



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: June 20, 2024

TO: USAID/Bureau for Management/Office of Acquisition and Assistance/Cost, Audit and Support Division, Contract Audit Management Branch, Supervisory Auditor, Sheree F. Marshall

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

SUBJECT: Independent Examination Report on MacFadden & Associates, Inc.'s Incurred Cost Submission for the Fiscal Year Ended December 31, 2021 (3-000-24-044-1)

This memorandum transmits the final independent examination report on incurred costs submission (ICS) for MacFadden & Associates, Inc. (MacFadden) for the Fiscal Year (FY) Ended December 31, 2021. 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 the 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 its FY 2020 ICS are accurate, allowable, allocable, and reasonable in accordance with contract terms and applicable Government acquisition regulations.¹

The audit objective was to express an opinion on management's assertion that (1) All costs included in the proposal Incurred Cost Submission to establish final indirect cost rates for September 30, 2021 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates apply; (2) That the proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements is fairly stated. In addition, we examined the Contractor's compliance with their U.S. Government contract/award terms, and applicable Government acquisition regulations, specifically the Federal Acquisition Regulation (FAR), the USAID Acquisition Regulations (AIDAR), 2 CFR 200 Uniform Administrative Requirements, Federal Travel Regulations and/or the Department of State Standard Travel Regulations (DSSR), and Buy-American Act for the Contracting Officer to

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.

execute the finalization of allowable contract costs and indirect rates for the fiscal year under review with the Contractor; and (3) Examined the Contractor's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on management's assertion, but not for the purpose of expressing an opinion on the effectiveness of the Contractor's internal control. To answer the audit's objective, Tichenor (1) reviewed MacFadden's FY 2021 ICS and reconciled it to the Contractor's general ledger, and other records and documentation provided by MacFadden, to determine its adequacy for audit purposes; (2) reviewed MacFadden's policies and procedures regarding claimed direct and indirect costs; (3) obtained an understanding of the MacFadden internal controls, assessing control risk, and determining the extent of examination testing needed based on the control risk assessment (4) summarized MacFadden's billings from their billings data and reconciled them with the recommended audited FY 2021 costs. Tichenor examined USAID's total costs of \$ 56,949,024 for the period audited.

Tichenor concluded that except for the effects of three material internal control deficiencies in internal control noted in the Findings, Recommendations, Contractor's Response, and Accountants' Conclusions, the Contractor has prepared its FY 2021 ICS in accordance with applicable Government acquisition regulations of the FAR, the AIDAR, and the DSSR regarding accuracy, allowability, allocability, and reasonableness of incurred costs and is appropriate for the Contracting Officer's use in executing the finalization of allowable costs and indirect rates for the fiscal year under review with the Contractor. Tichenor's procedures resulted in questioned costs of \$913,535 in claimed Direct Material costs as unsupported. In addition, due to the questioned direct costs, Tichenor is questioning \$25,853 ($\$913,535 \times 2.83\%$) in Matl Handling and \$2,934 ($\$25,853 \times 11.35\%$) in G&A costs to the proposed direct and indirect amounts for contract reimbursement on select unsettled flexibly priced contracts in the ICS submitted by MacFadden for the period of January 1, 2021, through December 31, 2021.

Tichenor noted one discrepancy that has an immaterial impact on Government Contracts. Tichenor did not believe this discrepancy rises to the level of a significant deficiency or material weakness, and Tichenor is therefore not reporting this as a finding but rather only as Other Matters.

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

Recommendation 1. Determine the allowability of \$913,535 in unsupported questioned costs on pages 11 and 12 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that MacFadden & Associates, Inc. corrects the three material deficiencies in internal control detailed on pages 11 to 14 of the audit report.

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.