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

Negotiated Indirect Cost Rate Agreements: Opportunities Exist to Improve Processes and Data Management

Audit Report 3-000-24-001-U
January 26, 2024

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

MEMORANDUM

DATE: January 26, 2024

TO: USAID/Bureau for Management/Office of Acquisition & Assistance, Acting Director, Deborah Broderick

FROM: Assistant Inspector General for Audits, Inspections, & Evaluations, Toayoa D. Aldridge /s/

SUBJECT: Negotiated Indirect Cost Rate Agreements: Opportunities Exist to Improve Processes and Data Management (3-000-24-001-U)

Enclosed is the final audit report on USAID's management of negotiated indirect cost rate agreements (NICRAs). The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Williams, Adley & Company-DC LLP (Williams Adley) to conduct the performance audit.[1] The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards; the Federal Acquisition Regulation, Part 31; and Chapter 2, Section 200.414 of the Code of Federal Regulations.

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related audit documentation and discussed the findings with the firm's representatives. Our review of this contracted work product was not intended to enable us to express, and we do not express, an opinion on USAID's NICRA management. Rather, the audit firm is responsible for the enclosed report and conclusions. That said, we found no instances in which the audit firm failed to comply, in all material respects, with applicable standards and regulations.

The audit objective was to determine the extent to which USAID applied best practices for managing the indirect costs charged by its award recipients to USAID awards from fiscal year 2016 to 2021. Specifically, Williams Adley examined the extent to which USAID negotiated provisional and final indirect cost rates with implementers[2] within established timeframes and in line with applicable cost principles. Williams Adley also examined the extent to which USAID ensured that the indirect costs charged by implementers to USAID awards were (1) based on the approved indirect cost rate and/or method; (2) calculated consistently across USAID awards whether as prime and/or sub-implementer; and (3) reasonable, allowable, and allocable. To answer the audit objective, Williams Adley reviewed USAID's policies, directives,

[1] Pursuant to the Pub. L. No. 117-263 § 5274, USAID OIG provides nongovernmental organizations and/or businesses specifically identified in this report 30 days from the date of report publication to submit a written response to USAID OIG. Any comments received will be posted on https://oig.usaid.gov/. Please direct inquiries to oignotice_ndaa5274@usaid.gov.

[2] Implementers refers to contractors and grantees.

procedures, and internal controls; tested data; interviewed officials; and reviewed agency actions to address any prior audit recommendations for USAID's NICRA Program.

Williams Adley was not able to determine the extent to which USAID applied best practices for managing indirect costs charged to USAID awards because the agency did not have an information system that tracks indirect cost data charged by implementers during the period under audit. This scope limitation precluded Williams Adley from obtaining a complete listing of data needed for testing purposes on this audit objective.

However, during the course of the audit, Williams Adley concluded that improvements are needed to ensure implementer indirect costs are negotiated and applied in accordance with government-wide and USAID requirements. Specifically, the firm found that:

- USAID's information systems could be improved to report and analyze the usage of indirect cost rates.
- USAID does not have a process to monitor prime implementers' verification of sub-awardee indirect cost rates; and
- USAID does not have proper documentation to support indirect costs charged.

To address the weaknesses identified in the report, the firm recommend that USAID's Acting Director, Office of Acquisition & Assistance[3]:

Recommendation 1. Develop and implement procedures to collect indirect cost data from implementers in a systematic manner that will allow it to comprehensively report and analyze the indirect costing methodology and rates for implementers. This information should include indirect cost rate agreement type (e.g., cognizant agency-negotiated indirect cost rate or de minimis agreements).

Recommendation 2. Review the results of the prime implementer's sub-awardee monitoring specifically for indirect cost concerns during site visits or other reviews of the prime.

Recommendation 3. Develop written internal control policies, procedures, or guidance specific to USAID's Overhead, Special Cost, and Closeout Branch indirect cost processes to clarify minimal documentation retention rules during every phase of the indirect cost process, notably first time, subsequent, and final negotiations.

Recommendation 4. Develop checklists to verify completion of for-profit organizations files similar to the checklist used for non-profit organizations.

Recommendation 5. Develop a process to conduct periodic reviews of a sample of implementer files for missing documents or accuracy of indirect costs charged and report unsupported payments as improper payments.

[3] Williams Adley included an additional recommendation to "make the necessary payment adjustments where payments were made for the wrong amount." We are not including this recommendation for USAID because it is dependent on recommendation 5 and would be inherently addressed as part of that recommendation.

Recommendation 6. Consider implementation of a centralized document control methodology and tracking mechanism to improve internal document control practices.

In finalizing the report, the audit firm evaluated USAID's responses to the recommendations. After reviewing that evaluation, we consider recommendations 1, 3, 4, and 6 resolved but open pending completion of planned activities. We consider recommendations 2 and 5 to be open and unresolved because of USAID's disagreement with the recommendations and underlying finding. We intend to work with USAID to address the finding's intent and determine a path forward on these two recommendations.

For recommendations 1, 3, 4, and 6, please provide evidence of final action to USAID's Audit Performance and Compliance Division. For recommendations 2 and 5, we ask that you provide written notification of actions planned or taken to reach a revised management decision, copying the Audit Performance and Compliance Division, and engaging with us directly as needed. We look forward to working with USAID to resolve these recommendations.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.

USAID
FROM THE AMERICAN PEOPLE

U.S. Agency for International Development

Performance Audit of USAID's Management of Indirect Costs

November 30, 2023

WILLIAMS ADLEY

WILLIAMS ADLEY

November 30, 2023

Toayoa D. Aldridge
Assistant Inspector General for Audits, Inspections, & Evaluations
Office of Inspector General
United States Agency for International Development
Dear Ms. Aldridge:

Williams, Adley & Company-DC, LLP performed an audit of U.S. Agency for International Development's (USAID) issuance, implementation, and management of indirect costs in its awards between fiscal years 2016 and 2021. We performed the audit in accordance with our Task Order No. 72001G22P00022, dated June 17, 2022. Our report presents the results of the audit and includes recommendations to help improve USAID's management of indirect costs in its awards.

We conducted our audit in accordance with applicable Government Auditing Standards, 2018 revision, technical update April 2021 except for the scope limitation for the organization charging the de minimis indirect cost rate. The audit was a performance audit, as defined by Chapter 8 of the Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objective of the audit was to determine the extent to which USAID applied best practices for managing indirect costs charged to USAID awards between fiscal years 2016 to 2021.

To accomplish our objective, we interviewed personnel from USAID to gain an understanding of their process for Negotiating Indirect Cost Rate Agreements (NICRAs) as well as applying indirect costs on awards. We also reviewed applicable documentation, including policies and procedures, and we tested selected attributes for a sample of awards to determine the proper negotiation and application of indirect costs. We conducted fieldwork from June 2022 through June 2023. Appendix 1 provides a more detailed description of our objective, scope and the limitation, and methodology. We appreciate the opportunity to have conducted this audit. Should you have any questions or need further assistance, please contact us at (202) 371-1397.

Leah Southers

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RESULTS IN BRIEF

We conducted an independent performance audit of USAID's negotiation, application, and review of implementer indirect costs. Our performance audit was conducted remotely. We encountered a scope limitation regarding the use of the de minimis method. Specifically, as mentioned in Finding 1, USAID did not have a system that tracked indirect cost data charged by implementers, including which implementers charged using a de minimis rate or non-USAID NICRAs. This prevented us from obtaining a listing of implementers charging the de minimis rate for testing. As a result, we were not able to determine the extent to which USAID applied best practices for managing indirect costs charged to USAID awards between fiscal years 2016 and 2021.

However, we did determine that improvements are needed to ensure implementers' indirect costs are negotiated and applied in compliance with government-wide requirements as well as USAID requirements. Specifically, we noted the following findings which management should address to ensure proper management of indirect costs.

Finding 1: USAID Systems Could Be Improved to Report and Analyze the Usage of Indirect Cost Rates

Finding 2: USAID Does Not Have a Process to Monitor Prime Implementers' Verification of Sub-Awardee Indirect Cost Rates

Finding 3: USAID Does Not Have Proper Documentation to Support Indirect Costs Charged

We recommend USAID's Overhead, Special Cost, and Closeout Branch (M/OAA/CAS/OCC) takes the following actions:

Recommendation 1: Develop and implement procedures to collect indirect cost data from implementers in a systematic manner that will allow it to report and analyze the indirect costing methodology and rates for implementers. This information should include indirect cost rate agreement type (for instance, cognizant agency NICRA or de minimis);

Recommendation 2: Review the results of the prime contractor's or grantee's sub-awardee monitoring, specifically for any indirect cost concerns, during site visits or other reviews of the prime;

Recommendation 3: Develop written internal control policies, procedures, or guidance specific to OCC's indirect cost processes to clarify minimal documentation retention rules during every phase of the indirect cost process, notably first time, subsequent, and final negotiations;

Recommendation 4: Develop checklists to verify completion of for-profit organizations files similar to the checklist used for non-profit organizations;

Recommendation 5: Develop a systematic process to conduct periodic reviews of a sample of implementer files for missing documents, mathematical accuracy of the indirect costs charged and report payments that were not supported as improper payments;

Recommendation 6: Based on the quality review performed, make the necessary payment adjustments where payments were made for the wrong amount; and

Recommendation 7: Consider implementation of a centralized document control methodology and tracking mechanism in a current or new system to improve internal document control practices.

