



## MEMORANDUM

**DATE:** November 2, 2018

**TO:** USAID/Management/Office of Acquisition and Assistance/  
Cost Audit and Support Division, Branch Chief, David A. McNeil

**FROM:** Director of External Financial Audits, Abdoulaye Gueye /s/

**SUBJECT:** Examination of Costs Claimed for the Two Fiscal Years Ended December 31, 2012  
for Advanced Engineering Associates International, Inc. (3-000-19-004-I)

This memorandum transmits the final report on the examination of costs claimed for Advanced Engineering Associates International, Inc. (AEAI) on in-scope contracts and subcontracts for the fiscal years (FY) ended December 31, 2011 and 2012 and determined whether costs claimed are allowable, allocable and reasonable in accordance with contract terms; Part 31 of the Federal Acquisition Regulation (FAR); Agency for International Development Acquisition Regulations (AIDAR); Department of State Standardized Regulations (DSSR); and 2 Code of Federal Regulations (CFR), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The U.S. Agency for International Development (USAID), Office of Acquisition and Assistance, Cost Audit and Support Division contracted with Kearney & Company to conduct the examination. The contract required Kearney & Company to perform the examination in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Kearney & Company states that it performed its examination in accordance with attestation standards established by American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Kearney & Company is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed on in-scope contracts and subcontracts for each FY is allowable, allocable and reasonable in accordance with contract terms; Part 31 for the FAR; AIDAR; DSSR; and 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.<sup>1</sup>

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

The objective of this examination was to express an opinion on whether the costs claimed by AEAI on in-scope contracts and subcontracts for the FYs ended December 31, 2011 and 2012 are allowable, allocable, and reasonable in accordance with contract terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200 *Uniform Administrative Requirement, Cost Principles and Audit Requirements for Federal Awards*, as applicable. To answer the objective, Kearney & Company designed its testing procedures to evaluate the internal control environment surrounding AEAI's subcontract management process and to verify that AEAI had adequate controls in place for monitoring subcontractor costs. Its examination also included evaluating the claimed costs reported in the incurred cost proposals (ICP) for compliance with the applicable requirements contained in the FAR, AIDAR, DSSR, and other specific contract provisions. Providing an opinion on compliance with specific provisions was not an objective of its examination accordingly Kearney & Company did not express such an opinion. Kearney & Company examined \$22,116,651 of AEAI's incurred costs under contracts with USAID for the FYs ended December 31, 2011 and 2012.

Kearney & Company identified a scope limitation applicable to AEAI's FYs 2011 and 2012 claimed subcontractor costs. In FYs 2011 and 2012, AEAI claimed material subcontractor costs for a specific subcontractor under Contract No. EPP-I-00-03-00004-00, Task Order 9. A full assist audit was scheduled to be performed over this material subcontractor by a separate party concurrent with Kearney & Company's examination, so it was excluded from the scope of the examination at the start. However, to Kearney & Company's knowledge, the assist audit was not completed prior to the end of Kearney & Company's examination's fieldwork. The material subcontractor's costs have not, to Kearney & Company's knowledge, been audited in accordance with the Allowable Cost and Payment clause of the FAR and are therefore, unsubstantiated for FYs 2011 and FY 2012. Where applicable, Kearney & Company incorporated the results of previous audits of subcontractor costs into this report. The total amount of subcontractor costs claimed as other direct costs in AEAI's ICPs for the remaining subcontractors is material, and the auditor could not determine, with reasonable certainty, the composition of the subcontractor costs claimed as being direct or indirect, based on the structure of the information presented in AEAI's ICP and general ledger. The remaining subcontractors have not, to Kearney & Company's knowledge within its fieldwork period, been subjected to a previous audit; thus, Kearney & Company determined that the potential aggregate effect on AEAI's claimed costs could be material to AEAI's ICPs as a whole.

Kearney & Company expressed a qualified opinion. In Kearney & Company's opinion, except for the possible effects of the matters described in the preceding paragraphs, costs claimed by AEAI on in-scope contracts and subcontracts for the FYs ended December 31, 2011 and 2012 are allowable, allocable and reasonable in accordance with contract terms; Part 31 of the FAR, AIDAR, DSSR, and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable, in all material respects. Kearney & Company did not render an opinion on the effectiveness of the contractor's accounting systems and related internal controls. Kearney & Company's examination did not disclose any findings that are required to be reported under Government Auditing Standards. Kearney & Company questioned unsupported direct costs of \$3,237 and negative direct costs of \$1,503.

To address the issues identified in the audit report, we recommend that USAID's Office of Acquisition and Assistance, Cost Audit and Support Division:

**Recommendation 1.**

Determine the allowability of \$3,237 in unsupported direct questioned costs as detailed on page 2, of the audit report and recovers any amount that is unallowable.

**Recommendation 2.**

Determine the allowability of \$1,503 in reimbursements from Advanced Engineering Associates International, Inc. detailed on page 2, of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended to audit staff during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addresses because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”).

If you have any questions related to this report, please contact Steve Shea, Assistant Director, at (202) 712-1386 or [sshea@usaid.gov](mailto:sshea@usaid.gov).

Attachment: As stated

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