

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 18-49 Financial Audit

USAID's Early Grade Reading Survey: Audit of Costs Incurred by Chemonics International Inc.

"In accordance with legal requirements, SIGAR has redacted certain information deemed proprietary or otherwise sensitive from this report."



MAY
2018

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 27, 2015, the U.S. Agency for International Development (USAID) awarded a \$12,487,469 task order to Chemonics International Inc. (Chemonics) to implement the Early Grade Reading Survey project. The project's goal was to gather data on student literacy in primary and community-based schools in Afghanistan. The task order required Chemonics to (1) establish an inventory of early grade reading materials; (2) assess second- and fourth-grade students' reading skills; (3) conduct a study of school management and safety; (4) hold workshops to discuss the results of the assessment and study; (5) assess the Afghan government's ability to implement reading reforms; and (6) assess the potential of establishing public-private partnerships. USAID modified the task order four times, which extended the period of performance from March 26, 2017, to May 15, 2017.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$11,380,760 in expenditures that Chemonics charged to the task order from July 27, 2015, through May 15, 2017. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Chemonics' internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Chemonics has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Chemonics' Special Purpose Financial Statement. See Castro's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Castro did not comply, in all material respects, with U.S. generally accepted government auditing standards.

May 2018

USAID's Early Grade Reading Survey: Audit of Costs Incurred by Chemonics International Inc.

SIGAR 18-49-FA

WHAT THE AUDIT FOUND

Castro identified one deficiency in Chemonics' internal controls and one instance of noncompliance with the terms and conditions of the task order and applicable regulations. Specifically, Castro found that Chemonics charged more than the maximum per-diem rate allowed by the government for three nights' lodging.

Because of the internal control deficiency and instance of noncompliance, Castro identified \$147 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Castro did not identify any ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Allowance	\$0	■	■
Indirect Costs	\$0	■	■
Totals	\$0	\$147	\$147

Castro did not identify any prior audits, reviews, or assessments that could have a direct and material impact on the Special Purpose Financial Statement for the Early Grade Reading Survey project.

Castro issued an unmodified opinion on Chemonics' Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period indicated.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at USAID:

- Determine the allowability of and recover, as appropriate, \$147 in questioned costs identified in the report.**
- Advise Chemonics to address the report's one internal control finding.**
- Advise Chemonics to address the report's one noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 21, 2018

The Honorable Mark Green
USAID Administrator

Mr. Herbert B. Smith
USAID Mission Director Afghanistan

We contracted with Castro & Company LLC (Castro) to audit the costs incurred by Chemonics International Inc. under a U.S. Agency for International Development (USAID) task order to implement the Early Grade Reading Survey project.¹ Castro's audit reviewed \$11,380,760 in expenditures that Chemonics charged to the task order from July 27, 2015, through May 15, 2017. Our contract with Castro required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of this audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$147 in questioned costs identified in the report.**
- 2. Advise Chemonics to address the report's one internal control finding.**
- 3. Advise Chemonics to address the report's one noncompliance finding.**

The results of Castro's audit are discussed in detail in the attached report. We reviewed Castro's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Chemonics' Special Purpose Financial Statement. We also express no opinion on the effectiveness of Chemonics' internal control or compliance with the task order, laws, and regulations. Castro is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Castro did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-111)

¹ USAID awarded task order AID-306-TO-15-00064 to Chemonics to gather data on student literacy in primary and community-based schools in Afghanistan.



**Chemonics International Inc.
Early Grade Reading (EGR) Survey Project
Task Order No. AID-306-TO-15-00064
For the Period from July 27, 2015 through May 15, 2017**

AUDIT REPORT

May 15, 2018

Chemonics International, Inc.
Financial Audit of Costs Incurred
Task Order No. 306-AID-TO-15-00064
Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

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Chemonics International, Inc.
Financial Audit of Costs Incurred
Task Order No. 306-AID-TO-15-00064
Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

