



OFFICE OF INSPECTOR GENERAL U.S. Agency for International Development

MEMORANDUM

DATE: November 20, 2023

TO: USAID/Management/Office of Acquisition and Assistance/Cost, Audit and Support Division/Contract Audit Management Branch, Supervisory Auditor, Sheree Marshall

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

SUBJECT: Audit Report of Deloitte Government and Public Services' Proposed Amounts on Unsettled Flexibly Priced Contracts for Contractor Fiscal Years 2020 and 2021 (3-000-24-002-D)

This memorandum transmits the audit report of Deloitte Government and Public Services' (Deloitte GPS) proposed amounts on unsettled flexibly priced contracts for Contractor Fiscal Years (CFY) 2020 and 2021. The Defense Contract Audit Agency (DCAA) conducted the audit. DCAA stated that it performed its audit in accordance with generally accepted government auditing standards. DCAA's reported scope limitations consisted of (1) reliance on scanned data, (2) lack of reliable physical observation of the direct material, (3) an inability to determine price reasonableness in accordance with Federal Acquisition Regulation 31 for direct material transactions, (4) an inability to reconcile the cumulative cost incurred by project identification to the contract year and /or contract line item number, (5) an inability to validate the contractor's rate and cost caps workload, (6) an inability to determine if a lease should be considered an operating or a capital lease, (7) an inability to determine additional contractor insurance/pension costs, (8) an inability to verify reasonableness of the proposed compensation amount for multiple individuals, and (9) an inability to validate the partner payment information to source documents. DCAA is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on Deloitte GPS's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

The examination's objective was to determine the allowability of direct and indirect costs for the period of June 2, 2019, through May 30, 2020, and May 31, 2020, through May 29, 2021. To

¹ We reviewed the audit 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 audit firm's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

answer the audit objectives, DCAA examined Deloitte GPS' proposed direct and indirect amounts for contract reimbursement on unsettled flexible priced contracts contained in the CFY 2020 final indirect cost rate proposal, and the CFY 2021 final indirect cost rate proposal, to determine if the proposed amounts comply with contract terms pertaining to accumulating incurred amounts. DCAA examined USAID incurred direct costs of \$168,133,126 for CFY 2020 and for CFY 2021.

DCAA expressed a qualified opinion stating that their examination disclosed proposed amounts that do not materially comply with contract terms pertaining to accumulating incurred amounts. Furthermore, due to the scope limitations, the auditors were unable to complete the procedures considered necessary under the circumstances. DCAA identified government participation in questioned costs for CFY 2020 of \$14,998,474 (direct \$11,434,238 and \$3,564,236 indirect), and for CFY 2021 government participation in questioned costs of \$23,958,469 (\$16,259,150 direct and \$7,699,319 indirect). DCAA reported thirty-six material instances of noncompliance; three of them are related to the contractor's compliance with Cost Accounting Standards (one related to cost accounting practice for facility costs, and two related to cost accounting practice for partner compensation). With respect to the U.S. Agency for International Development (USAID), the DCAA auditor identified direct questioned costs for CFY 2020 of \$1,938,519 (\$580,568 unsupported and \$1,357,951 ineligible) and for CFY 2021 of \$3,142,392 (\$1,501,768 unsupported and \$1,640,624 ineligible).

To address the problems identified in the report, we recommend that USAID's Office of Acquisition and Assistance Cost, Audit and Support Division/Contract Audit Management Branch:

Recommendation 1: Determine the allowability of the direct questioned cost of \$5,080,911 (\$2,082,336 unsupported and \$2,998,575 ineligible) detailed on pages 31 through 142 of the audit report and recover any amount that is unallowable.

Recommendation 2: Verify that Deloitte Government and Public Services corrects the 36 instances of material noncompliance detailed on pages 5 through 11 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a management decision.

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"). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act.²

² The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, § 5274. Please direct related inquiries to oignotice_ndaa5274@usaid.gov.