

# SIGAR

**Special Inspector General  
for Afghanistan  
Reconstruction**

SIGAR 20-34 Financial Audit

## USAID's Regional Agricultural Development Program–South in Afghanistan: 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.**



APRIL  
2020

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On October 7, 2013, the U.S. Agency for International Development (USAID) awarded a 5-year, \$125,075,172 cost-plus-fixed-fee contract to Chemonics International Inc. (Chemonics). The contract required Chemonics to implement the Regional Agricultural Development Program–South in Afghanistan. The program’s objective was to improve food and economic security for rural Afghans by strengthening access to food, blocking support to insurgent elements through a reduction in poppy production, and increasing profits from agribusiness in southern Afghanistan. After 14 modifications, the contract’s total funding decreased to \$108,514,339, and end date of the period of performance changed from October 6, 2018, to November 20, 2017.

SIGAR’s financial audit, performed by Crowe LLP (Crowe), reviewed \$53,510,706 in costs charged to the contract from January 1, 2016, through November 20, 2017. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Chemonics’s internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract, 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’s Special Purpose Financial Statement (SPFS). See Crowe’s report for the precise audit objectives.

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

April 2020

USAID’s Regional Agricultural Development Program–South in Afghanistan:  
Audit of Costs Incurred by Chemonics International Inc.

SIGAR 20-34-FA

### WHAT SIGAR FOUND

Crowe identified three material weaknesses in Chemonics’s internal controls and two instances of noncompliance with the terms of the contract and government regulations. Specifically, Crowe found Chemonics (1) did not submit a required property management report that conformed with USAID requirements, (2) had incomplete property records and inadequate property management procedures, and (3) did not detect misstatements within the notes to the SPFS related to the basis of accounting used to recognize revenue and expenditures.

Because of these internal control deficiencies and instances of noncompliance, Crowe identified \$3,042 in total questioned costs that consisted entirely of unsupported costs—costs not supported with adequate documentation or that do not have required prior approval. The auditors did not find any ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Inventory	\$0	\$3,042	\$3,042
<b>Total Costs</b>	<b>\$0</b>	<b>\$3,042</b>	<b>\$3,042</b>

Crowe identified four prior audit reports that were relevant to Chemonics’s activities under the contract. The reports had three findings that could have a material effect on the SPFS. Crowe conducted follow-up procedures and concluded that Chemonics had not taken adequate corrective action on two of the findings related to property records and reporting.

Crowe issued an unmodified opinion on Chemonics’s SPFS, noting that it presents fairly, in all material respects, revenues earned and costs incurred for the period audited.

### WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$3,042 in questioned costs identified in the report.
2. Advise Chemonics to address the report’s three internal control findings.
3. Advise Chemonics to address the report’s two noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

April 9, 2020

The Honorable Mark Green  
Administrator, U.S. Agency for International Development

Mr. Peter Natiello  
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by Chemonics International Inc. under a U.S. Agency for International Development (USAID) cost-plus-fixed-fee contract to implement the Regional Agricultural Development Program–South in Afghanistan.<sup>1</sup> The program’s objective was to improve food and economic security for rural Afghans by strengthening access to food, blocking support to insurgent elements through a reduction in poppy production, and increasing profits from agribusiness in southern Afghanistan. Crowe reviewed \$53,510,706 in costs charged to the contract from January 1, 2016, through November 20, 2017. Our contract with Crowe 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 the audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$3,042 in questioned costs identified in the report.**
- 2. Advise Chemonics to address the report’s three internal control findings.**
- 3. Advise Chemonics to address the report’s two noncompliance findings.**

The results of Crowe’s audit are discussed in detail in the attached report. We reviewed Crowe’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’s Special Purpose Financial Statement. We also express no opinion on the effectiveness of Chemonics’s internal controls or compliance with the contract, laws, and regulations. Crowe is responsible for the attached audit report and the conclusions expressed in it. However, our review disclosed no instances in which Crowe 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-160)

<sup>1</sup> The contract number is AID-306-C-13-00018.



**Chemonics International, Inc.**

**Special Purpose Financial Statement**

**Regional Agriculture Development Program in Southern Afghanistan ("RADP-S")**

**For the Period January 1, 2016 through November 20, 2017**

**(With Independent Auditor's Report Thereon)**

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## Transmittal Letter

March 23, 2020

To the Board of Directors and Senior Management of Chemonics International, Inc.  
1717 H Street NW, Suite 1  
Washington, DC 20006-3900

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)  
2530 Crystal Drive  
Arlington, Virginia 22202

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of Chemonics International, Inc.'s ("Chemonics") Contract No. AID-306-C-13-00018 for the period January 1, 2016, through November 20, 2017.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of Chemonics, SIGAR, and the United States Agency for International Development provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's response to the report is incorporated into this document as Appendix A to the final report.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner  
Crowe LLP

## Summary

### Background

On October 7, 2013, the U.S. Agency for International Development (“USAID”) issued Chemonics International, Inc. (“Chemonics”) Contract No. AID-306-C-13-00018 to implement USAID’S Regional Agricultural Development Program (RADP-S) in Southern Afghanistan. RADP-S’s purpose was to improve food and economic security for rural Afghans. Specifically, the program was intended to increase and promote food security by strengthening availability and access to food in rural areas, to increase economic security through strengthened rural agricultural practices to promote long-term reduction of poppy production for insurgents, and to improve agricultural enabling environment to increase profitability of agribusiness.

The initial contract was issued as a cost-plus-fixed-fee completion-type award contract. The contract included a total ceiling of \$125,075,172, covering a period of performance beginning October 7, 2013, and continuing through October 6, 2018. The contract was subsequently modified 14 times, ultimately decreasing the total estimated cost to \$108,514,339 and changing the period of performance end date from October 6, 2018 to November 20, 2017.

Crowe’s audit scope included the period from January 1, 2016 through November 20, 2017 and is considered a close-out audit of cost incurred. During the audit period, Chemonics reported a total of \$53,510,706 in costs incurred.

