



MEMORANDUM

DATE: May 6, 2019

TO: USAID/Management/Office of Acquisition and Assistance/Cost Audit and Support Division, Branch Chief, David A. McNeil

FROM: Acting Director for External Financial Audit Division, Steve Shea/s/

SUBJECT: Report on the Examination of Costs Claimed for Nathan Associates, Inc. for the Fiscal Years Ended December 31, 2011, 2012, and 2013 (3-000-19-020-1)

This memorandum transmits the final report on the examination of costs claimed for Nathan Associates, Inc. (NAI) on in-scope contracts and subcontracts for the fiscal years (FY) ended December 31, 2011, 2012, and 2013 to determine whether costs claimed are allowable, allocable and reasonable in accordance with contract terms; Part 31 of the Federal Acquisition Regulation (FAR); Agency for International Development Acquisition Regulations (AIDAR); Department of State Standardized Regulations (DSSR); and 2 Code of Federal Regulations (CFR) 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards*. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with Kearney & Company to conduct the examination. The contract required the audit firm to perform the examination in accordance with generally accepted government auditing standards.

The audit firm states that it performed its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in generally accepted government auditing standards. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed on in-scope contracts and subcontracts for each FY is allowable, allocable, and reasonable in accordance with contract terms, Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards*¹.

¹ We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the examination report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the examination performed.

The objectives of the examination were to express an opinion on whether the costs claimed by NAI on in-scope contracts and subcontracts for the three FYs ended December 31, 2013 are allowable, allocable, and reasonable in accordance with contract terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards*, as applicable. To answer the audit objective the audit firm designed their testing procedures to evaluate the internal control environment surrounding NAI's subcontract management process and to verify that NAI had adequate controls in place for monitoring subcontractor costs.

The audit firm expressed a qualified opinion that costs claimed by NAI on in-scope contracts and subcontracts for the three FYs ended December 31, 2013 are allowable, allocable, and reasonable in accordance with the contract terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards*, as applicable, except for \$1,355,974 in unsupported direct questioned costs, three material weaknesses in internal control, and three instances of material noncompliance due to insufficient documentation to support costs claimed in its Incurred Cost Proposal (Findings #1 and 2) and NAI using billing rates instead of claimed rates on Schedule H (Finding #4). In addition, although we are not making a recommendation for a significant deficiency and an instance of noncompliance (Finding #3) noted in the report, we suggest that USAID's Office of Acquisition and Assistance Cost, Audit and Support Division determine if the recipient addressed the issues noted. The audit firm examined \$103,352,026 of USAID's incurred costs for the three FYs ended December 31, 2013; and questioned negative indirect costs of \$317,585 from USAID's indirect cost pools composed of \$29,777 in fringe class A, \$84,321 in international overhead, and a negative amount of \$431,683 in General & Administrative pool costs.

To address the issues identified in the report, we recommend that the USAID's Office of Acquisition and Assistance Cost, Audit and Support Division:

Recommendation 1. Determine the allowability of \$1,355,974 in unsupported direct questioned costs detailed on pages 2, and 14 through 17 of the report, and recover any amount that is unallowable.

Recommendation 2. Verify that Nathan Associates, Inc. corrects the three material weaknesses in internal control (Findings #1, 2, and 4) detailed on pages 14 through 19 and pages 22, and 23 of the report.

Recommendation 3. Verify that Nathan Associates, Inc. corrects the three instances of material noncompliance (Findings #1, 2, and 4) detailed on pages 14 through 19 and pages 22, and 23 of the report.

We ask that you provide your written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended to audit staff during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").