



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

### MEMORANDUM

**DATE:** June 24, 2024

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

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

**SUBJECT:** Independent Examination Report on Creative Associates International, Inc.'s Incurred Cost Submission for the Fiscal Year Ended September 30, 2021 (3-000-24-045-1)

This memorandum transmits the final independent examination report on incurred costs submission (ICS) for Creative Associates International, Inc (CAI) for the Fiscal Year (FY) ended September 30, 2021. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit and Support Division, Contract Audit Management Branch, contracted with the independent certified public accounting firm of Tichenor & Associates, LLP (Tichenor) to conduct the audit. Tichenor stated that it performed its audit in accordance with government auditing standards issued by the Comptroller General of the United States. Tichenor is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed by CAI in its FY 2020 ICS are accurate, allowable, allocable, and reasonable in accordance with contract terms and applicable Government acquisition regulations.<sup>1</sup>

The audit objective was to express an opinion on management's assertion that (1) All costs included in the proposal's Incurred Cost Submission to establish final indirect cost rates for September 30, 2021 are allowable in accordance with the cost principles of the Federal Acquisition Regulation (FAR) and its supplements applicable to the contracts to which the final indirect cost rates apply; and (2) This proposal does not include any costs which are expressly unallowable under applicable cost principles of the FAR or its supplements and is fairly stated. In addition, Tichenor examined the CAI's compliance with their U.S. Government contract/award terms, and applicable Government acquisition regulations, specifically the Federal Acquisition Regulation (FAR), the USAID Acquisition Regulations (AIDAR), 2 CFR 200

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<sup>1</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

Uniform Administrative Requirements, Federal Travel Regulations and/or the Department of State Standard Travel Regulations (DSSR), and Buy-American Act for the Contracting Officer to execute the finalization of allowable contract costs and indirect rates for the fiscal year under review with the CAI. Lastly, Tichenor examined the CAI's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on management's assertion, but not for the purpose of expressing our opinion on the effectiveness of the CAI's internal control. To answer the audit's objective, Tichenor (1) reviewed CAI's FY 2021 ICS and reconciled it to the CAI's general ledger, and other records and documentation provided by CAI, to determine its adequacy for audit purposes; (2) reviewed CAI's policies and procedures regarding claimed direct and indirect costs; (3) obtained an understanding of the CAI's internal controls, assessing control risk, and determining the extent of examination testing needed based on the control risk assessment (4) summarized CAI's billings from their billings data and reconciled them with the recommended audited FY 2021 costs. Tichenor examined USAID Auditable Dollar Value of \$101,851,283 for the period audited.

Tichenor concluded that, except for the effects noted in the Findings, Recommendations, CAI's Response, and Accountants' Conclusions, CAI has prepared its FY 2021 ICS in accordance with applicable Government acquisition regulations of the FAR, the AIDAR, and the DSSR regarding the accuracy, allowability, allocability, and reasonableness of incurred costs and is appropriate for the Contracting Officer's use in executing the finalization of allowable costs and indirect rates for the fiscal year under review with the CAI. Tichenor's procedures resulted in questioned costs of \$169,670 in CCN Direct Labor costs as misclassified Indirect Bonus costs. In addition to the direct costs questioned, Tichenor is recommending an upward adjustment of \$169,670 and questioning \$169,670 for the CNN Fringe Pool and Base, respectively. This is a direct effect from Finding 2021-001 which caused the CNN Fringe rate to increase by 2.19% from 37.82% to 40.01%. Tichenor is also recommending an increase of \$1,497 and a decrease of \$169,670 to the Overhead Pool and Base, respectively due to the effect of Finding 2021-002, which increased the Overhead rate by 0.41% from 44.05% to 44.46%. Tichenor is recommending two adjustments to the G&A rate. The first adjustment is an increase of \$3,212 and a decrease of \$3,212 to the G&A Pool and Base, respectively, due to the direct effect of Finding 2021-001. The second adjustment to the G&A rate is an increase of \$2,812,139 to the G&A Base, which is a direct effect of Finding 2021-002. The net effect of these two adjustments is an increase of \$3,212 and \$2,808,927 to the G&A Pool and Base, respectively, which caused the G&A rate to decrease by 0.86% from 25.24% to 24.38%.

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

**Recommendation 1.** Determine the allowability of \$169,670 in unsupported questioned costs on pages 9 to 11 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that Creative Associates International, Inc. corrects the two material deficiencies in internal control detailed on pages 9 to 13 of the audit report.

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

management decision.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”). In addition, USAID OIG has determined that this transmittal memo and the enclosed report are not subject to notification and reporting requirements under Section 5274 of the National Defense Authorization Act.<sup>2</sup>

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<sup>2</sup> The James M. Inhofe National Defense Authorization Act for Fiscal Year 2023 Pub. L. No. 117-263, § 5274. Please direct related inquiries to [oignotice\\_ndaa5274@usaid.gov](mailto:oignotice_ndaa5274@usaid.gov).