Modification	Purpose
1	<ul style="list-style-type: none"> <li>Revise requirements and submission dates for deliverables</li> <li>Incorporate administrative changes to the contract</li> </ul>
2	<ul style="list-style-type: none"> <li>Incremental funding increase of \$8,000,000 to \$23,000,000</li> </ul>
3	<ul style="list-style-type: none"> <li>Incremental funding increase of \$27,863,146 to \$50,863,146</li> <li>Incorporate the administrative changes</li> </ul>
4	<ul style="list-style-type: none"> <li>Budget realignment</li> <li>Fee schedule finalization</li> <li>Incorporate the administrative changes</li> </ul>
5	<ul style="list-style-type: none"> <li>Incremental funding increase of \$43,317,318 to \$94,180,464</li> </ul>
6	<ul style="list-style-type: none"> <li>Revise the fee distribution plan</li> <li>Incorporate the administrative changes</li> </ul>
7	<ul style="list-style-type: none"> <li>Key personnel changes</li> </ul>
8	<ul style="list-style-type: none"> <li>Correct errors</li> <li>Incorporate additional requirements to the contract</li> <li>Update the fee distribution plan</li> </ul>
9	<ul style="list-style-type: none"> <li>Incremental funding increase of \$17,233,874 to \$111,414,339</li> </ul>
10	<ul style="list-style-type: none"> <li>Key personnel changes</li> </ul>
11	<ul style="list-style-type: none"> <li>Key personnel changes</li> </ul>
12	<ul style="list-style-type: none"> <li>Realigned the budget by transferring budgeted costs between line items</li> <li>Incorporate the administrative changes</li> </ul>
13	<ul style="list-style-type: none"> <li>Award termination</li> <li>Reduction in estimated cost from \$125,075,172 to \$111,414,339</li> <li>Reduction in the period of performance end date by 11 months from October 6, 2018 to November 20, 2017</li> </ul>
14	<ul style="list-style-type: none"> <li>De-sub-obligate \$2,900,000 in funding making final award amount \$108,514,339</li> </ul>

(Continued)

## Work Performed

Crowe LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Chemonics’ Contract No. AID-306-C-13-00018.

## Objectives Defined by SIGAR

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

### **Audit Objective 1 – Special Purpose Financial Statement**

Express an opinion on whether the Special Purpose Financial Statement for the contract 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 award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

### **Audit Objective 2 – Internal Controls**

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

### **Audit Objective 3 – Compliance**

Perform tests to determine whether Chemonics complied, in all material respects, with the contract applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract 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 the audit included the period January 1, 2016 through November 20, 2017. Due to the contract’s period of performance having concluded during the audit period, Crowe’s scope also included conduct of those procedures applicable to closeout of the award. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement (“SPFS”) and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by the SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Activities;
- Allowable Costs;
- Cash Management;
- Equipment and Real Property Management;
- Grants Under Contract;
- Procurement; and
- Reporting.

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(Continued)

## Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting and determined if adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and are in alignment with specified cutoff dates; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe conducted interviews and reviewed auditee provided copies of policies and procedures to assist Crowe with an understanding of the system of internal control established by Chemonics. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract executed by and between Chemonics and USAID – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, reimbursement requests submitted by Chemonics to the Government, grants under contract, procurements, reports, and government property items for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess Chemonics' compliance. Testing of indirect costs was limited to: 1) determining whether indirect costs were charged to the U.S. Government in accordance with the rate limitations established within the contract; 2) testing whether indirect costs charged to the contract were calculated in accordance with the provisions of the Negotiated Indirect Cost Rate Agreement ("NICRA"); and 3) determining whether Chemonics adjusted any charges based on the provisional indirect cost rates incorporated within the NICRA following revision or finalization of the provisional rates.

In addition, due to the audit period identified by SIGAR containing the end of the period of performance, Crowe conducted closeout procedures, including but not limited to, testing disposition of government property, submission of the demobilization and final reports, and assessing the completeness of the final physical inventory.

Regarding Audit Objective 4, Crowe inquired of SIGAR, Chemonics, and USAID regarding prior audits, reviewed to obtain an understanding of the nature of audit reports and other assessments that were completed, and that required corrective action. In addition, Crowe conducted an independent search for reports that might contain findings or recommendations for follow-up. Four (4) such reports were provided or otherwise obtained.

The four (4) audit reports contained findings related to procurement, equipment and inventory, and allowable costs. Crowe performed procedures to determine if adequate corrective action was performed. The results of our procedures are noted in **Section II**.

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(Continued)

## Summary of Results

Upon completion of Crowe's procedures, Crowe issued an unmodified opinion on the Special Purpose Financial Statement.

Crowe also reported on both Chemonics's internal controls over financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract. Three total findings were reported, inclusive of three material weaknesses in internal control and two instances of material noncompliance. Where internal control and noncompliance matters were related to the same matter, Crowe reported the internal control and noncompliance matters within the same finding.

Finally, Crowe conducted procedures to determine whether adequate corrective action was taken in response to the three identified prior audit findings and recommendations applicable to this audit. Therefore, Crowe concluded that Chemonics took adequate corrective action on all identified matters that could have a direct and material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. The specific results of the follow-up procedures and the status of the findings are noted within **Section II: Summary Schedule of Prior Audit, Review and Assessment Findings**.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

### Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs (USD)
2017-01	Unattested and Improperly Formatted Annual Report of Government Property	Material Weakness and Noncompliance	\$ 0
2017-02	Incomplete Property Records and Inadequate Property Management Procedures	Material Weakness and Noncompliance	\$ 3,042
2017-03	Undetected Misstatements within the Special Purpose Financial Statement (SPFS) and Accompanying Notes	Material Weakness	\$ 0
<b>Total Questioned Costs:</b>			<b>\$ 3,042</b>

## Summary of Management Comments

Chemonics agreed with findings 2017-02 and 2017-03, and partially agreed with finding 2017-01. Regarding finding 2017-01, Chemonics concurred that the required certification statement was not included in the inventory report. However, Chemonics noted the Government did not request a revised format and Chemonics contends that its inventory contains the information required in the table presented within AIDAR 752.245-70.

## References to Appendices

The auditor's reports are supplemented by four appendices: **Appendix A** containing the Views of Responsible Officials; **Appendix B** containing the auditor's rebuttal; **Appendix C** containing an excerpt from the final inventory for the contract; and **Appendix D** containing the format of the Annual Report of Government Property in Contractor's Custody as appearing in AIDAR 752.245-70, which supplements Finding 2017-01.

## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Board of Directors and Senior Management of Chemonics International, Inc.  
1717 H Street NW, Suite 1  
Washington, DC 20006-3900

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

**Report on the Special Purpose Financial Statement**

We have audited the Special Purpose Financial Statement ("the Statement") of Chemonics International, Inc. ("Chemonics"), and related notes to the Statement, for the period January 1, 2016 through November 20, 2017, with respect to Contract No. AID-306-C-13-00018.

***Management's Responsibility for the Special Purpose Financial Statement***

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") in Contract No. AID-306-C-13-00018 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 basis for our audit opinion.

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(Continued)

## ***Opinion***

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction and on the basis of accounting described in Notes 1, 2, 4, and 6.

## ***Basis of Presentation and Accounting***

We draw attention to Notes 1, 2, 4, and 6 to the Statement, which describe the basis of presentation and accounting. The Statement was prepared by Chemonics in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Contract No. AID-306-C-13-00018, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract referred to above. Our opinion is not modified with respect to this matter.

## ***Restriction on Use***

This report is intended for the information of Chemonics, the United States Agency for International 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.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued reports dated March 20, 2020, on our consideration of Chemonics' internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. 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 over financial reporting 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.

  
Crowe LLP

March 20, 2020  
Washington, D.C.