USAID management agreed with recommendations 1, 3, 4, and 7, and disagreed with recommendations 2, 5, and 6.

BACKGROUND

USAID is an independent federal agency established in November 1961 to lead the U.S. Government's international development and humanitarian assistance efforts. Headquartered in Washington, DC, USAID works in over 100 countries and carries out U.S. foreign policy by promoting broad-scale human progress at the same time it expands stable, free societies, creates markets and trade partners for the United States, and fosters good will abroad. In fiscal year 2021, USAID managed $40.1 billion in budgetary resources.

USAID obligates funding to implementers through acquisition and assistance mechanisms (awards) to carry out its foreign assistance programs and support its diverse operations. USAID implementers incur both direct and indirect costs as part of their awards. Direct costs are easily associated with the award, including award-specific staff salaries and outlays for activities. Indirect costs are costs incurred for a common purpose that are too time-consuming or costly to allocate to a specific award. Examples of indirect costs include office space rental, utilities, and clerical and managerial salaries that contribute to an implementer's crosscutting operations and/or support multiple awards. To the extent that indirect costs are reasonable, allowable, and allocable, they are a legitimate cost of doing business.

Three methods for implementers to charge indirect costs to USAID awards are:

1. Establishing a NICRA that contains both final rates for past periods and provisional (billing rates) for current and future periods. The Federal agency that provides the preponderance of funding to the implementer sets the NICRA, which is then applied by all other Federal agencies to awards with the implementer.
2. Charging 10 percent de minimis rate of modified total direct costs associated with a particular award. This option is not available to implementers with an approved NICRA. USAID must accept the 10 percent de minimis rate without any review of direct costs.
3. Charging indirect costs as a direct cost to the USAID award, if certain criteria are met. This option may be preferred for non-U.S. based organizations with limited awards, small staff size, and basic accounting systems rather than setting more complex indirect cost rates.

USAID is responsible for applying appropriate indirect cost rates to its awards. External financial auditors determine whether the indirect costs that an implementer charges to USAID are reasonable, allowable, and allocable through mandatory audits. When questioned costs arise from those audits, USAID is responsible for resolving them.

USAID's Overhead, Special Cost, and Closeout Branch within the Cost Audit Support Division, Office of Acquisition and Assistance, within the Bureau for Management (M/OAA/CAS/OCC), is the central unit authorized to negotiate indirect cost rates for contracts, grants, or cooperative agreements by USAID when USAID is the cognizant Federal agency. The OCC Branch establishes NICRAs for U.S. and foreign organizations with awards issued by the Bureau for Management's, Office of Acquisition and Assistance (M/OAA) in Washington, DC. As a technical advisor for USAID, OCC also provides input on the adequacy of proposed indirect costs and acts as the agency expert on the cost principles governing allowability per requirements of Federal Acquisition Regulations, Part 31 and Chapter 2, section 200.414 of the Code of Federal Regulations (CFR). USAID's overseas missions are responsible for establishing and overseeing indirect cost rates with non-U.S. based implementers, when those implementers do not also hold awards issued out of Washington. Additionally, OCC relies on the Accounting System audit report as well as Disclosure Statement audit reports performed by external auditors. These reports provides the basis for the level of review performed by OCC on the indirect cost submissions.

Also, the following USAID areas and personnel are involved in the development and application of the NICRA:

- Contracting/Agreement Officers – negotiates the awards issued including the indirect costs to be charged and the rates included.
- Contracting/Agreement Officers Representatives – approves invoices, vouchers, and SF-425 for all implementers.
- Cost Audit Management Branch – monitors the completion of audits performed by external auditors on the USAID-cognizant implementers and follow-up on the findings and recommendations made in those audits, including those related to indirect cost rates.

Indirect costs carry risks for USAID because indirect cost rates and the basis for their allocation is sensitive information, and determining whether those costs are reasonable, allowable, and allocable can be difficult. The USAID Office of Inspector General, Office of Investigations has received allegations of implementers charging indirect costs incorrectly. Moreover, Office of Inspector General oversight of non-Federal audits has identified specific challenges with indirect costs incurred by non-U.S. based implementers using the 10 percent de minimis option, in part due to unfamiliarity with requirements for indirect cost calculations.

To address the risks associated with indirect costs, USAID Office of Inspector General contracted with Williams Adley to conduct a performance audit of M/OAA/CAS/OCC's process for negotiating, issuing, applying, and managing indirect costs charged by implementers. This report presents the results of that audit.

AUDIT RESULTS

After our review of applicable documentation, including policies and procedures, and testing of select awards, we noted and documented three findings as detailed below. As mentioned in Finding 1, USAID did not have a system that tracked indirect cost data charged by implementers, including which implementers charged using a de minimis rate or non-USAID NICRAs. This prevented us from obtaining a listing of implementers charging the de minimis rate for testing. As a result, we were not able to determine the extent to which USAID applied best practices for managing indirect costs charged to USAID awards between fiscal years 2016 and 2021.

Finding 1: USAID Systems Could Be Improved to Report and Analyze the Usage of Indirect Cost Rates

During the period of fiscal year 2016 through 2021, USAID served as the cognizant agency for $49.9 billion in awards ($45.3 billion disbursed) to for-profit organizations and $46.0 billion in awards ($43.1 billion disbursed) to not-for-profit organizations[1]. Many of these organizations charged indirect costs to USAID. In addition, USAID manages $46.6 billion in awards to organizations where USAID is not the cognizant agency ($41.3 billion disbursed). Some of these organizations have NICRAs with other agencies, while others charge the 10 percent de minimis rate.

Despite managing over $142.5 billion in awards, OCC did not have a system in place to collect or analyze indirect cost rate data. We requested a list of USAID awards that were issued, active, and/or closed out between fiscal year 2016-2021 where implementers charged indirect cost using a NICRA or the 10 percent de minimis rate. USAID was unable to provide the report. During the period under audit, OCC did not have a system in place to systematically track the indirect costing method used by its implementers. USAID uses ASIST as its document repository. Source documentation including pre-award and post-award documentation can be found in this system. However, ASIST does not have the ability to produce reports OCC could use to report on or analyze indirect cost rates or methodologies used by implementers.

OCC's system did not track which implementers are charging indirect costs using the 10 percent de minimis rate or a NICRA from another agency. However, during our audit fieldwork, USAID stated they instituted this functionality in Global Acquisition and Assistance System (GLAAS) for future agreements.

Without historical or current indirect cost data, USAID cannot readily analyze the risks or determine trends throughout the indirect cost process to evaluate accuracy and efficiency in completing rate approvals, and rate usage. For example, in several audit reports of USAID implementing partners, the auditors identified the wrong calculation of the indirect cost base, resulting in an incorrect indirect cost calculation.

Government Accountability Office (GAO)'s Standards for Internal Control in the Federal Government (GAO-14-704G) section 13.02 requires that:

> "Management designs a process that uses the entity's objectives and related risks to identify the information requirements needed to achieve the objectives and address the risks. Information requirements consider the expectations of both internal and external users. Management defines the identified information requirements at the relevant level and requisite specificity for appropriate personnel."

USAID Operational Policy (ADS) Chapter 201, *Program Cycle Operational Policy,* outlines the following in reference to monitoring and evaluation:

> 201.3.5 - Program Monitoring
>
> "Program monitoring is the ongoing and systematic tracking of data or information relevant to USAID's strategies, projects, and activities. [Operating Units] must consider their needs for data and information during planning and design, and at any point in the Program Cycle. Relevant data can include output, outcome, and impact measures directly

[1] Obligated amounts, as of October 23, 2022.

> attributable to, or affected by, USAID's interventions, secondary data from other institutions, or national information management systems, as well as measures of the operating context and programmatic assumptions and risks. Monitoring informs the design and implementation of strategies, projects, and activities. The analysis of monitoring data should inform efforts to manage adaptively and promote accountability. [Operating Units] and implementing partners should use monitoring data in evaluations, and to address learning questions and gaps in knowledge, whenever appropriate."

Recommendation: We recommend USAID M/OAA/CAS/OCC:

Recommendation 1: Develop and implement procedures to collect indirect cost data from implementers in a systematic manner that will allow it to report and analyze the indirect costing methodology and rates for implementers. This information should include indirect cost rate agreement type (for instance, cognizant agency NICRA or de minimis).

Finding 2: USAID Does Not Have a Process to Monitor Prime Implementers' Verification of Sub-Awardee Indirect Cost Rates

USAID does not have a process for ensuring that sub-awardee indirect costs are being charged in accordance with 2 CFR 200.332. Per OAA personnel, USAID relies on the prime implementer to ensure that the indirect cost rates charged by its sub-awardees comply with their NICRA agreements or the de minimis rate. Therefore, no verification is performed by USAID to ensure proper rates are being charged. Also, currently, there is no visibility into the rates charged by the sub awardees in the information submitted by the prime implementer for indirect costs charged. The prime implementer submits invoices/cost reports that indicate amounts paid to the sub awardees but without information detailing the indirect costs charged.

Due to the lack of visibility into our verification of sub-awardee indirect costs, we were unable to verify that those subaward organizations with Federal NICRAs consistently charged their negotiated rates across all awards.

