OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

COVID-19: Audit of Costs Incurred By World Vision, Inc., from March 1, 2020, to March 31, 2022

Audit Report 3-000-24-005-U

July 10, 2024

Office of Audits, Inspections, and Evaluations

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

MEMORANDUM

DATE: July 10, 2024

TO: USAID/Bureau for Management/Office of Acquisition & Assistance, Director, Jamie J. Rodgers

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

SUBJECT: COVID-19: Audit of Costs Incurred By World Vision, Inc., from March 1, 2020, to March 31, 2022 (3-000-24-005-U)

Enclosed is the final report on the audit of claimed costs incurred by World Vision, Inc. (WV) for USAID's Coronavirus Disease of 2019 (COVID-19)-related activities for the period of March 1, 2020, to March 31, 2022.[1] The Office of Inspector General (OIG) contracted with the independent certified public accounting and consulting firm of Kearney & Company P.C. (Kearney) to conduct a performance audit to determine allowability, allocability, and reasonableness of costs incurred by WV.[2] The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards.

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. 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.

The objectives of this audit were to:

1. Express a conclusion on whether the auditable costs incurred by WV under the subject awards for the period audited are fairly presented and in conformity with the terms of regulatory and award requirements and generally accepted accounting principles (GAAP).

[1] Pursuant to 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] The contract provided for similar performance audits for a total of 12 different USAID recipients, the results of which are reported and transmitted separately.

2. Identify as unsupported, unreasonable, or ineligible, any questioned auditable costs incurred with implementing USAID's activities for the period audited in conformity with the terms of the regulatory and award requirements and GAAP.
3. Evaluate WV's contract bidding and procurement processes to determine whether it complied with regulatory and award requirements.
4. Evaluate and obtain sufficient understanding of WV's internal controls, assess control risks, and identify reportable conditions, including material internal control weaknesses.
5. Perform tests to determine whether WV complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects.
6. Determine the extent to which WV delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID.
7. Determine the extent to which WV requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements.
8. Determine whether WV has taken corrective actions on prior audit report recommendations.

To answer the audit objectives, Kearney reviewed WV's policies, directives, procedures, and internal controls; conducted interviews and walkthroughs; and reviewed agency actions to address any prior audit recommendations for WV's incurred cost audits.

Kearney concluded that WV met requirements related to three of the eight objectives (objectives 3, 6, and 7), and requirements for one objective were not applicable (objective 8). However, Kearney concluded that WV did not meet requirements related to the remaining four objectives (objectives 1, 2, 4, and 5). Specifically, the audit firm concluded that WV did not:

- Have a sufficient process for accurate allocation of labor costs to the cost objective, which resulted in questioned labor costs of $3,098,895 (objectives 1, 2, and 4).
- Submit three value-added tax reports by the deadline stated in the awards (objectives 4 and 5).
- Submit an annual report by the deadline stated in the awards (objectives 4 and 5).
- Provide supporting documentation for one cost allocation sampled, resulting in questioned costs of $144,372 (objectives 1, 2, and 4).

In addition, the auditors were unable to verify the accuracy and completeness of costs included in the testing population. This occurred because USAID did not require WV to distinguish COVID-19 funds from non-COVID-19 funds in expenditure reports and invoices. As a result, even in cases where WV separately recorded COVID-19 funded expenditures within their system of record, auditors could not reconcile the amounts with USAID's system. To complete its testing, Kearney relied on WV to provide a transactional record of costs incurred with COVID-19 funding and adjusted its evaluation methodology. There remains an unmitigated risk that total costs incurred with COVID-19 funding as provided by USAID is not complete, and unallowable costs may exist that would not have been detected by Kearney's audit. Kearney has identified this as a systemic issue pertaining to USAID award terms and conditions and thus communicated the issue to us under separate cover for appropriate action with responsible parties. As a result, we are not making any recommendations to address this weakness at this time.

To address the other internal control weaknesses identified in Kearney's report, we recommend that USAID's Director, Office of Acquisition & Assistance:

Recommendation 1. Determine the allowability of $3,098,895 in questioned direct labor costs on pages 6-7 of the audit report and recover any amount that is unallowable.

Recommendation 2. Require World Vision to develop and implement policies and procedures to periodically record and review time worked and any proportional allocation of the costs for greater accuracy.

Recommendation 3. Require World Vision to develop and implement policies and procedures to establish a requirement to document the basis of the allocation percentages.

Recommendation 4. Require World Vision to develop and implement policies and procedures to ensure that management is verifying and documenting the percentage of labor hours that employees charge to awards.

Recommendation 5. Require World Vision to develop processes and establish controls to ensure each of World Vision offices are submitting the Value-Added-Tax reports by April 16 of the preceding year.

Recommendation 6. Require World Vision to establish controls to ensure each of its offices submit a separate annual report for each of its reporting responsibilities by the established deadline or obtain concurrence from USAID to utilize reports for multiple reporting requirements.

Recommendation 7. Determine the allowability of $144,372 in questioned direct costs on page 12 of the audit report and recover any amount that is unallowable.

Recommendation 8. Require World Vision to develop and implement policies and procedures to ensure adequate documentation (e.g., invoices, itemized receipts, and basis) is created and/or maintained to adequately support direct costs claimed.

Recommendation 9. Require World Vision to execute a record retention and audit response policy where documents are maintained and readily available in a timely manner to adequately support direct costs claimed, specifically considering the requirements of Code of Federal Regulations.

In finalizing the report, we evaluated USAID's response to the recommendations. We consider all recommendations open unresolved as we determined that USAID responded to Kearney's four recommendations directed to WV, rather than the nine recommendations we directed to the Agency. We ask that you provide written notification of actions planned or taken to reach management decisions on recommendations 1, 2, 3, 4, 5, 6, 7, 8, and 9, within 30 days of final report issuance, copying the Audit Performance and Compliance Division.

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

Deliverable of the Performance Audit Report for the Incurred Cost Audit over World Vision Inc.'s (World Vison) Coronavirus Disease 2019 (COVID-19)-Related Activities for the Period of March 1, 2020 to March 31, 2022

Contract Number: 72001G22C00007

May 8, 2024

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May 8, 2024

Mr. David McNeil
Director, External Financial Audit (EFA) Division
Office of the Inspector General
United States Agency of International Development
1300 Pennsylvania Avenue, NW
Washington, D.C. 20523

Dear Mr. McNeil:

Kearney & Company, P.C. (Kearney) has conducted a performance audit of the costs claimed by World Vision, Inc. (World Vision) on its Coronavirus Disease 2019 (COVID-19)-related activities for the period of March 1, 2020 to March 31, 2022. This audit, conducted under Contract No. 72001G22C0007, was designed to meet the objectives identified in the Objectives section of this report.

Kearney conducted this performance audit in accordance with the standards applicable to performance audits contained in Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States.

The purpose of this report is to communicate the results of Kearney's performance audit and any related findings and recommendations, where applicable.

Kelly Gorrell
Engagement Partner

Performance Audit Report for the Incurred Cost Audit over World Vision, Inc.'s (World Vision) Coronavirus Disease 2019 (COVID-19)-Related Activities for the Period of March 1, 2020 to March 31, 2022

February 23, 2024

KEARNEY & COMPANY

TABLE OF CONTENTS

OBJECTIVES

As requested by the United States Agency for International Development (USAID) Office of Inspector General (OIG), Kearney & Company, P.C. (also referred to as "Kearney," "we," "us," and "auditor" in this report) audited the allowability, allocability, and reasonableness of costs incurred by World Vision, Inc. (also referred to as "World Vision" and "Recipient" in this report) under USAID-funded awards and related to Coronavirus Disease 2019 (COVID-19) activities for the period of March 1, 2020, to March 31, 2022 (hereinafter referred to as the "auditable costs incurred"). Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS).

The objectives of the performance audit in detail are to:

1. Express a conclusion on whether the auditable costs incurred by the Recipient under the subject awards for the period audited are fairly presented and in conformity with the terms of regulatory and award requirements and Generally Accepted Accounting Principles (GAAP) or other comprehensive basis of accounting
2. Identify as unsupported, unreasonable, or ineligible, any questioned auditable costs incurred in implementing the USAID activities for the period audited in conformity with the terms of the regulatory and award requirements and GAAP or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis)
3. Evaluate the Recipient's contract bidding and procurement processes to determine whether it complied with all contract requirements of regulatory and award requirements
4. Evaluate and obtain a sufficient understanding of Recipient's internal controls, assess control risk, and identify reportable conditions, including material internal control weaknesses
5. Perform tests to determine whether the Recipient complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects. All material instances of noncompliance and indications of illegal acts that have occurred or are likely to have occurred must be identified and reported to the OIG
6. Determine to the extent specified herein if the Recipient has delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID
7. Determine to the extent specified herein if the Recipient has requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements
8. Determine whether the Recipient has taken corrective actions on prior audit report recommendations.

Please see Appendix A for the scope and methodology of the performance audit.

BACKGROUND

About World Vision

World Vision, headquartered in Federal Way, Washington, is a humanitarian aid organization that operates in a number of countries, including: Brazil, South Sudan, Syria, Afghanistan, El Salvador, Brazil, Burundi, and the Solomon Islands. World Vision partners with children, families, and their communities to reach their full potential by tackling the causes of poverty and injustice. In 2022, World Vision improved sanitation for 2.7 million people and supported and trained 184,000 community health workers. In 2022, World Vision received $1.402 billion in operating revenue, including $491 million from public grants, including from USAID. (https://www.worldvision.org/about-us and fiscal year (FY) 2022 report from https://www.worldvision.org/about-us/financial-accountability-2)

About USAID

USAID is an independent Federal agency headquartered in Washington, D.C., and it has a presence in 87 countries. Established in November 1961, USAID is the lead Federal agency that works to end extreme global poverty and enable resilient, democratic societies to realize their potential. USAID is headed by an Administrator and receives overall foreign policy guidance from the Secretary of State.