**Chemonics International, Inc. – Regional Agricultural Development Program – South**  
**Special Purpose Financial Statement**  
**Contract No. AID-306-C-13-00018**  
**For the Period January 1, 2016 through November 20, 2017**

			<u>Questioned Costs</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<b><u>Revenues</u></b>					
Contract No. AID-306-C-13-00018	\$ 108,514,339	\$ 52,719,250			4
<b>Total Revenue</b>	<u>\$ 108,514,339</u>	<u>52,719,250</u>			
<b><u>Costs Incurred</u></b>					
CLIN 1	30,420,359	13,842,819			5
CLIN 2	41,016,287	21,875,987			
CLIN 3	30,000,163	13,651,269			
CLIN 4	15,384,479	2,565,165			
<b>Total Costs Incurred</b>	<u>116,821,288</u>	<u>51,935,240</u>		\$ 3,042	A
<b>Fixed Fee</b>	<u>██████████</u>	<u>██████████</u>			10
<b>Balance</b>	<u>\$ (15,055,622)</u>	<u>\$ (791,455)</u>			6

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

**Chemonics International, Inc. – Regional Agricultural Development Program – South  
Special Purpose Financial Statement  
Contract No. AID-306-C-13-00018  
For the Period January 1, 2016 through November 20, 2017**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract No. AID-306-C-13-00018 for the Regional Agricultural Development Program – South (RADP-S) for the period January 1, 2016 through November 20, 2017. Because the Statement presents only a selected portion of the operations of Chemonics International, Inc. ("Chemonics"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of Chemonics International, Inc. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Contract No. AID-306-C-13-00018. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE 2 – BASIS OF ACCOUNTING**

Field office expenditures are recognized on the cash basis of accounting and home office expenditures are recognized on the accrual basis of accounting. This is another comprehensive basis of accounting principle (including the cash receipts and disbursement basis and the modification of the cash basis). Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (FAR) Subpart 31.2 to determine allocability, allowability and reasonableness wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – FOREIGN CURRENCY CONVERSION METHOD**

Chemonics utilizes a standard exchange rate set at the beginning of each month based on published exchange rates and actual transactions in-country. The exchange rate is applied throughout the month. At the end of each month, Chemonics adjusts for the difference between estimated rate at the beginning of the month and the actual exchange rate.

**NOTE 4 – REVENUE AND REVENUE RECOGNITION**

Revenue is recognized on the accrual basis of accounting and represents the amount of funds to which Chemonics is entitled to receive from the United States Agency for International Development (USAID) for allowable, eligible costs incurred under the contract and fixed fees earned during the period of performance.

**Chemonics International, Inc. – Regional Agricultural Development Program – South  
Special Purpose Financial Statement  
Contract No. AID-306-C-13-00018  
For the Period January 1, 2016 through November 20, 2017**

**NOTE 5 – COSTS INCURRED BY BUDGET CATEGORY**

The table below notes the cost incurred, by functional category, under Contract No. AID-306-C-13-00018 Contract Line Item Numbers (“CLIN”) for the period January 1, 2016 through November 20, 2017.

	<b>Actual Expenditures</b>
<b>Revenues</b>	
Contract No. AID-306-C-13-00018	\$ 52,719,250
<b>Total Revenue</b>	<b>\$ 52,719,250</b>
<b>Costs Incurred Functional Category</b>	
Salaries	\$ 7,813,539
██████████	\$ ██████████
██████████	\$ ██████████
Travel & Transportation	\$ 1,017,446
Allowances	\$ 2,717,856
Other Direct Costs	\$ 8,752,780
Equipment, Vehicles & Freight	\$ 190,860
Training	\$ – 8,480
Grant Programs	\$ 70,089
Subcontracts and Consultants	\$ 18,220,105
██	\$ ██████████6
<b>Total Costs Incurred</b>	<b>\$ 51,935,242</b>
██████████	\$ ██████████
<b>Balance</b>	<b>\$ (791,455)</b>

**NOTE 6 – BALANCE**

The negative \$15,055,622 total budget balance in the SPFS is due to the unadjusted CLIN budget compared to the final reduced total estimated costs. In Modification No. 12, USAID provided updated CLIN budgets. Subsequent modifications, numbered 13 and 14, reduced the total estimated costs and fixed fee only.

The negative \$791,455 balance between revenue and costs incurred plus fixed fee is the result of a timing difference due to subcontractor services provided under the contract in December 2015. The corresponding invoice was paid in 2016.

**NOTE 7 – CURRENCY**

All amounts presented are shown in U.S. dollars.





**Chemonics International, Inc.**  
**Notes to the Questioned Costs Presented in the Special Purpose Financial Statement**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

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- A. Finding 2017-02 questioned \$3,042 due to an unreconciled difference between acquisition costs reported in the final physical inventory and Chemonics's financial records.

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Notes to the Questioned Costs Presented in the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and, as such, are not part of the audited Statement.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Senior Management of Chemonics International, Inc.  
1717 H Street NW, Suite 1  
Washington, DC 20006-3900

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Chemonics International, Inc. ("Chemonics"), and related notes to the Statement, for the period January 1, 2016 through November 20, 2017, with respect to Contract No. AID-306-C-13-00018. We have issued our report thereon dated March 20, 2020.

**Internal Control over Financial Reporting**

Chemonics' management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period January 1, 2016 through November 20, 2017, we considered Chemonics's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Chemonics's 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 in internal control* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness in internal control over financial reporting, yet important enough to merit attention by those charged with governance.

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(Continued)

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2017-01, 2017-02, and 2017-03 that we consider to be material weaknesses.

### **Chemonics's Response to Findings**

Chemonics's response to the findings identified in our audit are described in Appendix A to this report. Chemonics's response was not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

### **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 the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

### **Restriction on Use**

This report is intended for the information of Chemonics, the United States Agency for International 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.

  
Crowe LLP

March 20, 2020  
Washington, D.C.

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Notes to the Questioned Costs Presented in the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and, as such, are not part of the audited Statement.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Senior Management of Chemonics International, Inc.  
1717 H Street NW, Suite 1  
Washington, DC 20006-3900

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Chemonics International, Inc. ("Chemonics"), and related notes to the Statement, for the period January 1, 2016 through November 20, 2017, with respect to Contract No. AID-306-C-13-00018. We have issued our report thereon dated March 20, 2020.

### **Management's Responsibility for Compliance**

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of Chemonics.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2017-01 and 2017-02.

### **Chemonics's Response to Findings**

Chemonics's response to the findings identified in our audit are described in Appendix A to this report. Chemonics's response was not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

### **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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Chemonics' compliance. Accordingly, this communication is not suitable for any other purpose.

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(Continued)

**Restriction on Use**

This report is intended for the information of Chemonics, the United States Agency for International 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.

*Crowe LLP*  
Crowe LLP

March 20, 2020  
Washington, D.C.

