operations at the DFAS Columbus Center (Contract Administration Services, Stock Fund, and Operations and Maintenance) that would be subject to IRS Form 1099 reporting. In our judgmental sample of 548 contractors paid through those three operations, we identified CY 1993 payments totaling about $1.33 million, made to 45 contractors, for which IRS Forms 1099 should have been issued but were not. DFAS Headquarters had identified this as a problem in April 1994, and the DFAS Columbus Center had recognized it as a material management control weakness in its Annual Statement of Assurance prepared in October 1994 for the Federal Managers'

Financial Integrity Act. However, personnel at DFAS Columbus Center stated that other priorities had taken precedence and corrective actions had not been fully implemented. Also, contracting offices did not provide the information needed for the DFAS Columbus Center paying office to report payments to the 45 contractors we identified.

DFAS Indianapolis Center, Indianapolis, Indiana. The DFAS Indianapolis Center was issuing IRS Forms 1099. Also, the DFAS Indianapolis Center had implemented manual procedures for backup withholding of 31 percent of payments if contractors failed to provide valid taxpayer identification numbers. The DFAS Indianapolis Center had issued 1,427 IRS Forms 1099, totaling about $11.2 million, for CY 1993 payments. However, our judgmental sample of 39 contractors for CY 1993 showed that 7 of the 39 contractors should have received IRS Forms 1099 but did not. The DFAS Indianapolis Center initiated corrective action for the seven cases during our review. Personnel at the DFAS Indianapolis Center indicated that an effective system did not exist for maintaining the data needed to ensure full compliance with the reporting requirements. Also, the contracting offices had not provided the DFAS Indianapolis Center paying office with the required information for the seven contractors we identified.

DFAS Kansas City Center, Kansas City, Missouri. The DFAS Kansas City Center issued only one IRS Form 1099 during CY 1993. Our judgmental sample of 144 contractors paid by the DFAS Kansas City Center for CY 1993 showed that for payments to 25 of the 144 contractors, totaling about $13.6 million, IRS Forms 1099 should have been issued but were not. Additionally, procedures had not been implemented for backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. Managers at the DFAS Kansas City Center stated that until our audit, they were not aware of the various types of nonemployee compensation that required IRS Form 1099 reporting. Also, we noted that for the 25 contractors we identified, contracting offices had not provided the DFAS Kansas City paying office with the information needed to prepare IRS Forms 1099.

Fitzsimons Army Medical Center, Denver, Colorado. The Fitzsimons Army Medical Center, Denver, Colorado, issued 145 IRS Forms 1099 for CY 1993 payments totaling about $2.72 million. However, our judgmental sample of 179 additional CY 1993 contractors identified payments to 24 contractors, totaling about $231,661, for which IRS Forms 1099 should have been issued. In addition, the Fitzsimons Army Medical Center had not implemented procedures for backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. Personnel at the Fitzsimons Army Medical Center stated that contracting offices did not always provide the information needed to prepare the IRS Forms 1099 reports, and that the Fitzsimons Army Medical Center did not have enough staff or an automated system to check for any payments that may have been missed. We confirmed that the contracting offices had not provided the Defense Accounting Office with the information required to prepare IRS Forms 1099 for the 24 contractors we identified. Also, the manual procedures used to maintain information and report to the IRS were more likely to be inaccurate.

Humphreys Engineer Center Support Activity, Alexandria, Virginia. The Army Corps of Engineers' Humphreys Engineer Center Support Activity issued 28 IRS Forms 1099 for CY 1993 payments totaling about $303,000. Also, the Humphreys Engineer Center Support Activity had implemented manual procedures for backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. We judgmentally selected a sample of 121 additional CY 1993 contractors and identified payments to 10 contractors, totaling about $43,544, for which IRS Forms 1099 should have been issued but were not. For 6 of the 10 contractors we identified, the contracting office provided the information required for preparing IRS Forms 1099. However, for four other contractors, the contracting offices had not provided the needed information. Personnel at the Humphreys Engineer Center Support Activity took corrective action and indicated that the lack of information could have caused them to miss the contractors we identified.

Aeronautical Systems Center, Dayton, Ohio. The Air Force Aeronautical Systems Center, Wright-Patterson Air Force Base, Dayton, Ohio, did not issue any IRS Forms 1099 for CY 1993 payments. Also, the Aeronautical Systems Center had not implemented procedures for backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. Aeronautical Systems Center personnel stated that they believed (incorrectly) that issuing the forms would violate Air Force policy.

