

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

COVID-19: Audit of Costs Incurred By CARE USA from March 1, 2020, to March 31, 2022

Audit Report 3-000-24-006-U
July 5, 2024



Office of Audits, Inspections, and Evaluations



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: July 5, 2024

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

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

SUBJECT: COVID-19: Audit of Costs Incurred By CARE USA from March 1, 2020, to March 31, 2022 (3-000-24-006-U)

Enclosed is the final report on the audit of claimed costs incurred by CARE USA (CARE) 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 CARE.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 CARE 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 CARE's contract bidding and procurement processes to determine whether it complied with regulatory and award requirements.
4. Evaluate and obtain sufficient understanding of CARE's internal controls, assess control risks, and identify reportable conditions, including material internal control weaknesses.
5. Perform tests to determine whether CARE complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects.
6. Determine the extent to which CARE 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 CARE requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements.
8. Determine whether CARE has taken corrective actions on prior audit report recommendations.

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

Kearney concluded that CARE complied with the standards set by their awards; that costs incurred were allowable, allocable, and reasonable; and that CARE's controls were designed and operating effectively.

However, the auditors were unable to verify the accuracy and completeness of costs included in the testing population. This occurred because USAID did not require CARE to distinguish COVID-19 funds from non-COVID-19 funds in expenditure reports and invoices. As a result, even in cases where CARE 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 CARE 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.

In finalizing the report, OIG evaluated USAID's response to the draft audit report.

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 CARE USA (CARE) Coronavirus Disease
2019 (COVID-19)-Related Activities for the Period of March 1,
2020 to March 31, 2022***

Contract Number: 72001G22C00007

April 8, 2024

**KEARNEY &
COMPANY**

*Point of Contact:
Kelly Gorrell, Partner
1701 Duke Street, Suite 500
Alexandria, VA 22314
703-931-5600, 703-931-3655 (fax)
kgorrell@kearneyco.com*

Kearney & Company, P.C.'s TIN is 54-1603527, UEID is UC4BPA3LC4J6, CAGE Code is 1SJ14

April 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 CARE USA (CARE) 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
CARE USA (CARE) Coronavirus Disease 2019 (COVID-19)-
Related Activities for the Period of March 1, 2020 to March
31, 2022***

October 12, 2023

**KEARNEY &
COMPANY**

TABLE OF CONTENTS

	<u>Page #</u>
Objectives.....	1
Background	2
Audit Results	3
Conclusion	3
Limitations or Uncertainties with the Reliability or Validity of Evidence.....	3
Exhibit A: Schedule of Costs Incurred	5
Exhibit B: Schedule of Indirect Cost Rates	8
Appendix A – Scope and Methodology of the Performance Audit	A-1
Scope and Limitations	A-1
Methodology and Work Performed	A-2
Work Related to Internal Controls	A-4
Appendix B – USAID Management comments	B-1

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 CARE USA (also referred to as “CARE” 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 CARE USA (CARE)

CARE is headquartered in Atlanta, Georgia and employs approximately 8,000 employees globally in a number of countries including Yemen, Guatemala, Syria, Zimbabwe, Mozambique, Ethiopia, Cameroon and more. For Fiscal Year (FY) 2022, CARE had annual revenue of \$889 million, ran 1,631 projects and reached 174 million people around the world. CARE's mission is to work around the globe to save lives, defeat poverty, and achieve social justice. As part of USAID's COVID-19 relief, CARE provided support to various communities in containing the spread of COVID-19 in vulnerable populations by creating awareness about the disease; increasing the quantity of COVID-19 diagnostic detection through training; contributing to the prevention and reduction of excess mortality and morbidity of vulnerable populations through strengthening COVID-19 outbreak preparedness, prevention and response capacities; and supporting various health systems manage an outbreak of COVID-19. (<https://www.care.org/>)

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 did not identify any findings in the context of the audit objectives and scope.

Conclusion

Except for the limitations discussed in the [Limitations or Uncertainties with the Reliability or Validity of Evidence](#) section of this report, Kearney noted that the audit objectives were met.

Objective	Objective Met/Not Met
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	Met
Auditable costs incurred in implementing the USAID activities for the period audited are supported, reasonable, and eligible 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)	Met
The Recipient’s contract bidding and procurement processes complied with all contract requirements of regulatory and award requirements	Met
The Recipient’s internal controls related to the audit objectives are appropriate, with no identified reportable conditions, including material internal control weaknesses	Met
The Recipient complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects	Met
The Recipient delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID	Met
The Recipient requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements	Met
The Recipient took corrective actions on prior audit report recommendations.	Met

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 the following awards:

- 72027919CA00001
- 720BHA21GR00129
- 720BHA21GR00200
- 720FDA20GR00058
- AID624A1400003.