**Chemonics International, Inc.**  
**Section I – Schedule of Findings and Questioned Costs**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

**FINDING 2017-01: UNATTESTED AND IMPROPERLY FORMATTED ANNUAL REPORT OF GOVERNMENT PROPERTY**

Material Weakness in Internal Control and Noncompliance

**Condition:** During our testing of Chemonics’s government property inventories, we noted that Chemonics did not submit the Annual Report of Government Property consistent with USAID’s requirements. During our assessment of the report submitted in December 2016 for program year 3, we noted the following:

- Chemonics’s inventory submission did not contain the required attestation statement and authorized signature;
- The inventory was not submitted in a format that is substantially the same as the format prescribed by USAID;
- The inventory submitted to USAID does not present the value of the property items as of the last report, transfer information, or disposition information;
- The report does not adequately and consistently classify property as government furnished property or contractor acquired property; and
- The inventory includes unpopulated data cells such that data omissions appear to have been uncorrected during Chemonics’s annual check, or internal review, of the inventory to verify the inventory tracker has all the relevant and required information.

See **Appendix C** for an excerpt from Chemonics’s annual report as submitted to USAID. See **Appendix D** for a copy of the Annual Report of Government Property format presented within AIDAR 752.245-70.

**Criteria:** Section C(4), *Inventory Management – Inventory Reporting*, of Chemonics’s internal “Project Property Management and Disposition Guidance” document states, “Under prime contracts, in accordance with AIDAR 752.245-70, Chemonics is required to submit annual reports on non-expendable property. [Project Management Units] should read AIDAR 752.245-70 in its entirety to understand the reporting obligations.”

Section C(4) goes on to state, “Before submitting any inventory report to USAID, it is important to conduct an actual inventory check in the field office, to make sure the physical inventory accurately matches the inventory tracker. The annual check should verify that the inventory tracker has all the relevant information regarding the equipment including description, serial numbers, value, condition, and location.”

Section H.18 of Chemonics’s contract asserts the AIDAR 752.245-70, *Government Property – USAID Reporting Requirements*. AIDAR 752.245-70 requires Chemonics to submit an annual report on all non-expendable property in a form and manner acceptable to USAID substantially in the same format as that prescribed by USAID. In addition, AIDAR 752.245-70 requires inclusion of the following attestation:

**PROPERTY INVENTORY VERIFICATIONS**

I attest that (1) physical inventories of Government property are taken not less frequently than annually; (2) the accountability records maintained for Government property in our possession are in agreement with such inventories; and (3) the total of the detailed accountability records maintained agrees with the property value shown opposite line C [in the prescribed inventory format], and the estimated average age of each category of property is as cited opposed line D [in the prescribed inventory format].

Authorized Signature

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**Chemonics International, Inc.**  
**Section I – Schedule of Findings and Questioned Costs**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

**Questioned Costs:** None

**Effect:** The Government may rely on inaccurate or incomplete information to manage and oversee government property in the region.

**Cause:** Chemonics's internal property management guidance document does not expressly require project personnel to submit an inventory that is in substantially the same format as USAID's required format or otherwise require that all mandated data elements are included. Per discussion with Chemonics, USAID/Afghanistan had not objected to the format of the report and, therefore, Chemonics considered the format to be compliant.

**Recommendation:** We recommend that Chemonics:

1. Provide training to its property management personnel regarding USAID's requirement for the Annual Report of Government Property;
2. Design, document, and implement a procedure requiring a review of the annual inventory of government property by a member of senior management prior to submission to USAID; and
3. Revise the annual report of government property procedures to require inclusion of an attestation statement with all annual report of government property submissions.

**Chemonics International, Inc.**  
**Section I – Schedule of Findings and Questioned Costs**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

**FINDING 2017-02: INCOMPLETE PROPERTY RECORDS AND INADEQUATE PROPERTY MANAGEMENT PROCEDURES**

Material Weakness in Internal Control and Noncompliance

**Condition:** As part of our government property procedures, we requested and obtained a copy of Chemonics's final contract inventory. During our procedures, we noted the following:

- Chemonics's inventory tracker identified 13 vehicles with acquisition dates during the audit period. No costs were recorded in Chemonics's account code 45500 – Project Vehicles for the audit period, however. The 13 vehicles have a total value of \$54,760 per the inventory. Chemonics indicated the items were purchased by a subcontractor and, therefore, are recorded to an Other Direct Costs account. The posting reference and transaction date were not reflected in the inventory;
- Per review of the inventory, \$69,375 in property items were acquired during the audit period. However, the general ledger detail report supporting the SPFS contains \$72,417 in costs within the non-expendable property accounts (45220 and 45240). The difference of \$3,042 has been attributed to items purchased that are shared between projects. A full reconciliation was not provided or completed timely;
- 544 of 902 items (non-vehicle) and all 92 vehicle entries do not specify whether the item is Government Furnished or Contractor Acquired;
- No acquisition date was listed for 7 of 92 vehicles;
- No unit price was listed for 194 of 902 non-vehicles;
- Does not specify which country holds title; and
- The disposition result for all items is not presented, including disposition for various vehicles either procured under the contract or transferred to RADP-S.

In addition, we noted Chemonics's equipment and project property management guidance document omits certain required data elements applicable to government property records, including posting reference and date of transaction, accountable contract number, and disposition. During our review of Chemonics's equipment and project property management guidance document, we noted Section C(2), *The Inventory Tracker*, states, "A good project inventory tracker will indicate:

- A brief but accurate description of each item.
- The inventory control number assigned to each item.
- The actual physical location of each item.
- The purchase price in local currency, if applicable, and the value in U.S. dollars at date of purchase.
- The purchase date for each item.
- Any applicable serial numbers or other identifiers.
- The source of an item (i.e., where it was purchased – home office or field office).
- Purchase reference information."

Therefore, the procedure is not properly designed to serve as an internal control over compliance with applicable government property requirements.

**Criteria:** FAR 52.245-1(f)(iii), *Records of Government Property*, requires Chemonics to create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

FAR 52.245-1(f)(iii)(A) states, "Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.

**Chemonics International, Inc.**  
**Section I – Schedule of Findings and Questioned Costs**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.
- (10) Date placed in service (if required in accordance with the terms and conditions of the contract).

FAR 52.245-1(b), *Property management*, states, “The Contractor shall have a system of internal controls to manage (control, use, preserve, protect, repair, and maintain) Government property in its possession. The system shall be adequate to satisfy the requirements of this clause. In doing so, the Contractor shall initiate and maintain the processes, systems, procedures, records, and methodologies necessary for effective and efficient control of Government property...”

Section H.19 of Chemonics’s contract asserts the requirements of AIDAR 752.245-71, *Title To and Care of Property*. AIDAR 752.245-71(a) states that “Title to all non-expendable property purchased with contract funds under this contract and used in the Cooperating Country, shall at all times be in the name of the Cooperating Government, or such public or private agency as the Cooperating Government may designate...”

AIDAR 752.245-71(c)(2) requires “[Chemonics to] indicate what disposition has been made of such property.”

Section C, *Inventory Management*, of Chemonics’s “Project Property Management and Disposition Guidance” document states, “Inventory tracking is a critical element of property management. As soon as a project begin acquiring major pieces of equipment and property, the [Project Management Units] and [Field Office] are responsible for maintaining inventory of those items.”