USAID's overall policies and procedures do not allow for USAID personnel to directly verify the sub awardee's usage of their approved indirect cost rate. OAA personnel indicated that implementers are responsible for ensuring their subrecipient is applying the correct indirect rate and providing the best information needed to support the award. This includes any additional requirements that the pass-through entity imposes on the sub awardee to meet its own responsibility to the Federal awarding agency.

Without a documented review process review process to ensure sub-awardee rates are fair, reasonable, and in accordance with federal requirements, sub-awardees may be overcharging USAID for indirect costs incurred and/or may be inconsistently charging various awards. Also, the subawardee may not be allowed to charge their properly negotiated NICRA rates as required by the 2 CFR § 200.

2 CFR § 200.332 *Requirements for pass-through entities*, states:

All pass-through entities must:

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes:

(1) Federal award identification.

[…]

(xiv) Indirect cost rate for the Federal award (including if the de minimis rate is charged) per § 200.414."

[…]

(4)

(i) An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government. If no approved rate exists, the pass-through entity must determine the appropriate rate in collaboration with the subrecipient, which is either:

(A) The negotiated indirect cost rate between the pass-through entity and the subrecipient; which can be based on a prior negotiated rate between a different [Pass-through Entity] and the same subrecipient. If basing the rate on a previously negotiated rate, the pass-through entity is not required to collect information justifying this rate, but may elect to do so;

(B) The de minimis indirect cost rate.

(ii) The pass-through entity must not require use of a de minimis indirect cost rate if the subrecipient has a Federally approved rate. Subrecipients can elect to use the cost allocation method to account for indirect costs in accordance with § 200.405(d)."

ADS 591.2.5, Multiple Awards and Subrecipients (p.7) also states..." Consistent with USAID award provisions, each recipient is responsible for ensuring they have full information about the combined total Federal fund expenditures of their subawards and monitoring the audit requirements of its subrecipients or contracts.

Recommendation: We recommend USAID M/OAA/CAS/OCC:

Recommendation 2: Review the results of the prime contractor's or grantee's sub-awardee monitoring, specifically for any indirect cost concerns, during site visits or other reviews of the prime.

Finding 3: USAID Does Not Have Proper Documentation to Support Indirect Costs Charged

During our audit, we noted issues with document retention, both for cognizant as well as non-cognizant organizations as described below.

Organizations Where USAID is the Cognizant Agency

For USAID-cognizant organizations, OCC is responsible for reviewing the indirect cost submissions for both for-profit and non-profit organizations. According to USAID Checklists for for-profit[2] and non-profit organizations, the following documentation is required to review and approve an indirect cost rate for provisional and final NICRAs. Additional supporting documentation may be requested by OCC as questions arise.

Table 1 - Indirect Cost Submission Requirements

Organization Type	Documentation
For-Profit*	• Contact person information; • Indirect cost proposal with comparative analysis with the cost pools and bases to prior year actual costs, indirect cost rate calculations; • Input related to changes to the business volume; • Contractual structure or rate for the new fiscal year; • Comparison of proposed provisional rates to prior year and year end actual rates; and • A signed Certificate of Indirect Costs.
Non-Profit	• Contact person information; • For each type of rate proposed provide a detailed rate calculation to include the pool of expenses, the base of application, and all unallowable costs; • Comparative analysis of indirect cost pools and bases by detailed account to prior fiscal year actual costs; • Written policies for indirect costs and unallowable costs; • Prior year audited financial statements; • Reconciliation schedule for each indirect cost pool and allocation base showing each reclassification and adjustment to the financial statements to arrive at the cost pools and allocation bases; • Copy of Internal Revenue Service Form 990; • Description of accounting system; • Provide the amount of executive compensation paid to the top 5 executives; • Breakdown of indirect salaries by position title, amount and indirect percentage; • Breakdown of fringe benefits; • Description of non--profit's timekeeping system and a copy of a completed time sheet, if applicable, when an employee works on multiple activities or cost objective; • Treatment of paid absences and signed statement of treatment of paid absences; • A schedule that summarizes total cost by line-item expenditure, A list of subawards under your prime awards (required for Modified Total Direct Cost base only);

[2] *Note: The for-profit checklist was developed in 2023 and was therefore not in place during our audit period.*

Organization Type	Documentation
	• Schedule of all awards grouped by funding agency with majority federal funding listed on top; • Organization chart; • Signed certificate of indirect costs; • Signed lobbying certificate; • A copy of the IRS letter granting nonprofit status; • A copy of the organization's severance policy; and • A copy of the organization's bonus policy.

** Note: The for-profit checklist was developed in 2023 and was therefore not in place during our audit period.*

Source: USAID's "Indirect Cost Rate Guide for Non-Profit Organizations" and "Indirect Cost Rate (ICR) Checklist for First Time NICRA".

Non-profit implementers are provided a checklist of what to provide during the indirect cost negotiation process in USAID's *"Indirect Cost Rate Guide for Non-Profit Organizations."* The checklists are available to entities that are first time and subsequent NICRA recipients. OCC interviews indicate that those same checklists are used by OCC personnel to guide their approval and review processes; however, we did not find evidence of these checklists being used during the review and approval process. We also noted that implementer documentation was stored primarily in ASIST as well as with individual Agreement Officer's Representative (AOR)/Contracting Officer's Representative (CORs) and Contract Specialists.

During the period under audit, there was no checklist for for-profit organizations. The for-profit checklists, *"Indirect Cost Rate (ICR) Checklist for First Time NICRA (For-Profit)"*, and *"Subsequent NICRA Submissions to Establish Final and Provisional Indirect Cost Rates For-Profit"* were developed in March 2023, which was outside the scope of our audit and therefore was not applied to the awards tested.

Although the checklists specify the documentation to be obtained, OCC does not consistently maintain the same level of documentation within its files. For example, for several samples the incurred cost rate proposal worksheet was provided but the clarifying answers and all supporting documentation for the worksheet were not provided.

Our testing included selecting a random sample of 46 awards from a population of 6,058 awards where USAID was the cognizant agency for the purpose of determining if the rate calculation was properly supported by documentation, mathematically correct, complete based on the *"Indirect Cost Proposal Checklist"*, and properly approved within prescribed deadlines per 2 CFR 200, Appendix IV, Section C.2.b - *First time proposal*, and 2 CFR 200, Appendix IV, Section C.2.c *Subsequent Submissions*. The requested documentation for implementers included the NICRA proposal, internal checklists or documentation prepared by USAID, USAID approvals, and acknowledgment letters if NICRA was not used. Due to the lack of documentation, we could not verify that the indirect cost rates negotiated for USAID awards are correct, as shown in the table below. Also, as shown in the table below, due to the incomplete proposal packages, we were unable to verify that the information submitted in the Indirect Cost Estimate (ICE)/Indirect Cost Statement (ICS) was accurate for 60 of the award years tested.

Table 2 - Results of Testing for USAID Cognizant Agency NICRA Awards

Type	Number of years/NICRAs tested	NICRA properly calculated based on ICE/ICS (or N/A)	Proper Calculation of NICRA rate could not be Determined	NICRA Proposal Package Complete	NICRA Proposal Package Incomplete
For Profit	63[3]	26	37	9	54
Non-Profit	49[4]	36	13	43	6
Total	**112**	**62**	**50**	**52**	**60**

Source: Auditor generated based on the results of testing.
Note: Although the NICRA may have been supported by the ICE/ICS and supporting documentation, it may have taken several years before the NICRA was issued, ex. fiscal year18 and fiscal year 19 in 2020.

We were able to verify that the rate invoiced was what appeared on the NICRA document for the invoices/SF-425s provided. However, we were not provided with all invoices or SF-425s for 16 implementers for the audit period.

Organizations Where USAID is Not the Cognizant Agency

We also tested 45 agreements where USAID was not the cognizant agency from fiscal year 2016-2021 to determine the accuracy of indirect cost calculations, application, and payment. Our sample of 45 was selected from a population of 7,797 agreements using a combination of materiality and random sampling. Out of the 45 sample awards (total obligated value of $10.6 billion), 19 of them (total obligated value of $1.9 billion) were missing either the NICRA agreement, the SF-425s/invoices, or both.

Twenty-four items in our non-cognizant sample were classified as Public International Organizations (PIOs). A PIO is typically an organization composed of multiple member states (i.e., sovereign countries). As a result of their intergovernmental composition, PIOs are not generally subject to U.S. laws or business standards.

PIOs are categorized as either Category 1 or Category 2.

- **Category 1** – Category 1 PIOs are major international PIOs and International Agricultural Research Centers and certain regional PIOs which USAID works with closely and frequently.
- **Category 2** – Category 2 PIOs are PIOs that do not receive USAID funding with the same frequency and magnitude as the funding received by Category 1 PIOs.

All 24 PIO agreements in our sample were Category 1 PIOs. Per ADS 308 – *Agreements with Public International Organizations*, Category 1 PIOs are not required to negotiate an indirect cost rate with USAID, nor are they required to apply the 10 percent de minimis cost rate. The AO is only

[3] The years/NICRAs for For-Profit entities represent 25 individual awards over anywhere from one to six years.
[4] The years/NICRAs for Non-Profit entities represent 21 individual awards over anywhere from one to six years.

required to ensure the rates are consistent with past USAID practice and experience with the PIO or the rates are reasonable.[5] Since these entities do not have the documentation or indirect cost negotiation requirements of non-PIOs, we determined certain attributes related to these 24 PIOs to be not applicable for the purposes of our testing and therefore did not note them as exceptions.