ACRONYMS USED IN THIS REPORT

Acronyms

AICPA	American Institute of Certified Public Accountants
AIDAR	Agency for International Development Acquisition Regulation
CFR	Code of Federal Regulations
Chemonics	Chemonics International, Inc.
EGR	Early Grade Reading
E.O.	Executive Order
FAR	Federal Acquisition Regulation
GAGAS	Generally Accepted Government Auditing Standards
OFAC	Office of Foreign Assets Control
SIGAR	Special Inspector General for Afghanistan Reconstruction
SPFS	Special Purpose Financial Statement
USAID	United States Agency for International Development

Chemonics International, Inc.
Financial Audit of Costs Incurred
Task Order No. 306-AID-TO-15-00064
Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

Transmittal Letter

May 15, 2018

To: Board of Directors
Chemonics International, Inc.
171 H St. NW
Washington, DC 20006

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

From: Castro & Company, LLC
Alexandria, VA

Subject: Financial Audit of Costs Incurred by Chemonics International, Inc. under the United States Agency for International Development Afghanistan (USAID) Task Order No. AID-306-TO-15-00064, to support the Early Grade Reading (EGR) Survey Project from July 27, 2015 through May 15, 2017.

We hereby provide to you our final report, which reflects results from the procedures we completed during our audit of Chemonics International, Inc. (Chemonics) for the Early Grade Reading (EGR) Survey Project, Task Order No. AID-306-TO-15-00064 with the United States Agency for International Development Afghanistan (USAID) for the period from July 27, 2015 through May 15, 2017.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement, Report of Internal Control, and Report on Compliance. We do not express an opinion on the summary or any information following our reports.

On April 17, 2018, we provided to the Special Inspector General for Afghanistan Reconstruction (SIGAR) a draft report reflecting our audit procedures and results. We also sent a copy of the draft report to Chemonics on April 18, 2018.

Thank you for providing us the opportunity to work with you and to conduct the audit of the Chemonics' task order.

Sincerely,



Millie Seijo, CPA
Partner

Chemonics International, Inc.
Financial Audit of Costs Incurred
Task Order No. 306-AID-TO-15-00064
Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

Summary

Background

On July 27, 2015, the United States Agency for International Development (USAID) awarded a cost plus fixed fee Task Order to Chemonics International, Inc. (Chemonics) to support the resources, skills, and capacities in Early Grade Reading (EGR). The data collected under this task order was intended to fuel broader discussion about challenges in early grade reading and to shape the design and implementation of the Government of the Islamic Republic of Afghanistan's (GIRoA) efforts to improve early grade reading outcomes. The purposes of the task order were to:

1. Establish an inventory of all early grade reading materials available in Afghanistan
2. Provide a national assessment of second and fourth grade student's ability to read and understand letters
3. Provide a study of school management effectiveness and safety
4. Hold national policy and dissemination workshops to publish and discuss students' second and fourth grade results
5. Provide an assessment of the capacity of the relevant department of GIRoA
6. Provide an assessment of the potential for establishing public-private partnership

The Task Order No. AID-306-TO-15-00064 was awarded for a total cost of \$11,758,445 and a fixed fee of \$729,024. The total cost plus fixed fee amount was \$12,487,469 for the original period of performance from July 27, 2015 through March 26, 2017. The Task Order was modified 4 times during the period under audit which extended the period of performance from March 26, 2017 through May 15, 2017.

The audit's scope includes activities within the period from July 27, 2015 through May 15, 2017. Within the period under audit, Chemonics reported \$10,651,736 in total costs incurred and fixed fee of \$729,024, for a total costs plus fixed fee of \$11,380,760.

Work Performed

Castro & Company, LLC (Castro & Co) was engaged by the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by Chemonics, under the EGR Survey Project, Task Order No. AID-306-TO-15-00064, for the period from July 27, 2015 through May 15, 2017.