Kearney is unable to verify the accuracy and completeness of this testing population due to a lack of a reconciliation source, as 1) many of the COVID-19 funded activities in scope were 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 most in-scope awards were ongoing as of the end of our audit period end of March 31, 2022. 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 listed above that are funded through modifications or were new awards with multiple funding sources. These awards include 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 B](#).

EXHIBIT A: SCHEDULE OF COSTS INCURRED

Major Cost Category by Award	Budgeted (\$ (a))	Actual Costs Incurred and Invoiced (\$ (b))	Questioned Costs (\$)	Adjusted Costs (Incurred Less Questioned) (\$)
Cooperative Agreements				
Salaries	1,253,648	389,423	-	389,423
Travel and Transportation	163,633	850	-	850
ODCs	2,689,834	1,409,530	-	1,409,530
Sub-Awards	70,699	-	-	-
Indirect Costs (Note 1)	436,543	199,418	-	199,418
Add on Work 72027919CA00001 Subtotal	4,614,357	1,999,221	-	1,999,221
Salaries	8,154,843	3,492	-	3,492
Travel and Transportation	770,437	-	-	-
ODCs	6,852,672	1,154	-	1,154
Sub-Awards	16,306,419	6,482	-	6,482
Indirect Costs (Note 1)	3,383,317	1,233	-	1,233
Add on Work AID-624-A-14-00003 Subtotal	35,467,688	12,361	-	12,361
Cooperative Agreement Subtotal	40,082,045	2,011,582	-	2,011,582
Grant Award				
Salaries	227,668	22,405	-	22,405
Travel and Transportation	43,244	-	-	-
ODCs	371,480	4,776	-	4,776
Sub-Awards	1,031,668	1,628,231	-	1,628,231
Indirect Costs (Note 1)	192,864	183,420	-	183,420
Add on Work 720FDA20GR00058 Subtotal	1,866,924	1,838,832	-	1,838,832
Salaries	39,022	34,351	-	34,351
Travel and Transportation	5,083	138	-	138
ODCs	220,720	233,156	-	233,156
Sub-Awards	-	-	-	-
Indirect Costs	35,242	29,655	-	29,655
New Work 720FDA20GR00091 Subtotal	300,067	297,300	-	297,300
Salaries	515,620	345,113	-	345,113
Travel and Transportation	40,468	3,694	-	3,694
ODCs	2,659,172	791,805	-	791,805

Major Cost Category by Award	Budgeted (\$ (a))	Actual Costs Incurred and Invoiced (\$ (b))	Questioned Costs (\$)	Adjusted Costs (Incurred Less Questioned) (\$)
Sub-Awards	834,667	276,841	-	276,841
Indirect Costs (Note 1)	448,732	157,054	-	157,054
<i>New Work 720BHA21GR00129 Subtotal</i>	4,498,659	1,574,507	-	1,574,507
Salaries	121,164	37,488	-	37,488
Travel and Transportation	6,243	2,154	-	2,154
ODCs	127,066	29,340	-	29,340
Sub-Awards	63,348	15,643	-	15,643
Indirect Costs	36,762	9,376	-	9,376
<i>New Work 720BHA22GR00023 Subtotal</i>	354,583	94,001	-	94,001
Salaries	121,907	93,892	-	93,892
Travel and Transportation	19,554	3,092	-	3,092
ODCs	279,002	214,026	-	214,026
Sub-Awards	397,262	397,082	-	397,082
Indirect Costs	182,275	78,457	-	78,457
<i>New Work 720FDA20GR00090 Subtotal</i>	1,000,000	786,549	-	786,549
Salaries	5,161,480	1,371,226	-	1,371,226
Travel and Transportation	7,604	15,718	-	15,718
ODCs	20,747,641	2,123,725	-	2,123,725
Sub-Awards	24,373,962	17,119,696	-	17,119,696
Indirect Costs (Note 1)	140,484	2,285,844	-	2,285,844
<i>New Work 720BHA21GR00200 Subtotal</i>	50,431,171	22,916,209	-	22,916,209
Salaries	238,273	111,947	-	111,947
Travel and Transportation	3,268	765	-	765
ODCs	353,322	219,781	-	219,781
Sub-Awards	-	-	-	-
Indirect Costs	134,683	36,840	-	36,840
<i>New Work 720BHA21GR00393 Subtotal</i>	729,546	369,333	-	369,333
Salaries	5,273	4,310	-	4,310
Travel and Transportation	-	-	-	-
ODCs	-	603	-	603
Sub-Awards	439,634	443,574	-	443,574
Indirect Costs	53,700	49,692	-	49,692