Factors Affecting the Missing Documentation

There were several factors that contributed to the missing documentation, including:

1. Non-issuance of provisional NICRA rates;
2. Delays in the audit process;
3. Lack of checklists and minimum documentation requirements; and
4. Decentralization of the indirect cost rate process and related documentation.

Each of these factors is described in more detail below.

Non-Issuance of Provisional NICRA Rates

In the early years of our audit period USAID did not always process a provisional NICRA annually. Several years may have passed between issuances. For example, a non-profit implementer was issued a NICRA letter to finalize fiscal year 14 in October 2017, fiscal year 15 in October 2019 and fiscal year 16-18 in September 2020. Another non-profit implementer was issued a NICRA in May 2017 and then in September 2020. During this time the rates varied by a range of 1.53 percent to 3.69 percent. A for-profit implementer used the provisional indirect cost rates from the NICRA dated May 2016 until the next NICRA issued in March 2019.

Per OCC personnel these timelines can be lengthened as a result of the following and thus causing gaps in what should be annual documentation:

- Timely submission of indirect cost rate proposals.
- Organizations responding timely to requests for additional information. Organizations are not always responsive, because it is not a priority or there have been changes to staffing at the organization.
- Significant issues discovered during the review of the claimed indirect expenses.
- Delays in the audit process including resolutions of direct and indirect cost findings.
- Appeals, Litigation, Office of Inspector General Investigations.
- Request for changes to the current negotiated indirect cost rate methodology.

During that time many implementing partners did not submit their proposals timely and/or waited until a prior year was finalized before they submitted their proposals for the next period. Additionally, the process could take easily take 4 years for contractors to finalize a NICRA rate(s).

Delays in the Audit Process

[5] ADS 308.3.7.1 Administrative Cost Recovery, paragraphs (a) and (b)

For-Profits:

Delays in the audit process resulted in the non-issuance of provisional NICRAs and thus gaps in the availability of NICRA documentation for for-profit entities. In accordance with the *Allowable Cost and Payment* clause at FAR 52.216-7(d)(2)(i), the Contractor must submit an adequate final indirect cost rate proposal to the Contracting Officer (or cognizant Federal agency official) and auditor within the 6-month period following the expiration of each of its fiscal years. The proposal must be audited.

Below is an example of the timeframes for obtaining an audit report for the indirect cost proposal. The estimated time for procurement of the final audit; and anticipated due date for completion and receipt of the final audit varies because of the time needed for the Contracting Officer to make funding available for the audit, and the time needed to request proposals; determine the best value and hire the auditor. The anticipated date of the auditor’s report is affected by the timeline arranged between the organization and the auditor, the timely responses to document requests and inquiries and addressing any issues or concerns noted by the auditor. Not included are estimated times by OCC to resolve audit findings which could extend the amount of time to finalize rates.

Table 3 – Example of Timeframes for Audits of For-Profit Awards

Award Expiration Date	Fiscal Year Year End	Incurred Cost Proposal Due Date	Lapse Time	Estimated Date Audit Will be Procured	Anticipated Date Audit Report Will Be Received	Total Lapse Time
02-01-18	12-31-18	06-30-19	17 Mos.	10-01-20	09-30-21	44 Mos.
09-30-18	12-31-18	06-30-19	9 Mos.	10-01-20	09-30-21	36 Mos.
12-31-18	12-31-18	06-30-19	6 Mos.	10-01-20	09-30-21	33 Mos.

Source: OCC

Non-Profits:

Delays in the audit process resulted in the non-issuance of provisional NICRAs and thus gaps in the availability of NICRA documentation for not-for-profit entities. The 2 CFR 200, Subpart F sets forth standards for obtaining consistency and uniformity among Federal agencies for the audit of non-Federal entities expending Federal awards. As required under 2 CFR 200.501, a non-Federal entity that expends $750,000 or more during the non-Federal entity fiscal year in Federal awards must have a single audit or program specific audit conducted for that year. Further, 2 CFR 200.512(a)(1) requires that the single audit must be submitted within the earlier of 30 calendar days after receipt of the auditor's report(s), or nine months after the end of the audit period.

In addition to the Single Audit, organizations that have previously established indirect cost rates must submit a new Indirect Cost Proposal (ICP) to the cognizant agency for indirect costs within six months after the close of each fiscal year. USAID allows nine months to coincide with the submission of the Single Audit.

Table 4 - Timeframe for Receipt of Single Audit

Award Expiration Date	Fiscal Year End	Due Date for Submission of Final Audit & ICP	Actual Time to Receive Final Audit and ICP
02-01-18	12-31-18	09-30-19	19 Months
09-30-18	12-31-18	09-30-19	12 Months
12-31-18	12-31-18	09-30-19	9 Months

Source: OCC

OCC personnel stated that from late 2016 until November 2019, OCC was 50 percent staffed and as a result, a significant backlog developed and remains. OCC stated they are currently fully staffed and attempting to address the remaining backlog.

Lack of Checklists and Minimum Documentation Requirements

As stated above, the division did not have internal checklists for for-profit organizations to maintain consistency in the NICRA approvals processes. A for-profit checklist was developed in March 2023, however it was not in effect during the period under audit. In addition, the current internal policies and procedures do not include guidance for minimal documents that should be retained in NICRA files or specific internal timelines to maintain efficiency of the process. OCC currently relies on agency-wide document retention guidance,[6] which does not provide level of specificity necessary to ensure all relevant indirect cost data is retained.

Decentralization of the Indirect Cost Rate Process and Related Documentation

Much of the documentation was not received due to the decentralization of the indirect cost rate process and the related documentation. The current information system used to track indirect cost rates charged by implementers does not contain all information necessary to verify indirect cost rates charged by non-cognizant agencies or to validate invoices/SF-425s submitted. Much of the documentation that supports the rates charged by these implementers resides with the respective AOR or COR and is not easily accessible by OCC other than through data call. For instance:

- Non-cognizant organization documentation, which is maintained by the AOR/CORs, was not provided to the auditors via OCC; and
- Finally, the invoices/SF-425s also were not provided by the applicable AOR/COR.

Improper documentation retention procedures increase the risk of unsupported rate approvals and erroneous indirect cost rates being applied, potentially resulting in incorrect amounts being charged during the years of the award.

Also, the funds could have been put to better use in the years between the initial NICRA and the final which maybe anywhere between one to four years depending upon the results of the audit of the final rates and expenses.

Standards for Internal Controls in the Federal Government, section 10.03 states:

[6] Guidance includes ADS 502 - *The USAID Records Management Program* and related mandatory reference guides.

"Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form."

USAID's *Indirect Cost Rate Guide for Non-Profit Organizations* provides the following instructions for first time provisional NICRA submissions:

"Prepare the indirect cost rate proposal by using the Indirect Cost Rate (ICR) Proposal Checklist for First Time NICRAs included in Section 2.E. of this guide and included as a stand---alone document in Appendix III."

As it relates to subsequent NICRA submissions, the Guide states:

"Subsequent NICRA Submissions to Establish Final and Provisional Indirect Cost Rates Documentation and steps needed to revise provisional indirect cost rates: Prepare the indirect cost rate proposal using the Indirect Cost Rate (ICR) Proposal Checklist for Subsequent NICRAs included in Section 2.F. of this guide."

Office of Management and Budget Memorandum 18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, Part 1(a)(1) states:

"An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments).

An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law).

In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment should also be considered an improper payment. When establishing documentation requirements for payments, agencies should ensure that all documentation requirements are necessary and should refrain from imposing additional burdensome documentation requirements."

Recommendations: We recommend that USAID M/OAA/CAS/OCC:

Recommendation 3: Develop written internal control policies, procedures, or guidance specific to OCC's indirect cost processes to clarify minimal documentation retention rules during every phase of the indirect cost process, notably first time, subsequent, and final negotiations;

Recommendation 4: Develop checklists to verify completion of for-profit organizations files similar to the checklist used for non-profit organizations;

Recommendation 5: Develop a systematic process to conduct periodic reviews of a sample of implementer files for missing documents, and the mathematical accuracy of the indirect costs charged and report payments that were not supported as improper payments;

Recommendation 6: Based on the quality review performed, make the necessary payment adjustments where payments were made for the wrong amount; and

Recommendation 7: Consider implementation of a centralized document control methodology and tracking mechanism in a current or new system to improve internal document control practices.

APPENDIX 1: OBJECTIVE, SCOPE AND METHODOLOGY

Our audit objectives were to determine the extent to which USAID negotiated provisional and final indirect cost rates with implementers within necessary timeframes and in line with applicable cost principles, and to determine the extent to which USAID (1) ensured that the indirect costs charged by implementers to USAID awards were based on the approved indirect cost rate and/or method, (2) calculated consistently across USAID awards whether as prime and/or sub implementer, and (3) reasonable, allowable, and allocable. The scope of this audit included awards that USAID managed (issued, active, and/or closed out) between fiscal years 2016 and 2021 that charged indirect costs to USAID using a NICRA or the 10 percent de minimis method.

We encountered a scope limitation regarding the use of the de minimis method. Specifically, as mentioned in Finding 1, USAID didn't have a system that tracked indirect cost data charged by implementers, including which implementers charged using a de minimis rate or non-USAID NICRAs. This prevented us from obtaining a listing of implementers charging the de minimis rate for testing.

