



MEMORANDUM

DATE: September 26, 2019

TO: USAID/Iraq Mission Director, Dana Mansuri

FROM: USAID OIG Middle East and Eastern Europe (ME/EE) Regional Office, USDH NFA Coordinator, Abdoulaye Gueye /s/

SUBJECT: Audit of Direct Costs Incurred and Reported by Family Health International's (FHI 360) in Iraq Under USAID Cooperative Agreement AID-267-LA-13-00001, July 1, 2014, to November 6, 2015 (8-267-19-006-D)

This memorandum transmits the final audit report on direct costs incurred and reported by Family Health International's (FHI 360) in Iraq under USAID cooperative agreement AID-267-LA-13-00001, from July 1, 2014, to November 6, 2015. USAID/Iraq contracted with Defense Contract Audit Agency to conduct the audit.

Defense Contract Audit Agency states that it performed its audit in accordance with generally accepted government auditing standards. Defense Contract Audit Agency is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on FHI360 statement of proposed direct costs or its compliance with the award terms and conditions.¹

The audit objective was to determine if the direct costs incurred and reported comply with the award terms and conditions pertaining to accumulating and reporting of incurred amounts. To answer the audit objective, Defense Contract Audit Agency performed the subject audit that covered \$21,000,295 in direct incurred costs for the period from July 1, 2014, to November 6, 2015.

¹ We reviewed Defense Contract Audit Agency'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 Defense Contract Audit Agency's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

Defense Contract Audit Agency expressed an adverse opinion and questioned unsupported costs in the amount of \$5,136,140 resulting from material noncompliance related to lack of adequate supporting documentation. Defense Contract Audit Agency said that they were not able to continue all of the necessary audit procedures due to scope limitations resulting from lack of: (a) real-time labor testing; (b) adequate and reliable labor accounting systems; and (c) in-country financial and banking services. Defense Contract Audit Agency said that they performed alternate procedures to assist in determining the allowability of the proposed labor costs. Since the agreement under audit ended and USAID has no other current awards with FHI360, USAID OIG ME/EE regional office is not including a procedural recommendation regarding the material instance of noncompliance. However, before USAID/Iraq considers other awards to FHI360, it should ensure that adequate policies and procedures are implemented to address this finding, as detailed on pages 8 to 21 of Defense Contract Audit Agency report. During our desk review, we noted several minor issues which the audit firm will need to address in future reports. We presented these issues in a memo to the controller, dated September xx, 2019.

To address the issues identified in the report, we recommend that USAID/Iraq:

Recommendation I: Determine the allowability and collect as appropriate, \$5,136,140 in questioned unsupported costs and any applicable indirect costs as detailed on pages 8 to 21 and 26 of Defense Contract Audit Agency 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").