



## MEMORANDUM

**DATE:** January 21, 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:** Examination of Costs Claimed for Macfadden & Associates, Inc. for the Three Years Ended December 31, 2013 (3-000-20-010-I)

This memorandum transmits the final report on the examination of costs claimed for Macfadden & Associates, Inc. (Macfadden) on in-scope awards and subawards for each of the years ended December 31, 2011, 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. to conduct the audit. The audit firm stated that it performed its 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, award terms, Part 31 of the Federal Acquisition Regulation (FAR), Agency for International Development Acquisition Regulation (AIDAR), Department of State Standardized Regulations (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 is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed by Macfadden on in-scope awards and subawards for each of the years ended December 31, 2011, 2012 and 2013 are allowable, allocable and reasonable in accordance with award 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>

The examination's objective was to express an opinion on whether the costs claimed by

---

<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.

Macfadden on in-scope awards and subawards for each of the years ended December 31, 2011, 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 & Company, P.C. designed its testing procedures to evaluate the internal control environment surrounding Macfadden's subcontract management process and to verify that Macfadden had adequate controls in place for monitoring subcontractor costs. Its examination included the reconciliation of the adjusted total costs booked to date and the cumulative amount billed, by award or subaward and reporting any over/under-billings. The audit firm examined USAID incurred costs of \$55,082,543 for the three years ended December 31, 2013.

Kearney & Company, P.C. expressed a qualified opinion because of an instance of material non-compliance with the federal guidance and regulations applicable to 2011 to 2013. Macfadden did not provide sufficient supporting documentation to substantiate subcontractor costs claimed. In Kearney & Company, P.C.'s opinion, except for the possible effects of the matter previously described, costs claimed by Macfadden on in-scope awards and subawards for the three years ended December 31, 2011, 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. In addition, the audit firm reported a material weakness and a material instance of noncompliance due to insufficient supporting documentation. The audit firm questioned USAID direct questioned costs of \$888,880 (\$888,880 unsupported).

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 \$888,880 in USAID's unsupported direct questioned costs and recover any amount that is unallowable detailed on pages 5, and 10 through 12 of the audit report.

**Recommendation 2.** Verify that Macfadden & Associates, Inc. corrects the material weakness in internal control detailed on pages 10 through 12 of the audit report.

**Recommendation 3.** Verify that Macfadden & Associates, Inc. corrects the material instance of noncompliance detailed on pages 10 through 12 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 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").