



MEMORANDUM

DATE: January 14, 2020

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

FROM: Acting Director of External Financial Audits Division, Steven Shea/s/

SUBJECT: Independent Audit Report of Proposed Amounts on Unsettled Flexibly Priced Contracts for John Snow, Inc. for Fiscal Year 2015 (3-000-20-008-D)

This memorandum transmits the final audit report on John Snow, Inc.'s (JSI) proposed direct and indirect amounts for contract reimbursement on unsettled flexibly priced contracts contained in its final indirect rate proposal for fiscal year (FY) 2015, submitted on June 24, 2016. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with the United States Defense Contract Audit Agency (DCAA) to conduct the audit. DCAA stated that it performed its audit in accordance with generally accepted government auditing standards. DCAA is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether JSI's proposed amounts on unsettled flexibly priced contracts comply, in all material respects, with contract terms pertaining to accumulating and billing incurred amounts.¹

The objective of this audit was to express an opinion on whether JSI's proposed direct and indirect amounts for contract reimbursement on unsettled flexibly priced contracts contained in its FY 2015 final indirect rate proposal, comply, in all material respects, with contract terms pertaining to accumulating and billing incurred amounts. To answer this objective DCAA planned and performed its audit in accordance with generally accepted government auditing standards to obtain reasonable assurance on whether JSI's proposed direct and indirect amounts for contract reimbursements materially comply with contract terms. USAID's audited direct costs were \$517,527,418 for FY 2015.

¹ 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.

DCAA expressed a qualified opinion because their audit disclosed proposed amounts that did not materially comply with contract terms and Federal Acquisition Regulation (FAR) 31.205-6 pertaining to accumulating and billing incurred amounts and DCAA encountered a scope limitation on their ability to perform real-time testing on proposed direct labor costs which was a procedure DCAA considered necessary but could not perform under the circumstances. DCAA stated that except for the effects of the noncompliances described above, and the effects of the additional noncompliances, if any, that they might have identified had DCAA not been constrained by the scope limitation, JSI's proposed amounts on unsettled flexibly priced contracts comply, in all material respects, with the contract terms pertaining to accumulating and billing incurred amounts.

The audit report disclosed two instances of material noncompliance, specifically concluding that JSI did not comply with the special provisions of contract GPO-I-00-06-00007, and FAR 31.205-6, Compensation for Personal Services. As a result, DCAA questioned \$26,294 of the proposed direct labor and holiday, sick, and vacation costs under Contract GPO-I-00-06-00007 with USAID, Project numbers 13222, 13223, 13244, and 13250, because annual rate increases applied by JSI were not supported by the special provisions of the contract. DCAA questioned \$497,440 of JSI's overhead pool costs, because JSI did not comply with FAR 31.205-6(f)(1)(ii), compensation for personal services, bonuses and incentive compensation, as JSI did not provide documentation to support the basis, rationale, or calculation for executive bonuses claimed.

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

Recommendation 1. Determine the allowability of \$26,294 in ineligible direct questioned costs detailed on pages 15 through 17 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that John Snow, Inc. corrects the two instances of material noncompliance detailed on page 3 of the audit report.

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

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