



MEMORANDUM

DATE: September 5, 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 Audits Division, Steven Shea/s/

SUBJECT: Report on the Examination of Costs Claimed for Arcadia Biosciences, Inc. for the Fiscal Years Ended December 31, 2014 and 2015 (3-000-19-042-1)

This memorandum transmits the final report on the examination of costs claimed for Arcadia Biosciences, Inc. (Arcadia) on in-scope awards and subawards for each of the years ended December 31, 2014 and 2015. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with the independent certified public accounting firm of Kearney & Company, P.C. to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards, award 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) 200, *Uniform Administrative Requirements Cost Principles and Audit Requirements for Federal Awards*, as applicable.

The audit firm 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 generally accepted government auditing standards. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed by Arcadia on in-scope contracts and subcontracts for each of the years ended December 31, 2014 and 2015 is allowable, allocable and reasonable in accordance with award terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200 *Uniform Administrative Requirements Cost Principles and Audit Requirements for Federal Awards*.¹

The examination's objective was to express an opinion on whether the costs claimed by Arcadia on in-scope awards and subawards for each of the years ended December 31, 2014 and 2015 are allowable, allocable, and reasonable in accordance with award 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 examination's objective, Kearney & Company, P.C. designed its testing procedures to evaluate the internal control environment surrounding Arcadia's subcontract management process and to verify that Arcadia had adequate controls in place for monitoring subcontractor costs. Its examination included the reconciliation of the adjusted total costs booked to date and the cumulative amount billed, by award or subaward, for each of

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.

the years ended December 31, 2014 and 2015 and reporting any over/under-billings. The audit firm examined USAID costs claimed of \$5,018,493 for the two years ended December 31, 2015.

Kearney & Company, P.C. expressed an adverse opinion that costs claimed by Arcadia's on in-scope awards and subawards for the two years ended December 31, 2014, and 2015 are not allowable, allocable, and reasonable in accordance with award 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. The audit firm questioned indirect costs of \$2,209,891 in general and administrative pool costs and identified a material noncompliance in Accounting and Reporting for Unallowable Costs. In addition, although we are not making a recommendation for significant deficiencies noted in the report, we suggest that USAID's Office of Acquisition and Assistance, Cost, Audit, and Support Division determine if the recipient addressed the issues noted.

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

Recommendation I. Verify that Arcadia Biosciences, Inc. corrects the material noncompliance in Accounting and Reporting for Unallowable Costs (Finding #1) detailed on pages 12 and 13 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 addresses 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").