



## MEMORANDUM

**DATE:** January 17, 2020

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

**FROM:** Acting Director for External Financial Audits Division, Steve Shea/s/

**SUBJECT:** Examination of Costs Claimed by the Associates in Rural Development, Inc. for the Fiscal Years Ended September 30, 2012, and 2013 (3-000-20-008-1)

This memorandum transmits the final report on the examination of costs claimed for the Associates in Rural Development, Inc. (ARD) on in-scope awards and subawards for the fiscal year's (FY) ended September 30, 2012 and 2013. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to conduct the audit in accordance with generally accepted government auditing standards, and determine whether costs claimed are allowable, allocable and reasonable in accordance with award terms; Part 31 of the Federal Acquisition Regulation (FAR); Agency for International Development Acquisition Regulation (AIDAR); Department of State Standardized Regulation (DSSR); and 2 Code of Federal Regulations (CFR) 200 *Uniform Administrative Requirements, Cost Principles, and Audit requirements for Federal Awards*, as applicable. The audit firm states that it performed the examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in generally accepted government auditing standards.<sup>1</sup> The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed by ARD on in-scope awards and subawards for the FYs ended September 30, 2012 and 2013 are allowable, allocable, and reasonable in accordance with award 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.

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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 examination 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 examination performed.

The examination's objective was to express an opinion on whether the costs claimed by ARD on in-scope awards and subawards for each of the years ended September 30, 2012 and 2013 are allowable, allocable, and reasonable in accordance with award 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. To answer the examination's objective, Kearney designed its testing procedures to evaluate the internal control environment surrounding ARD's subcontract management process and to verify that ARD had adequate controls in place for monitoring subcontractor costs. Its examination included performing a reconciliation between the adjusted total cost booked to date and the cumulative amount billed by award or subaward, for each of the FY's ended September 30, 2012 and 2013 and evaluating claimed costs reported in the incurred costs proposals for compliance with applicable requirements contained in the FAR, AIDAR, DSSR, and other specific contract provisions. The audit firm examined USAID's incurred costs of \$231,981,297 for the FY's September 30, 2012 and 2013. Kearney expressed a qualified opinion that costs claimed on in-scope awards and subawards for the FY's ended September 30, 2012 and 2013 are allowable, allocable, and reasonable in accordance with award 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 except that the audit firm identified an instance of noncompliance with federal guidance and regulations applicable to FYs 2012 and 2013. Kearney reported a material weakness, and material non-compliance due to insufficient documentation to support costs claimed in its costs incurred proposal. Kearney questioned USAID's direct questioned costs of \$1,005,662 (\$1,005,662 unsupported). The audit firm questioned indirect costs of \$5,517 composed of G&A costs of \$5,456, and overhead of \$61.

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

**Recommendation 1.** Determine the allowability of \$1,005,662 in unsupported direct questioned costs and recover any amount that is unallowable detailed on pages 4, 5, and 10 of the audit report.

**Recommendation 2.** Verify that Associates in Rural Development, Inc. corrects the material weakness in internal control detailed in pages 6, and 10 of the audit report.

**Recommendation 3.** Verify that Associates in Rural Development, Inc. corrects the instance of material non-compliance detailed in pages 6, 8, and 10 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 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").