**Questioned Costs:** \$3,042 in unsupported costs.

**Effect:** The risk that government property items will be improperly disposed of or misappropriated without management’s awareness and ability to detect the matters is elevated. In addition, the U.S. Government may rely on inaccurate or incomplete property records thus potentially hindering the Government’s ability to effectively monitor and oversee property in theater.

**Cause:** Chemonics’s property management procedures, as designed, were inadequately designed therefore failing to ensure compliance with applicable government property-related requirements.

**Recommendation:** We recommend that Chemonics:

1. Revise the “Project Property Management and Disposition Guidance” document to require project personnel to retain inventory trackers that include all data elements referenced in FAR 52.245-1(f)(iii)(A);
2. Provide inventory and property management training to PMU and FO personnel who have responsibility for property management;
3. Correct the project inventory for the RADP-S project and re-submit to USAID prior to contract closeout; and
4. Either complete and provide a reconciliation resolving the \$3,042 difference or reimburse the Government \$3,042.

**Chemonics International, Inc.**  
**Section I – Schedule of Findings and Questioned Costs**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

**FINDING 2017-03: UNDETECTED MISSTATEMENTS WITHIN THE SPECIAL PURPOSE FINANCIAL STATEMENT (SPFS) AND ACCOMPANYING NOTES**

Material Weakness in Internal Control

**Condition:** During our testing of the SPFS and accompanying notes, we noted that Chemonics incorrectly represented the basis of accounting used to recognize revenue and expenditures. In addition, a material error was noted within the revenue note that disclosed the total amount of funds invoiced by Chemonics during the audit period. These matters are further described below.

Chemonics reported within its notes to the SPFS that the company recognized revenue on the accrual basis of accounting; see Note 4, below:

**NOTE 4 – REVENUE AND REVENUE RECOGNITION**

Revenues on the Statement represent the amount of funds to which Chemonics International Inc. is entitled to receive from the United States Agency for International Development (USAID) for allowable, eligible costs incurred under the contract and fixed fees earned during the period of performance. Inclusive of trailing costs, fixed fee, and NICRA adjustments to date, Chemonics has invoiced \$56,747,679.33 under this contract during the stated audit period. Revenue equals cost invoiced to USAID as indicated in Costs Incurred by Budget Category.

We selected 447 expenditure and revenue transactions for testing. During our testing, we noted 35 of the transactions pertained to services rendered in December 2015; however, the SPFS covers the period January 1, 2016, through November 20, 2017. Whereas the services were rendered in December 2015 and were considered allowable, prior to the period of the SPFS, Chemonics earned the corresponding revenue under the contract in December 2015. Accordingly, the \$791,455 in revenue associated with these transactions should not be included on the SPFS.

In addition, we identified 214 transactions for which revenue was recognized in a month other than that in which services were rendered and corresponding revenue earned. These transactions total \$7,853,892. While the revenue was recognized in an incorrect month, the revenue was earned in the period covered by the SPFS. Therefore, the revenue is not recommended for removal from the SPFS.

We also noted that, within Note 4, Chemonics invoiced \$56,747,679 during the audit period. However, we noted that the amount disclosed included \$3,490,639 that was invoiced after the period of performance concluded.

Next, Chemonics indicated within its notes to the SPFS that the company recognized expenditures on the cash basis; see Note 2 below:

**NOTE 2 – BASIS OF ACCOUNTING**

Expenditures reported on the Statement are reported on Cash Basis of Accounting. Consequently, expenditures are recognized when paid rather than when the obligations are incurred. Chemonics policy for reporting of project costs billed to USAID is to record such costs on the cash basis. This is another comprehensive basis of accounting principle (including the cash receipts and disbursement basis and the modification of the cash basis). Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation (FAR) Subpart 31.2 to determine allocability, allowability and reasonableness, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Chemonics International, Inc.**  
**Section I – Schedule of Findings and Questioned Costs**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

During our testing of 25 transactions totaling \$639,120, we noted that all 25 expenditures were recognized in a month other than that in which the costs were paid, which is inconsistent with the cash basis of accounting.

In consideration of the above, we concluded that both Notes 2 and 4 to the SPFS were materially misstated. Management subsequently revised Note 2 to indicate that cost incurred and paid in Afghanistan are recognized on the cash basis of accounting and costs incurred and paid from the home office are recognized on the accrual basis of accounting.

**Criteria:** The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework* states, "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

SIGAR requires that revenues received, costs incurred, and balance be presented on the SPFS for the period under audit in accordance with accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

**Questioned Costs:** None

**Effect:** Users of the SPFS may be unable to rely on the information presented within the SPFS and accompanying notes for decision-making and oversight purposes.

**Cause:** Chemonics's internal review and approval process was ineffective. In addition, personnel responsible for review and approval may not have been fully aware of and familiar with the applicable requirements.

**Recommendation:** We recommend that Chemonics:

1. Modify and document a procedure for review and approval of financial statements and accompanying notes that includes procedures specifically related to testing and evaluating the accuracy and completeness of the note disclosures; and
2. Provide training to financial reporting personnel regarding revenue and expenditure recognition under the bases of accounting utilized by Chemonics on Federally-funded projects.

**Chemonics International, Inc.**  
**Section II – Summary Schedule of Prior Audit, Review, and Assessment Findings**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

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Crowe identified four (4) reports that are applicable to the RADP-S program and which have findings pertinent to the audit objectives prescribed by SIGAR. We reviewed these reports, identified findings and recommendations that may be direct and material to the Statement or other financial information significant to the audit objectives, and conducted follow-up as appropriate. The reports considered were as follows:

- SIGAR Audit Report 17-33, “Financial Access for Investing in the Development of Afghanistan (FAIDA)”;
- SIGAR Audit Report 18-49, “USAID’s Early Grade Reading Survey: Audit of costs Incurred by Chemonics International Inc.”;
- SIGAR Audit Report 18-65, “Regional Agriculture Development Program: Additional Evaluations and Assessments Could Improve the Performance and Sustainability of USAID/Afghanistan’s \$301 Million Program.”; and
- SIGAR Audit Report 19-14, “USAID’s Afghan Trade and Revenue Project: Audit of cost Incurred by Chemonics International Inc.”

Upon review of the reports, three findings were noted that required follow-up on corrective actions. The prior audit findings have been reflected below with Crowe’s conclusion regarding the adequacy of the corrective action taken by Chemonics.

**FINDING NO. 2017-01: SYSTEM OF AWARD MANAGEMENT (SAM) CHECK NOT PERFORMED AT TIME OF PURCHASE**

**Report:** *SIGAR Audit Report 17-33, “USAID’s Financial Access for Investing in the Development of Afghanistan Project: Audit of Costs Incurred by Chemonics International Inc.”*

**Issue:** Chemonics did not consistently perform the System for Award Management (SAM) review at the time of purchase of goods or entering into contracts for services. A recommendation for the establishment of procedures to ensure the review of all vendors for an active exclusion within SAM be performed prior to contracting for goods or services and that evidence of such review by retained within Chemonics’s procurement files.

