



MEMORANDUM

DATE: February 19, 2020

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: Examination of Costs Claimed for Creative Associates International, Inc. for the Three Fiscal Years Ended September 30, 2014 (3-000-20-015-I)

This memorandum transmits the final report on the examination of costs claimed for Creative Associates International, Inc. (Creative) on in-scope awards and subawards for each of the years ended September 30, 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 conduct the audit in accordance with generally accepted government auditing standards to 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 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 stated 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 Creative on in-scope awards and subawards for each of the years ended September 30, 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 examination's objective was to express an opinion on whether the costs claimed by Creative on in-scope awards and subawards for each of the years ended September 30, 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. To answer the examination's objective, Kearney & Company, P.C. designed its testing procedures to evaluate the internal control environment surrounding Creative's subcontract management process and to verify that Creative 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 and reporting any over/under-billings. The audit firm examined USAID incurred costs of \$460,646,510 for the three fiscal years ended September 30, 2014.

Kearney & Company, P.C. expressed an unmodified opinion that costs claimed by Creative on in-scope awards and subawards for the three fiscal years ended September 30, 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, in all material respects. In addition, the audit firm reported a significant deficiency and instance of noncompliance due to insufficient documentation. Creative did not provide sufficient supporting documentation to substantiate costs claimed in its incurred cost proposals. The audit firm questioned USAID direct questioned costs of \$10,606 (\$10,606 unsupported). Since the questioned costs did not meet the OIG'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 \$10,606 in direct questioned costs and recover any amount determined to be unallowable. Kearney & Company, P.C. also questioned \$666,064 in indirect pool costs consisting of \$6,722 in overhead, \$1,702 in cooperating country national fringe, \$616,810 in general & administrative pool costs, and \$40,830 in United States national/third country national fringe. In addition, although we are not making a recommendation for the significant deficiency or instance of noncompliance 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.

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").