



## MEMORANDUM

**DATE:** December 10, 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 Incurred for Abt Associates, Inc. for the Fiscal Years Ended April 1, 2011, March 30, 2012, March 29, 2013 and March 28, 2014 (3-000-19-005-1)

This memorandum transmits the final report on the examination of incurred costs claimed for Abt Associates, Inc. (AAI) on in-scope contracts and subcontracts for the fiscal years (FY) ended April 1, 2011, March 30, 2012, March 29, 2013 and March 28, 2014 and determined whether costs claimed are allowable, allocable and reasonable in accordance with contract terms; Part 31 of the Federal Acquisition Regulation (FAR) and the Health and Human Services Acquisition Regulations (HHSAR). The Centers for Medicare and Medicaid Services (CMS) contracted with Kearney & Company to conduct the examination.<sup>1</sup> 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 by AAI on in-scope contracts and subcontracts for the FYs ended April 1, 2011, March 30, 2012, March 29, 2013 and March 28, 2014, are allowable, allocable, and reasonable in accordance with contract terms; Part 31 of the FAR and HHSAR, in all material respects.<sup>2</sup>

<sup>1</sup> The Centers for Medicare and Medical Services is part of the Department of Health and Human Services.

<sup>2</sup> 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

The objective of this examination was to express an opinion on whether the costs claimed by AAI on in-scope contracts and subcontracts for the FYs ended April 1, 2011, March 30, 2012, March 29, 2013 and March 28, 2014 are allowable, allocable, and reasonable in accordance with contract terms; Part 31 of the FAR and HHSAR. To answer the objective, Kearney & Company designed its testing procedures to determine whether the internal control environment surrounding AAI's subcontract management process was sufficient and that adequate oversight by AAI existed over claimed costs related to subcontractor billings. Kearney & Company performed testing procedures to determine whether the internal control environment surrounding AAI's recording of home office allocation costs was sufficient and that adequate oversight by AAI existed over claimed costs related to home office allocations. Kearney & Company also performed procedures on a test basis to determine whether costs billed to AAI by its subcontractors and claimed as other direct costs in AAI's incurred costs proposal's (ICP) are allowable, allocable, and reasonable, in all material respects. Providing an opinion on internal controls or compliance was not an objective of the auditor's examination; accordingly, Kearney & Company did not express such an opinion. Kearney & Company examined \$1,284,954,052 of incurred costs, of which \$957,523,870, consisted of the U.S. Agency for International Development's (USAID) incurred costs for the FYs ended April 1, 2011, March 30, 2012, March 29, 2013, and March 28, 2014.

Kearney & Company expressed the following two scope limitations pertaining to AAI's FYs 2011 through 2014 costs claimed. Kearney & Company was not permitted by its task order to examine pension and post-retirement benefit costs in the regular fringe and temporary fringe pools since these costs are subject to separate allowability review by the Department of Health and Human Services' Office of Inspector General or other cognizant agency audit. In addition, Kearney & Company noted that the total subcontractor costs claimed in AAI's ICPs were material. However, Kearney & Company could not determine, with reasonable certainty, the composition of all subcontractor costs claimed as being direct or indirect, based on the structure of the information presented in AAI's ICP and general ledger. As a result, Kearney & Company concluded that the non-examined subcontractor costs could be material to AAI's ICPs as a whole and represented a scope limitation to the burdened subcontractor costs claimed, as well as to the subcontractor costs included in the subcontractor, consultant, and materials 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, the claimed costs on in-scope contracts and subcontracts for the FYs ended April 1, 2011, March 30, 2012, March 29, 2013, and March 28, 2014 are allowable, allocable, and reasonable in accordance with the contract, Part 31 of the FAR, and the HHSAR, 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 disclosed two findings that are required to be reported under *Government Auditing Standards*. The auditor questioned USAID unsupported direct costs

of \$533,844 and \$154,004 of indirect costs, composed of \$46,833 in G&A pool costs, \$98,412 in regular overhead pool costs, \$5,334 in international site overhead pool costs, \$519 in domestic site overhead pool costs, and \$2,906 in subcontract, consultant, and materials handling pool 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 \$533,844 in unsupported direct questioned costs detailed on pages 2 and 14 through 16, of the audit report and recovers any amount that is unallowable.

**Recommendation 2.** Verify that Abt Associates, Inc. corrects Findings #1 and #2 on pages 11 through 16, 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 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](mailto:sshea@usaid.gov).

Attachment: As stated

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