**Status:** We reviewed the “Chemonics Field Office Commodity Procurement Handbook 2018” and noted the requirement to perform a SAM screening prior to contracting and a printout of the screening results to be maintained as part of the procurement file is included in the manual. As part of Crowe’s testing under this audit, a sample of procurements issued during the audit period was selected to determine whether Chemonics performed the required SAM reviews prior to procurements activities. No exceptions were noted during our testing. This matter is not repeated.

**FINDING NO. 2018-01: PROPERTY RECORDS NOT UPDATED FOR LOST, STOLEN, DAMAGED, OR TRANSFERRED PROPERTY**

**Report:** *SIGAR Audit Report 19-14, “USAID’s Afghan Trade and Revenue Project: Audit of Costs Incurred by Chemonics International, Inc.”*

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(Continued)

**Chemonics International, Inc.**  
**Section II – Summary Schedule of Prior Audit, Review, and Assessment Findings**  
**Regional Agricultural Development Program (RADP) in Southern Afghanistan**  
**For the Period January 1, 2016 through November 20, 2017**

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**Issue:** Non-expendable property records presented within Chemonics's project inventory tracker were not updated for lost, stolen, damaged, destroyed, or transferred property. Accordingly, the property records were considered to be inaccurate and/or outdated and were missing disposition information. The auditor recommended that Chemonics implement policies and procedures requiring the master inventory list be updated to reflect the status of transferred, lost, or stolen non-expendable property in compliance with FAR 52.245-1(f)(1)(iii). The auditor also recommended that Chemonics reimburse the Government for the remaining value (\$346) of the lost equipment noted in the finding.

**Status:** We noted that Chemonics's project inventory tracker reviewed during our audit contained omissions and did not reflect final disposition information. Chemonics's policies and procedures communicate the expectation for accurate and complete data; however, the implementation does not appear to adequately address the previously noted matter. See Finding 2017-02.

**FINDING NO. 2018-02: ANNUAL NON-EXPENDABLE PROPERTY REPORT NOT SUBMITTED**

**Report:** *SIGAR Audit Report 19-14, "USAID's Afghan Trade and Revenue Project: Audit of Costs Incurred by Chemonics International, Inc."*

**Issue:** Chemonics did not submit the annual non-expendable property report to USAID as required by AIDAR 752.245-70 in a timely manner. The auditor recommended that Chemonics update its policies and procedures to implement controls that require the review and approval of the non-expendable property reports as required by AIDAR 752.245-70 and contact USAID to determine whether retroactive filing of the report is necessary.

**Status:** We noted that Chemonics addressed the inventory requirement in its procedures, but did not clearly present a supervisory review requirement or prescribe a review process to prevent untimely submission or accurate and complete data that meets the AIDAR 752.245-70 requirement. This matter is repeated. See Finding 2017-01.

# APPENDIX A – VIEWS OF RESPONSIBLE OFFICIALS



March 16, 2020

Bert Nuehring  
Crowe LLP  
1455 Pennsylvania Avenue, N.W., Suite 700  
Washington, D.C. 20004-1008

Subject: Audit of Chemonics International, Inc. Regional Agricultural Development Program (RADP-S) Project, Contract No. AID-306-C-13-00018, for the period January 1, 2016 through November 20, 2017

Reference: Management Response to the Audit Findings

Dear Mr. Nuehring,

In response to the draft audit report submitted to us on March 06, 2020, Chemonics International is pleased to submit our response to the findings and questioned cost from the draft report.

After careful review of our records, we are submitting the following response to the auditor's findings.

**Finding 2017-01: Unattested and improperly formatted annual report of government property**

Finding 2017-01 noted that Chemonics did not submit the Annual Report of Government Property consistent with USAID's requirements. The auditor's assessment of the report submitted in December 2016 for program year 3, noted the following:

- Chemonics's inventory submission did not contain the required attestation statement and authorized signature;
- The inventory was not submitted in a format that is substantially the same as the format prescribed by USAID;
- The inventory submitted to USAID does not present the value of the property items as of the last report, transfer information, or disposition information;
- The report does not adequately and consistently classify property as government furnished property or contractor acquired property; and
- The inventory includes unpopulated data cells such that data omissions appear to have been uncorrected during Chemonics's annual check, or internal review, of the inventory to verify the inventory tracker has all the relevant and required information.

**Chemonics Response:** After careful review of the findings and our records, Chemonics acknowledges the certification statement mentioned in AIDAR 752.245-70 b was not present in the inventory report submitted to USAID.

Based on or correspondence with USAID, Chemonics understood that the client fully acknowledged that the annual inventory reports were complete and accurate to the best of the team's knowledge. Chemonics believes that our inventory report answered the necessary questions and met the criteria listed under AIDAR 752.245-70. However, Chemonics recognizes that the certification is an AIDAR requirement and we will follow the recommendations provided in the draft report, which includes training our staff, reviewing our internal inventory review and submission controls, and including the attestation in all our government property submissions.

**Finding 2017-02: Incomplete property records and inadequate property management procedures**

Finding 2017-02 noted the following on Chemonics's final contract inventory:

- Chemonics's inventory tracker identified 13 vehicles with acquisition dates during the audit period. No costs were recorded in Chemonics's account code 45500 – Project Vehicles for the audit period, however. The 13 vehicles have a total value of \$54,760 per the inventory. Chemonics indicated the items were purchased by a subcontractor and, therefore, are recorded to an Other Direct Costs account. The posting reference and transaction date were not reflected in the inventory;
- Per review of the inventory, \$69,375 in property items were acquired during the audit period.
- However, the general ledger detail report supporting the SPFS contains \$72,417 in costs within the non-expendable property accounts (45220 and 45240). The difference of \$3,042 has been attributed to items purchased that are shared between projects. A full reconciliation was not provided or completed timely;
- 544 of 902 items (non-vehicle) and all 92 vehicle entries do not specify whether the item is
- Government Furnished or Contractor Acquired;
- No acquisition date was listed for 7 of 92 vehicles;
- No unit price was listed for 194 of 902 non-vehicles;
- Does not specify which country holds title; and
- The disposition result for all items is not presented, including disposition for various vehicles either procured under the contract or transferred to RADP-S.

**Chemonics Response:** After careful review of the findings and our records, Chemonics acknowledges the inventory tracker presented to USAID and the project transaction detail did not align. Chemonics agrees to reimburse the government the \$3,042 to reconcile the difference between the inventory report and the transaction detail.

Since the closeout of the RADP-S program in 2017, Chemonics has updated its project property management and disposition guidance to incorporate all data elements referenced in FAR 52.245-1(f)(iii)(A). Chemonics will provide trainings to our home office and field office project management personnel who are responsible for property management on its current and future projects.