To accomplish the objective of the audit, Williams Adley identified the applicable criteria against which to assess USAID's management of indirect costs. In addition, we met with OCC management and the USAID Office of Inspector General to conduct an entrance conference. As part of gaining an understanding of the organization, we inquired about investigations or legal proceedings involving the audit objective and reviewed the applicable internal policies and procedures.

We reviewed OCC's standard operating procedures (SOP) and performed walkthroughs with personnel involved in developing NICRA rates and reviewing implementer financial reports and/or invoices to get an understanding of controls over the processes.

We selected a sample of contracts and grants awarded, modified, or closed out between fiscal year 2016 and 2021 using a combination of materiality and random sampling.

Table 5 - Populations and Samples Tested

Sample	Population Size	Sample Size (awards)[7]
Cognizant Organizations	6,058[8]	46
Non-Cognizant Organizations	7,797	45
Totals:	**13,855**	**91**

Source: Listings of agreements provided by USAID.

We tested the selected samples to determine whether indirect cost rates for NICRA agreements where USAID is the cognizant agency were properly supported, correctly calculated, approved, and that NICRA was charged by the implementer in accordance with the approved NICRA. For implementers where USAID was not the cognizant agency, we tested a sample of invoices or

[7] Awards may have multiple years tested. We tested all applicable years between 2016 and 2021.
[8] Population of 6,058 includes 2,627 for-profit organizations and 3,431 non-profit organizations.

financial reports to ensure the appropriate indirect cost rate (non-USAID NICRA rate or de minimis) was used.

In addition, we reviewed audit reports issued for the cognizant organizations sample and determined whether indirect cost-related findings were adequately followed-up on by USAID.

We assessed the reliability of the award data by (1) performing testing of certain data elements, (2) reviewing existing information about the data, and (3) interviewing agency officials knowledgeable about the data. In addition, we traced a statistically random sample of data to source documents. We determined the data was sufficiently reliable for the purposes of this report.

We assessed the significance of internal controls by (1) reviewing USAID's SOPs; and (2) performing walkthroughs with personnel involved in the negotiation and management of indirect cost rates to get an understanding of controls over the process.

We conducted this performance audit between June 2022 and June 2023 in accordance with generally accepted government auditing standards except for scope limitation identified on the previous page. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX 2: MANAGEMENT RESPONSE

USAID
FROM THE AMERICAN PEOPLE

MEMORANDUM

TO: **Deputy Assistant Inspector General for Audit, Alvin Brown**

DEBORAH RYAN BRODERICK (affiliate) Digitally signed by DEBORAH RYAN BRODERICK (affiliate) Date: 2023.11.28 13:05:52 -05'00'

FROM: **USAID/Office of Acquisition and Assistance, Acting Director, Deborah Broderick**

DATE: November 28, 2023

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, "Negotiated Indirect Cost Rate Agreements: Opportunities Exist for USAID to Improve Processes and Data Management" (3-000-24-001-U) prepared by Williams, Adley and Company-DC LLP (WAS) on behalf the Office of the USAID Inspector General (OIG) on November 17, 2023

The U.S. Agency for International Development (USAID) would like to thank the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report. The Agency respectfully disagrees with three of the seven recommendations, and herein outlines the rationale supporting the Agency's position.

Overall, the audit findings offer a distorted view of USAID's collection, management, and retention of indirect cost rate data and imply that USAID must establish and implement policies and procedures that go beyond what federal acquisition and assistance regulations and Agency policies require. The audit findings also indicate:

- Little knowledge and understanding of USAID's procurement record management system ASIST and its use;
- A misinterpretation of federal acquisition and assistance regulations and USAID policy;
- A misunderstanding of how indirect cost rates are used throughout the acquisition and assistance award lifecycle; and
- A failure to recognize the distinct roles and responsibilities of USAID personnel in the use of indirect cost rates throughout the acquisition and assistance lifecycle.

While USAID recognizes miscommunications occurred during the audit period, we believe it would have been beneficial if auditors' requests for information contained the detail necessary for USAID M/OAA/CAS/OCC personnel to direct the audit staff to the appropriate personnel responsible for providing the requested information. This, we believe, would have resolved any misunderstanding, and would have provided the auditors a more comprehensive and accurate overview of USAID's systems, processes, and procedures as relates to indirect cost rates.

Despite the audit's overly broad finding that USAID does not have proper documentation to support indirect costs, USAID points to the fact that the universe of data reviewed and tested during the audit did not identify any instance of an implementer incorrectly charging indirect costs. Accordingly, the audit results do not substantiate that the improper charging of indirect cost rates by implementers is a pervasive and systemic concern.

USAID agrees that the accuracy, processes, and procedures of its system can be improved; however, we believe the audit findings provide a wholly inaccurate picture of USAID's collection, management, and retention of indirect cost rate data as fully supported with the rationale below.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, "NEGOTIATED INDIRECT COST RATE AGREEMENTS: OPPORTUNITIES EXIST FOR USAID TO IMPROVE PROCESSES AND DATA MANAGEMENT" (3-000-24-001-U) PREPARED BY WILLIAMS, ADLEY AND COMPANY-DC LLP (WAS) ON BEHALF THE OFFICE OF THE USAID INSPECTOR GENERAL (OIG) ON NOVEMBER 17, 2023

Please find below the management comments from the U.S. Agency for International Development (USAID) on the draft report produced by the Office of the USAID Inspector General (OIG), which contains four recommendations for USAID:

Recommendation 1: Develop procedures to collect indirect cost data from implementers in a systematic manner that will allow it to report and analyze the indirect costing methodology and rates for implementers. This information should include indirect cost rate agreement type (for instance, cognizant agency NICRA or de minimis).

<u>Management Comments</u>: USAID agrees with this recommendation. USAID currently uses manual processes and systems to store, track, extract, and review cost rate data as required by USAID Automated Directives System (ADS) 502, titled *"The USAID Records Management Program".* USAID's official record management system for procurement records is Agency Secure Image and Storage Tracking (ASIST). ASIST stores and tracks all indirect rate information used by OCC. Also used to track cost rate data is OCC's Microsoft Excel spreadsheet titled, "NICRA Tracker". The combined use of the data contained in ASIST and the "NICRA Tracker" provides OCC the ability to review each implementer's historical and current indirect cost data to analyze risk and determine risks throughout the indirect cost rate negotiation cycle.

USAID concedes that ASIST is not a robust and automated system capable of collecting and tracking detailed information regarding the various types of indirect cost rates used, i.e., the indirect cost rate agreement type (for instance, cognizant agency NICRA or de minimis). Due to the system limitations imposed by ASIST**,** USAID was unable to produce a single, automated report of USAID awards with the specific data fields requested by auditors during the audit period. Despite these limitations, USAID was able to provide audit personnel with all the information when audit fieldwork was being conducted. Although accurate and reliable, the manual processes used by USAID to collect, store, and track specific cost rate data is time intensive.

Despite the reliability and accuracy of ASIST, USAID recognizes that an automated process to collect indirect cost data would be more efficient and beneficial. As a first step to automate the collection of this data, in Fiscal Year (FY) 2022, USAID updated its Global Acquisition and Assistance System (GLAAS), to collect indirect cost data from Implementing Partners (IPs). GLAAS is the Agency's worldwide web-based Acquisition & Assistance (A&A) system that manages acquisition and assistance awards throughout the A&A lifecycle. The following data fields were added to GLAAS to collect indirect cost data for all acquisition and assistance actions at the time of award:

- The award included the 10% de minimis rate
- The organization does not have a current NICRA with USAID
- The organization has an active NICRA with USAID
- The organization has an active NICRA with another federal agency
- The award includes the indirect cost rate clause

With the automation of these data points in GLAAS, USAID can produce general reports regarding the implementer's type of indirect cost rate agreements, i.e., NICRA or 10% de minimis etc.; however, these enhancements to GLAAS do not negate the need for USAID personnel to review the historical rates contained in ASIST which are necessary in order to complete rate negotiations, approvals, and rate usage.

USAID's second step towards automation began in FY 2022. OCC is working with the USAID Chief Information Office (CIO) to develop a fully automated process for the submission of NICRA proposals that will automatically collect and store specific indirect rate data. This new system will provide OCC the ability to track and review specific cost rate data for each implementer using a completely automated process. The new system is anticipated to be completed by the end of FY 2024 with the system anticipated to be fully implemented in FY 2025.

- **Target Completion Date:** M/OAA has planned and/or implemented these actions, therefore we request closure of this finding.

Recommendation 2: Review the results of the prime contractor's or grantee's sub-awardee monitoring, specifically for any indirect cost concerns, during site visits or other reviews of the prime.

Management Comments: USAID disagrees with this audit recommendation. While USAID agrees that prime contractors and prime recipients have a responsibility to monitor the application of Negotiated Indirect Cost Rate Agreements (NICRA) by subcontractors and subrecipients when this type of agreement is used for calculating indirect costs under an award, USAID disagrees with the recommendation to develop any new agency-specific instructions to prime contractors or recipients because the requirement to monitor and ensure compliance are outlined in existing federal regulations.

The audit cites 2 CFR § 200.332, *Requirements for pass-through entities* for the rationale for Finding 2 which is that "*USAID does not have a process for the verification of sub-awardee* *indirect costs".* However, as clearly outlined in 2 CFR § 200.332, the responsibility to comply with these regulatory requirements is borne by pass-through entities (prime awardees) and not by federal agencies. Because USAID does not have privity of contract with subrecipients, the onus to ensure the accuracy of the rates charged by subrecipients is clearly placed on pass-through entities (prime awardees).