Objectives as Defined by SIGAR

The following audit objectives were defined by SIGAR within the Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan:

Chemonics International, Inc.
Financial Audit of Costs Incurred
Task Order No. 306-AID-TO-15-00064
Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether Chemonics’ Special Purpose Financial Statement for the task order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the task order and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of Chemonics’ internal control related to the task order, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether Chemonics complied, in all material respects, with the task order requirements and applicable laws and regulations and identify and report on instances of material noncompliance with terms of the task order and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether Chemonics has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

Scope

The scope of our audit covers the incurred costs by Chemonics under Task Order No. 306-AID-TO-15-00064 for the period of July 27, 2015 through May 15, 2017. We examined the Special Purpose Financial Statement and the underlying financial records to ensure that the amounts reported in the Statement were adequately supported. In addition, the following areas were considered to have a direct and material effect on the audit objectives under review:

- Budget Management
- Cash Management
- Disbursements (payroll and non-payroll transactions)
- Financial Reporting
- Procurement and Inventory Management

The records were made available for our review at Chemonics’ office in Washington, D.C. Castro & Co did not become aware of any scope limitations as of the date of this report related to our audit of Task Order No. 306-AID-TO-15-00064.

Chemonics International, Inc.
Financial Audit of Costs Incurred
Task Order No. 306-AID-TO-15-00064
Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

Methodology

To meet the audit objectives, Castro & Co identified the applicable criteria against which to test the Special Purpose Financial Statement and supporting financial records and documentation through a review of the task order. In addition, Castro & Co interviewed Chemonics' management and staff and reviewed prior year reports, policies and procedures, and organizational charts to gain an understanding of the normal procedures and system of internal controls established by Chemonics to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Castro & Co performed this audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards 2011 revision (or "Yellow Book"). In addition, the following areas were determined as directly and materially related to the Special Purpose Financial Statement and other audit objectives, and therefore, were included within the audit program for detailed evaluation:

- Administrative oversight, controls and fraud risk assessment - audit steps included, but were not limited to: obtaining and reviewing background documents (contract and modifications, any subawards or vendor contracts, chart of accounts, policies and procedures, prior audit reports, budgets, etc.) from Chemonics to obtain an understanding of its environment to properly plan the audit, preparing sampling methodology, conducting an entrance conference, interviews, walkthroughs and reviewing documentation for process cycles, preparing a risk assessment for each assertion as it pertains to the Special Purpose Financial Statement, and selecting a sample of transactions to test.
- Budgetary compliance - audit steps included, but were not limited to: interviews with Chemonics' personnel and review of policies and procedures to determine the existence and effectiveness of internal controls; and comparing budget versus actual to identify unexplained overruns or shortfalls.
- Disbursements, including payroll and travel costs - audit steps included, but were not limited to: interviews of Chemonics' personnel and review of policies and procedures to determine the existence and effectiveness of internal controls and review of supporting documentation for sample selections to assess proper charges to the project and adequacy of supporting documentation. For payroll expenses, we reviewed personnel files for salary and fringe benefits information, timesheets for proper approval and accuracy of the hours charged, and payroll disbursements in relation to the sample selection. For travel expenses, the sample was tested for proper charges to the project, compliance with federal travel regulations and USAID regulations, the accuracy of expenses charged to the task order, and adequacy of supporting documentation (expense report and receipts).
- Financial reporting - audit steps included, but were not limited to: the review of monthly progress reports, quarterly reports, and annual summary reports for timeliness, approvals, and accuracy.

Chemonics International, Inc.
Financial Audit of Costs Incurred
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Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

- Procurement and inventory management – audit steps included, but were not limited to: interviews of Chemonics’ personnel and review of policies and procedures to determine the existence and effectiveness of internal controls. For non-travel, non-payroll transactions audit steps included, but were not limited to, the review of the expense for proper charges to the project and adequacy of supporting documentation. We reviewed sample items for compliance with vetting requirements and with tax withholding requirements. From a procurement standpoint, this included a review of sample selection to ensure competitive bidding techniques were used by Chemonics. For inventory management, we cross-referenced the USAID-approved disposition plan to the acknowledgements signed by the receiving parties for the inventory items, if applicable.
- Billing - audit steps included but were not limited to: interviews of Chemonics’ personnel and review of policies and procedures in relation to billing in order to determine existence and effectiveness of internal controls and reviewing a sample of invoices to determine compliance with USAID’s AIDAR 752.7003 as part of compliance testing.
- Compliance - Through a review of policies and procedures, interviews, walkthroughs and substantive testing for previously mentioned areas of testing and direct request of deliverables, we determined compliance with the deliverables, contract clauses and laws and regulations. Castro & Co reviewed the overhead charges under the indirect costs and fixed fee categories totaling \$1,703,426 and \$729,024, respectively. Castro & Co also reviewed the methodology and obtained a sufficient understanding of Chemonics’ proposed method of allocation. Testing of indirect costs was limited to a) determining whether Chemonics calculated indirect costs using the provisional rates approved by the Agreement Officer during the award negotiation process; and b) determining whether Chemonics calculated and recorded adjustments between estimated indirect costs and final, actual indirect costs incurred as of the end of each fiscal year.