Major Cost Category by Award	Budgeted (\$ (a))	Actual Costs Incurred and Invoiced (\$ (b))	Questioned Costs (\$)	Adjusted Costs (Incurred Less Questioned) (\$)
<i>New Work 720FDA20GR00074 Subtotal</i>	498,607	498,179	-	498,179
Grant Award Subtotal	59,679,557	28,374,910	-	28,374,910
Grand Total	99,761,602	30,386,492	-	30,386,492

- a) This column was compiled based on the internal budgets utilized by CARE USA (CARE) and on the budget displayed in the specific award agreements. While some of the costs incurred towards individual cost categories are above the budgeted amount, CARE was within the budget in totality
- b) Amounts listed represent costs incurred under Coronavirus Disease 2019 (COVID-19)-funded awards

Note 1: The applied indirect cost amount shown in this exhibit for certain awards is based on the application of provisional indirect cost rates to the COVID-19-related costs in the bases as shown in the General Ledger 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.

EXHIBIT B: SCHEDULE OF INDIRECT COST RATES

Award Number	NICRA Effective Dates	Indirect Category (a)	NICRA Rate (%)	Base Allocation (\$)	Recalculated Applied Indirect Costs (\$) (d)
72027919CA00001 (Note 1)	Provisional rates as of 07-01-19 (effective for entire scope period)	Overhead (b)	7.56	1,799,803	136,065
		Single Audit (c)	3.52	1,799,803	63,353
AID-624-A-14-00003 (Note 1)		Overhead (b)	7.56	11,128	841
		Single Audit (c)	3.52	11,128	392
720FDA20GR00058 (Note 1)		Overhead (b)	7.56	1,655,413	125,149
		Single Audit (c)	3.52	1,655,413	58,271
720FDA20GR00091		Overhead (b)	7.56	267,645	20,234
		Single Audit (c)	3.52	267,645	9,421
720BHA21GR00129 (Note 1)		Overhead (b)	7.56	1,417,453	107,159
		Single Audit (c)	3.52	1,417,453	49,895
720BHA22GR00023		Overhead (b)	7.56	84,624	6,397
		Single Audit (c)	3.52	84,624	2,979
720FDA20GR00090	Overhead (b)	7.56	708,093	53,532	
	Single Audit (c)	3.52	708,093	24,925	
720BHA21GR00200 (Note 1)	Overhead (b)	7.56	20,630,365	1,559,656	
	Single Audit (c)	3.52	20,630,365	726,188	
720BHA21GR00393	Overhead (b)	7.56	332,493	25,136	
	Single Audit (c)	3.52	332,493	11,704	
720FDA20GR00074	Overhead (b)	7.56	448,487	33,906	
	Single Audit (c)	3.52	448,487	15,786	

- a) CARE’s NICRA displays two rates, the Overhead and Single Audit rates; thus, we display those rates in this exhibit. However, CARE’s Standard Form (SF) 425 for each in scope award combines the rates and displays one rate at 11.08%, which equals the sum of the two provisional rates as per the NICRA. Although worded differently, the bases of the two rates are inherently the same as it pertains to the in-scope awards and thus we found no monetary variances within the SF 425 presentation
- b) The OH base is total direct costs excluding donated commodities (including Firm fixed price [FFP] distributed commodities), ocean freight (including ocean, inland, and internal transport, storage and handling [ITSH]) related to Title II emergency commodities, exchange fluctuations, in-kind contributions, fundraising, and public information

- c) The Single Audit base is all U.S. Government cash grants and cost-type contract expenses subject to audit excluding cash grants for ocean freight and ITSH related to Title II emergency commodities.

Note 1: The applied indirect cost amount shown in this exhibit for certain awards is based on the application of provisional indirect cost rates to the COVID-19-related costs in the bases as shown in the General Ledger 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.

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 CARE USA’s (also referred to as “CARE” 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 (\$)
720FDA20GR00058	1,850,000	1,838,832
AID-624-A-14-00003	150,000	12,361
720FDA20GR00091	300,000	297,300
720BHA21GR00129	2,098,659	1,574,507
720BHA22GR00023	2,000,000	94,001
720FDA20GR00090	1,000,000	786,549
720BHA21GR00200	36,955,515	22,916,209
72027919CA00001	2,000,000	1,999,221
720BHA21GR00393	1,460,285	369,333
720FDA20FR00074	498,607	498,179

- 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 March 30, 2023 to October 12, 2023 and covered the period from March 1, 2020 to March 31, 2022. In addition, the following CARE overseas locations had transactions that were included in our samples: Yemen, Guatemala, Syria, Zimbabwe, Mozambique, Australia, Ethiopia, and Cameroon.