USAID references federal regulations in all solicitations and awards, which is a recognized standard across all federal agencies. More specifically, USAID includes the appropriate contract and agreement clauses and regulatory references in solicitations and prime awards which outline the financial requirements and compliance measures which flow down to subcontractors and subrecipients. Prime awardees are aware of the requirement to review and ensure the proper application of subs' NICRAs. M/OAA follows the applicable Federal Acquisition Regulations (FAR) for acquisition awards and 2 CFR 200 for assistance awards as outlined below:

Acquisition Awards

FAR 42.202(e)(2) ("Assignment of Contract Administration") states that "The prime contractor is responsible for managing its subcontracts." Prior to award, FAR 9.104-4 ("Subcontractor Responsibility") notes that "prime contractors are responsible for determining the responsibility of their prospective subcontractor," while FAR 15.404-3(b) ("Subcontract Pricing Considerations") requires prime contractors to "conduct appropriate cost or price analyses to establish the reasonableness of proposed subcontract prices," including a review of indirect costs and the proper application of established NICRA rates. During implementation of the contract, the prime contractor is responsible for ensuring costs – including those incurred as payments under subcontracts – are reasonable, allocable, and allowable under applicable sections of FAR Part 31 ("Contract Cost Principles and Procedures"). FAR 52.216-7 ("Allowable Cost and Payment") is included in cost-reimbursement contracts and requires that "the prime contractor is responsible for settling subcontractor amounts and rates." The FAR also establishes subcontractor monitoring procedures related to costs incurred under the subcontract – for example, FAR 52.215-2 ("Audit and Records-Negotiation") is required to be flowed down to applicable subcontracts and permits the contractor to "examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of" the subcontract.

Assistance Awards

In accordance with 2 CFR 200.331 through 200.333 ("Subrecipient Monitoring and Management"), prime recipients are responsible for selecting subrecipients and monitoring subrecipients' performance and compliance with applicable requirements from the prime award. 2 CFR 200.332, in particular, outlines the recipient's responsibilities regarding: review of subrecipients' financial reports; monitoring "the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward;" ensuring every subrecipient is audited when required by 2 CFR 200 Subpart F; and "resolving audit findings specifically related to the subaward."

USAID's standard provisions for assistance also reiterate financial oversight responsibilities, similar to what is proposed under this recommendation. For example, for U.S. organizations, M1 in ADS 303maa notes that "Recipients are required to ensure compliance with monitoring procedures in accordance with 2 CFR 200." For non-U.S. organizations, M1 in ADS 303mab identifies the applicable cost principles in 2 CFR 200 Subpart E and FAR Part 31, noting "It is the recipient's responsibility to ensure that costs incurred are in accordance with the applicable cost principles, meaning the costs are (1) reasonable: costs which are generally recognized as ordinary and necessary and would be incurred by a prudent person in the conduct of normal business; (2) allocable: incurred specifically for this award; and (3) allowable: conform to any limitations in this award."

As outlined and described above, USAID includes standard provisions in solicitations and awards which are rooted in applicable regulations to inform prime awardees of its responsibilities to monitor subrecipient costs. Any new agency-specific instructions would be considered redundant and would not benefit either USAID or USAID's IPs.

- **Target Completion Date:** M/OAA already follows all federal laws and regulations related to the monitoring of subcontractor costs and requests closure of this recommendation.

Recommendation 3: Develop written internal control policies, procedures, or guidance specific to Overhead, Special Cost, and Closeout Branch's indirect cost processes to clarify minimal documentation retention rules during every phase of the indirect cost process, notably first time, subsequent, and final negotiations.

- **Management Comments:** USAID agrees with the above recommendation. Although USAID complies with ADS Chapter 502, USAID's Overhead, Special Cost and Closeout Branch recognizes the need to develop revised internal control policies and procedures. The revision of these policies and procedures will coincide with USAID's planned NICRA automation submission process which will standardize and streamline the negotiation of indirect cost rates and the establishment of NICRAs, thereby generating consistency in NICRA document control practices. These new policies and procedures will further strengthen the documentation retention rules already in place for the establishment of provisional and final indirect cost rates. USAID anticipates beginning implementation of this NICRA automation process by the end of calendar year 2024 with full implementation in calendar year 2025.

Actions taken to date and planned actions are:

- On October 1, 2023, Phase I of the NICRA automation effort began under Modification P00002 of USAID CIO contract 72MC1023M00003. During Phase I, all Cost and Audit Support (CAS) Division stakeholders were interviewed, workflow processes established and will serve as the basis for the development of internal control policies and procedures.
- In February 2024, Phase II of the NICRA automation effort which entails deployment of the system, user testing, training and the drafting of policies and procedures. Phase II is set to conclude on or around October 31, 2024.
- On or around November 1, 2024, the CAS Division plans to "go live" with the fully automated NICRA system which includes the use of final policies and procedures.

- **Target Completion Date**: M/OAA has completed or planned these actions, therefore we request closure of this finding.

Recommendation 4: Develop a checklist to verify completion of for-profit organization files similar to the checklist used for non-profit organizations.

- **Management Comments**: USAID agrees with the above recommendation. In FY 2023, M/OAA/CAS/OCC developed two for-profit checklists. The first is titled "Indirect Cost Rate (ICR) Checklist for First Time NICRA (For-Profit)", and "Subsequent NICRA Submissions to Establish Final and Provisional Indirect Cost RatesFor-Profit". Both checklists have been in use since their development in FY 2023.

- **Target Completion Date**: M/OAA has completed this action and therefore we request closure of this finding.

Recommendation 5: Develop a systematic process to conduct periodic reviews of a sample of implementers' files for missing documents, mathematical accuracy of the indirect costs charged and report payments that were not supported as improper payments.

Management Comments: USAID disagrees with the above recommendation. USAID uses a robust NICRA document review process to ensure all applicable documentation that is required in order to properly negotiate and issue NICRAs for organizations for which USAID is cognizant. Additionally, USAID reviews the mathematical accuracy of indirect costs charged throughout the various phases of the acquisition and assistance lifecycle. The specific processes for these reviews are described extensively below; however, so that USAID's explanations are as clear as possible, please note the following points of clarification regarding this recommendation:

- The audit terminology used when referring to "contractor and grantee files'' can be taken one of two ways. The first way is in reference to the official acquisition or assistance award file for each individual award awarded to a "contractor" or "grantee". The second way is in reference to the NICRA files for each individual "contractor" or "grantee" which, unless stipulated in incurred cost audits, do not contain references to individual acquisition or assistance awards. The official files for each individual acquisition and assistance award are separate and distinct from the NICRA files used to maintain NICRAs and supporting documentation. The only commonality between these two sets of files is that ASIST is used as the official repository for both as required by ADS Chapter 502, *USAID Records Management Program*. Because the documents reviewed by auditors for the 91 awards during this audit are related to only the documentation contained within each organization's NICRA file, USAID's response pertains to only the NICRA files for each contractor or grantee and does not pertain to any specific award.

- The audit language pertaining to this audit recommendation appears to indicate a fundamental misunderstanding regarding the acquisition and assistance award lifecycle and the role that NICRAs play throughout this lifecycle. The acquisition and assistance award lifecycle generally includes the following four phases: "Pre-Award", "Award", "Award Administration", and "Closeout". The negotiation and establishment of NICRAs is a process separate from these four phases. While NICRAs play a fundamental role throughout this lifecycle, the responsibility for ensuring that accurate rates are proposed, invoiced, and used for final closeout are the responsibility of various personnel. The responsibility to ensure that indirect rates are proposed correctly during the "Pre-Award" and "Award" phases is borne by the cognizant COs/AOs during the review of cost proposals and the eventual issuance of the acquisition or assistance award. The responsibility for ensuring that rates are invoiced correctly and in accordance with the terms and conditions of each individual award during the "Award Administration" phase is borne by the cognizant CORs/AORs and COs/AOs. Generally, CORs/AORs review invoices for cost reimbursable awards monthly and work with the cognizant CO/AO to ensure that invoices are reviewed, approved and/or declined as applicable. The responsibility for ensuring that applicable acquisition and assistance awards for organizations are closed properly using the appropriate rates during the "Closeout" phase is the responsibility of the CAM and OCC branches of CAS as well as the responsibility of USAID's Inspector General. The CAM branch identifies the for-profit incurred cost audits that need to be performed while the OCC branch reviews the single audits issued for non-profit organizations, negotiates, and "settles" the final NICRAs for both the for profit and non-profit organizations. Because of this general misunderstanding of these roles during these phases of the acquisition and assistance lifecycle, the overall recommendation that USAID "...perform quality review…of the mathematical accuracy of the indirect rates charged" fails to recognize that after issuance of the NICRAs, the indirect rates are reviewed for accuracy throughout all four phases and reviews are conducted by all the parties described above. Additionally, the scope of this audit was limited to only NICRA documentation for each organization and did not consider the files pertaining to the COs/AOs and CORs/AORs, which is why that in some cases, the audit personnel were unable to obtain a clear understanding of how, once issued, NICRAs are used by all personnel who play a role in each acquisition and assistance award.