Castro & Co used sampling techniques to select expenditures and payroll samples to test for the allowability of incurred costs. Castro & Co reviewed procurement records to determine reasonableness of the costs incurred and compliance with laws and regulations and the terms of the task order, especially the vetting process. For the samples selected, we requested and received supporting documentation for compliance evaluation of incurred costs. We also reviewed submitted financial status reports for accuracy and compliance with reporting requirements.

Summary of Audit Results

Upon completion of Castro & Co’s procedures, an unmodified opinion was issued on Chemonics’ Special Purpose Financial Statement. As a result of our test, Castro & Co did not identify any internal control findings that were classified as significant deficiencies or material weaknesses, see Independent Auditor’s Report on Internal Control on page 13. Our audit identified one deficiency in internal control, which is described in Finding 2018-01 (see page 17). Castro & Co also reported on both Chemonics’ compliance with the terms and condition of the task order and applicable laws

Chemonics International, Inc.
Financial Audit of Costs Incurred
Task Order No. 306-AID-TO-15-00064
Early Grade Reading (EGR) Survey Project
For the Period from July 27, 2015 through May 15, 2017

and regulations, see Independent Auditor’s Report on Compliance on page 15. We identified one instance of noncompliance (see Finding 2018-01). Where internal control and noncompliance findings related to the same matter, they were consolidated within a single finding.

In performing our testing, we considered whether the information obtained and tested during our audit may indicate the possibility of material fraud or abuse. During our testing, we did not identify instances of material fraud or abuse.

This summary is intended to present an overview of the results of the procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Direct Questioned Costs	Indirect Questioned Costs	Total Questioned Costs
2018-01	Allowances Overbilling (Deficiency and Non-Compliance)			\$147
Total Questioned Costs				\$147

Status of Prior Audit Reports

Castro & Co inquired of Chemonics, SIGAR, and USAID representatives to determine if there were prior year audits, reviews, or assessments relevant to the Special Purpose Financial Statement and the EGR Survey Project under Task Order No. AID-306-TO-15-0064. Based on our inquiries and search of publicly available information, we concluded that there were no prior audits, reviews, or assessments that may have a direct and material impact related to the Special Purpose Financial Statement or other information significant to the audit objectives defined by SIGAR.

Summary of Management Comments

Chemonics submitted a letter to Castro & Co on May 2, 2018 agreeing to the audit conclusions reached by Castro & Co. Chemonics complete response can be found in Appendix A to this report.

**Independent Auditor's Report
On the Special Purpose Financial Statement**

Board of Directors
Chemonics International, Inc.
171 H St. NW
Washington, DC 20006

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement (the Statement) of Chemonics International, Inc. (Chemonics) under the Early Grade Reading (EGR) Survey Project, Task Order No. AID-306-TO-15-00064 for the period from July 27, 2015 through May 15, 2017, and the related notes to the Statement.

Management's Responsibility for the Statement

Chemonics' management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our unmodified opinion.

The accompanying Statement was prepared to present the revenues earned and cost incurred by Chemonics pursuant to Task Order No. AID-306-TO-15-00064 described in Note 2, and is not intended to be a complete presentation of Chemonics' assets, liabilities, revenues, and expenses.

