



## MEMORANDUM

**DATE:** June 11, 2019

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

**FROM:** Acting Director of External Financial Audit Division, Steve Shea /s/

**SUBJECT:** Independent Audit of Democracy International, Inc.'s Proposed Amounts on Unsettled Flexibly Priced Contracts for the Fiscal Years Ended December 31, 2013 Through 2016 (Report No. 3-000-19-003-D)

This memorandum transmits the final audit report of Democracy International, Inc.'s proposed amounts on unsettled flexibly priced contracts for the fiscal years (FY) ended December 31, 2013 through 2016.

The Defense Contract Audit Agency (DCAA) stated that it performed this audit in accordance with generally accepted government auditing standards. DCAA is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether Democracy International, Inc.'s proposed amounts on unsettled flexibly priced contracts, comply, in all material respects, with contract terms pertaining to accumulating and billing incurred amounts.<sup>1</sup>

The objective of this audit was to express an opinion on whether Democracy International, Inc.'s proposed direct and indirect amounts for contract reimbursement on unsettled flexibly priced contracts contained in its FYs 2013 through 2016, final indirect rate proposal, dated July 6, 2017, for FYs 2013 through 2015, and FY 2016, dated June 23, 2017, respectively, to determine if proposed amounts comply with contract terms pertaining to accumulating and billing incurred amounts. DCAA audited \$56,260,776 of Democracy International, Inc.'s costs for FY's 2013 through 2016.

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<sup>1</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.

DCAA expressed a qualified opinion due to scope limitations affecting DCAA's ability to perform real time testing on proposed labor costs and DCAA's inability to verify the reliability of contractor documentation. DCAA questioned \$32,589 in direct costs (\$32,589 ineligible) and \$181,529 in indirect costs. DCAA noted a material instance of noncompliance due to unreasonable personnel compensation. DCAA stated that, in its opinion, except for the effects of the noncompliance noted, and the effects of additional noncompliances, if any, that it might have identified had the two scope limitations not limited its procedures, Democracy International, Inc.'s proposed amounts on unsettled flexibly priced contracts comply, in all material respects, with contract terms pertaining to accumulating and billing incurred amounts.

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

**Recommendation 1.** Determine the allowability of \$32,589 in ineligible direct questioned costs detailed on pages 2, 3 and 30 of the audit report and recover any amount unallowable.

**Recommendation 2.** Verify that Democracy International, Inc. corrects the material instance of noncompliance detailed on pages 3 and 4 of the audit report.

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