Air Force Academy, Colorado Springs, Colorado. The Air Force Academy, Colorado Springs, Colorado, issued 330 IRS Forms 1099 for CY 1993 payments totaling about $27.6 million. However, because of poor recordkeeping (the Air Force Academy was unable to provide a list of all payments it processed), insufficient evidence existed for us to determine whether 330 forms required processing. Also, the Air Force Academy had not implemented procedures for backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers.

Air Force Materiel Command, Dayton, Ohio. The Air Force Materiel Command, Wright-Patterson Air Force Base, Dayton, Ohio, issued 412 IRS Forms 1099 for CY 1993 payments totaling about $4.5 million. Our judgmental sample of 21 CY 1993 contractors identified payments to 4 contractors, totaling about $255,098, for which IRS Forms 1099 should have been issued but were not. Also, the Air Force Materiel Command had not implemented procedures for backup withholding of 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. Personnel at the Air Force Materiel Command stated that they produced an IRS Form 1099 for every contractor they paid, but did not submit some of the forms to the IRS because they believed that only payments to medical service corporations should be reported. Also, Air Force Materiel Command personnel did not receive the information from the contracting offices that would have assisted them in preparing IRS Forms 1099 for the four contractors we identified.

Causes of Inaccurate IRS Form 1099 Reporting

The incomplete and inaccurate IRS Form 1099 reporting at 10 of the 11 DoD paying offices that we visited occurred because DoD contracting offices did not always provide DoD paying offices with the taxpayer information needed to perform IRS Form 1099 reporting. Additionally, DoD paying offices did not always comply with requirements to:

- o maintain all the required tax reporting information,
- o report payments and withhold taxes when necessary, and
- o evaluate compliance with tax reporting as part of the DoD Internal Management Control Program.

Providing Tax Information from Contracting Offices to Paying Offices. The Under Secretary of Defense (Acquisition and Technology) had not ensured that DoD contracting offices provided DoD paying offices with the taxpayer information needed by the paying offices to prepare IRS Forms 1099.

Personnel in the Office of the Under Secretary of Defense for Acquisition and Technology stated that they believed that their contracting offices may be confused about the information they should send to the paying offices. They indicated that FAR subpart 4.902, "Contract Information," required only that information about certain contracting actions in excess of $25,000 be reported by contracting offices to the IRS. As a result, many contracting offices cited FAR subpart 4.902 as justification for not providing paying offices with information on contracting actions under $25,000.

Although FAR subpart 4.902 requires contracting offices to report certain contract actions in excess of $25,000 to the IRS, other sections of the FAR require that information be collected on all contracting actions and submitted to the paying offices to satisfy the IRS Form 1099 reporting requirements. Specifically, the FAR subpart 52.204-3 requires contracting offices to collect taxpayer identification numbers and corporate status from every contractor. FAR subpart 4.203 requires that the contracting offices provide the information collected in accordance with FAR subpart 52.204-3 to the paying offices.

At 8 of the 11 DoD paying offices we visited, records showed that the contracting offices provided the paying offices with identification numbers and the corporate status for only 6 of the 122 contractors that were candidates for IRS Form 1099 reporting (we contacted the remaining 116 contractors to determine their corporate status). At the other three paying offices, no information was available. For each of the 6 contract actions reported to paying offices, more than $25,000 was obligated.

Paying offices had difficulty preparing the IRS Forms 1099 without the corporate status information from the contracting offices. This was illustrated at the Defense Accounting Office, San Diego. The IRS Form 1099 clerk at the Defense Accounting Office, San Diego, did not receive all the contractor

information he needed from sources such as the Naval Public Works Center in San Diego. Since the Naval Public Works Center did not collect and provide the taxpayer identification numbers, corporate status, and types of contracts, the Defense Accounting Office, San Diego, requested the information directly from the contractors, an unnecessary and time-consuming procedure.