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, project revenues, costs incurred and reimbursed, items directly procured by USAID, and the balance for the indicated period, in accordance with the requirements established by SIGAR and in conformity with the basis of accounting described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated April 17, 2018, of Chemonics' internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters as it relates to the Statement. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chemonics' internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Chemonics International, the United States Agency for Insertional Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Castro & Company, LLC

April 17, 2018

Alexandria, VA

Special Purpose Financial Statement
Chemonics International, Inc.
Task Order Number AID-306-TO-15-00064
For the period from July 27, 2015 through May 15, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
<u>Revenues</u>					
Reimbursement	\$11,758,445	\$10,651,736			4
Award Fee	<u>729,024</u>	<u>729,024</u>			
Total Revenue	<u>\$12,487,469</u>	<u>\$11,380,760</u>			
<u>Costs Incurred</u>					
Salaries	\$ 1,667,372	\$ 1,585,412	\$ -	\$ -	5
Fringe Benefits	621,784	560,654	-	-	5
Allowances	483,667	414,310	-	■	5
Travel	156,180	124,773	-	-	5
Equipment	137,570	122,539	-	-	5
Trainings	919,965	755,605	-	-	5
Subcontractors	4,299,748	3,893,176	-	-	5
Other Direct Costs	<u>1,647,672</u>	<u>1,491,841</u>	-	-	5
Total Direct Costs	<u>\$ 9,933,958</u>	<u>\$ 8,948,310</u>	-	■	
Indirect Questioned Costs			-	■	
Total Questioned Costs			\$ -	\$ 147	A ¹
<u>Indirect Costs</u>					
Overhead	<u>1,824,487</u>	<u>1,703,426</u>			6
Total Costs Incurred	<u>\$11,758,445</u>	<u>\$10,651,736</u>			
Total Fixed Fees Charged	729,024	729,024			5
Total Costs Plus Fixed Fee	<u>\$12,487,469</u>	<u>\$11,380,760</u>			
Outstanding Fund Balance	<u>\$ -</u>	<u>\$ -</u>			7

The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

¹ See Note A in the Notes to the Questioned Costs Presented on the Special Purpose Financial Statement.

Chemonics International, Inc.
Notes to the Special Purpose Financial Statement
For the period from July 27, 2015 to May 15, 2017²

1. The Company

Chemonics International, Inc. is an employee-owned development consulting firm founded in 1975 by Thurston Ferdinand Teele. The company provides project management solutions in diverse areas such as Education, Health, Agriculture, Natural Resources & Environment and Economic Trade among others in developing countries around the world.

On July 27, 2015, the U.S. Agency for International Development (USAID) awarded Chemonics Task Order No. AID-306-TO-15-00064 to conduct a survey of early grade reading in Afghanistan. Through this survey, Chemonics was responsible for conducting a series of assessments and activities designed to provide reliable, accurate data to USAID and the Afghan Ministry of Education (MoE) regarding early grade literacy.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under the aforementioned task order for the period from July 27, 2015 through May 15, 2017. The information in this Statement is presented in accordance with requirements specified by USAID and is specific to the aforementioned task order. Therefore, some amounts presented in this Statement may differ from amounts presented in or used in the presentation of Chemonics' basic financial statements.

Basis of Accounting

The Statement reflects the revenues earned and expenses incurred by Chemonics under the aforementioned task order. The Statement has been prepared following an accrual basis of accounting whereby revenue is recognized when earned and expenses are recognized when incurred. Expenditures are recognized following the cost principles contained in FAR 31.205 which are the cost principles for contracts commercial (for-profit) organizations. Chemonics maintains a project cost accounting system for the recording and accumulation of costs incurred under its cost-reimbursable task order line items.

Accounting System Dates

The Statement reflects all billable costs incurred under the task order, for the Afghanistan during the period of the audit. Only transactions and/or adjustments incurred in accounting periods during the audit period have been included in the Statement (Indirect rate adjustments from provisional to actual rates for a fiscal year are posted in the same fiscal year before closing the books).

² Notes to the Special Purpose Financial Statement were developed by and are the responsibility of Chemonics' management.