**Finding 2017-03: Undetected misstatements within the special purpose financial statement (SPFS) and accompanying notes**

Finding 2017-03 stated that the testing of the SPFS and accompanying notes noted that Chemonics incorrectly represented the basis of accounting used to recognize revenue and expenditures. In addition, a material error was noted within the revenue note that disclosed the total amount of funds invoiced by Chemonics during the audit period.

**Chemonics Response:** The Special Purpose Financial Statement (SPFS), in our experience, is unique to SIGAR. It is not required by the FAR, AIDAR, or the terms of our contracts and differs from financial statements and reports that we prepare in the ordinary course of business. While the unique nature of the exercise contributed to some confusion with the draft statement, we wanted to note that the costs and revenues were properly accounted for in our books and records with the exception of \$3,042 questioned in this report. In addition to agreeing to to the audit team's recommendation to deduct \$791,455 in revenue from the SPFS, Chemonics will further introduce steps to train appropriate staff, and improve our processes to review and produce of SPFS, when they are requested in the future.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Catherine Kannam".

Catherine Kannam  
Senior Vice President  
Syria, Iraq, Yemen, Afghanistan  
Chemonics International, Inc.

## APPENDIX B – AUDITOR’S REBUTTAL

Crowe LLP (“Crowe” or “we” or “us”) has reviewed the letter dated March 16, 2020, containing Chemonics International’s (“Chemonics” or “auditee”) responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee regarding finding 2017-01. Whereas Chemonics did not disagree with findings 2017-02 or 2017-03, we have not included a rebuttal for the response to either finding. Crowe did not deem it necessary to modify any of the findings following our review of management’s comments.

### **Finding 2017-01**

We have reviewed management’s comments and conclude that a modification to the text of the finding is not warranted. We noted Chemonics’s concurrence with the missing attestation statement and authorized signature required by AIDAR 752.245-70. However, management did not agree that the Annual Report of Government Property, as submitted to USAID, omitted required information. We completed a re-review of Chemonics’s submission to USAID, and noted the following matters remain unchanged from the finding:

- Chemonics’s inventory submission did not present the value of the property items as of the last report, transfer information, or disposition information;
- The report did not consistency or adequately classify property as government furnished property or contractor acquired property; and
- The inventory included unpopulated data cells.

In the absence of the information noted above, we did not consider the inventory submission to comply with the provisions of AIDAR 752.245-70. Accordingly, the finding remains unchanged.