Maintaining Tax Information. The Comptroller, DoD, had not taken recent action to ensure that all DoD paying offices maintained all the required tax reporting information. Personnel in the Comptroller, DoD, office had known for several years that DoD organizations were not complying with tax reporting requirements. The deficiencies were brought to their attention in "Audit of Compliance with Internal Revenue Service Information Return Filing Requirements," IG, DoD, Report No. 87-017, October 21, 1986, and "Consolidated Audit Report to the President's Council on Integrity and Efficiency Covering Issuance of IRS Forms 1099 for Nonwage Payments in the Federal Government," IG, Department of the Treasury, Report No. 87-18, December 16, 1986 (see Appendix A). In December 1987, in response to the report, the Comptroller, DoD, modified the DoD Accounting Handbook to include revised guidance for IRS Form 1099 Reporting. Also, a memorandum issued by the Director, Defense Finance and Accounting Service, on December 18, 1993, to the DFAS Centers, attempted to enforce compliance with published requirements for tax reporting and withholding.

We believe that the ability to maintain tax information at the paying offices would be aided by development of a standardized DoD system for collecting the information needed to perform the IRS Form 1099 reporting. Although the IRS Form 1099 is the vehicle for transmitting data to the IRS at the completion of the tax year, DoD does not have a standard automated system that collects payment information throughout the year and provides a total for all payments to contractors for whom IRS Form 1099 reporting is required.

At the time of the audit, payments made to each contractor were often reconstructed by the paying offices at the end of the tax year, rather than accumulated during the year and summarized on IRS Forms 1099. Some activities that we visited, such as the Defense Accounting Office, San Diego, had acquired automated systems and could accumulate the information throughout the year that was needed for IRS Form 1099 reporting. However, there was no standard system at all the DoD paying offices. Also, DoD paying offices had no system that induced the withholding of payments to contractors who failed to provide valid taxpayer identification numbers.

We believe that a standardized system should be developed for accumulating and reporting IRS Form 1099 information to the IRS. At a minimum, the system should accumulate payments for nonemployee services, by payee, throughout the calendar year, and should issue IRS Forms 1099 (when required) based on total payments made during the calendar year. The system should also include appropriate management controls over the accuracy and completeness of data.

Reporting Tax Information. The Comptroller, DoD, had not ensured that all DoD paying offices complied with requirements to report payments and

withhold taxes when necessary. Given that these are repeat findings, the Comptroller, DoD must firmly emphasize to DoD Paying Offices both in and outside of DFAS that continued noncompliance is unacceptable. We were repeatedly informed by paying offices that 1099 reporting was not a high priority. Improving this attitude toward compliance will require senior level commitment from the Comptroller, DoD. Additional clarification of the requirements for reporting tax information is also needed. For example, personnel at the DFAS Cleveland Center and the DFAS Columbus Center stated that they overlooked IRS Form 1099 reporting requirements, or that they had given other operations higher priority. Also, managers at the DFAS Kansas City Center stated that until our audit, they were not aware of the various types of nonemployee compensation for services that required IRS Form 1099 reporting.

Officials at the DFAS Columbus Center stated that the December 18, 1993, memorandum from DFAS Headquarters clearly directed all DFAS Centers to immediately implement IRS Form 1099 reporting and withhold 31 percent of payments made to contractors who failed to provide valid taxpayer identification numbers. However, because of other priorities, they did not take action.

Managers in the paying office at the Air Force Aeronautical Systems Center stated that the Wright-Patterson Air Force Base Contracting Center (the Contracting Center) were previously informed them that issuing IRS Forms 1099 to Air Force contractors would violate Air Force regulations. Personnel at the Contracting Center stated that they believed the paying offices were asking about personal service contracts that are illegal. Our review of Air Force Regulation 177-102, "Commercial Transactions at Base Level," September 15, 1990, showed that the provisions of Air Force Regulation 177-102 were identical to the requirements of 26 U.S.C. section 6041, which requires that the tax information be reported for individuals, partnerships and certain corporate contractors. We concluded that because the Contracting Center had provided erroneous information to the paying office, the paying office did not issue IRS Forms 1099 for CY 1993 payments.

Reporting Compliance Through the DoD Internal Management Control Program. The Comptroller, DoD, had not verified that all DoD paying offices complied with requirements to evaluate compliance with tax reporting as part of the DoD Internal Management Control Program. Of the 11 organizations we visited, only the DFAS Columbus Center reported its noncompliance with the requirement to use IRS Forms 1099 to report tax information to the IRS. Our review of the implementation of the DoD Internal Management Control Program at the other 10 organizations revealed that none of those activities had reported their noncompliance as a management control weakness. Those organizations did not include tax reporting as an assessable unit or perform vulnerability assessments. Personnel at the other 10 organizations stated that tax reporting was not a high priority and they were doing an adequate job, or that they did not need to report.