About USAID's Response to COVID-19

The USAID OIG's mission is to safeguard and strengthen United States foreign assistance through timely, relevant, and impactful oversight of the entities under its jurisdiction. USAID has developed programs to help deliver vaccines through the United States Government's Initiative for Global Vaccine Access (Global VAX), expand access to COVID-19 testing and treatment, protect and train health workers, deliver health commodities and equipment, share accurate and reliable public health information, and safeguard global health security.

In order to execute these programs, in October 2021, USAID developed the "USAID Implementation Plan for the U.S. COVID-19 Global Response and Recovery Framework." This plan establishes five goals:

1. Accelerate widespread and equitable access and delivery of safe and effective COVID-19 vaccinations
2. Reduce morbidity and mortality from COVID-19, mitigate transmission, and strengthen health systems, including preventing, detecting, and responding to pandemic threats
3. Address acute needs driven by COVID-19, mitigate household shocks, and build resilience
4. Bolster economies and other critical systems under stress due to COVID-19 to prevent backsliding and enable recovery
5. Strengthen the international health security architecture to prevent, detect, and respond to pandemic threats.

USAID awarded reimbursable contracts, grants, and cooperative agreements to multiple vendors to help achieve this Implementation Plan. Each of these awards included specific terms and conditions related to the usage of funds from the awards toward COVID-19-related activities.

AUDIT RESULTS

We conducted this engagement as a performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Overall, our audit identified four findings in the context of the audit objectives and scope, as follows:

1. World Vision does not have sufficient documentation in place and reasonable controls to validate the accurate allocation of labor hours and costs to cost objectives. This resulted in questioned labor costs of $3,098,895
2. World Vision did not submit three Value-Added Tax (VAT) reports by the deadline stated in the award of April 16 of the preceding year, for award 720FDA20GR00076, 720FDA20GR00119 and 720FDA20GR00211. This is an issue of noncompliance with contract terms, which did not result in questioned costs
3. World Vision did not submit its FY 2021 Annual Report for award number 72061521CA00002 until April 2023, which is more than 15 months after the December 29, 2021 deadline calculated based on award text. This is an issue of noncompliance with contract terms, which did not result in questioned costs
4. For one Cost Allocation (CAL) sample, World Vision only provided the transactional detail and allocation basis behind the allocated costs incurred against the award but did not provide any other supporting documentation for the cost total. This resulted in a total of $144,372 of questioned costs.

Conclusion

Kearney determined that four objectives were not met. Further, except for the limitations discussed in the Limitations or Uncertainties with the Reliability or Validity of Evidence section of this report, Kearney concludes that all other applicable performance audit objectives were met.

Objective	Objective Met/Not Met	Related Finding Reference
The auditable costs incurred by the Recipient under the subject awards for the period audited are fairly presented and in conformity with the terms of regulatory and award requirements and GAAP or other comprehensive basis of accounting	Not Met	Finding #1 Finding #4
Auditable costs incurred in implementing the USAID activities for the period audited are supported, reasonable, and eligible in conformity with the terms of	Not Met	Finding #1 Finding #4

Objective	Objective Met/Not Met	Related Finding Reference
the regulatory and award requirements and GAAP or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis)		
The Recipient's contract bidding and procurement processes complied with all contract requirements of regulatory and award requirements	Met	Not Applicable (N/A)
The Recipient's internal controls related to the audit objectives are appropriate, with no identified reportable conditions, including material internal control weaknesses	Not Met	Finding #1 Finding #2 Finding #3 Finding #4
The Recipient complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects	Not Met	Finding #2 Finding #3
The Recipient delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID	Met	N/A
The Recipient requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements	Met	N/A
The Recipient took corrective actions on prior audit report recommendations.	N/A	N/A

Limitations or Uncertainties with the Reliability or Validity of Evidence

Kearney was unable to validate the completeness of our substantive testing population and relied on the Recipient to provide us with a transactional listing of auditable costs incurred, as it pertains to award AID-OAA-A-17-00026. Kearney is unable to verify the accuracy and completeness of this testing population due to a lack of a reconciliation source, as 1) the COVID-19-funded activities under this award was the result of modifications to add COVID-19 funds and the award terms did not require the Recipient to report costs incurred at the fund level, and 2) the period of performance of the award did not align to our audit period. Kearney verified that all costs incurred as provided by the Recipient were below the COVID-19 obligated amount by award; however, the difference between the obligated amount and auditable costs incurred may be reasonably explained by the scope period. Thus, there remains an unmitigated risk that the population of costs incurred under COVID-19 activities as provided by the Recipient is not complete and unallowable costs may exist that would not have been detected by our audit.

Additionally, Kearney is unable to isolate applied indirect costs on the awards that are funded through modifications on award AID-OAA-A-17-00026. This award includes multiple funding sources, only one of which is COVID-19 funds; therefore, we are unable to reconcile the transactional detail to the applicable Standard Form (SF)-425, and we are unable to quantify total applied indirect costs. Kearney evaluated the methodology of the applied indirects to the award as a whole based on the SF-425s and the Negotiated Indirect Cost Rate Agreement (NICRA).

We have identified this as a systemic issue pertaining to USAID award terms and conditions and thus have communicated the issue to the USAID OIG under separate cover for appropriate action with the responsible parties. USAID management provided a communication related to the limitation, which is included in Appendix D.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

Finding #1 – Insufficient Process for Accurate Allocation of Labor Cost to Cost Objectives (Material Weakness, Material Misstatement)

Condition: World Vision does not have sufficient documentation in place and reasonable controls to validate the accurate allocation of labor hours and costs to cost objectives. World Vision does not directly assign actual hours worked to specific program codes. Instead, on a monthly basis, all employees who work on a grant are required to submit a Labor Distribution Report (LDR), which captures total hours worked per day for the month and a percentage of how those monthly hours should be allocated to cost objectives. For example, the employee records that they worked eight hours each business day of a month. They then estimate that total time spent for the month on Project A was 60% and Project B was 40%. The LDR then allocates the employee's time to be 4.8 hours each day to Project A and 3.2 hours each day to Project B, with no variation by day. The LDR serves as the basis of the distribution of the salary amount to the cost objectives, including Federal awards, non-Federal awards, and/or indirect cost activity, and World Vision's policy is for the employee and employee's supervisor to approve the LDR.

There is no support for the basis of the allocation percentages outside of the employee and supervisor approval of the LDR. Based on World Vision's LDR policy and per inquiry to management, the process for adjusting time/allocation percentages is based on ad hoc meetings or other discussions with employees that are not documented. It is not World Vision's practice to consistently revise the estimated percentages every month for greater accuracy to actuals.

Lastly, World Vision's policy notes that employees not assigned to a grant are required to create an LDR only annually, which introduces risk that allocations and related adjustments to cost objectives stemming from those employees are not performed timely and inherently not accurate based on infrequency.

Criteria: 2 Code of Federal Regulations (CFR) 200.430(i)(1)(i) and (vii) and 2 CFR 200.430(i)(3), Compensation—personal services, state:

> "(i) Standards for Documentation of Personnel Expenses.
> (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
> (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;…
> (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity…."

2 CFR 200.405, Allocable Costs, states:

"(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

(1) Is incurred specifically for the Federal award;
(2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
(3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

(d) Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis..."

Cause: World Vision's policies do not require sufficient frequency and documentation of labor charging or other reasonable controls to validate the accurate allocation of labor hours and costs to cost objectives. Additionally, World Vision does not have any documented processes, dictated by a policy, regarding how to review and approve LDR adjustments.

Effect: This issue significantly increases the risk that labor costs are not allocated to cost objectives accurately. As such, based on the scope of our audit, we questioned all direct labor charged to in-scope awards, for the Government's further review. The chart below summarizes direct labor questioned costs by award:

Award	Questioned Costs ($)
72061521CA00002	368,447
720BHA21GR00130	115,352
720BHA21GR00131	91,146
720BHA21GR00269	197,330
720BHA21GR00320	426,019
720BHA21GR00359	516,954
720BHA22GR00044	19,356
720FDA20CA00037	96,047
720FDA20GR00028	42,369
720FDA20GR00076	41,273
720FDA20GR00119	219,957
720FDA20GR00129	16,035
720FDA20GR00131	55,012
720FDA20GR00136	26,261
720FDA20GR00148	169,143
720FDA20GR00187	394,556

Award	Questioned Costs ($)
720FDA20GR00208	100,037
720FDA20GR00211	122,420
AID-OAA-A-17-00026	81,182
Total Questioned Costs	**3,098,896**

Recommendations: Kearney & Company, P.C. (Kearney) recommends that World Vision:

1. Record and review the time worked and any proportional allocation of the costs on a more frequent basis (i.e., weekly) for greater accuracy.
2. Establish a requirement to document the basis of the allocation percentages.
3. Establish policies and procedures to ensure that management is verifying and documenting the percentage of labor hours that employees charge to awards.

Management's Views on Conclusions and Findings: See Appendix B for full response.

Kearney's Evaluation of Management's Comments: See Appendix C for full response.

Finding #2 – Late VAT Report Submission (Significant Deficiency, Non-Compliance)

Condition: World Vision did not submit three VAT reports by the deadline stated in the award of April 16 of the preceding year. Specifically,

- The 2020 VAT report for award 720FDA20GR00076 was submitted on August 12, 2021
- The 2020 VAT report for award 720FDA20GR00119 was submitted on September 27, 2023
- The 2021 VAT report for award 720FDA20GR00211 was submitted on October 5, 2023.

Further, World Vision could not provide documentation to support the submission date of the 2020 VAT report for award 720FDA20GR00148.

Criteria: From award numbers 720FDA20GR00076, 720FDA20GR00119, and 720FDA20GR0021,1 Appendix 3(a), Section 32(a), *Reporting Host Government Taxes*, states:

> "a) By April 16 of each year, the recipient must submit a report containing:
> (1) Contractor/recipient name.
> (2) Contact name with phone, fax and e-mail.
> (3) Agreement number(s).
> (4) The total amount of value-added taxes and customs duties (but not sales taxes) assessed by the host government (or any entity thereof) on purchases in excess of $500 per transaction of supplies, materials, goods or equipment, during the 12 months ending on the preceding September 30, using funds provided under this contract/agreement.
> (5) Any reimbursements received by April 1 of the current year on value-added taxes and customs duties reported in (iv).
> (6) Reports are required even if the recipient did not pay any taxes or receive any reimbursements during the reporting period.
> (7) Cumulative reports may be provided if the recipient is implementing more than one program in a foreign country."