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. (also referred to as “Kearney,” “we,” “us” and “auditor”) 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 of 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
- 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 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 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 CARE’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 – USAID MANAGEMENT COMMENTS

At the request of the USAID OIG, a communication from USAID management regarding the inherent limitations of the audit 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 

DATE: March 20, 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 CARE USA from March 1, 2020, to March 31, 2022" (3-000-24-006-U) prepared by Kearney & Company P.C. (Kearney) on behalf of the Office of the USAID Inspector General (OIG) on March 12, 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 CARE USA (CARE) for Coronavirus Disease 2019 (COVID-19) activities for the period of March 1, 2020, to March 31, 2022.

USAID acknowledges that Kearney obtained sufficient, appropriate evidence to provide a reasonable basis for audit findings and conclusions. USAID appreciates that the evidence obtained during this audit provides a reasonable basis for Kearney's overall conclusion that the audit did not identify any findings and offered no recommendations.

Although this audit did not result in recommendations which require management comment, USAID would like to provide comment on the following two issues highlighted in the audit:

- (1) Audit Barriers for Awards with Multiple Funding Sources; and
- (2) 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 CARE USA FROM MARCH 1, 2020, TO MARCH 31, 2022" (3-000-24-006-U) PREPARED BY KEARNEY & COMPANY P.C. (KEARNEY) ON BEHALF OF THE OFFICE OF THE USAID INSPECTOR GENERAL (OIG) ON MARCH 12, 2024

Audit Barriers for Awards with Multiple Funding Sources

During the audit period, Kearney was unable to isolate the applied indirect costs under the following CARE awards:

- 72027919CA00001
- 720BHA21GR00129
- 720BHA21GR00200
- 720FDA20GR00058
- AID624A1400003

These awards included multiple funding sources, only one of which is for COVID-19 funds. As a result, Kearney was unable to reconcile the transactional detail to the applicable SF-425s for these awards and was unable to quantify the total applied indirect costs. Consequently, Kearney evaluated the methodology of the applied indirect costs to the whole award based on the SF-425s and the Negotiated Indirect Cost Rate Agreement (NICRA).

USAID acknowledges the difficulties in auditing cost-reimbursable awards with multiple funding sources and is committed to improve the transparency of these awards by developing specific award terms and conditions related to awards that have separate and distinct funding sources. USAID will ensure that the newly developed award terms and conditions provide the clarity needed to allow for the proper reconciliation of these costs to the SF-425s and to the applicable NICRA rates used under these awards.

- **Target Completion Date:** Because Kearney identified this as a systemic issue 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.

Audit Limitations or Uncertainties with the Reliability or Validity of Evidence

USAID also recognizes the audit limitations discussed in the *Limitations or Uncertainties with the Reliability or Validity of Evidence* section of this report which pertain to these five awards. As noted on page three of the audit, Kearney was unable to validate the completeness of the testing population and relied on CARE to provide Kearney with a transactional listing of auditable costs incurred for these awards. Kearney was unable to verify the accuracy and

completeness of this testing population due to a lack of a reconciliation source for the following reasons:

- (1) These awards had multiple funding sources and the award terms did not require CARE to report costs incurred at the fund level which prevented Kearney from fully identifying costs incurred for only COVID-19 activities; and
- (2) The period of performance of these awards were ongoing as of the end of the audit period end date of March 31, 2022.

Kearney stated that *“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 this audit.”* Kearney audited \$28.3M in costs related to COVID-19 activities under these five awards and verified that all costs incurred as provided by CARE were below the COVID-19 obligated amount for each award.

While USAID understands that there may be a chance that unallowable and/or questioned costs could exist under these contracts due to the audit scope period, the overall audit risk is low. As evidence of this, USAID must highlight that the combined total of \$2M audited under the other five CARE awards in which the cost data could be fully validated did not identify any unallowable or questioned costs.

In conclusion, USAID looks forward to working with the OIG on its forthcoming recommendations regarding the possible revision of terms and conditions for awards with multiple funding sources.

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 Cost Incurred by
CARE USA From March 1, 2020, to March 31, 2022" (3-000-24-006-U) Prepared by Kearney &
Company P.S. (Kearney) on behalf of the Office of the USAID Inspector General (OIG) on March
12, 2024

Approved: M/OAA: JRodgers 3/19/2024

Clearances:

Bureau/IO/Mission	Clearance Status	Date
M/OAA/ACTS: DBroderick	Cleared	03/15/2024
M/OOAA/CAS: SSnyder	Cleared	03/15/2024
GC/A&A: GMarchand	Cleared	03/18/2024

Drafter: M/OAA/CAS