



## MEMORANDUM

**DATE:** September 28, 2020

**TO:** USAID/Management/Office of Acquisition and Assistance/Cost, Audit and Support Division, 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 Natural Resources Consulting Engineers for the Two Fiscal Years Ended December 31, 2016 and 2017 (3-000-20-073-1)

This memorandum transmits the final examination report on the examination of costs claimed for Natural Resources Consulting Engineers (NRCE) on in-scope awards and sub awards for each of the fiscal years (FY) ended December 31, 2016 and 2017. 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 Brown & Company CPAs and Management Consultants, PLLC (Brown & Company) to perform the examination in accordance with generally accepted government auditing standards and 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 Regulation (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 states that it conducted 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 that costs claimed by NRCE on in-scope awards and sub-awards for each of the years ended December 31, 2016 and 2017, 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.<sup>1</sup>

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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.

The examination's objective was to express an opinion on whether the cost claimed by NRCE on in-scope awards and subawards for each of the years ended December 31, 2016 and 2017, are allowable, allocable and reasonable in accordance with award terms; Part 31 of the FAR; AIDAR; DSSR; and 2 Code of Federal Regulations (CFR) 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. To answer the objective, Brown & Company designed its testing procedures to evaluate the internal control environment surrounding NRCE subcontract management process and to determine whether NRCE had adequate controls in place for monitoring subcontract costs. The audit firm also performed a reconciliation between the adjusted total costs booked to date and the cumulative amount billed, by award or subaward, for each of the years ended December 31, 2016 and 2017, and reported any over/under-billings. The audit firm audited \$6,415,036 of NRCE's incurred costs for the two years ended December 31, 2016 and 2017.

According to Brown & Company, NRCE did not provide sufficient supporting documentation to substantiate indirect cost (fringe, overhead, and general and Administrative (G&A) claimed. More specifically, NRCE did not provide sufficient support for indirect cost for samples selected (e.g., Building Lease Expense, executive compensation, executive bonuses, car leases cost and certain other indirect costs). As a result, the audit firm expressed a qualified opinion that costs claimed by NRCE on in-scope awards and sub awards for the two FYs ended December 31, 2016 and 2017 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 identified five findings, four of which were significant deficiencies, and all five were instances of noncompliance. Brown & Company did not question any direct costs but questioned \$1,297,867 in indirect pool costs consisting of negative \$165,044 in fringe and \$1,462,911 in overhead and general administrative pool costs. Although we are not making a recommendation for the significant deficiencies or instances 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.

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").