- As is standard practice throughout the federal government, USAID conducts quality reviews of files with the use of audit sampling. Audit sampling is the application of an audit procedure to less than 100 percent of the files for the purpose of evaluating some characteristics of the documents contained in each file. USAID is aware of the document types that should be contained in each file and the relevant characteristics for each of these documents that are required to comply with federal regulations and USAID policies. Thus, USAID reviews files with the intent to identify the documents that may be more likely to contain errors and/or are missing. USAID routinely considers this knowledge when conducting these reviews and adjusts as needed.

USAID Quality Review Process Of NICRA Documentation For which USAID is Cognizant

As described in the audit, non-profit IPs are provided a checklist of what to provide during the indirect cost negotiation process in USAID's *"Indirect Cost Rate Guide for Non-Profit Organizations."* The checklists are available to IPs that are first time and subsequent NICRA recipients. While USAID does use these same checklists to guide the approval and review processes, some of the items on the checklist are not applicable to all IP, which is why not all documents listed on the spreadsheet are included in the file. Additionally, although the audit states that auditors "... did not find evidence of these checklists being used during the review and approval process.", the record of all negotiations regarding the documents reviewed, questions from USAID and clarifications from the IPs are documented in the Price Negotiation Memorandum (PNM) for each NICRA negotiation. The PNM supports the rates identified in the NICRA once issued. The PNM is in the NICRA file for each IP, but it does not appear that the PNMs were reviewed during the performance of audit fieldwork.

The process described for Non-Profit IPs is like the process used for For-Profit IPs. In FY 2023, USAID created a new checklist that aligns with the submission requirements of the FAR clause 52.216-7, *Allowable Cost and Payment*, which is included in every cost reimbursable contract to for-profit organizations. In other words, For-Profit IPs are bound by the terms and conditions of each cost-reimbursable contract to submit the applicable documentation as required by this clause. Despite the submission requirements already being listed in the clause, USAID developed checklists for For-Profit organizations and are titled "*Indirect Cost Rate (ICR) Checklist for First Time NICRA (For-Profit)"*, and *"Subsequent NICRA Submissions to Establish Final and Provisional Indirect Cost Rates For-Profit".* Again, as with the Non-Profit IPs, the PNM is used to document the negotiations to support the rates identified in the NICRA once issued. The audit made no mention of the review of the PNM for each NICRA reviewed.

The audit states that the auditors *"... also noted that implementer documentation was stored primarily in ASIST as well as with individual AOR/CORs and Contract Specialists*." This statement reflects USAID's compliance with ADS Chapter 502, which as previously stated in previous responses, requires that all official procurement records be saved in ASIST. As outlined in items No. 1 and No. 2 above, the NICRA files and official file for each contract award are two separate and distinct files and are used by various personnel in the different phases of the acquisition and assistance lifecycle.

"ADS Chapter 630, "Payable Management" sets forth the principles, requirements, and procedures that govern the examination, certification, and payment of basic voucher, invoices, contract financing requests, claims, and other payment requests. More specifically, Section 630.3.2.2, states that the AOR/COR Designation Letters require the use of Agency Secure Image and Storage Tracking/Acquisition and Assistance Document Management (ASIST) system to maintain the official AOR/COR award file in its entirety. The A&A award must be filed in ASIST in its entirety before the AOR/COR uploads their documents.

USAID Quality Reviews of the Accuracy of Indirect Costs

The mathematical accuracy of the indirect costs charged is conducted during the establishment of the NICRA and throughout the phases of the acquisition and assistance lifecycle, culminating with the annual audits of the costs for each IP, non-profit and for-profit alike. The only time costs are "charged" is throughout the performance of the contract. As previously described, costs are charged during the Award Administration phase of the acquisition and assistance lifecycle and is a separate and distinct process from when a NICRA is negotiated and issued. Outlined below is a description of the processes used by USAID to conduct the mathematical accuracy of indirect rates during the negotiation of a NICRA and the use of these rates during the acquisition lifecycle as described in item No. 2 above.

NICRA Negotiation and Issuance

Non- Profit IPs: USAID reviews the IP's Indirect Cost Rate (ICR) proposal to determine whether the proposal package is complete, in sufficient detail to permit an accuracy verification of the indirect costs claimed during the IP's accounting fiscal year. This includes performing a "math check" to ensure the accuracy of the organization's indirect cost rate computations. In addition, if this is the initial establishment of the NICRA, USAID strives to set the tone for subsequent negotiations. Extra effort is expended at this time to ensure the IP understands Federal requirements and that the IP's accounting system and method of operation can accommodate these requirements.

USAID analyzes the adjustments for unallowable and extraneous costs that should be excluded from the ICR proposal, and those that should be allocated their share of indirect costs once the negotiator is assured that the total costs, direct and indirect, included in the indirect cost proposal agree with the IP's audited financial statements,

The negotiation of the IP's claimed indirect costs rates helps assess the accuracy of the IP's annual costs. It determines whether the costs are allowable, reasonable, and allocable to the contract in accordance with contract terms, cost accounting standards, and 2 CFR 200, Subpart E, "Cost Principles. Any disallowed indirect cost is reflected in the final negotiated indirect cost rate; and it is agreed that these disallowed costs will not be included by the IP in subsequent ICR proposals.

For-Profit IPs: An Incurred Cost Proposal (ICP) is submitted within six months of the end of the fiscal year by the IP when they have Cost Reimbursable contracts; and it does include the actual indirect expenses. The ICS is the IP's final opportunity to voluntarily disallow costs (pre-audit) that could be perceived or determined to be unallowable. It also allows the PI to adjust provisional indirect cost rates as necessary to establish the final indirect cost rates after year end.

USAID reviews the adequacy of the ICP for audit in support of negotiating final indirect cost rates and provides a written description of any inadequacies to the IP. Once the ICP has been determined to be adequate for audit in support of negotiating final indirect cost rates, the CPA auditor will audit the ICP, and prepare an advisory audit report to USAID, including a listing of any relevant advance agreements or restrictive terms of specific contracts.

We provide the IP the opportunity, during negotiation of the final indirect cost, to address the IP's position, and review additional supporting documentation presented prior to the issuance of the final decision regarding questioned costs and final indirect cost rates.

The negotiation of the IP's claimed indirect costs rates helps assess the accuracy of the IP's annual costs. It determines whether the costs are allowable, reasonable, and allocable to the contract in accordance with contract terms, cost accounting standards, and FAR Part 31, Cost Principles. Any disallowed indirect cost is reflected in the final negotiated indirect cost rate; and it is agreed that these disallowed costs will not be included by the IP in subsequent ICR proposals.

Pre-Award and Award Phase - Indirect Rate Quality Review Process

The AO/CO, during the pre-award process, conducts cost analysis of the costs proposed by the IP, and requests OCC assistance on the indirect cost rate(s) included in the proposed award, if the IP does not have a NICRA with the federal government.

When the IP does have a NICRA, the AO/CO requests a copy of the most recent NICRA as well as any information from any prior audits impacting either direct or indirect costs. Addressing these issues before the award is signed will verify the accuracy of the indirect costs when submitting invoices or vouchers for payment.

Award Administration Phase - Indirect Rate Quality Review Process

The AOR/COR in conjunction with the AO/CO review invoices or vouchers before payment for accuracy and completeness; determine if the items and amounts claimed are consistent with the award terms and conditions; and represent prudent business transactions. The AOR/COR ensure that these payments are commensurate with physical and technical progress under the award. If the IP has not deducted questionable amounts from the invoice or amounts required to be withheld, the AO/CO will make the necessary reduction.

Contract Closeout and Audit Oversight Phase - Indirect Rate Quality Review Process

For Profit and Non-Profit: At the end of the IP final indirect cost negotiation, questioned indirect cost rates have been addressed and resolved, and unallowable indirect expenses have been identified as excluded ascertaining the accuracy of indirect costs for future years. Additionally, in accordance with ADS 591, Financial Audits of USAID Contractors, Recipients, and Host Government Entities USAID OIG Conducts quality control reviews of USAID cognizant audits and conducts audits of USAID and U.S. and foreign recipient organizations as it deems necessary.

Non-Profit After the indirect cost rates have been finalized, and provisional indirect cost rates have been set, IPs are directed, on awards/contracts incorporating provisional indirect cost rates, within 120 days to take the necessary actions to adjust their invoices or financial expenditure reports (SF-425) for the difference between the billed indirect rates (provisional and final) in the NICRA. Therefore, care needs to be taken to ensure that amounts claimed do not exceed award limitations or indirect cost rate ceilings.

For-Profit: Based on the results of the preliminary steps that identified materiality and risk, the CPA auditor will perform transaction testing on accounts to obtain sufficient evidence for allowability, allocability, and reasonableness of these costs. In addition, the CPA auditor evaluates the IP's indirect cost allocation base(s) for equity and consistency and generally accepted accounting principles, FAR 31.203(c) and CAS 410 and 418, if applicable. This includes, verifying that the base(s) properly: (i) reflect(s) the appropriate cost accounting period; and (ii) allocates indirect cost to final cost objectives commensurate with the benefits received.

As delineated above and in conclusion, the indirect rates used under contract awards are reviewed, validated, and audited during the acquisition and assistance lifecycle for each IP and for each award issued to the IP. This process ensures that rate approvals must be supported during every phase of the acquisition and assistance lifecycle and mitigate the risk that incorrect costs are being charged during the years of each contract award. As evidence of this robust review process of indirect rates, the audit cites that auditors "*... were able to verify that the rate invoiced was what appeared on the NICRA document for the invoices/SF-425s provided."*

- **Target Completion Date:** M/OAA already conducts periodic reviews of a sample of implementers' files, conducts mathematical accuracy of the indirect costs charged and does not disburse unsupported improper payments. For these reasons, we request closure of this finding.

