



MEMORANDUM

DATE: September 25, 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, Steve Shea /s/

SUBJECT: Report on the Examination of Costs Claimed for Development Transformations, LLC for the Fiscal Years Ended December 31, 2012 Through 2014 (3-000-19-043-1)

This memorandum transmits the final audit report on examination of costs claimed for Development Transformations, LLC (DT) on in-scope awards and subawards for the fiscal years (FY) ended December 31, 2012, 2013, and 2014. 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 perform the audit in accordance with generally accepted government auditing standards and determine whether costs claimed are allowable, allocable and reasonable in accordance with award terms; Part 31 of the Federal Acquisition Regulation (FAR); Agency for International Development Acquisition Regulation (AIDAR); Department of State Standardized Regulation (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 DT on in-scope awards and subawards for the three years ended December 31, 2012, 2013, and 2014, 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.¹

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 objective of this examination was to express an opinion on whether the cost claimed by DT on in-scope awards and subawards for each of the years ended December 31, 2012, 2013 and 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, the audit firm designed its testing procedures to evaluate the internal control environment surrounding DT's subcontract management process and to determine if DT had adequate controls in place for monitoring subcontractor costs. Its examination also included a determination of whether the cumulative amount billed exceeded the total funded value for an award/subaward's period of performance only if the period of performance ended during the years under examination. Providing an opinion on compliance with specific provisions was not an objective of the audit firm's examination; accordingly, the audit firm did not express such an opinion. The audit firm audited \$7,827,980 of incurred costs, of which \$6,864,541 were USAID expenditures for the three years ended December 31, 2012, 2013, and 2014.

Kearney & Company, P.C. expressed an adverse opinion, concluding that costs claimed by DT on in-scope awards and sub-awards for the three years ended December 31, 2014 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 total direct costs of \$684,173 (\$172,489 ineligible, \$511,684 unsupported). In addition, In addition, Kearney & Company, P.C. also noted one material weakness and material instance of non-compliance as well as three significant deficiencies and non-compliances with laws, regulations, or award terms required to be reported under generally accepted government auditing standards during the years ended December 31, 2012, 2013, and 2014. The audit firm did not render an opinion on the effectiveness of DT's accounting system and its related internal controls. Although we are not making a recommendation for the significant deficiencies or instances of non-compliance with laws, regulations, or award terms 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. The audit firm also questioned total indirect costs of \$1,017,130, composed of \$788,039 in G&A pool costs, \$131,164 in overhead pool costs, and \$97,927 in fringe pool costs.

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

Recommendation 1. Determine the allowability of total questioned direct costs of \$684,173 (\$172,489 ineligible, \$511,684 unsupported) on pages 5, 6, and 13 through 25 of the audit report, and recover any amount that is unallowable.

Recommendation 2. Verify that Development Transformations, LLC corrects the material weakness detailed on pages 13 through 17 of the audit report.

Recommendation 3. Verify that Development Transformations, LLC corrects the material instance of noncompliance detailed on pages 13 through 17 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”).