Reviewing CY 1994 Payments. As discussed, the 11 paying offices had not thoroughly reviewed CY 1994 payments, had not identified all contractors who

were subject to IRS Form 1099 reporting, and had not issued IRS Forms 1099 to the IRS and the payees identified.

At the 11 activities, there was some compliance with requirements to review payments and issue the required forms. However, our judgmentally selected samples of CY 1994 payments provided sufficient evidence to show that the compliance was inconsistent, and demonstrated the need for a thorough review of all CY 1994 payments at those activities. We believe the conditions at the activities reviewed are indicative of systemic problems at DoD paying offices. Therefore, we consider corrective action necessary, not only at the paying offices reviewed, but at all applicable paying offices.

Recommendations, Management Comments, and Audit Response

1. We recommended that the Under Secretary of Defense for Acquisition and Technology instruct DoD contracting offices to establish management control procedures that assure compliance with the Federal Acquisition Regulation subparts 4.203 and 52.204-3, which require contracting officers to obtain taxpayer identification numbers and corporate status for all procurement actions and submit the information to DoD paying offices.

2. We recommended that the Under Secretary of Defense (Comptroller):

a. Direct the Director, Defense Finance and Accounting Service, to establish and use a standard system to collect information needed to complete Internal Revenue Service Forms 1099; provide Internal Revenue Service Forms 1099 to the Internal Revenue Service and the payees; and withhold 31 percent of the payments to contractors who fail to provide valid taxpayer identification numbers.

b. Direct all paying offices outside the Defense Finance and Accounting Service to follow the system for Internal Revenue Service Form 1099 reporting established by the Defense Finance and Accounting Service.

c. Issue a memorandum to the directors of all DoD Paying Offices requiring compliance with Internal Revenue Service Form 1099 reporting and related withholding requirements.

d. Direct that compliance with Internal Revenue Service Form 1099 reporting requirements be evaluated and certified annually as part of each DoD Component's Internal Management Control Program.

e. Direct DoD paying offices to thoroughly review calendar year 1994 payments, identify all contractors who are subject to Internal Revenue Service Form 1099 reporting, and issue Internal Revenue Service Forms 1099 to the Internal Revenue Service and the payees identified.

Management Comments. The Director, Defense Procurement, concurred with Recommendation 1. stating that the Department proposes to achieve compliance with the Federal Acquisition Regulation requirements via vendor registration and expects to complete the process within two years. The complete text of management comments is in Part IV. Although not required to comment, the Department of the Army Contracting Support Agency issued a message to all contracting officials on May 2, 1995, directing that they implement the necessary local management control procedures for compliance with Federal Acquisition Regulation provision 4.203 and add it as a special interest item on Procurement Management Reviews. We commend these actions by the Army. The Under Secretary of Defense (Comptroller) did not provide comments.

Audit Response. Comments from the Director are responsive. The proposed actions satisfy the intent of our recommendation. Additional comments are not required. We request written comments from the Under Secretary of Defense (Comptroller) by August 14, 1995.

Response Requirements for Recommendations

Responses to the final report are required from the addresses shown for the items indicated with an "X" in the chart below.

		Response Should Cover:			
No.	Addressee	Concur/ Nonconcur	Proposed Actions	Completion Date	Related Issues[1]
2.a.	Comptroller[2]	X	X	X	MC
2.b.	Comptroller	X	X	X	MC
2.c.	Comptroller	X	X	X	MC
2.d.	Comptroller	X	X	X	MC
2.e.	Comptroller	X	X	X	MC

[1]MC=Management control weakness
[2]Under Secretary of Defense (Comptroller)

Part III - Additional Information

Appendix A. Prior Audits and Other Reviews

IG, DoD, Report. The IG, DoD, Report No. 87-017, "Report on the Audit of Compliance with Internal Revenue Service Information Return Filing Requirements," October 21, 1986, concluded that $87 million in miscellaneous payments disbursed to more than 12,000 vendors was not reported to the IRS for the 6 months ended September 30, 1984. The report recommended that the Assistant Secretary of Defense (Acquisition and Logistics) and the Under Secretary of Defense (Comptroller) evaluate the proposed change to the FAR to ensure the inclusion of information needed by finance and accounting offices to support decisions to prepare IRS Forms 1099. The report also recommended that the Under Secretary of Defense (Comptroller) publish guidance on processing IRS Forms 1099 in the "DoD Accounting Handbook," and require DoD Components to comply with Treasury requirements for issuing IRS Forms 1099. In December 1987, the Under Secretary of Defense (Comptroller) modified the DoD Accounting Handbook to include revised guidance for IRS Form 1099 reporting. In September 1989, the Defense Acquisition Council made changes to the Federal Acquisition Regulations to clarify procedures for collecting information for IRS Form 1099 reporting.

