



MEMORANDUM

DATE: October 26, 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 Costs Claimed for the Fiscal Year Ended September 30, 2014
for Associates in Rural Development, Inc. (3-000-19-002-1)

This memorandum transmits the final examination report on the examination of costs claimed for Associates in Rural Development, Inc. (ARD) on in-scope contracts and subcontracts for the fiscal year (FY) ended September 30, 2014 and whether costs claimed 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 Regulations (CFR) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. 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 examination. The contract required Kearney & Company to perform the examination in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Kearney & Company states that it performed its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. Kearney & Company is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed on in-scope contracts and subcontracts for each FY is allowable, allocable and reasonable in accordance with contract terms; Part 31 for the FAR; AIDAR; DSSR; and 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.¹

The objective of this examination was to express an opinion on whether the costs claimed by ARD on in-scope contracts and subcontracts for the FY ended September 30, 2014 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. To answer the objective, Kearney & Company designed its testing procedures to evaluate the internal control environment

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.

surrounding ARD's subcontract management process and to verify that ARD had adequate controls in place for monitoring subcontractor costs. Its examination also included evaluating the claimed costs reported in the incurred cost proposals (ICP) 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 its examination; accordingly, Kearney & Company did not express such an opinion. Kearney & Company audited \$136,924,225 of ARD's incurred costs for the fiscal year ended September 30, 2014 composed solely of USAID awards.

Kearney & Company identified a scope limitation applicable to ARD's FY 2014 claimed subcontractor costs. Kearney & Company noted that subcontractor costs claimed as other direct costs in ARD's ICP are material but based on the structure of the information presented in ARD's ICP and general ledger Kearney & Company could not determine with reasonable certainty the composition of the subcontractor costs claimed as being direct or indirect. The subcontractors have not to Kearney & Company's knowledge within their fieldwork period been subjected to a previous audit and Kearney & Company determined that the potential aggregate effect on ARD's claimed costs could be material. This represents a scope limitation to the burdened subcontractor costs claimed, as well as, the subcontractor costs that are included in ARD's material handling indirect rate base.

Kearney & Company expressed a qualified opinion. In Kearney & Company's opinion except for the possible effects of the matters described in the preceding paragraph costs claimed by ARD on in-scope contracts and subcontracts for the FY ended September 30, 2014 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. Kearney & Company's examination did not disclose any findings that are required to be reported under *Government Auditing Standards*. Kearney & Company questioned negative direct costs of \$7,620 and \$6,798 in unsupported direct costs applicable to USAID.

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 \$7,620 in reimbursements from Associates in Rural Development, Inc. detailed on pages 1 and 2 of the report.

Recommendation 2

Determine the allowability of \$6,798 in unsupported direct questioned costs from Associates in Rural Development, Inc. detailed on pages 1 and 2 of the 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. 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

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