



## MEMORANDUM

**DATE:** June 3, 2020

**TO:** USAID/Management/Office of Acquisition and Assistance/Cost Audit and Support Division, Acting Supervisory Auditor, Eleanor C. Jefferson

**FROM:** Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

**SUBJECT:** Examination of Costs Claimed for Nathan Associates, Inc. for the Two Years Ended December 31, 2015 (3-000-20-036-1)

This memorandum transmits the final report on Nathan Associates, Inc. (Nathan) on in-scope awards and subawards for the two years ended December 31, 2015. 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 stated that it performed its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) 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 Nathan on in-scope awards and subawards for each of the years ended December 31, 2014 and December 31, 2015 is 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*.<sup>1</sup>

The examination's objective was to express an opinion on whether the costs claimed by Nathan on in-scope awards and subawards for each of the two years ended December 31, 2015 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 Nathan's subcontract management process and to verify that Nathan had adequate

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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.

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 \$60,269,502 for the two years ended December 31, 2015.

Kearney & Company, P.C. expressed an adverse opinion to state that costs claimed by Nathan on in-scope awards and subawards for the two years ended December 31, 2014 and 2015 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 material instance of noncompliance due to insufficient documentation to substantiate costs claimed in its incurred cost proposals. As a result, the audit firm questioned USAID direct questioned costs of \$2,889,688 (\$2,889,688 unsupported). The audit firm also questioned indirect costs of \$3,025,530, composed of \$238,009 in fringe class, \$44,873 in international overhead, and \$2,742,648 in general & administrative costs.

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

**Recommendation 1.** Determine the allowability of \$2,889,688 in USAID's unsupported direct questioned costs and recover any amount that is unallowable detailed on pages 5 and 6 and 10 through 13 of the report.

**Recommendation 2.** Verify that Nathan Associates, Inc. corrects the material weakness detailed on pages 10 through 13 of the report.

**Recommendation 3.** Verify that Nathan Associates, Inc. corrects the material instance of noncompliance detailed on pages 10 through 13 of the 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:

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