Department of the Treasury IG Reports. The IG, Department of the Treasury, Report No. OIG 87-18, "Consolidated Audit Report to the President's Council on Integrity and Efficiency Covering Issuance of IRS Forms 1099 for Nonwage Payments in the Federal Government," December 16, 1986, noted widespread noncompliance at most of the 14 Federal agencies and departments reviewed, including DoD agencies. The report recommended that Federal agencies be required to establish policies and procedures for IRS Form 1099 filing requirements; that evaluations of IRS Form 1099 filing requirements be included in each agency's Federal Managers' Financial Integrity Act review; that the "Treasury Financial Manual" be revised to provide detailed procedures and examples for filing IRS Forms 1099; that the FAR be revised to permit the collection of necessary data for filing IRS Forms 1099; and that Office of Management and Budget Circular No. A-128 be revised to direct that IRS Form 1099 filing requirements be included in the annual audits of recipients of Federal funds. In response to the report, the Office of Management and Budget instructed agencies to strengthen management controls over tax reporting and related changes to the FAR and Circular No. A-128.

Office of Management and Budget Report. The Office of Management and Budget Report to the Congress, "Improvements Needed in Federal Agency Tax-Related Information Reporting to Ensure Tax Compliance of Federal Contractors," April 1, 1994, concluded that Federal agencies were not complying with IRS reporting requirements, and that 22 percent of contractors doing business with the Government owed delinquent taxes. The report recommended that Federal agencies take immediate steps to check contractors' tax compliance; that the Department of the Treasury clarify Federal agencies' roles and responsibilities and designate agency contacts to build working relationships among the agencies and IRS; that Federal agencies certify that procedures and policies are in place by March 30, 1995, to meet IRS

Form 1099 reporting requirements; that Federal agencies and the IRS ensure that the required taxpayer identification numbers are obtained and verified; and that the IRS monitor agencies and give feedback on the fulfillment of IRS Form 1099 reporting requirements.

DFAS Memorandum Report. DFAS Headquarters, Richmond Detachment, issued a memorandum report, "Evaluation of the Appropriated Accounting Subsystem of the Defense Business Management System at the Defense Finance and Accounting Service Columbus Center," April 15, 1994. Condition 39 in that report stated that the DFAS Columbus Center was not issuing statements for recipients of IRS Forms 1099 for CY 1992. The report recommended that the DFAS Financial Services Directorate assure that standard operating procedures identify contractors needing taxpayer identification numbers and explain how to obtain taxpayer identification numbers if they are not reported. The report also recommended that IRS Forms 1099 be submitted to the IRS. Based on the above findings and recommendations, the DFAS Columbus Center, in its Annual Statement of Assurance for the Federal Managers' Financial Integrity Act, October 13, 1994, identified as a material weakness the nonreporting of IRS Forms 1099 to the IRS.

Appendix B. Internal Revenue Service Forms 1099 for Calendar Year 1993

Site Visited*	Contractors Reviewed	Contractors Who Should Have Received IRS Forms 1099 for 1993	Dollar Value
1.	147	6	$ 55,156
2.	0	0	0
3.	51	1	800
4.	548	45	1,332,799
5.	39	7	7,004
6.	144	25	13,586,439
7.	179	24	231,661
8.	121	10	43,544
9.	50	0	0
10.	0	0	0
11.	21	4	255,098
Totals	**1,300**	**122**	**$15,512,501**

We determined from our review of 1,300 judgmentally selected contractors that the paying offices should have issued IRS Forms 1099-MISC to 122 contractors, but did not do so. The paying offices we reviewed paid the 122 contractors $15,512,501 during CY 1993.

