



MEMORANDUM

DATE: May 4, 2018

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

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

SUBJECT: Examination of Management's Assertions Over Incurred Cost Proposals by Pragma Corporation for the Fiscal Years Ended December 31, 2009 Through 2011 (3-000-18-031-1)

This memorandum transmits the final audit report on the examination of incurred costs by Pragma Corporation (PC) for the fiscal years (FY) ended December 31, 2009 through 2011. The U.S. Agency for International Development's (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 PC for each of the FYs ended December 31, 2009 through 2011 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 PC's management assertions that all costs included in the ICPs are allowable in accordance with the cost 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 PC's subcontract management process and verify that adequate coverage for monitoring subcontractor costs existed over PC's claimed incurred costs related to subcontractor billings. Kearney & Company was also engaged to examine one material subcontractor's ICP submission for FY 2009, and the results of its examination are included in the audit report. Further, the auditor's examination included an

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.

evaluation of proposed costs reported in the ICPs for compliance with the applicable requirements contained in the FAR and its supplements, 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 the auditor's examination; accordingly, Kearney & Company did not express such an opinion. Kearney & Company audited \$21,107,448 of USAID's incurred costs for the fiscal years ended December 31, 2009 through 2011.

Kearney & Company expressed an unqualified opinion on PC management's assertions that, in all material respects, costs included in the ICPs are allowable in accordance with the cost principles set forth by the FAR and its supplements applicable to the 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 costs 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 \$231,284 in unsupported direct costs and \$17,488 in ineligible direct costs. Kearney & Company also identified one finding that is required to be reported under generally accepted government auditing standards. In addition, \$94 was questioned for the overhead pool and the fringe pool had \$355 in negative questioned costs.

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

Recommendation 1. Determine the allowability of \$231,284 in unsupported direct questioned costs and \$17,488 in ineligible direct questioned costs detailed on pages 2, 11 and 12 of the report and recovers any amount that is unallowable.

Recommendation 2. Verify that Pragma Corporation corrects Finding #1 on pages 11 and 12 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

cc: AAudit@usaid.gov
OIGAuditTracking@usaid.gov
M/CFO/APC, T. Frakes
M/OAA/CAS, E. Jefferson
M/OAA/CAS, Y. Moody-Briscoe
M/OAA/CAS, L. Brown