



## MEMORANDUM

**DATE:** December 12, 2019

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

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

**SUBJECT:** Examination of Costs Claimed for Abt Associates, Inc. for the Fiscal Years Ended March 27, 2015 and April 1, 2016 (3-000-20-005-1)

This memorandum transmits the final audit report on the examination of costs claimed for Abt Associates, Inc. (Abt) on in-scope awards and sub awards for each of the fiscal years (FY) ended March 27, 2015 and April 1, 2016. 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 examination. 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 the costs claimed by Abt on in-scope awards and sub awards for the two years ended March 27, 2015 and April 1, 2016 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.<sup>1</sup>

The objective of this examination was to express an opinion on whether the cost claimed by Abt on in-scope awards and subawards for each of the years ended March 27, 2015 and April 1, 2016 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 examination's objective, Kearney & Company, P.C. obtained an understanding of internal controls, assessed control risk, and determined the extent of testing needed based on the control risk assessment and designed testing procedures to evaluate the internal control environment surrounding Abt's subcontract

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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.

management process and to determine whether Abt had adequate controls in place for monitoring subcontract costs. Kearney & Company, P.C.'s examination also included evaluating the claimed costs reported in the incurred cost proposals for compliance with the applicable requirements contained in the FAR, AIDAR, DSSR, and other specific contract provisions. 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 examined USAID's incurred costs of \$480,096,167 for the two years ended March 27, 2015 and April 1, 2016.

Kearney & Company, P.C. expressed an adverse opinion that costs claimed by Abt on in-scope awards and sub-awards for the two FYs ended March 27, 2015 and April 1, 2016 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. In addition, the audit firm reported a material weakness and a material instance of noncompliance due to insufficient documentation, and a significant deficiency in incurred cost proposal formulation and preparation. The audit firm questioned USAID direct questioned costs of \$5,423,730 (\$5,423,730 unsupported). Kearney & Company, P.C. also questioned indirect costs of \$15,167,015, composed of \$2,594,337 in regular overhead, \$787,314 in international site overhead, \$198,253 in subcontracts and material handling, \$2,873,458 in General & Administrative costs, and \$8,713,653 in regular fringe pool costs. Although, we are not making a recommendation for the significant deficiency noted in the report related to the formulation and preparation of incurred cost proposals, we suggest that USAID's Office of Acquisition and Assistance, Cost Audit and Support Division determine if the recipient addressed the issue noted.

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

**Recommendation 1.** Determine the allowability of \$5,423,730 in USAID's unsupported direct questioned costs (Finding # 1) and recover any amount that is unallowable detailed on pages 5, and 11 through 14 of the audit report.

**Recommendation 2.** Verify that Abt Associates, Inc. corrects the material weakness (Finding # 1) detailed on pages 11 through 14 of the audit report.

**Recommendation 3.** Verify that Abt Associates, Inc. corrects the material instance of noncompliance (Finding # 1) detailed on pages 11 through 14 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 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").