Currency

The Statement is presented in US dollars. Expenditures incurred in currencies other than U.S. dollars have been translated into U.S. dollars. Chemonics uses market data to establish a Standard Exchange Rate (SER) to translate local currency unto U.S. dollars. Chemonics developed the SER in March 2002 to uniformly account for exchange rate gains or losses.

3. Estimated Cost

The Task Order was awarded for \$11,758,445 plus fixed fee of \$729,024 for a total estimated cost plus fixed fee of \$12,487,469. The Task Order's original period of performance was 20 months. On March 1, 2017 a no cost extension was signed and extended the original period of performance two additional months up to May 15, 2017.

4. Revenues

Revenues represent the amount of the funds to which Chemonics is entitled to receive for allowable, reimbursable costs incurred. Since the EGR Survey Program is a cost-reimbursement task order, revenues are recognized as expenses allocable and allowable under the task order and are recorded on a monthly basis.

5. Cost Categories

The following are the cost categories shown on the Statement by billing category as reported in client billings and accumulated in Chemonics' general ledger.

- Salaries and Fringe Benefits - These expenses are related to direct labor for personnel working at the Home and Field Offices.
- Allowances – These expenses are additional compensation to Long-Term US Expatriates and Third County National Employees. These include Danger Pay, Post Differentials, Per Diem, Educational, and others.
- Travel - All expenses related to travel including, airfare, lodging, per diem, and transportation.
- Equipment – These expenses are related mostly for computer equipment acquisitions.
- Trainings – These expenses are related to training workshops.
- Subcontractors – These expenses are related to consultants that provide professional services in Afghanistan.
- Other Direct Costs – All expenses related to lease costs, bank fees, communications, and other miscellaneous categories.
- Indirect Cost – Indirect cost are costs that are associated with the administration, general operations, and management of the project.
- Fixed Fee – The fixed fee was established in the Task Order between Chemonics and USAID.

6. Indirect Cost Rate

The allowable indirect costs shall be reimbursed based on the negotiated provisional or predetermined rates and the appropriate bases.

The base of application for the indirect cost rate are as follows:

- a) Home office and expatriate field direct labor dollars and G&A labor dollars, excluding non-W-2 labor dollars.
- b) Host country professional field direct labor dollars.
- c) Home office direct labor dollars, G&A labor dollars, and applicable fringe benefits.
- d) Home office direct labor dollars, field direct labor dollars, G&A labor dollars, and applicable fringe benefits, excluding local support labor dollars.
- e) Total costs excluding USAID furnished local currency and G&A expenses.

7. Outstanding Fund Balance

The fund balance presented on the Statement represents the difference between revenues recognized and costs incurred during the implementation of the task order. During the period ended May 15, 2017 the outstanding fund balance amounted to \$0.

8. Subsequent Event

Chemonics evaluated subsequent events through April 17, 2018, date through which the Statement was available to be issued. Chemonics concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

**Notes to the Questioned Costs Presented on the Special Purpose Financial Statement
For the period from July 27, 2015 through May 15, 2017**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable; prohibited by the Task Order or applicable laws and regulations; or not Task Order related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

(A) – Allowances Overbilling:

Finding 2018-01: The Department of State Standardized Regulation and Chemonics' Allowance manual sets a maximum per diem rate of [REDACTED] for lodging in other parts of Afghanistan that are not Kabul or Herat. The hotel related to this travel disbursement was located in Bayiman, Afghanistan and therefore the lodging per night should not exceed \$51. Chemonics charged [REDACTED] for lodging for three nights resulting in an overbilling of [REDACTED] to USAID for allowance charges. This is considered a deficiency in internal control resulting in unsupported questioned costs of \$147 of which [REDACTED] is related to direct costs and [REDACTED] in applied indirect costs.