From award 720FDA20GR00148, Appendix 3(a), Section 33(a), *Reporting Host Government Taxes*, states:

> "a) By April 16 of each year, the recipient must submit a report containing:
> (1) Contractor/recipient name.
> (2) Contact name with phone, fax and e-mail.
> (3) Agreement number(s).
> (4) The total amount of value-added taxes and customs duties (but not sales taxes) assessed by the host government (or any entity thereof) on purchases in excess of $500 per transaction of supplies, materials, goods or equipment, during the 12 months ending on the preceding September 30, using funds provided under this contract/agreement.
> (5) Any reimbursements received by April 1 of the current year on value-added

taxes and customs duties reported in (iv).
(6) Reports are required even if the recipient did not pay any taxes or receive any reimbursements during the reporting period.
(7) Cumulative reports may be provided if the recipient is implementing more than one program in a foreign country."

Cause: World Vision does not have the appropriate controls in place to ensure the VAT reports are delivered on time.

Effect: World Vision is non-compliant with its award terms related to VAT reporting.

Recommendation: Kearney & Company, P.C. (Kearney) recommends that World Vision develop processes and establish controls to ensure each of its offices are submitting the VAT reports by April 16 of the preceding year.

Management's Views on Conclusions and Findings: See Appendix B for full response.

Kearney's Evaluation of Management's Comments: See Appendix C for full response.

Finding #3 – Late Annual Report Submission (Significant Deficiency, Non-Compliance)

Condition: World Vision did not submit its FY 2021 Annual Report for award number 72061521CA00002 until April 2023, which is more than 15 months after the December 29, 2021 deadline calculated based on award text.

Criteria: From award 72061521CA00002(B)(v), *Reporting Requirements*, states:

> "Annual reports:
>
> > The annual report is due within 90 calendar days after the reporting period the end of the first full USAID fiscal year and annually thereafter for each authorized year of performance. The Annual Performance Report follows the same format as the quarterly report, but with additional focus on cumulative accomplishments, progress and problems toward achievement of results, performance measures, indicators and benchmarks tied to the Annual Work Plan and the MEP targets, for the quarter and the entire previous fiscal year, which runs from October 1-September 30."

From award 72061521CA00002(B)(vi), *Reporting Requirements*, states:

> "Quarterly Progress Report:
>
> > The recipient will be required to submit quarterly progress reports. The first report will be submitted no later than 30 days following the end of the first USAID fiscal quarter after award and thereafter for each subsequent quarter. Reports will be due quarterly using the USAID fiscal year which is from October 1 –September 30. Quarterly Progress Reports will summarize progress in relation to agreed MER targets or milestones contained in the work plan, and report on all indicators in the monitoring and evaluation plan. The report will also include a narrative that describes the overall impact of program activities with respect to the higher-level goals of the activity. The report will specify any problems encountered and indicate resolutions or proposed corrective actions (for each corrective action, the recipient will designate responsible parties and establish a timeframe for completion). The report note where they any activities planned for the next quarter deviate from the approved Work Plan and will provide information on accrued expenditures to date. Each progress report will also include the following: i) at least one snapshot or success story; ii) any innovative approaches supported by the activity and their impact on achieving PEPFAR goals/results; iii) a discussion of how the activity is utilizing local organizations networks expertise and strengthening local capacity to achieve key results; and iv) linkages with other USAID KEA and other development and/or implementing partners and their impact on the results of the activity."

Cause: World Vision did not understand the separate reporting requirements of the award and utilized its Quarter (Q)4 report as its annual report submission for FY 2021 instead of submitting a separate annual report. In April 2023, the USAID/Kenya and East Africa Mission requested that World Vision submit a separate annual report to satisfy the reporting requirements, and therefore, World Vision submitted it upon request.

Effect: World Vision is non-compliant with its award terms related to annual reporting.

Recommendation: Kearney & Company, P.C. (Kearney) recommends that World Vision establish controls to ensure that it submit a separate report for each of its reporting responsibilities by the established deadline or obtain concurrence from USAID to utilize reports for multiple reporting requirements.

Management's Views on Conclusions and Findings: See Appendix B for full response.

Kearney's Evaluation of Management's Comments: See Appendix C for full response.

Finding #4 – Missing Sample Support (Significant Deficiency, Misstatement)

Condition: For one CAL sample, World Vision only provided the transactional detail and allocation basis behind the allocated costs incurred against the award but did not provide any other supporting documentation for the cost total. Specifically, World Vision did not provide any documentation to support the cost total, such as purchase orders, invoices, or other agreements. This resulted in $144,372 questioned direct costs to award 720BHA21GR00269.

Criteria: 2 Code CFR 200.403(a) and (d), Factors affecting allowability of costs, state:

> "(g) Be adequately documented. See also §§ 200.300 through 200.309 of this part."

2 CFR 200.400(d), *Policy guide*, states:

> "(d) The application of these cost principles should require no significant changes in the internal accounting policies and practices of the non-Federal entity. However, the accounting practices of the non-Federal entity must be consistent with these cost principles and support the accumulation of costs as required by the principles, and must provide for adequate documentation to support costs charged to the Federal award."

Cause: World Vision does not have appropriate records maintenance and retention practices in place during the audit period to demonstrate the allowability of direct costs claimed.

Effect: As a result of the lack of supporting documentation, we questioned direct costs of $144,372 to account 87000/Other and award 720BHA21GR00269.

Recommendations: Kearney & Company, P.C. (Kearney) recommends that World Vision:

1. Ensure adequate documentation (e.g., invoices, itemized receipts, and basis) is created and/or maintained to adequately support direct costs claimed.
2. Execute a record retention and audit response policy where documents are maintained and readily available in a timely manner to adequately support direct costs claimed, specifically considering the requirements of the CFR.

Management's Views on Conclusions and Findings: See Appendix B for full response.

Kearney's Evaluation of Management's Comments: See Appendix C for full response.

Exhibit A: Schedule of Costs Incurred

Major Cost Category by Award	Budgeted ($) (a)	Actual Costs Incurred ($) (b)	Questioned Costs ($) (c)	Adjusted Costs (Incurred Less Questioned) ($)
Cooperative Awards				
Personnel	1,218,425	368,447	368,447	-
Fringe Benefits	258,662	286,536	-	286,536
Travel and Transport	89,400	40,800	-	40,800
Equipment	120,000	-	-	-
Supplies	75,250	-	-	-
Contractual/Professional fees	6,871,636	5,694,010	-	5,694,010
Partner Funding	2,250,641	2,295,230	-	2,295,230
Indirect Costs	406,738	299,964	-	299,964
New Award 72061521CA00002 Subtotal	***11,290,752***	***8,984,987***	***368,447***	***8,616,540***
Agriculture	4,100,000 (*Note 1*)	-	-	-
Benefits		71,945	-	71,945
Consultancy		873	-	873
Labor		81,182	81,182	0
Other		299,473	-	299,473
Partner Funding		-	-	-
Travel		133,340	-	133,340
Indirect Costs (*Note 2*)		149,857	-	149,857
Add on Work AID-OAA-A-17-00026 Subtotal	***4,100,000***	***736,670***	***81,182***	***655,488***
Agriculture	9,500,000 (*Note 1*)	96,477	-	96,477
Benefits		28,100	-	28,100
Consultancy		49,404	-	49,404
Labor		96,047	96,047	-
Other		391,686	-	391,686
Partner Funding (*Note 1*)		8,626,598	-	8,626,598
Travel (*Note 1*)		951	-	951
Indirect Costs (*Note 1*)		185,434	-	185,434
New Award 720FDA20CA00037 Subtotal	***9,500,000***	***9,474,697***	***96,047***	***9,378,650***
Cooperative Award Subtotal	**24,890,752**	**19,196,354**	**545,676**	**18,650,678**

Major Cost Category by Award	Budgeted ($) (a)	Actual Costs Incurred ($) (b)	Questioned Costs ($) (c)	Adjusted Costs (Incurred Less Questioned) ($)
Grant Awards				
Agriculture	3,000,000 *(Note 1)*	351,761	-	351,761
Benefits		118,777	-	118,777
Consultancy		60,958	-	60,958
Labor		115,352	115,352	-
Other		1,781,296	-	1,781,296
Partner Funding		-	-	-
Travel		16,667	-	16,667
Indirect Costs		415,618	-	415,618
New Award 720BHA21GR00130 Subtotal	***3,000,000***	***2,860,429***	***115,352***	***2,745,077***
Agriculture	2,000,000 *(Note 1)*	-	-	-
Benefits		41,845	-	41,845
Consultancy		20,379	-	20,379
Labor		91,146	91,146	-
Other		1,369,308	-	1,369,308
Partner Funding		-	-	-
Travel		5,396	-	5,396
Indirect Costs		259,772	-	259,772
New Award 720BHA21GR00131 Subtotal	***2,000,000***	***1,787,846***	***91,146***	***1,696,700***
Agriculture	3,700,000 *(Note 1)*	-	-	-
Benefits		87,441	-	87,441
Consultancy		101,167	-	101,167
Labor		197,330	197,330	-
Other		1,540,086	144,372	1,395,714
Partner Funding		-	-	-
Travel		26,305	-	26,305
Indirect Costs		331,896	-	331,896
New Award 720BHA21GR00269 Subtotal	***3,700,000***	***2,284,225***	***341,702***	***1,942,523***
Agriculture	6,000,000 *(Note 1)*	105,329	-	105,329
Benefits		258,688	-	258,688
Consultancy		10,957	-	10,957
Labor		426,019	426,019	-
Other		622,998	-	622,998

