



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: July 20, 2023

TO: USAID/Management/Office of Acquisition and Assistance/Cost, Audit and Support Division, Contract Audit Management Branch, Acting Supervisory Auditor, Maya Cole

FROM: Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

SUBJECT: Performance Audit of Incurred Costs for MacFadden and Associates, Inc., for Fiscal Years 2018 and 2019 (3-000-23-044-I)

This memorandum transmits the final performance audit report on incurred costs submission (ICS) for MacFadden and Associates, Inc. (MacFadden) for Fiscal Years (FY) 2018 and 2019. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit and Support Division, Contract Audit Management Branch contracted with the independent certified public accounting firm of Tichenor & Associates, LLP (Tichenor) to conduct the audit. Tichenor stated that it performed its audit in accordance with government auditing standards issued by the Comptroller General of United States. Tichenor is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed by MacFadden in the FYs 2018 and 2019 ICS are accurate, allowable, allocable, and reasonable in accordance with contract terms and applicable Government acquisition regulations.¹

The audit's objective was to determine whether the costs claimed by MacFadden in its FYs 2018 and 2019 ICS were accurate, allowable, allocable, and reasonable in accordance with the MacFadden's USAID contracts and applicable Government acquisition regulations, specifically the Federal Acquisition Regulation (FAR), the USAID Acquisition Regulations (AIDAR), Federal Travel Regulations and/or the Department of State Standard Travel Regulations (DSSR), and Buy-American Act for the Contracting Officer to execute the finalization of allowable contract costs and indirect rates for the fiscal years with MacFadden. To answer the audit's objective, Tichenor designed its testing procedures to review the incurred costs reported by MacFadden for FYs 2018 and 2019 and reconciled it to its general ledger, and other records and documentation to determine its adequacy for audit purposes. Further, Tichenor reviewed applicable rules, regulations, guidance, and MacFadden's policies and procedures regarding

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 audit 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 audit performed.

claimed direct and indirect costs. Tichenor examined incurred costs of \$202,909,048 in FYs 2018 and 2019, of which USAID awards' incurred costs amounted to \$201,930,006.

Tichenor concluded that MacFadden prepared its FYs 2018 and 2019 ICS in accordance with applicable Government acquisitions regulations of the FAR, the AIDAR, and the DSSR regarding accuracy, allowability, allocability, and reasonableness of incurred costs and are appropriate for the Contracting Officer's use in executing the finalization of allowable costs and indirect rates for the fiscal years with MacFadden. However, Tichenor identified two findings, which it reported to MacFadden. Finding 1, "Journal Entry Approval" noted that MacFadden's accounting system did not provide adequate controls to require documented approval of journal entries for 5 out of 11 journal entry samples. Finding 2 pertained to MacFadden "Claiming of Unsupported Direct and Indirect Labor Costs," resulting in total unsupported questioned costs of \$11,314,722 consisting of \$7,090,628 in questioned costs associated with direct labor and \$4,224,094 in questioned costs associated with indirect labor. Tichenor identified the following indirect labor cost components: fringe, general and administrative, overhead field, and material handling. Finally, Tichenor noted that MacFadden may have underbilled USAID \$52,152,701 through FY 2019. We are not making a recommendation for Finding 1 noted in the report. However, we suggest that USAID/Management/Office of Acquisition and Assistance/Cost, Audit and Support Division, Contract Audit Management Branch determine whether MacFadden addressed the issue noted.

To address Finding 2 identified in the report, we recommend that USAID/Management/Office of Acquisition and Assistance/Cost, Audit and Support Division, Contract Audit Management Branch:

Recommendation 1. Determine the allowability of \$7,090,628 in questioned costs (\$7,090,628 unsupported) on page 12 of the audit report and recover any amount that is unallowable.

We ask that you provide your written notification of actions planned or taken to reach a management decision.

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"). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act.²

² The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, § 5274. Please direct related inquiries to oignotice_ndaa5274@usaid.gov.