Independent Auditor's Report on Internal Control

Board of Directors
Chemonics International, Inc.
171 H St. NW
Washington, DC 20006

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement (the Statement) of Chemonics International, Inc. (Chemonics) under the Early Grade Reading (EGR) Survey Project, Task Order No. AID-306-TO-15-00064 for the period from July 27, 2015 through May 15, 2017, and the related notes to the Statement in accordance with generally accepted government auditing standards and have issued our report thereon dated April 17, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Chemonics' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Chemonics' internal control. Accordingly, we do not express an opinion on the effectiveness of Chemonics' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. Our audit identified one deficiency in internal controls. It is described in Finding 2018- 01 (see page 17).

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of Chemonics' internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chemonics' internal control over the Statement. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Chemonics International, the United States Agency for Insertional Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

A handwritten signature in black ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Castro & Company, LLC

April 17, 2018

Alexandria, VA

Independent Auditor's Report on Compliance

Board of Directors
Chemonics International, Inc.
171 H St. NW
Washington, DC 20006

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement (the Statement) of Chemonics International, Inc. (Chemonics) under the Early Grade Reading (EGR) Survey Project, Task Order No. AID-306-TO-15-00064 for the period from July 27, 2015 through May 15, 2017, and the related notes to the Statement in accordance with generally accepted government auditing standards and have issued our report thereon dated April 17, 2018.

Compliance

As part of obtaining reasonable assurance about whether Chemonics' Statement is free of material misstatement, including non-compliance due to fraud or errors, we performed tests of Chemonics' compliance with certain provisions of contract terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 01.

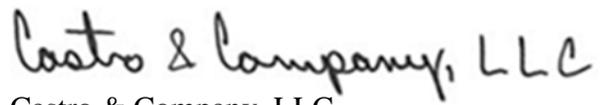
Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on Chemonics' compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chemonics' compliance over the Statement. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Chemonics International, the United States Agency for Insertional Development, and the Office of the Special Inspector General for Afghanistan

Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

A handwritten signature in black ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Castro & Company, LLC

April 17, 2018

Alexandria, VA

Schedule I - Schedule of Findings and Questioned Costs

Finding Number 2018-01: Allowances Overbilling (Deficiency and Non-Compliance)

Condition: We selected a total of 38 travel disbursements totaling \$62,878 from a total population of \$124,773 (50%) for the period July 27, 2015 through May 15, 2017. During our review, we identified one instance related to a per diem charge in December 2016 for lodging which exceeded the [REDACTED] dollars maximum allowed in Chemonics' Allowance Policy Manual³. As a result, we determined that Chemonics authorized an unallowable and unallocable per-diem charge to the task order. Based on the auditor's calculation, three nights lodging for the traveled area was \$51 per night, totaling \$153. Chemonics charged [REDACTED] per night resulting in a total of \$291, which resulted in a total overbilling of [REDACTED] to USAID for travel charges. In addition, [REDACTED], which resulted in a total unsupported questioned cost of \$147.

Criteria:

FAR Part 31- Contract Cost Principles and Procedures, Subpart 31.2-Contracts with Commercial Organizations, Subsection 31.201-6 (a) Accounting for unallowable costs, requires that costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract.

FAR Part 31- Contract Cost Principles and Procedures, Subpart 31.205-Selected Costs, Subsection 31.205-46 Travel Costs (a) Costs for transportation, lodging, meals, and incidental expenses.

(1) Costs incurred by contractor personnel on official company business are allowable, subject to the limitations contained in this subsection. Costs for transportation may be based on mileage rates, actual costs incurred, or on a combination thereof, provided the method used results in a reasonable charge. Costs for lodging, meals, and incidental expenses may be based on per diem, actual expenses, or a combination thereof, provided the method used results in a reasonable charge.

(2) Except as provided in paragraph (a)(3) of this subsection, costs incurred for lodging, meals, and incidental expenses (as defined in the regulations cited in (a)(2)(i) through (iii) of this paragraph) shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel as set forth in the—

(iii) Standardized Regulations (Government Civilians, Foreign Areas), Section 925, "Maximum travel Per Diem Allowances for Foreign Areas," prescribed by the Department of State, for travel in areas not covered in (a)(2)(i) and (ii) of this paragraph.

