



MEMORANDUM

DATE: May 18, 2018

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

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

SUBJECT: Examination of Costs Claimed by Nathan Associates, Inc. for the Fiscal Years Ended December 31, 2008 Through 2010 (3-000-18-033-l)

This memorandum transmits the final report on the examination of costs claimed by Nathan Associates, Inc. (NAI) incurred cost proposal (ICP) for the fiscal years (FY) ended December 31, 2008 through 2010. 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 audit. The contract required Kearney & Company to perform the audit in accordance with generally accepted government auditing standards.

Kearney & Company states that it performed its audit 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 NAI's ICP submitted for the FYs ended December 31, 2008 through 2010, 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 whether the costs claimed by NAI on in-scope contracts and subcontracts for the FYs ended December 31, 2008 through 2010 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 Regulation (CFR) 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. To answer the audit objective, Kearney & Company designed its testing procedures to evaluate the internal control environment surrounding NAI's subcontract management process, verify that adequate coverage for monitoring subcontractor costs existed, and verify that NAI had adequate controls in place to monitor subcontractor costs. Its examination also included evaluating the claimed costs reported in the ICPs for compliance with the applicable requirements contained in the FAR, AIDAR, DSSR 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.

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.

Kearney & Company audited \$78,554,785, consisting solely of USAID's incurred costs for the fiscal years ended December 31, 2008 through 2010.

Kearney & Company expressed a qualified opinion that costs claimed by NAI on in-scope contracts and subcontracts for the three FYs ended December 31, 2010 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, in all material respects. Kearney & Company did not render an opinion on the effectiveness of the contractor's accounting systems and related internal controls. The auditors' examination disclosed three findings that are required to be reported under *Government Auditing Standards*. Kearney & Company questioned unsupported direct costs of \$1,322,702. The auditor also questioned \$776,389 of indirect costs composed of \$286 in fringe class A pool costs, \$199,182 in international overhead pool costs, and \$576,921 in General and Administrative (G&A) pool costs.

Additionally, Kearney & Company identified a scope limitation applicable to NAI's FYs 2008 through 2010 claimed subcontractor costs. Kearney & Company noted that total subcontractor costs claimed as other direct costs in NAI's incurred cost proposals are material, but based on the structure of the information presented in NAI's ICPs and general ledger, the auditor could not determine, with reasonable certainty, the composition of the subcontractor costs claimed as being direct or indirect. Where applicable, the auditor incorporated the results of previous audits of subcontractor costs into this report. For the remaining subcontractors that have not, to Kearney & Company's knowledge within the fieldwork period, been subjected to a previous audit, the auditor determined that the potential aggregate effect on NAI's claimed costs could be material to NAI's ICPs as a whole. This represents a scope limitation to the burdened subcontractor costs claimed, as well as the subcontractor costs that are included in NAI's G&A indirect rate base.

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

Recommendation 1.

Determine the allowability of \$1,322,702 in USAID unsupported direct questioned costs and recover any amount that is unallowable detailed on pages 1 and 16 through 20 of the audit report.

Recommendation 2.

Verify that Nathan Associates, Inc. corrects Findings # 1 through # 3 detailed on pages 16 through 24 of the audit report.

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

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