



MEMORANDUM

DATE: September 21, 2021

TO: USAID/Management/Office of Acquisition and Assistance/Cost, Audit and Support Division, Supervisory Auditor, Eleanor C. Jefferson

FROM: Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

SUBJECT: Audit of Creative Associates International, Inc. Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Years 2015, 2016 and 2017 (3-000-21-007-D)

This memorandum transmits the final audit report on Creative Associates International, Inc.'s (CAII) claimed costs for reimbursement on unsettled flexibly priced contracts with the U.S. Agency for International Development (USAID) for fiscal years (FY) 2015 through 2017. USAID's Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with the U. S. Defense Contract Audit Agency (DCAA) to conduct the audit. The audit agency 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 CAII'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 CAII's proposed amounts for reimbursement on unsettled flexibly priced USAID contracts, contained in its FYs 2015 through 2017 final indirect rate proposals, submitted October 22, 2019, comply 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 CAII's proposed amounts materially comply with the criteria cited above. USAID's audited direct costs were \$229,056,667 in total for all fiscal years 2015 through 2017.

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 (1) disclosed proposed amounts that did not materially comply with contract terms and the Federal Acquisition Regulation (FAR) pertaining to accumulating and billing incurred amounts, and (2) encountered scope limitations on their ability to perform (a) real-time testing on proposed direct labor costs, including employee physical observations and interviews (b) sufficient audit procedures to confirm the batched control report, electronic timesheets, employee's paystubs, accounts payable report, and detail payroll registers, to review original salary data including bonuses, and (c) verification of the charge codes that relate to the jobs employees perform, due to CAII not responding to DCAA's "walk through" inquiries, and not maintaining the authorization records, which left management unable to fully support that employees were approved to work on the tasks listed on their timesheets, and created a significant internal control weakness and a potential noncompliance under DFARS 252.242-7006(c)(1), Accounting System Administration. DCAA stated that except for the noncompliance described above, and the effects of additional noncompliance, if any, that they might have identified had they completed the procedures described in the scope limitations, CAII's proposed amounts on unsettled flexibly priced direct costs for FYs 2015 to 2017 comply, in all material respects, with contract terms pertaining to accumulating and billing incurred amounts. The audit report disclosed two instances of material noncompliance, one involving Other Direct Costs, and another involving Subcontractor Fees. DCAA questioned \$34,121,524 in direct costs (\$1,718,022 ineligible, \$32,403,502 unsupported) and \$8,972,120 in indirect costs, composed of \$7,318,080 from the General and Administrative pool, and 1,654,040 from the Fringe pool, in total for all fiscal years examined, due to noncompliance with contract terms pertaining to the accumulation of incurred cost.

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 \$34,121,524 in direct questioned costs (\$1,718,022 ineligible, \$32,403,502 unsupported), summarized on page 13 of the report, and recover any amount that is unallowable.

Recommendation 2. Verify that Creative Associates International, Inc. corrects the two instances of material noncompliance detailed on page 6 of the audit report.

We ask that you provide your written notification of actions planned or taken to reach management decision.

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").