(3) In special or unusual situations, actual costs in excess of the above-referenced maximum per diem rates are allowable provided that such amounts do not exceed the higher amounts authorized

³ We inspected the Department of State website and noted that the maximum lodging rate allowable for international travel costs in Afghanistan was \$51, which is the same rate stated in Chemonics' Allowance Policy Manual.

for Federal civilian employees as permitted in the regulations referenced in (a)(2)(i), (ii), or (iii) of this subsection. For such higher amounts to be allowable, all of the following conditions must be met:

(i) One of the conditions warranting approval of the actual expense method, as set forth in the regulations referenced in paragraphs (a)(2)(i), (ii), or (iii) of this subsection, must exist.

(ii) A written justification for use of the higher amounts must be approved by an officer of the contractor's organization or designee to ensure that the authority is properly administered and controlled to prevent abuse.

(iii) If it becomes necessary to exercise the authority to use the higher actual expense method repetitively or on a continuing basis in a particular area, the contractor must obtain advance approval from the contracting officer.

(iv) Documentation to support actual costs incurred shall be in accordance with the contractor's established practices, subject to paragraph (a)(7) of this subsection, and provided that a receipt is required for each expenditure of \$75.00 or more. The approved justification required by paragraph (a)(3)(ii) and, if applicable, paragraph (a)(3)(iii) of this subsection must be retained.

(4) Paragraphs (a)(2) and (a)(3) of this subsection do not incorporate the regulations cited in subdivisions (a)(2)(i), (ii), and (iii) of this subsection in their entirety. Only the maximum per diem rates, the definitions of lodging, meals, and incidental expenses, and the regulatory coverage dealing with special or unusual situations are incorporated herein.

Chemonics' Allowance Policy Manual, Per Diem Section g, Afghanistan Region-Allowances Summary for Long-Term U.S. Expatriate and Third-Country National Employees, February 2016 states that the maximum per diem rate for lodging in places other than Kabul is \$51 USD.

Questioned Costs: We questioned [REDACTED] which resulted in a total questioned cost of \$147.

Cause: Chemonics did not comply with its policy and authorized unallowable per-diem charge more than the maximum allowable rate.

Effect: The government was charged for unallowable and improperly allocated costs.

Recommendations: We recommend that Chemonics:

1. Reimburse USAID for the unsupported questioned cost of \$147. [REDACTED]

Schedule II - Summary Schedule of Prior Audit, Review and Assessment Findings

Castro & Co inquired of Chemonics, SIGAR, and USAID representatives to determine if there were prior year audits, reviews, or assessments relevant to the Special Purpose Financial Statement and the EGR Survey Project under Task Order No. AID-306-TO-15-0064. Based on our inquiries and search of publicly available information, we concluded that there were no prior audits, reviews, or assessments that may have a direct and material impact related to the Special Purpose Financial Statement or other information significant to the audit objectives defined by SIGAR.

Appendix A – Management Response to Audit Findings



May 2, 2018

Thomas Castro, CPA
Castro & Company, LLC
1737 King Street, Suite 250
Alexandria VA

Subject: Audit of Chemonics International Inc. Early Grade Reading (EGR) Survey Project, Task Order No. AID-306-TP-00064 for the Period from July 27, 2015 through May 15, 2017

Reference: Management Response to the Finding

Dear Mr. Castro,

In response to your email dated May 2, 2018, Chemonics International is pleased to submit a response addressing recommendation on page 18 of the draft audit report, whereby Castro & Company recommends that Chemonics "provide justification to support [REDACTED] questioned costs or reimburse USAID for the unsupported questioned cost of \$147, which includes \$138 in travel costs and [REDACTED] costs."

After careful review of our records, we are in agreement with Castro & Company's assessment that Chemonics owes USAID the amount of \$147 related to per diem overage incurred during the life of project. We confirm that the credit to USAID has been initiated and will be complete by July 1, 2018.

We are submitting for your review Chemonics' response to the auditor's findings.

Please do not hesitate to contact me with any additional questions.

Sincerely,

Catherine Kannam
Senior Vice President
Afghanistan Regional Business Unit

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
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