*Sites Visited

1. Defense Accounting Office, Huntsville, AL
2. Defense Accounting Office, San Diego, CA
3. Defense Finance and Accounting Service Center, Cleveland, OH
4. Defense Finance and Accounting Service Center, Columbus, OH
5. Defense Finance and Accounting Service Center, Indianapolis, IN
6. Defense Finance and Accounting Service Center, Kansas City, MO
7. Fitzsimons Army Medical Center, Denver, CO
8. Humphreys Engineer Center Support Activity, Alexandria, VA
9. Aeronautical Systems Center, Dayton, OH
10. Air Force Academy, Colorado Springs, CO
11. Air Force Materiel Command, Dayton, OH

Appendix C. Summary of Potential Benefits Resulting From Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.	Economy and efficiency. Enforcing the requirements of the FAR will ensure that DoD paying offices receive the information necessary to identify contractors who require IRS Form 1099 reporting.	Nonmonetary.
2.a., 2.b.	Internal controls. A standard system will ensure that all DoD activities use the same IRS Form 1099 reporting system.	Nonmonetary.
2.c.	Internal controls. Requiring review and certification under the DoD Internal Management Control Program will help ensure compliance with IRS Form 1099 reporting requirements.	Undeterminable. The actual dollar amount of enhanced government revenue cannot be determined and depends on future management actions.
2.d.	Internal controls. Reemphasizing reporting requirements will help ensure compliance with IRS Form 1099 reporting.	Nonmonetary.
2.e.	Internal controls. Preparing IRS Forms 1099 for CY 1994 payments will help ensure that taxable income for CY 1994 is properly reported to the IRS.	Undeterminable. The actual dollar amount of enhanced government revenue cannot be determined.

Appendix D. Organizations Visited or Contacted

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology, Washington, DC
Under Secretary of Defense (Comptroller), Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management)
Army Redstone Arsenal, Huntsville, AL
Auditor General, Department of the Army, Washington, DC
Fitzsimons Army Medical Center, Denver, CO
Army Corps of Engineers, Fort Belvoir, VA

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller), Washington, DC
Naval Public Works Center, San Diego, CA
Naval Facilities Engineering Command, San Diego, CA

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller), Washington, DC
Air Force Materiel Command, Wright-Patterson Air Force Base, Dayton, OH
Aeronautical Systems Center, Wright-Patterson Air Force Base, Dayton, OH
Air Force Academy, Colorado Springs, CO

Defense Organizations

Defense Finance and Accounting Service, Washington, DC
- Defense Finance and Accounting Service Cleveland Center, Cleveland, OH
  - Defense Accounting Office, San Diego, CA
- Defense Finance and Accounting Service Columbus Center, Columbus, OH
- Defense Finance and Accounting Service Denver Center, Denver, CO
- Defense Finance and Accounting Service Indianapolis Center, Indianapolis, IN
- Defense Finance and Accounting Service Kansas City Center, Kansas City, MO

Non-Defense Federal Organizations

Commissioner, Internal Revenue Service

Appendix E. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
  Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
General Counsel of the Department of Defense

Department of the Army

Assistant Secretary of the Army (Financial Management)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Defense Organizations

Director, Defense Finance and Accounting Service
  Director, Defense Finance and Accounting Service Cleveland Center
  Director, Defense Finance and Accounting Service Columbus Center
  Director, Defense Finance and Accounting Service Denver Center
  Director, Defense Finance and Accounting Service Indianapolis Center
  Director, Defense Finance and Accounting Service Kansas City Center

Non-Defense Federal Organizations

Department of the Treasury
  Commissioner, Internal Revenue Service
Office of Management and Budget
Technical Information Center, National Security and International Affairs Division,
  General Accounting Office

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice, Committee on Government Reform and Oversight
House Committee on National Security

Part IV - Management Comments

Under Secretary of Defense for Acquisition and Technology Comments

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

ACQUISITION AND TECHNOLOGY

DP/CPF

MAY 25 1995

MEMORANDUM FOR THE ASSISTANT INSPECTOR GENERAL FOR AUDITING, DEPARTMENT OF DEFENSE

SUBJECT: Draft Audit Report on Department of Defense Compliance With Federal Tax Reporting Requirements (Project No. 4FI-7004)

This is in response to the memorandum of April 20, 1995, from the Director, Financial Management Directorate, which requested our comments on the subject draft audit report. Our detailed response to the subject report's recommendation to the Under Secretary of Defense (Acquisition and Technology) is attached.