Major Cost Category by Award	Budgeted ($) (a)	Actual Costs Incurred ($) (b)	Questioned Costs ($) (c)	Adjusted Costs (Incurred Less Questioned) ($)
Partner Funding		-	-	-
Travel		57,279	-	57,279
Indirect Costs		251,816	-	251,816
New Award 720BHA21GR00320 Subtotal	***6,000,000***	***1,733,086***	***426,019***	***1,307,067***
Agriculture	6,500,000 (*Note 1*)	-	-	-
Benefits		96,637	-	96,637
Consultancy		8,039	-	8,039
Labor		516,954	516,954	-
Other		515,607	-	515,607
Partner Funding		1,456,415	-	1,456,415
Travel		22,832	-	22,832
Indirect Costs		444,802	-	444,802
New Award 720BHA21GR00359 Subtotal	***6,500,000***	***3,061,286***	***516,954***	***2,544,332***
Agriculture	560,332 (*Note 1*)	5,360	-	5,360
Benefits		68,845	-	68,845
Consultancy		3,278	-	3,278
Labor		42,369	42,369	-
Other		330,997	-	330,997
Partner Funding		-	-	-
Travel		35,144	-	35,144
Indirect Costs		83,873	-	83,873
After Period Adjustment (*Note 3*)		(18,128)	-	(18,128)
New Award 720FDA20GR00028 Subtotal	***560,332***	***551,739***	***42,369***	***509,369***
Agriculture	900,000 (*Note 1*)	-	-	-
Benefits		20,916	-	20,916
Consultancy		1,480	-	1,480
Labor		41,273	41,273	-
Other		678,429	-	678,429
Partner Funding		-	-	-
Travel		12,112	-	12,112
Indirect Costs		128,326	-	128,326
New Award 720FDA20GR00076 Subtotal	***900,000***	***882,536***	***41,273***	***841,263***
Agriculture	1,000,000	-	-	-

Major Cost Category by Award	Budgeted ($) (a)	Actual Costs Incurred ($) (b)	Questioned Costs ($) (c)	Adjusted Costs (Incurred Less Questioned) ($)
Benefits	*(Note 1)*	31,666	-	31,666
Consultancy		810	-	810
Labor		219,957	219,957	-
Other		543,850	-	543,850
Partner Funding		-	-	-
Travel		11,636	-	11,636
Indirect Costs		138,037	-	138,037
New Award 720FDA20GR00119 Subtotal	***1,000,000***	***945,956***	***219,957***	***725,999***
Agriculture	499,089 *(Note 1)*	-	-	-
Benefits		30,680	-	30,680
Consultancy		9,102	-	9,102
Labor		16,035	16,035	-
Other		352,875	-	352,875
Partner Funding		-	-	-
Travel		4,971	-	4,971
Indirect Costs		70,323	-	70,323
New Award 720FDA20GR00129 Subtotal	***499,089***	***483,986***	***16,035***	***467,951***
Agriculture	700,000 *(Note 1)*	-	-	-
Benefits		31,450	-	31,450
Consultancy		905	-	905
Labor		55,012	55,012	-
Other		391,345	-	391,345
Partner Funding		-	-	-
Travel		5,306	-	5,306
Indirect Costs		82,336	-	82,336
New Award 720FDA20GR00131 Subtotal	***700,000***	***566,354***	***55,012***	***511,342***
Agriculture	500,000 *(Note 1)*	-	-	-
Benefits		28,634	-	28,634
Consultancy		3,105	-	3,105
Labor		26,261	26,261	-
Other		359,392	-	359,392
Partner Funding		-	-	-
Travel		648	-	648

Major Cost Category by Award	Budgeted ($) (a)	Actual Costs Incurred ($) (b)	Questioned Costs ($) (c)	Adjusted Costs (Incurred Less Questioned) ($)
Indirect Costs (*Note 1*)		71,067	-	71,067
New Award 720FDA20GR00136 Subtotal	***500,000***	***489,107***	***26,261***	***462,846***
Agriculture	2,000,000 (*Note 1*)	-	-	-
Benefits		115,806	-	115,806
Consultancy		81,889	-	81,889
Labor		169,143	169,143	-
Other		1,274,715	-	1,274,715
Partner Funding		-	-	-
Travel		8,213	-	8,213
Indirect Costs		280,590	-	280,590
New Award 720FDA20GR00148 Subtotal	***2,000,000***	***1,930,356***	***169,143***	***1,761,213***
Agriculture	583,187 (*Note 1*)	-	-	-
Benefits		25,287	-	25,287
Consultancy		3,611	-	3,611
Labor		100,037	100,037	-
Other		344,680	-	344,680
Partner Funding		-	-	-
Travel		1,293	-	1,293
Indirect Costs		80,734	-	80,734
New Award 720FDA20GR00208 Subtotal	***583,187***	***555,642***	***100,037***	***455,605***
Agriculture	1,500,000 (*Note 1*)	159	-	159
Benefits		12,716	-	12,716
Consultancy		378	-	378
Labor		122,420	122,420	-
Other		1,191,888	-	1,191,888
Partner Funding		-	-	-
Travel		14,962	-	14,962
Indirect Costs		123,675	-	123,675
New Award 720FDA20GR00211 Subtotal	***1,500,000***	***1,466,198***	***122,420***	***1,343,778***
Agriculture	3,160,000 (*Note 1*)	-	-	-
Benefits		-	-	-
Consultancy		-	-	-
Labor		394,556	394,556	-

Major Cost Category by Award	Budgeted ($) (a)	Actual Costs Incurred ($) (b)	Questioned Costs ($) (c)	Adjusted Costs (Incurred Less Questioned) ($)
Other		2,251,820	-	2,251,820
Partner Funding		-	-	-
Travel		1,743	-	1,743
Indirect Costs		450,180	-	450,180
New Award 720FDA20GR00187 Subtotal	***3,160,000***	***3,098,299***	***394,556***	***2,703,743***
Agriculture	850,000 (*Note 1*)	326	-	326
Benefits		6,247	-	6,247
Consultancy		2,191	-	2,191
Labor		19,356	19,356	-
Other		41,992	-	41,992
Partner Funding		-	-	-
Travel		2,582	-	2,582
Indirect Costs		12,358	-	12,358
New Award 720BHA22GR00044 Subtotal	***850,000***	***85,052***	***19,356***	***65,696***
Grant Award Subtotal	**33,452,608**	**22,782,096**	**2,697,592**	**20,084,504**
Grand Total	**58,343,360**	**41,978,450**	**3,243,268**	**38,735,182**

a) This column was compiled based on the internal budgets utilized by World Vision and on the budget displayed in the specific award agreements. World Vision does not keep detailed budgets at the cost element level for its COVID-19-funded projects; therefore, we utilized the overall award detailed budgets
b) Amounts listed represent costs incurred under COVID-19-funded awards
c) Questioned costs represented in this exhibit are broken down into the finding elements in Finding #1 and Finding #4

Note 1: The award budget is not documented to the cost element level. Therefore, Kearney summarized the budget by cost category identified by Kearney in the General Ledger (GL).

Note 2: The applied indirect cost amount shown in this exhibit for the noted award is based on the application of provisional indirect cost rates to the COVID-19-related costs in the bases as shown in the GL provided to us by the Recipient; therefore, the indirect costs will not reconcile to the SF-425s. See the Limitations or Uncertainties with the Reliability or Validity of Evidence section for our full scope limitation.

Note 3: Kearney noted that World Vision incurred costs over the obligated amount for COVID-19 funds. During our reconciliation process, World Vision informed Kearney that there was an adjustment entry made outside Kearney's scope period to disallow the costs incurred above the obligated amount.

Exhibit B: Schedule of Indirect Cost Rates

Award Number	NICRA Effective Dates	Indirect Category (a)	NICRA Rate (%)	Base Allocation ($)	Recalculated Applied Indirect Costs ($) (b)
72061521CA00002	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	Overhead (OH)	10.00 (Note 1)	2,999,641	299,964
AID-OAA-A-17-00026	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	881,514	149,857
720FDA20CA00037	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	13,085	2,529
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	1,075,910	182,905
720BHA21GR00130	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	2,444,811	415,618
720BHA21GR00131	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	1,528,073	259,772
720BHA21GR00269	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	1,952,329	331,896
720BHA21GR00320	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	1,481,269	251,816
720BHA21GR00359	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	2,616,484	444,802

Award Number	NICRA Effective Dates	Indirect Category (a)	NICRA Rate (%)	Base Allocation ($)	Recalculated Applied Indirect Costs ($) (b)
720FDA20GR00028	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	53,813	10,402
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	432,181	73,471
720FDA20GR00076	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	4,742	917
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	749,467	127,409
720FDA20GR00119	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	29,667	5,735
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	778,252	132,302
720FDA20GR00129	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	413,664	70,323
720FDA20GR00131	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	2,291	443
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	481,727	81,893
720FDA20GR00136	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	418,041	71,067
720FDA20GR00148	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	5,581	1,079
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	1,644,185	279,511
720FDA20GR00208	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	474,907	80,734

Award Number	NICRA Effective Dates	Indirect Category (a)	NICRA Rate (%)	Base Allocation ($)	Recalculated Applied Indirect Costs ($) (b)
720FDA20GR00211	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	727,499	123,675
720FDA20GR00187	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	2,648,119	450,180
720BHA22GR00044	Provisional rates 03/01/2020 (effective for scope period of 03/01/2020 through 10/01/2020)	OH	19.33	-	-
	Provisional rates 10/01/2020 (effective for period of scope 10/01/2020 through 03/31/2022)	OH	17.00	72,694	12,358

a) The OH base includes total direct costs excluding donated commodities and related international freight (including transport, storage, and handling) and internal transportation, storage, and handling (ITSH awards including ITSH cost under Title II Firm-Fixed-Price [FFP] programs), donated gifts in-kind and services, capital expenditure and equipment over $5,000 and major passthrough subawards/subcontracts
   i. Major pass-through subawards/subcontracts are defined as a subaward where the subrecipient carries out a discrete part of the program without substantial administrative and performance oversight by the prime recipient. These activities relate primarily to large-scale USAID programs

b) The applied indirect cost amount shown in this exhibit for the noted award is based on the application of provisional or predetermined indirect cost rates to the COVID-19-related costs in the bases as shown in the GL provided to us by the Recipient; therefore, the indirect costs will not reconcile to the SF 425s. See the Limitations or Uncertainties with the Reliability or Validity of Evidence section for our full scope limitation

Note 1: For this award, the NICRA Provisional rate of 17.00% was not utilized as the award terms and conditions specified that a 10% indirect rate is to be applied instead of the NICRA.