Recommendation 6: Based on the quality review performed, make the necessary payment adjustments where payments were made for the wrong amount.

Management Comments: USAID disagrees with the above recommendation. M/OAA already makes payment adjustments where payments were made for the wrong amount during award performance. The cognizant CO/AO and AOR/COR are responsible for ensuring that invoices are paid properly during award performance which includes identifying invoices that do not use the correct NICRA rates identified in each acquisition or assistance award.

ADS Chapter 630, "Payable Management" sets forth the principles, requirements, and procedures that govern the examination, certification, and payment of basic voucher, invoices, contract financing requests, claims, and other payment requests.

More specifically, Section 630.3.2.2, "COR Adjustments for Amounts Claimed or Invoiced" states that:

If the COR identifies any improper claims when reviewing the voucher, the COR has two options.

- *If the questioned amount is on a continuing contract and the contractor can easily correct it before the contract ends, the COR can approve the invoice as submitted and request an explanation for the questioned amount to avoid a future suspension of the amount. The COR must request additional information from the payee in writing and attach a copy of the written request to the approved voucher when returning it to the paying office.*

· *If the COR decides that USAID should not pay any or all of the cost in a voucher until the payee provides additional information, the COR may suspend these costs. The COR must indicate the amount they are suspending–and why–in a written letter to the payee and send it within seven days of receiving the administrative approval form. The COR must also return the invoice, Administrative Approval form, and a copy of the suspension letter to the paying office."*

After award performance is complete and cost-reimbursable acquisition and assistance awards are ready to be closed, incurred cost audits for each IP's fiscal years are completed by Certified Public Accountant (CPA) firms. These audits ensure that all costs incurred are allowable, allocable, and reasonable. Once the audits have been completed, M/OAA COs and AOs use the results of these audits as a basis to establish the final indirect cost rates for the IPs fiscal year to "true-up" the difference between the provisional indirect cost rates and the final established NICRA rates for each of the IP's acquisition and assistance awards for the fiscal years audited.

Finally, it should be noted that the audit did not identify one instance of an implementer incorrectly charging indirect cost, demonstrating that the process outlined above is successful in mitigating incorrect charging.

- **Target Completion Date:** M/OAA already performs this action and requests closure of this finding.

Recommendation 7: Consider implementation of a centralized document control methodology and tracking mechanism in a current or new system to improve internal document control practices.

- **Management Comments:** USAID agrees with the above recommendation. As previously stated in our response to recommendation three, USAID complies with Automated ADS Chapter 502, USAID Records Management Program; however, USAID's Overhead, Special Cost and Closeout Branch recognizes the need to create and implement a centralized document control system to improve internal document control practices. USAID's planned NICRA automation submission process will standardize and streamline the negotiation of indirect cost rates and the establishment of NICRAs and will serve as a secondary database of indirect cost data. USAID anticipates beginning implementation of this NICRA automation process by the end of calendar year 2024 with full implementation in calendar year 2025.

  Actions taken to date and planned actions are:
  - On October 1, 2023, Phase I of the NICRA automation effort began. During Phase I, all Cost and Audit Support (CAS) Division stakeholders were interviewed, workflow processes established and will serve as the basis for the development of internal control policies and procedures.
  - In February 2024, Phase II of the NICRA automation effort which entails

deployment of the system, user testing, training and the drafting of policies and procedures. Phase II is set to conclude on or around October 31, 2024.

- On or around November 1, 2024, the CAS Division plans to "go live" with the fully automated NICRA system which includes the use of final policies and procedures.

In view of the above, we request that the OIG inform USAID when it agrees or disagrees with a recommendation's management comment (corrective action plan).

CLEARANCE PAGE FOR Management Comments (Corrective Action Plan) in response to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, "Negotiated Indirect Cost Rate Agreements: Opportunities Exist for USAID to Improve Processes and Data Management" (3-000-24-001-U) prepared by Williams, Adley and Company-DC LLP (WAS) on behalf the Office of the USAID Inspector General (OIG) on November 17, 2023

Approved: M/OAA: DBroderick

Clearances:

Bureau/IO/Mission	**Clearance Status**	**Date**
M/OAA/CAS: SSnyder	Cleared	11/28/2023
M/OAA/ACTS: JNorling	cleared	11/28/2023
GC/A&A: DPerone	Cleared	11/28/2023

Drafter: M/OAA/CAS

APPENDIX 2: MANAGEMENT RESPONSE

Note: On November 29th, management requested to add the following language to their response to Recommendation 7:

- **Target Completion Date:** M/OAA has taken steps to develop a centralized document control and tracking system for indirect cost rates and requests closure of this finding.

APPENDIX 3: AUDITOR RESPONSE

We issued seven recommendations in our report. Management agreed with recommendations 1, 3, 4, and 7, and disagreed with recommendations 2, 5, and 6. Our responses to management's response are below. Management's response, in its entirety, is included in Appendix 2 above.

Recommendation 1: Develop and implement procedures to collect indirect cost data from implementers in a systematic manner that will allow it to report and analyze the indirect costing methodology and rates for implementers. This information should include indirect cost rate agreement type (for instance, cognizant agency NICRA or de minimis).

> **Summary of Management's Response:** Management agreed with the recommendation and stated that several fields were subsequently added to GLAAS to collect indirect cost data for all acquisition and assistance actions at the time of award. In addition, USAID is working to develop a fully automated process for the submission of NCIRA proposals that will automatically collect and store specific indirect rate data.
>
> **Auditor Response:** If properly implemented, the stated and planned corrective actions address the intent of the recommendation.

Recommendation 2: Review the results of the prime contractor's or grantee's sub-awardee monitoring, specifically for any indirect cost concerns, during site visits or other reviews of the prime.

> **Summary of Management's Response:** Management disagrees with the recommendation, stating that the responsibility to monitor subrecipients' application of NICRA lies with the prime recipient, and that the development of any new agency-specific instructions is not needed.
>
> **Auditor Response:** We agree that the 2 CFR 200 states that the prime recipient is responsible for the subrecipient. However, this recommendation does not require the development of new instructions but enhancements to current review checklists/plans that are already in use. The review will provide an opportunity for concerns to be raised and any errors to be quickly corrected.
>
> Our recommendation remains unchanged.

Recommendation 3: Develop written internal control policies, procedures, or guidance specific to OCC's indirect cost processes to clarify minimal documentation retention rules during every phase of the indirect cost process, notably first time, subsequent, and final negotiations.

> **Summary of Management's Response:** Management agreed with the recommendation and stated that they will develop revised internal control policies and procedures. The development of these procedures will coincide with USAID's planned NICRA automation submission process.

Auditor Response: If properly implemented, the planned corrective actions address the intent of the recommendation.

Recommendation 4: Develop checklists to verify completion of for-profit organizations files similar to the checklist used for non-profit organizations.

Summary of Management's Response: Management agreed with the recommendation and stated that they have developed two for-profit checklists and these checklists are currently in use.

Auditor Response: If properly implemented, the planned corrective actions address the intent of the recommendation.

Recommendation 5: Develop a systematic process to conduct periodic reviews of a sample of implementer files for missing documents, and the mathematical accuracy of the indirect costs charged and report payments that were not supported as improper payments.

Summary of Management's Response: Management does not agree with the recommendation. They stated that NICRAs are reviewed at various points throughout the agreement's lifecycle and that checklists are used to ensure the completeness of documentation received.

Auditor Response: While we agree USAID guidance prescribes methodologies for calculating indirect cost rates and determining the proper application of these rates, we were unable to determine whether these methodologies were followed due to a lack of documentation. During our audit, we made multiple attempts to obtain the information necessary to support the proper calculation and application of indirect cost rates, however ultimately much of the documentation was not provided.

Although several documentation checklists were in-use or developed during our audit, we did not see evidence of completed checklists in the files reviewed. In addition, the for-profit checklist was developed in 2023, which was after our audit scope.

As described above, our audit noted several instances where documentation was either not obtained or not retained by USAID, necessitating additional controls to ensure the completeness of the files and the proper calculation of the rates.

Our recommendation remains unchanged.

Recommendation 6: Based on the quality review performed, make the necessary payment adjustments where payments were made for the wrong amount.

Summary of Management's Response: Management does not agree with the recommendation, stating that USAID already makes payment adjustments where payments were made for the wrong amount. They also stated that the CO/AO and AOR/COR are responsible for ensuring invoices are properly paid. Lastly, USAID mentions that incurred cost audits are conducted of each implementing partner after award performance is complete.

Auditor Response: Our recommendation was specifically in reference to the systematic review described in Recommendation 5, which is separate from the processes USAID described in its response. Our recommendation remains unchanged.

Recommendation 7: Consider implementation of a centralized document control methodology and tracking mechanism in a current or new system to improve internal document control practices.

Summary of Management's Response: Management agreed with the recommendation and stated that they comply with ADS Chapter 502, USAID Records Management Program. However, USAID is planning to implement a NICRA automation submission process to streamline the negotiation of indirect cost rates and the establishment of NICRAs.

Auditor Response: If properly implemented, the planned corrective actions address the intent of the recommendation.