Thank you for the opportunity to comment on the subject draft report.

Eleanor Spector

Eleanor R. Spector
Director, Defense Procurement

Attachment

IG DRAFT REPORT - AUDIT REPORT ON DEPARTMENT OF DEFENSE COMPLIANCE WITH FEDERAL TAX REPORTING REQUIREMENT (PROJECT NO. 4FI-7004)

DDP RESPONSE TO THE DRAFT REPORT

FINDING: Overall DoD management of the IRS Form 1099 reporting process was inadequate. Specifically, 10 of the 11 DoD paying offices visited were not obtaining needed information, maintaining accurate records, or reporting payments for services obtained from noncorporate contractors and certain medical service corporations. Additionally, the paying offices did not have adequate procedures in place to initiate backup withholding for contractors who did not provide valid taxpayer identification numbers. These conditions existed because DoD contracting offices did not always provide the taxpayer information to DoD paying offices that was needed to perform IRS Form 1099 reporting. Additionally, DoD paying offices did not always comply with requirements to:

- maintain all the required tax reporting information,
- report payments and withhold taxes when necessary, and
- evaluate compliance with tax reporting as part of the DoD Internal Management Control Program.

As a result, the 10 paying offices failed to report at least $15.5 million in CY 1993 payments, and the IRS could not match payments reported as taxable income by the contractors against payments actually made by DoD. The failure to properly report income could result in a loss of revenue to the U.S. Treasury.

RECOMMENDATION 1.: We recommend that the Under Secretary of Defense (Acquisition and Technology) enforce compliance with the Federal Acquisition Regulation subparts 52.204-3 and 4.203, which require contracting officers to obtain taxpayer identification numbers, corporate status, and contract type (goods or services) for all procurement actions, regardless of dollar value, and submit the information to the paying office.

DDP RESPONSE: Concur. As noted in the subject report under "Other Matters of Interest," the Department is already complying with taxpayer reporting requirements that apply to actions in excess of $25,000, via implementation of FAR 4.903. For actions below $25,000, the Department proposes to achieve compliance with FAR 4.203 and 52.204-3

requirements via the registration of all vendors that do business with the DoD in transactions under the simplified acquisition threshold. Vendor registration commenced in December 1994 within the context of an electronic contracting / electronic data interchange environment. Vendor registration information includes the Taxpayer Identification Number (TIN) and information regarding corporate status. The registration information is captured in transaction set 838, Trading Partnership Profile, which is an ANSI standard transaction set used in the commercial marketplace.

The Office of the Deputy Director of Defense Procurement, Cost, Pricing, and Finance, (OUSD(A&T)DP/CPF) is working with the Defense Finance and Accounting Service (DFAS) to identify any problems with data transmittal associated with use of this transaction set. This is key to DFAS' ability to accept information generated by the vendor registration process for utilization in generating IRS Form 1099s. We do not believe that DFAS is currently capable of accommodating a full scale automated transmittal of the data in question. Since the number of transactions involved will easily run into the millions, it will unavoidably be an ongoing process to fully implement both vendor registration and the requisite standard system for DFAS receipt of the information. We anticipate that vendor registration will be substantially complete within two years.

Audit Team Members

Russell Rau
James Kornides
Stephen Delap
Clarence Knight
Laura Croniger
Cinnamon Sakich
James Slates
Adam Weissberg
Monica Noell

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

June 14, 1995

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY
UNDER SECRETARY OF DEFENSE (COMPTROLLER)

SUBJECT: Audit Report on Department of Defense Compliance with Federal Tax Reporting Requirements (Report No. 95-234)

We are providing this report for your review and comment. The report discusses the submission of tax information from DoD contracting and paying offices to the Internal Revenue Service.

Comments from the Office of the Under Secretary of Defense for Acquisition and Technology were considered in preparing the final report. The Under Secretary of Defense (Comptroller) did not comment on a draft of this report. DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request comments from the Under Secretary of Defense (Comptroller) on Recommendation 2. by August 14, 1995.

If you have questions on this audit please contact Mr. James L. Kornides, Audit Program Director, at (614) 337-8009, or Mr. Stephen A. Delap, Audit Project Manager, at (216) 522-6091. Audit team members are listed inside the back cover. Appendix E lists the distribution of this report.

David K. Steensma

David K. Steensma
Deputy Assistant Inspector General
for Auditing