APPENDIX A – SCOPE AND METHODOLOGY OF THE PERFORMANCE AUDIT

Scope and Limitations

For a performance audit, scope is defined as the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included. The scope of this performance audit:

- Is limited to the testing of the documentation and costs incurred for Coronavirus Disease 2019 (COVID-19) activities under World Vision Inc.'s (also referred to as "World Vision" and "Recipient") multiple awards for the period March 1, 2020, to March 31, 2022

Award	United States Agency for International Development (USAID) Obligated Amount ($)	Total Auditable Costs ($)
72061521CA00002	12,888,889	8,984,987
AID-OAA-A-17-00026	4,100,000	736,670
720FDA20CA00037	9,500,000	9,474,697
720BHA21GR00130	3,000,000	2,860,429
720BHA21GR00131	2,000,000	1,787,846
720BHA21GR00269	3,700,000	2,284,225
720BHA21GR00320	6,000,000	1,733,086
720BHA21GR00359	6,500,000	3,061,286
720FDA20GR00028	560,332	551,738
720FDA20GR00076	900,000	882,536
720FDA20GR00119	1,000,000	945,956
720FDA20GR00129	499,089	483,986
720FDA20GR00131	700,000	566,354
720FDA20GR00136	500,000	489,107
720FDA20GR00148	2,000,000	1,930,356
720FDA20GR00208	583,187	555,642
720FDA20GR00211	1,500,000	1,466,198
720FDA20GR00187	3,160,000	3,098,299
720BHA22GR00044	850,000	85,052

- Included the necessary documents or records requested from the awardees, USAID, and USAID Office of Inspector General (OIG) to complete testing and perform walkthroughs for key controls/processes as they relate to COVID-19 activities performed by the Recipient
- Included fieldwork that was conducted virtually, from June 28, 2023 to February 23, 2024, and covered the audit scope period of March 1, 2020 through March 31, 2022. In addition, the following World Vision overseas locations had transactions that were included in our samples: Kenya, Guatemala, El Salvador, Brazil, South Sudan, Syria, Democratic Republic of the Congo, Afghanistan, Mozambique, Ecuador, Ethiopia, El Salvador, Brazil, Solomon Islands, Lebanon, Burundi, Ethiopia, India, and Nigeria.

Limitation: See the Limitations or Uncertainties with the Reliability or Validity of Evidence Section of this report for the limitation noted.

To obtain background information for this performance audit, Kearney & Company, P.C. (Kearney) reviewed:

1. The Federal Acquisition Regulation (FAR)
2. The Agency for International Development Acquisition Regulation (AIDAR)
3. Department of State Standardized Regulations (DSSR) for travel-related expenses
4. Title 2 Code of Federal Regulations (CFR) 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
5. Title 2 CFR 700 *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards USAID Supplement*
6. Contract/Award Terms
7. Other relevant regulations/policies.

Methodology and Work Performed

Kearney conducted this performance audit in the following three phases:

1. **Planning** – Obtaining initial documentation to document our understanding of the needs of the user, the objectives of the audit, establishing a team that possesses the adequate professional competence, and determining if there were investigations or legal proceedings and prior audit findings to be considered in our risk assessment and planned procedures. Conducting a risk assessment, including an evaluation of control risk, and preparing an audit plan/program that is responsive to risks identified
2. **Internal Controls and Testing** – Testing the auditable costs incurred, operating effectiveness of internal controls, and compliance with award terms as they pertain to the objectives and the audit plan/program
3. **Wrap-Up and Reporting** – Concluding on the objectives under USAID funded COVID-19 activities for the period March 1, 2020, to March 31, 2022.

Kearney designed our methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support our conclusion in relation to the audit objectives and to reduce audit risk to an acceptable level. Our methodology included the following procedures for gathering and analyzing evidence to address the audit objectives:

- Requesting overview information from the Recipient, USAID, and the USAID OIG for the in-scope awards
  - Contract(s)/award(s) between USAID and the Recipient for the applicable years
  - Relevant previous audits undergone by the Recipient
  - Subcontracts/subawards with third parties, if applicable
  - Budgets, authorization letters, and written procedures approved by USAID
  - USAID Automated Directives System (ADS)
  - All program financial and progress reports; accounting ledgers; charts of accounts;

organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, inventory, warehousing, and distribution procedures for materials/supplies/commodities necessary to successfully complete the required work

- Conducting walkthroughs with the Recipient's personnel on its procedures and progress relating to COVID-19 activities and awards
- Conducting interviews to discuss the procedures in place to prevent/detect fraudulent activities
- Completing risk assessments to assess inherent risk and control risk and determine the combined risk of failed objectives
- Evaluating the control environment and control procedures
- Testing properly designed controls/process for completeness and operating effectiveness
- Identifying the legal and regulatory requirements and award provisions and determining which of those, if not observed, could have a direct and material effect on the general and subsidiary ledgers
- Reconciling direct costs incurred and reported to USAID to the program and General Ledgers (GL)
- Reviewing procurement procedures to determine that sound procedures and practices exist for competitive sourcing, reasonable prices, and adequate administrative control over the qualities and quantities of goods and services ordered and received, as well as any applicable USAID approval of subawards
- Reviewing the status of actions taken on findings and recommendations reported in prior audit reports that affect the audit
- Reviewing a maximum statistical sample (i.e., sampling at the maximum confidence level prescribed by standards and permits the projection of results) of direct costs incurred and reported to USAID, identifying and quantifying questioned costs. For each sample:
  - Determining if payments have been made in accordance with legal and regulatory requirements and award provisions
  - Determining if funds have been expended for purposes not authorized or not in accordance with applicable regulatory requirements and award provisions
  - Identifying any costs not considered appropriate, as well as classifying and explaining why these costs are questioned
  - Determining whether any commodities directly procured by USAID are unaccounted for or have not been used for their intended purposes in accordance with the award. If so, the cost of such commodities must be questioned
  - Determining whether any technical assistance provided under the award is unaccounted for or has not been used for its intended purpose in accordance with the agreement
  - Determining if the technical assistance as applicable was provided according to the award and to the project needs
  - Determining if those who received services and benefits were eligible to receive them
  - Determining if the Recipient's financial reports and claims for costs reported to USAID contain information that is supported by the books and records
- Recalculating the applied indirect costs on auditable direct costs incurred, including evaluating the appropriateness of indirect rates used and their application
- Reviewing general and program ledgers to determine whether costs incurred were

properly recorded

- Determining whether program income was added to funds used to enhance eligible program objectives, to finance the non-Federal share of the program, or was deducted from program costs in accordance with USAID regulations, other implementing guidance, or the terms and conditions of the award
- Reviewing time and attendance records, payroll, personnel, and/or other records to determine if an employee was a real employee who worked on the contract/award effort, comparing the total hours charged to each project between the time and attendance records and the summary of payroll report, and ensuring that the total hours charged for the staff during the month are in accordance with the approved Level of Effort (LOE)
- If applicable, determining whether adequate approvals on labor costs have been obtained for any works/changes made to the contract/award, determining if overtime was charged to the program and whether it is allowable under FAR requirements or contract provisions, and reviewing salary charges to determine whether salary rates and salary increases are approved by the USAID Contracting Officer (CO) for that position when USAID approval is required and supported by appropriate payroll records
- Reviewing travel and transportation charges to determine whether they are adequately supported and approved
- Reviewing commodities (e.g., supplies, materials, vehicles, equipment, food products, tools) procured by the Recipient, as well as those directly procured by USAID for the Recipient's use, to determine if the Recipient has delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID
- Ensuring that items included in inventory indicate that they were titled to the appropriate entity based on existing regulatory and other requirements
- Conducting an Exit Conference upon the conclusion of testing
- Evaluating any control deficiencies noted during the performance audit
- Reporting on costs to conclude on the allowability, allocability, and reasonableness of costs incurred related to COVID-19 activities
- Drafting an audit report with findings and conclusions for internal Kearney review
- Issuing the draft report to the USAID OIG on Kearney's findings and conclusions for review and comment
- Obtaining comments from the Recipient on any reportable findings
- Completing Quality Control (QC) and wrap-up procedures to verify compliance of the performance audit with Generally Accepted Government Auditing Standards (GAGAS)
- Evaluating and incorporating OIG's feedback, as necessary, and the Recipient's responses to any findings, issuing a final report to the USAID OIG.

Work Related to Internal Controls

Kearney performed steps to assess the adequacy of internal controls that we deemed to be significant within the context of the audit objectives. We assessed the design of controls by evaluating the control environment and the key control procedures, and tested properly designed controls for operating effectiveness. Specifically, we reviewed key controls with regard to the following:

- Ensuring that charges to the contracts were proper and supported
- Managing cash on hand and in bank accounts
- Reviewing procurement procedures and practices
- Receiving and inventory functions, if applicable
- Managing personnel functions (e.g., timekeeping, salaries, benefits)
- Managing and disposition of commodities (e.g., vehicles, equipment, tools) purchased either under the program or furnished by USAID
- Ensuring compliance with regulatory and contractual requirements that collectively have a material impact on World Vision's general and subsidiary ledgers.

Results of the work performed on internal controls during the performance audit are detailed in the Audit Results section of the report.

APPENDIX B – MANAGEMENT'S VIEWS ON CONCLUSIONS AND FINDINGS

Management View on Conclusions

The table below summarizes whether World Vision management agrees or disagrees with the four findings contained in the auditor's draft report. It is World Vision management's opinion that the auditor's conclusions for finding #1 are not based on the facts, an accurate interpretation of the relevant regulatory requirements, and the intended scope of this COVID-19 audit. As such, World Vision management has provided detailed explanations in the section entitled *Management View on Findings*. World Vision management agrees on the auditor's conclusions for finding #2, #3, and #4. In light of our responses detailed below, it is our opinion that World Vision complied in all material respects with the grant requirements as referenced in the award documents associated with the federal awards included in the audit scope.

