



OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: December 16, 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 Financial Markets International, Inc.'s Proposed Amounts on Unsettled Flexibly Priced Contracts for Fiscal Years 2017 and 2018 (3-000-22-004-D)

This memorandum transmits the final audit report on Financial Markets International, Inc.'s (FMI) claimed costs for reimbursement on unsettled flexibly priced contracts with the U.S. Agency for International Development (USAID) for fiscal years (FY) 2017 and 2018. 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 FMI'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 FMI's proposed amounts for reimbursement on unsettled flexibly priced USAID contracts, contained in its FY 2017 and 2018 final indirect rate proposals, submitted November 13, 2018, and May 6, 2019 respectively, 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 FMI's proposed amounts materially comply with the criteria cited above. USAID's audited direct costs were \$4,345,679 in total for fiscal years 2017 and 2018.

DCAA expressed a qualified opinion because their audit (1) disclosed proposed amounts that did not materially comply with contract terms pertaining to accumulating and billing incurred amounts, and (2) encountered scope limitations on their ability to complete certain procedures determined necessary to complete the scope of the audit. These procedures include (a) real-time labor testing, (b) lack of documentation to establish the reasonableness of subcontract

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.

cost and purchased labor, and (c) reliance on scanned supporting documents. DCAA stated that except for the effects of noncompliance, if any, that they might have identified had they completed the procedures discussed in the scope limitations, FMI's proposed amounts on unsettled flexibly priced contracts for FYs 2017 and 2018 comply, in all material respects, with contracts terms pertaining with accumulating incurred amounts. The audit report disclosed five instances of material noncompliance:

- Direct labor claimed in excess of the allowable compensation amount,
- Unallowable claimed costs related to the Chief of Party compensation,
- Unallowable fringe benefits,
- Unallowable fringe rate for the overhead and general and administrative expense pool, and
- Differences that could not be reconciled between the costs claimed in the incurred costs proposal and the contractor's books and records in the following direct cost accounts, Other Direct Cost, Travel/Lodging/Transportation and Local Labor.

DCAA questioned \$619,608 in direct questioned costs (\$89,091 ineligible, \$530,517 unsupported) and \$26,877 in indirect costs composed of \$15,564 from the Fringe pool, \$5,986 from the overhead pool, and \$5,327 from the General and Administrative pool, in total for all fiscal years examined.

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 \$619,608 in direct questioned costs (\$89,091 ineligible, \$530,517 unsupported) summarized on page 24 of the report and recover any amount that is unallowable.

Recommendation 2. Verify that Financial Markets International, Inc. corrects the 5 instances of material noncompliance detailed on pages 3 and 4 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").