



Office of Inspector General

MEMORANDUM

DATE: March 1, 2018

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

FROM: Acting Director of External Financial Audits, Abdoulaye Gueye /s/

SUBJECT: Examination of Management's Assertions Over Incurred Cost Proposals by Futures Group for the Fiscal Years Ended December 31, 2006 Through 2008 (3-000-18-025-1)

Audit report number 3-000-18-025-1 for Futures Group was originally issued on February 20, 2018. This report is being rescinded at this time. The report issued on February 20, 2018 is being rescinded because it had the statement, "Financial information contained in this report may be privileged or otherwise protected by law from public disclosure. Review by OIG's Office of Legal Counsel is required before public release of any financial information contained in the report." A subsequent report will be issued without this statement.

This memorandum transmits the final report on the examination of incurred costs by Futures Group for the fiscal years (FYs) ended December 31, 2006 through 2008. The USAID Office of Acquisition and Assistance Cost, Audit and Support Division contracted with Kearney & Company to conduct the examination. The contract required Kearney & Company to perform the examination in accordance with generally accepted government auditing standards.

Kearney & Company states that it performed the examination in accordance with generally accepted government auditing standards. Kearney & Company is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the incurred cost proposals (ICP) submitted by Futures Group's for each of the FYs ended December 31, 2006, 2007, and 2008, as well as management's assertions over the allowability of the incurred costs as reported in the ICPs.¹

The objective of this examination was to express an opinion on Futures Group's management assertions that all costs included in the ICPs are allowable in accordance with the cost

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 report itself and excludes review of the audit firm's supporting working papers; they are not designed to enable us to directly evaluate the quality of the examination performed.

principles set forth by the Federal Acquisition Regulation (FAR) and its supplements applicable to contracts to which the final indirect cost rates will apply, as well as that the ICPs do not include any costs that are expressly unallowable under applicable cost principles set forth by the FAR or its supplements. To answer the objective, Kearney & Company designed its testing procedures to evaluate the internal control environment surrounding Future Group's subcontract management process and verify that adequate coverage for monitoring subcontractor costs existed over Future Group's claimed incurred costs related to subcontractor billings. Its examination also included evaluating the claimed costs reported in the ICPs for compliance with the applicable requirements contained in the FAR, Agency for International Development Acquisition Regulations, Department of State Standardized Regulations, and other specific contract provisions. Providing an opinion on compliance with specific provisions was not an objective of its examination; accordingly, Kearney & Company did not express such an opinion. Kearney & Company audited \$113,607,220 of Futures Group's incurred costs for the fiscal years ended December 31, 2006 through 2008.

Kearney & Company expressed an adverse opinion on Future Group management's assertions that all costs included in the ICPs are allowable in accordance with the cost principles set forth by the FAR and its supplements applicable to contracts to which the final indirect cost rates will apply, as well as that the ICPs do not include any costs that are expressly unallowable under applicable cost principles set forth by the FAR or its supplements. The audit firm did not express an opinion on the effectiveness of the contractor's accounting systems and related internal controls. The audit firm questioned \$23,157,935 in unsupported direct questioned costs and \$11,784,836 of indirect costs, composed of \$1,874,968 in fringe pool costs, \$3,272,185 in on-site overhead pool costs, \$277,050 in off-site overhead pool costs, \$5,587,246 in G&A pool costs, and \$773,387 in subcontract handling costs. Kearney & Company also identified four findings that are required to be reported under generally accepted government auditing standards.

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

Recommendation 1. Determine the allowability of \$23,157,935 in unsupported direct questioned costs on pages 2 and 13 - 24 of the report and recover any amount that is unallowable.

Recommendation 2. Verify that Futures Group corrects findings #1 through #4 on pages 13 - 24 of the report.

We ask that you provide your written notification of actions planned or taken to reach management decision. We appreciate the assistance extended 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").

If you have any questions related to this report, please contact Steve Shea, Assistant Director, at (202) 712-1386 or sshea@usaid.gov.

Attachment: As stated

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