Finding		Significant	Material	Agree/	Questioned	Agree	Disagree
#	Description	Deficiency	Weakness	Disagree	Costs	$	$
1	Labor Cost Allocation Process		X	Disagree	$ 3,098,895		$ 3,098,895
2	Late VAT Reort Submission	X		Agree	$ -		
3	Late Annual Report Submissior	X		Agree	$ -		
4	Missing Sample Support	X		Agree	$ 144,372	$ 144,372	
					$ 3,243,267	**$ 144,372**	**$ 3,098,895**

Management View on Findings

Finding #1 – Insufficient Process for Accurate Allocation of Labor Cost to Cost Objectives (Material Weakness, Material Misstatement)

Management View Summary

World Vision management disagrees with the auditor's finding, conclusions, questioned costs, and recommendation. World Vision has complied with a long-established organizational policy covering documentation standards for labor distribution costs charged to federal awards. World Vision's historical audit results under the Uniform Guidance ("Single Audit") as well as a concurrent US Inspector General audit in 2023 have supported World Vision's compliance with grant regulatory requirements including the documentation standards detailed in 2 CFR 200.430. In our opinion, the auditors incorrectly concluded that this finding represents a material weakness and material misstatement and that all labor costs charged to these awards ($3,098,895) represent questioned costs.

World Vision management has outlined 8 key factors that support World Vision management's view as follows:

1. World Vision's policy and practices comply with grant regulations.
2. All audit sample selections complied with World Vision's policy and grant regulations (no policy exceptions noted by auditors).
3. A majority of labor charges tested during the audit represented employees that worked 100 percent on a single activity.

4. Historical audit results conclude that World Vision labor distributions meet regulatory requirements.
5. The audit report finding extends beyond the regulatory requirements.
6. Grant regulations explicitly prohibit imposing additional requirements beyond those detailed in 2 CFR 200.430(i).
7. The finding recommendation is not consistent with 2 CFR 220.430 requirements.
8. The finding goes beyond the intended scope of this COVID grant audit.

1. <u>World Vision's policy and practices comply with grant regulations</u>

World Vision has a long-established policy that governs all labor charges and the related distributions to federal awards based on grant regulations required by 2 CFR 200.430(i) *Standards for Documentation of Personnel Expenses* which states that "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed."

World Vision's policy specifically requires that employees that charge labor costs to federal awards complete a Labor Distribution Report (LDR) that supports the distribution of labor charges to federal awards. World Vision's policy requires that the LDR must:

- Reflect an after-the-fact determination of where time was spent by each employee,
- Be reported in percentage of time and reflect actual time worked and charged to a project,
- Fully account for the total time worked by the employee,
- Be submitted monthly,
- Be signed by the employee,
- Be approved by a supervisor or person that has first-hand knowledge of the actual time worked and the activities performed by each employee.

As such, World Vision's labor distribution policy meets the standards set forth in the grant regulations detailed in 2 CFR 200.430(i) so that World Vision's labor distribution records "reflect work performed".

2. <u>All audit sample selections complied with World Vision's policy and grant regulations (no policy exceptions were noted)</u>

During audit fieldwork, the auditors selected 14 transactions that pertained to labor charges. As it is typical to have a single transaction represent charges for more than one employee, World Vision provided a total of 30 LDRs (supporting these 14 transactions) to the auditors for examination. In all instances, World Vision properly charged the federal award project for the accurate labor costs based on the percentages supported by the employee LDR. There were no exceptions communicated by the auditors to World Vision that indicated non-compliance with World Vision's policy. Rather, the auditors questioned all labor costs based on their opinion that World Vision's policy did not meet the documentation standards set forth in 2 CFR 200.430(i). As mentioned above, World Vision management disagrees with the auditor's conclusion.

3. **<u>A majority of labor charges tested during the audit represented employees that worked 100 percent on a single activity.</u>**

Of the 30 LDRs tested during the audit, 23 of the 30 employees worked 100 percent on a single activity. However, the auditors questioned all labor costs charged to the grant including those employees working 100% on a single activity. In fact, the regulatory requirements that cover the distribution of personnel costs emphasize documentation standards for employees that spend time on more than one activity. For example, 2 CFR 200.430(i)(1)(vii) states that "Records must…Support the distribution of the employee's salary or wages among specific activities or cost objectives *if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."* In short, 2 CFR 200 provides more flexibility (e.g., not require individual employee labor distribution reports) in documenting the distribution of labor specifically for those employees working on a single activity. Consequently, World Vision's policy is more stringent than 2 CFR 200 as World Vision's policy requires all employees (both those who work on a single activity as well as those working on multiple activities) to complete a LDR.

4. **<u>Historical audit results conclude that World Vision labor distributions meet regulatory requirements</u>**

World Vision's historical audit results under the Uniform Guidance ("Single Audit") as well as a recent Inspector General audit in 2023 support that World Vision's policies, and practices related to the distribution of labor costs meet the documentation standards detailed in the aforementioned grant regulations. World Vision's annual Single Audit under the Uniform Guidance includes extensive testing of World Vision's labor charges including examination of monthly LDRs. Pre-dating the codification of 2 CFR 200 in December 2013, World Vision's Single Audits conducted annually have not reported any findings associated with World Vision's labor distribution policy. In addition, a concurrent US Inspector General (IG) audit in 2023 included extensive examination of World Vision's records including labor charges and supporting labor distribution documentation. This recent IG audit also did not note any issues of non-compliance with World Vision's labor distribution policy or labor charges to federal awards.

5. **<u>The audit report finding extends beyond the regulatory requirements.</u>**

World Vision uses percentages on LDRs to distribute labor costs to federal awards. The audit finding concluded that "There is no support for the basis of the **allocation percentages** outside of the employee and supervisor approval of the LDR." According to 2 CFR 200.430(i)(1)(ix), "records may reflect categories of activities **expressed as a percentage distribution** of total activities". In our opinion, 2 CFR 200 explicitly permits "percentage distributions" as an acceptable labor distribution methodology.

6. Grant regulations explicitly prohibit imposing additional requirements beyond those detailed in 2 CFR 200.430 (i)

According to 2 CFR 200.100 *Purpose*: "Federal awarding agencies must not impose additional or inconsistent requirements… unless specifically required by Federal statute, regulation, or Executive order." Further, 2 CFR 200.430(i)(2) states that "For records which meet the standards required in (2 CFR 200) **the non-Federal entity will not be required to provide additional support or documentation for the work performed**". Another example of the Kearney audit report imposing additional requirements beyond the grant regulations is that the finding recommends that World Vision report in "hours" rather than distribute labor based on "percentages". For example, the audit finding concludes that World Vision's policies do not require the "allocation of labor **hours** and costs to cost objectives". However, 2 CFR 200.430(i) not only does not require that "hours" be reflected in the supporting documentation, but does not reference "hours" as it relates to labor distribution. Rather, 2 CFR 200 requires that the "records accurately reflect the work performed".

7. The audit finding recommendation is not consistent with 2 CFR 220.430 requirements

The audit report recommends that World Vision:

1. Record and review the time worked and any proportional allocation of the costs on a **more frequent basis (i.e., weekly)** for greater accuracy.
   World Vision Management's Response: 2 CFR 200.430 does not require weekly reporting. World Vision's monthly reporting meets the regulatory requirements. Further, the auditor did not provide any evidence that the LDR percentages were inaccurate or would have had "greater accuracy" if performed more frequently than monthly. In addition, a majority of staff tested were charged 100% to a single activity as discussed in point 3 above.
2. Establish a requirement to document the basis of the allocation percentages.
   World Vision Management's Response: World Vision's policy is clear and meets all regulatory requirements set forth in 2 CFR 200.430(i).
3. Establish policies and procedures to ensure that management is verifying and documenting the percentage of labor hours that employees charge to awards.
   World Vision Management's Response: World Vision's policy requires monthly Labor Distribution Reports to be approved by a supervisor or person who has first-hand knowledge of the actual time worked and the activities performed by each employee. As mentioned above, no instances of non-compliance with World Vision policy were noted during the audit fieldwork.

8. The finding goes beyond the intended scope of this COVID grant audit

As stated in the audit report objectives and Appendix A – *Scope and Methodology of the Performance Audit*, the scope of the audit is "limited to the testing of the documentation and costs incurred for COVID activities". During the initial stages of the audit, the Kearney audit team communicated that their audit approach intended to "build on the Single Audit (Uniform Guidance)" so as to not duplicate efforts. However, this finding not only "does not build" on the annual Single Audit, but represents conclusions in direct opposition to those reached during the Single Audit as well as the concurrent IG audit.

Further, the Kearney auditor's report recognizes that USAID does not require World Vision to separately report COVID funded activities from non-COVID funded activities for the 20 awards included in the audit scope. As such, the auditor's report includes a scope limitation as described in the section of this report entitled ***Limitations or Uncertainties with the Reliability or Validity of Evidence***. Despite this scope limitation, and recognition that USAID does not require World Vision to separate COVID and non-COVID funding activities, the auditors questioned all labor costs which clearly include both COVID and non-COVID activities.

By questioning all labor costs under all 20 awards totaling in excess of $3 million, the conclusions of this finding extend beyond the intended scope of this COVID performance audit.

Finding #1 Conclusion

World Vision management disagrees with the auditors conclusion and recommendation for this finding as detailed above. The auditor's conclusion to question all labor costs totaling $3,098,895 is not supported by grant regulations or sufficient audit results. In short, it is management's opinion that all labor costs charged to the awards under the scope of this audit are based on work performed and represent an accurate distribution of labor costs in compliance with World Vision's policy and in compliance with the documentation standards specified in 2 CFR 200.430(i).

