



## MEMORANDUM

**DATE:** November 7, 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:** Independent Audit Report on Democracy International, Inc.'s Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Year 2017 (3-000-20-005-D)

This memorandum transmits the final audit report on Democracy International, Inc.'s (DI) proposed direct and indirect amounts for contract reimbursement on unsettled flexibly priced contracts contained in its final indirect rate proposal for fiscal year (FY) 2017, submitted on June 25, 2018. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with the Defense Contract Audit Agency (DCAA) to conduct the audit. DCAA stated that they conducted their 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 DI's proposed amounts on unsettled flexibly priced contracts comply 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 DI's proposed direct and indirect amounts for contract reimbursement on unsettled flexibly priced contracts contained in its FY 2017 final indirect rate proposal, submitted on June 25, 2018, comply with contract terms pertaining to accumulating and billing incurred amounts. To answer this objective, DCAA planned and performed an audit in accordance with generally accepted government auditing standards to obtain reasonable assurance on whether DI's proposed direct and indirect amounts for contract reimbursement materially comply with contract terms pertaining to accumulating and billing incurred amounts. DCAA audited \$5,237,225 of USAID direct costs for FY 2017.

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<sup>1</sup> We reviewed DCAA'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 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 review performed.

DCAA expressed a qualified opinion due to finding proposed amounts that do not materially comply with contract terms pertaining to accumulating and billing incurred amounts. Furthermore, due to scope limitations caused by DCAA's lack of real-time labor testing and DCAA's reliance on scanned documents not tested to original source documentation, DCAA was unable to complete the procedures considered necessary under the circumstances. DCAA stated that except for the noncompliances described above, and the effects of the additional noncompliances, if any, that they might have identified had DCAA completed the procedures described in the scope limitations, DI's proposed amounts on unsettled flexibly priced contracts comply, in all material respects, with the contract terms pertaining to accumulating and billing incurred amounts. The audit report disclosed four instances of material noncompliance relating to direct and indirect questioned costs. DCAA questioned indirect costs of \$78,704 in personal services compensation, indirect costs of \$3,386 in legal fees, \$6,280 in other direct costs, and \$3,295 in direct travel costs. Since we do not make recommendations regarding questioned indirect costs, and the questioned direct costs did not meet the Office of Inspector General's established threshold of \$25,000 for making a recommendation, we are not making a recommendation. Nevertheless, we suggest that USAID's Office of Acquisition and Assistance, Cost, Audit and Support Division determine the allowability of the \$9,575 of direct questioned costs and recover any amount determined to be unallowable.

We appreciate the assistance extended during the engagement.

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