Finding #2 – Late VAT Report Submission (Significant Deficiency, Non-Compliance)

Management View

World Vision management agrees that the three VAT Reports were submitted late. However, all VAT Reports were subsequently submitted between September-November 2023. Further, World Vision conducted a training in January 2024 to equip responsible staff on VAT tax reporting requirements. World Vision management also documented communication to relevant staff emphasizing the importance of timely submission of VAT Reporting and the importance of obtaining proof of report submission.

Finding #3 – Late Annual Report Submission (Significant Deficiency, Non-Compliance)

Management View

World Vision management agrees with this finding. Although World Vision did not submit separate reports as required by the grant agreement, World Vision did submit a combined report prior to the reporting deadline. As stated in the finding, "in April 2023, the USAID/Kenya and East Africa Mission requested that World Vision submit a separate annual report to satisfy the reporting requirements, and therefore, World Vision submitted it upon request." Further, World Vision management has communicated to project staff the importance of following grant reporting requirements including submitting separate reports, rather than a combined report, when stipulated by the grant agreement.

Finding #4 – Missing Sample Support (Significant Deficiency, Misstatement)

Management View

World Vision agrees with this questioned cost. This incorrect charge related to an isolated coding error by the WV Brazil office during a finance staff transition. In light of this error, World Vision has taken the following corrective action:

- World Vision US staff performed an independent review of the WV Brazil general ledger and noted that no similar errors were made or charged to USAID grants.
- The appropriate adjustment (i.e., reduction) in the amount of $144,372 has been reflected in the revised interim final SF425 report dated October 5, 2023. Repayment to USAID was processed on October 23, 2023.
- World Vision has since transitioned this function from the WV Brazil field office to the central shared service center in the Philippines.

APPENDIX C – KEARNEY & COMPANY, P.C.'S (KEARNEY) EVALUATION OF MANAGEMENT'S COMMENTS

The following is Kearney's response to the comments that the World Vision, Inc. (also referred to as "World Vision" and "Recipient") provided in regard to our *Incurred Cost Audit over World Vision, Inc.'s (World Vision) Coronavirus Disease 2019 (COVID-19)-Related Activities for the Period of March 1, 2020 to March 31, 2022*, presented in Appendix B.

Kearney's Response:

Kearney acknowledges World Vision's response to our draft report.

Finding #1: Kearney's response has been structured to mirror World Vision's eight points in its response. Our response is as such:

1. We acknowledge that World Vision has a Labor Distribution Report (LDR) policy that encompasses the information stated in World Vision's response. However, we disagree that the policy and practices outlined are in line with 2 CFR 200.430(i)(3), as the process for adjusting time/allocation percentages is based on ad hoc meetings or other discussions with employees that are not documented. It is not World Vision's practice to consistently revise the estimated percentages every month for greater accuracy to actuals, therefore, in our judgment, it does not meet the standard that records "accurately reflect the worked performed"
2. Kearney's finding was based on all information available during the engagement period, inclusive of our understanding of processes and controls as well as any examples and/or sample-based testing that were performed. We did not uniquely identify any transactions for which we took exception; as we sufficiently communicated to World Vision starting in September of 2023 and prior to the close of fieldwork that we took exception with the labor as a whole.
3. As stated above, inherent to World Vision's policy and practices, we question the accuracy of the labor charges regardless of whether it describes the hours worked as being 100% to a single activity or split between activities based on a stated percentage, as it is not World Vision's practice to consistently revise the estimated percentages every month for greater accuracy to actuals and Kearney is unable to rely on World Vision's process as any adjusting time/allocation percentages are based on ad hoc meetings or other discussions with employees that are not documented
4. We are unable to speak to the criteria and procedures performed during other audits and have based our conclusion on the work performed during our audit
5. While we note that 2 CFR 200.430(i)(1)(ix) allows for the use of percentage disbursements, Kearney takes issue with the underlying support for the percentages, specifically the infrequent updating of the percentages for accuracy and lack of support for the establishment of the allocation percentages outside of the employee and supervisor approval of the LDR
6. Kearney's recommendations do not prescribe that World Vision report in hours. In fact, Kearney's recommendations are centered around establishing practices for accurate percentage-based allocations of total time/hours worked

7. Kearney's recommendation is based upon industry practices for accurate labor charging and while the policy states monthly reporting is required, Kearney's procedures identified that the allocation percentages are not updated on that frequency. Kearney does not agree that monthly reporting with set allocation percentages provides for reasonable assurance of the accuracy of labor charging
8. Kearney considers Single Audit results; however, our audit has separate objectives and a lack of issue identification in a Single Audit does not preclude us from reporting an issue that we determined to warrant the attention of those charged with governance and is thus reportable under GAGAS. Additionally, we questioned only the labor costs associated with COVID-funded activities, as provided by World Vision during the planning phase of our audit. Kearney was able to reconcile all costs to its equivalent Standard Form 425 or invoice for all awards in scope, with the exception of award number AID-OAA-A-17-00026, as stated in our inherent limitation. For award number AID-OAA-A-17-00026, World Vision provided us with a listing of transactions from COVID-funded activities, which we relied upon for our procedures as discussed in the inherent limitation. Non-COVID funded activities would only be included in our questioned cost amount to the extent that World Vision provided us with non-COVID funded transactions.

Finding #2: As World Vision agreed with Kearney's finding, no further response is required.

Finding #3: As World Vision agreed with Kearney's finding, no further response is required.

Finding #4: As World Vision agreed with Kearney's finding, no further response is required.

Also, USAID management provided a communication related to the findings, which is included in Appendix D.

APPENDIX D – USAID MANAGEMENT COMMENTS

At the request of the USAID OIG, a communication from USAID management regarding the limitations of the audit as well as the audit findings is included below. The communication was not subject to any procedures and, accordingly, we express no assurance on the communication as it is not required under GAGAS.

MEMORANDUM

TO: **Deputy Assistant Inspector General for Audits, Toayoa D. Aldridge**

FROM: **USAID/Office of Acquisition and Assistance, Director, Jami J. Rodgers /s/**

DATE: May 2, 2024

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, "COVID-19: Audit of Costs Incurred by World Vision (WV) from March 1, 2020, to March 31, 2022" (3-000-24-005-U) prepared by Kearney & Company P.C. (Kearney) on behalf of the Office of the USAID Inspector General (OIG) on April 8, 2024

The U.S. Agency for International Development (USAID) thanks the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report regarding the audit of incurred costs by WV for Coronavirus Disease 2019 (COVID-19) activities for the period of March 1, 2020, to March 31, 2022.

USAID acknowledges that Kearney identified the four findings listed below:

1. WV does not have sufficient documentation in place and reasonable controls to validate the accurate allocation of labor hours and costs to cost objectives. This resulted in questioned labor costs of $3,098,895.

2. WV did not submit three Value-Added Tax (VAT) reports by the deadline stated in the award of April 16 of the preceding year, for award 720FDA20GR00076, 720FDA20GR00119 and 720FDA20GR00211. This is an issue of noncompliance with contract terms, which did not result in questioned costs.

3. WV did not submit its FY 2021 Annual Report for award number 72061521CA00002 until April 2023, which is more than 15 months after the December 29, 2021, deadline calculated based on award text. This is an issue of noncompliance with contract terms, which did not result in questioned costs.

4. For one Cost Allocation (CAL) sample, WV only provided the transactional

detail and allocation basis behind the allocated costs incurred against the award but did not provide any other supporting documentation for the cost total. This resulted in a total of $144,372 of questioned costs.

For all remaining audit objectives, Kearney concluded that WV complied with the standards set by their awards, that costs incurred were allowable, allocable, and reasonable, and that WV's controls were designed and operating effectively.

Provided below are USAID's comments regarding these audit findings and comments regarding Kearney's audit Limitations or Uncertainties with the Reliability or Validity of Evidence.

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE DRAFT REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, "COVID-19: AUDIT OF COSTS INCURRED BY WORLD VISION FROM MARCH 1, 2020, TO MARCH 31, 2022" (3-000-24-005-U) PREPARED BY KEARNEY & COMPANY P.C. (KEARNEY) ON BEHALF OF THE OFFICE OF THE USAID INSPECTOR GENERAL (OIG) ON APRIL 8, 2024

Finding #1: Insufficient Process for Accurate Allocation of Labor Cost to Cost Objectives. WV does not have sufficient documentation in place and reasonable controls to validate the accurate allocation of labor hours and costs to cost objectives. WV does not directly assign actual hours worked to specific program codes. Instead, all employees who worked on a grant are required to submit a monthly Labor Distribution Report (LDR), which captures total hours worked per day for the month and a percentage of how those monthly hours should be allocated to cost objectives with no variation in hours worked. WVs current policies do not reflect sufficient frequency and documentation of labor charging or other reasonable controls. As a result, there is a significantly increased risk that labor costs are not allocated to cost objectives accurately.

Recommendation #1: Kearney recommends that WV:

1. Record and review the time worked and any proportional allocation of the costs on a more frequent basis (i.e., weekly) for greater accuracy.

2. Establish a requirement to document the basis of the allocation percentages.

3. Establish policies and procedures to ensure that management is verifying and documenting the percentage of labor hours that employees charge to awards.

Management Comments: USAID agrees with these recommendations. WV's current policy and internal controls for its charging of labor does not comply with the requirements of the *Code of Federal Regulations (CFR) 200.430(i)(1)(i) and (vii) and 2 CFR 200.430(i)(3), Compensation—personal services.* USAID agrees with Kearney's recommendation that WV should record and review the time worked on a more frequent basis, document the basis for the allocation percentages, and should establish more robust written policies and procedures to ensure that management is verifying and documenting the percentage of labor hours that employees charge to WV awards.

WV's current LDR policy should be updated to require more frequent reviews of the hours worked by employees. Additionally, WV should implement a documented review and approval process for adjusting the number of hours worked to validate any adjustments to the work allocations. WV's current practice does not require a written record of the validation process which indicates a deficient "system of internal controls". As a result, the current policy cannot be relied upon to ensure WV's records "accurately reflect the work performed" as required by (CFR) 200.430(i). Because the current practice lacks the requirement to document the validation and adjustment of labor hours charged to awards, WV's official records are incomplete and do not meet the regulatory requirements of 2 CFR 200. Finally, WV should establish policies and procedures to document the labor distribution allocation review process and document the steps needed to validate the hours reported by WV employees. A more detailed and comprehensive policy would fortify WV's system of internal controls and would provide reasonable assurance that all WV labor charges are accurate, allowable, and properly allocated.

USAID considered WV's response to this finding which highlighted a myriad of concerns, but WV's response failed to address the core issue raised by Kearney which is the inadequacy of WV's current labor charging policy. This policy and the practices used by WV are wholly insufficient and indicate a significant weakness in its internal control system for the proper charging of labor costs.

In conclusion, USAID will work with WV to ensure it updates its policy and process for the accurate allocation of labor costs to WV awards.

- **Target Completion Date**: USAID will engage with WV to ensure the organization updates its current policy and practices related to labor hour charging in accordance with Kearney's recommendations. The final completion date is anticipated to be 90 business days after the issuance of the OIG's final report.

Finding #2: Late VAT Report Submission (Significant Deficiency, Non-Compliance). WV did not submit three VAT reports by the deadline stated in the award of April 16 of the preceding year for the following awards:

- The 2020 VAT report for award 720FDA20GR00076 was submitted on August 12, 2021
- The 2020 VAT report for award 720FDA20GR00119 was submitted on September 27, 2023
- The 2021 VAT report for award 720FDA20GR00211 was submitted on October 5, 2023.

Further, WV could not provide documentation to support the submission date of the 2020 VAT report for award 720FDA20GR00148.

Because of this finding, Kearney concluded that WV does not have the appropriate controls in place to ensure the VAT reports are delivered on time. As a result of the delayed reporting, WV is non-compliant with its award terms related to VAT reporting. Accordingly, Kearney recommends that WV develop processes and establish controls to ensure each of its offices are submitting the VAT reports by April 16 of the preceding year.

Recommendation #2: Kearney recommends that World Vision develop processes and establish controls to ensure each of its offices are submitting the VAT reports by April 16 of the preceding year.

Management Comments: USAID agrees with this recommendation. Although WV eventually submitted the VAT reports between September – November 2023, WV was nevertheless noncompliant with the terms and conditions of the awards cited above. WV stated in its response that it had conducted training in January 2024 to equip responsible staff regarding VAT tax reporting requirements. WV also documented communication to relevant staff emphasizing the importance of timely submission of VAT reporting and the importance of obtaining proof of report submission. However, USAID does not believe that this goes far enough because this was not an isolated incident relegated to only one award but affected many awards. As a result, USAID recommends that WV develop a written policy and accompanying procedures for WV staff to ensure that VAT reports are submitted consistently across the organization and in accordance with the terms and conditions of each applicable award.

- **Target Completion Date**: USAID will engage with WV to ensure the organization creates a policy regarding VAT reporting under WV awards. The final completion date is anticipated to be 90 business days after the issuance of the OIG's final report.

Finding #3 Late Annual Report Submission (Significant Deficiency, Non-Compliance). World Vision did not submit its FY 2021 Annual Report for award number 72061521CA00002 until April 2023, which is more than 15 months after the December 29, 2021, deadline calculated based on award text. World Vision did not understand the separate reporting requirements of the award and utilized its Quarter (Q)4 report as its annual report submission for FY 2021 instead of submitting a separate annual report. In April 2023, the USAID/Kenya and East Africa Mission requested that World Vision submit a separate annual report to satisfy the reporting requirements, and therefore, World Vision submitted it upon request. As a result, Kearney determined World Vision to be non-compliant with its award terms related to annual reporting.

Recommendation #3: Kearney recommends that World Vision establish controls to ensure that it submits a separate report for each of its reporting responsibilities by the established deadline or obtain concurrence from USAID to utilize reports for multiple reporting requirements.

Management Comments: USAID agrees with this recommendation. The Reporting Requirements outlined in Award 72061521CA00002(B)(v) and 72061521CA00002(B)(vi) clearly delineate that World Vision must submit two different reports. Although World Vision did not submit separate reports as required by this award, WV did submit a combined report prior to the reporting deadline. World Vision management communicated to the project staff working under this award the importance of following grant reporting requirements including submitting separate reports rather than a combined report when required by the award.

- **Target Completion Date**: USAID considers this finding closed and requires no further action. WV submitted the report and has communicated to project personnel working under this award the need for the separate reports to be submitted in the future. Additionally, the USAID/Kenya and East Africa Mission became aware of WV's lapse, requested the two reports, and will monitor the timely submission of future reports during award administration. Finally, because this finding is relegated to only Award 72061521CA00002 and is not a systemic issue pertaining to multiple awards, WV's response resolves this specific finding.

Finding # 4: Missing Sample Support. For one Cost Allocation (CAL) sample, World Vision only provided the transactional detail and allocation basis behind the allocated costs incurred against the award but did not provide any other supporting documentation for the cost total. Specifically, WV did not provide any documentation to support the cost total, such as purchase orders, invoices, or other agreements. Accordingly, Kearney found that WV did not have appropriate records maintenance and retention practices in place during the audit period to demonstrate the allowability of direct costs claimed. This resulted in $144,372 questioned direct costs to award 720BHA21GR00269.

Recommendation #4: Kearney recommends that WV performs the following:

1. Ensure adequate documentation (e.g., invoices, itemized receipts, and basis) is created and/or maintained to adequately support direct costs claimed.

2. Execute a record retention and audit response policy where documents are maintained and readily available in a timely manner to adequately support direct costs claimed, specifically considering the requirements of the CFR.

Management Comments: USAID agrees with these recommendations. As cited in WV's response, this incorrect charge related to an isolated coding error by the WV Brazil office during a finance staff transition. Considering this error, WV took the following corrective actions:

1. WV US staff performed an independent review of the WV Brazil general ledger and noted that no similar errors were made or charged to USAID awards.

2. The appropriate adjustment, i.e., reduction, in the amount of $144,372 has been reflected in the revised interim final SF425 report dated October 5, 2023. Repayment to USAID was processed on October 23, 2023.

3. World Vision has since transitioned this function from the WF Brazil field office to the central shared services center in the Philippines.

USAID recognizes that WV identified the source of this error and made the required corrections. Furthermore, to prevent this error from occurring in the future, WV moved this core finance function from WV Brazil to its shared services center in the Philippines. All actions taken by WV resolved this finding.

- Target Completion Date: USAID considers this finding closed and requires no further action. WV took the proper corrective action necessary to resolve this finding. Additionally, this finding appears to be an isolated incident relegated only to award 720BHA21GR00269 and does not appear to be a systemic issue pertaining to multiple awards which requires additional action by WV. Accordingly, USAID considers this finding closed.

Audit Limitations or Uncertainties with the Reliability or Validity of Evidence

Kearney was unable to validate the completeness of the substantive testing population and relied on WV to provide to Kearney a transactional listing of auditable costs incurred, as it pertains to award AID-OAA-A-17-00026.

Kearney was unable to verify the accuracy and completeness of this testing population due to a lack of a reconciliation source because 1) the COVID-19-funded activities within the in-scope awards listed above were the result of modifications to add COVID-19 funds and the award terms did not require WV to report costs incurred at the fund level, and 2) the period of performance of a portion of the in-scope awards listed above were ongoing as of the end of Kearney's audit period end of March 31, 2022. Kearney verified that all costs incurred as provided by WV were below the COVID-19 obligated amount by award in all material respects; however, the difference between the obligated amount and auditable costs incurred may be reasonably explained by the scope period. Thus, Kearney asserts that there remains an unmitigated risk that the population of costs incurred under COVID-19 activities as provided by WV is not complete and unallowable costs may exist that would not have been detected by Kearney's audit.

Additionally, Kearney was unable to isolate applied indirect costs on this award that were funded through modifications. This award includes multiple funding sources, only one of which is COVID-19 funds; therefore, Kearney was unable to reconcile the transactional detail to the applicable Standard Form (SF)-425 or invoice and were unable to quantify total applied indirect costs. Kearney evaluated the methodology of the applied indirect costs to the award based on the SF-425s or invoice and the Negotiated Indirect Cost Rate Agreement (NICRA).

Management Comments: As noted above, Kearney was unable to validate the completeness of this award due to a lack of a reconciliation source as described above and relied on WV to provide Kearney with a transactional listing of auditable costs incurred. USAID recognizes this as an audit limitation and looks forward to receiving the OIG's forthcoming recommendations to resolve this concern.

Additionally, although Kearney verified that all costs incurred as provided by WV were below the COVID-19 obligated amount by award, Kearney stated that the difference between the obligated amount and auditable costs incurred may be reasonably explained by the scope period. Thus, Kearney claimed that there remains an unmitigated risk that the population of costs incurred under COVID-19 activities as provided by WV is not complete and unallowable costs may exist that would not have been detected by the firm's audit. While USAID understands that there may be a chance that questioned costs could exist under these contracts due to the audit scope period, the overall audit risk is low.

- **Target Completion Date**: Because Kearney identified these as systemic issues pertaining to USAID award terms and conditions and has communicated the issue to the USAID OIG under separate cover, USAID will wait for OIG recommendations regarding the specific actions needed to fully address this issue.

USAID looks forward to working with the OIG to close this audit finding and looks forward to receiving the OIG's forthcoming recommendations to resolve the cited audit scope limitations.

CLEARANCE PAGE FOR Management Comments in response to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, "COVID -19: Audit of Costs Incurred by World Vision from March 1, 2020, to March 31, 2022" (3-000-24-005-U) Prepared by Kearney & Company P.S. (Kearney) on behalf of the Office of the USAID Inspector General (OIG) on April 8, 2024

Approved: M/OAA: JRodgers 5/01/2024

Clearances:

Bureau/IO/Mission	Clearance Status	Date
M/OAA/ACTS: DBroderick	Clear	05/01/2024
M/OAA/CAS: SSnyder	Clear	04/30/2024
GC/A&A: DPerone	Clear	04/30/2024

Drafter: M/OAA/CAS