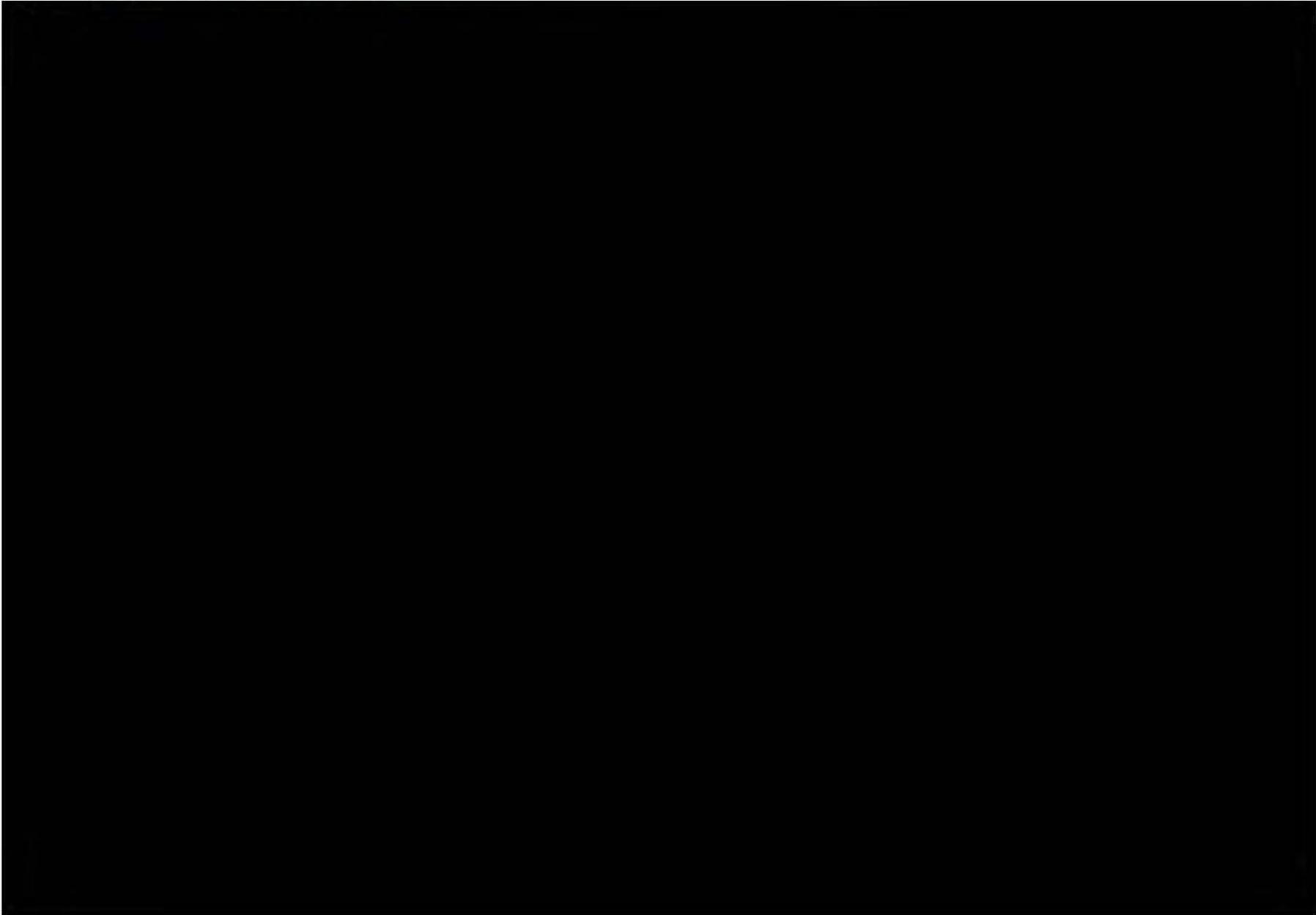
## APPENDIX C – FINAL CONTRACT INVENTORY





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

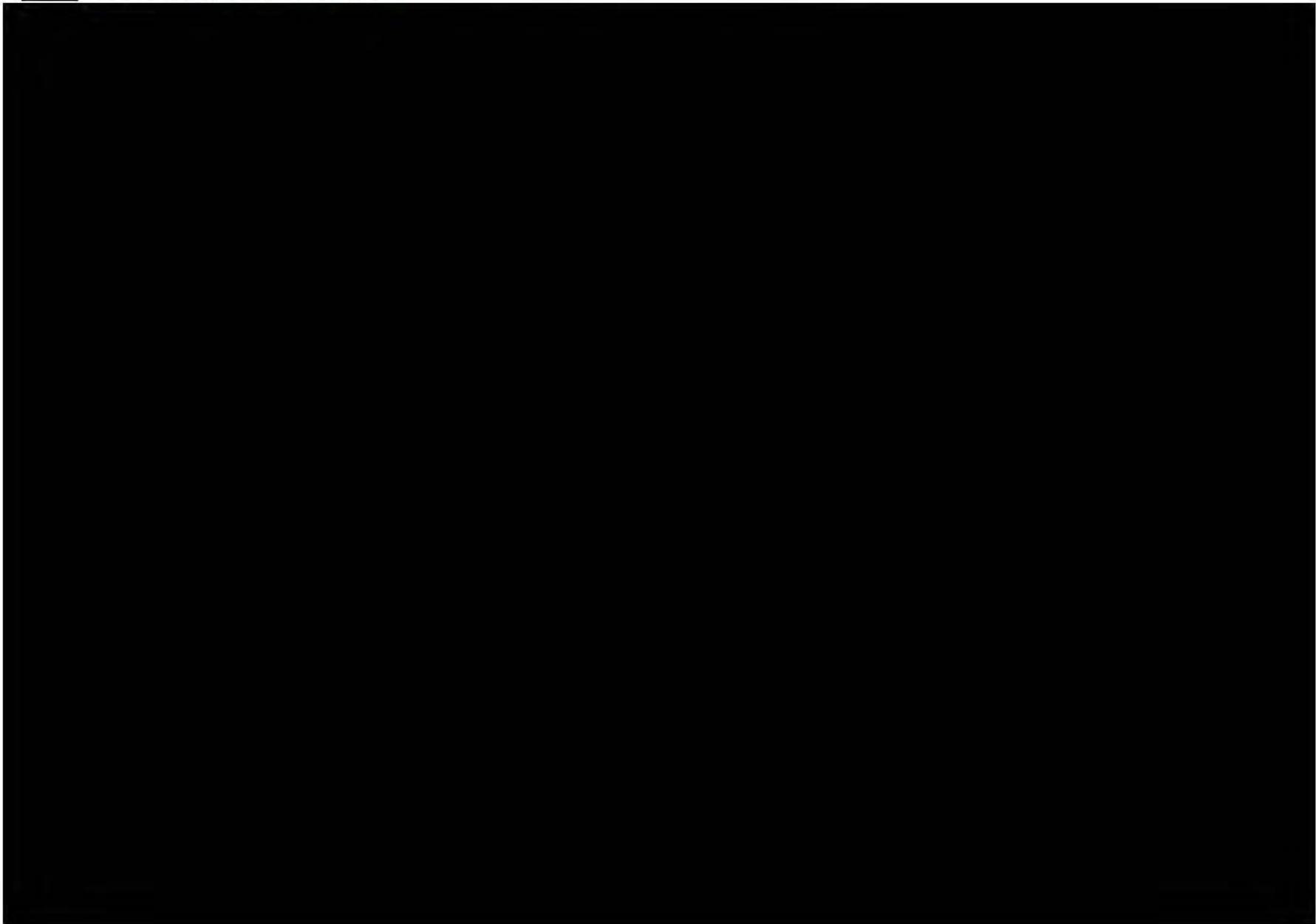
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

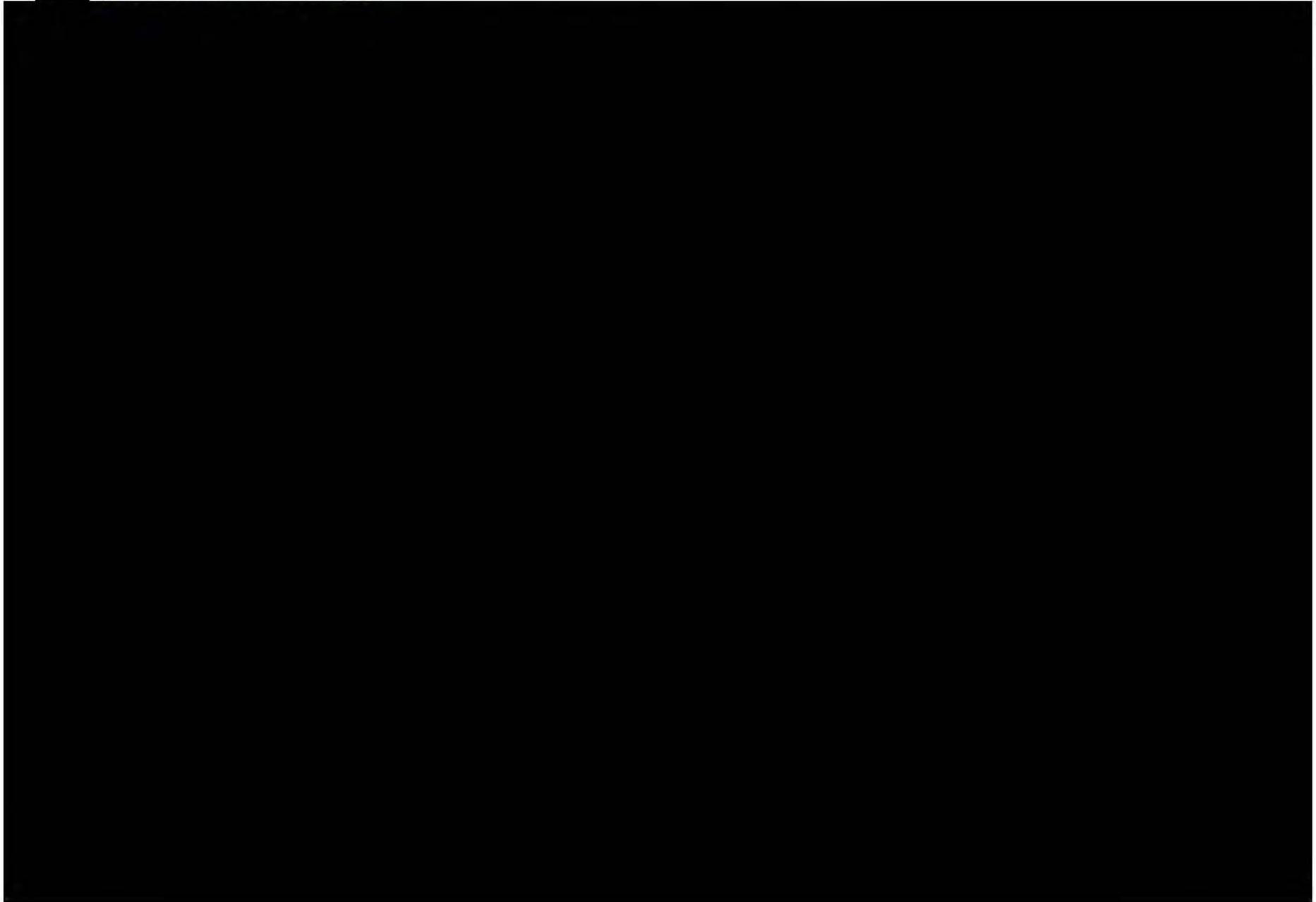
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

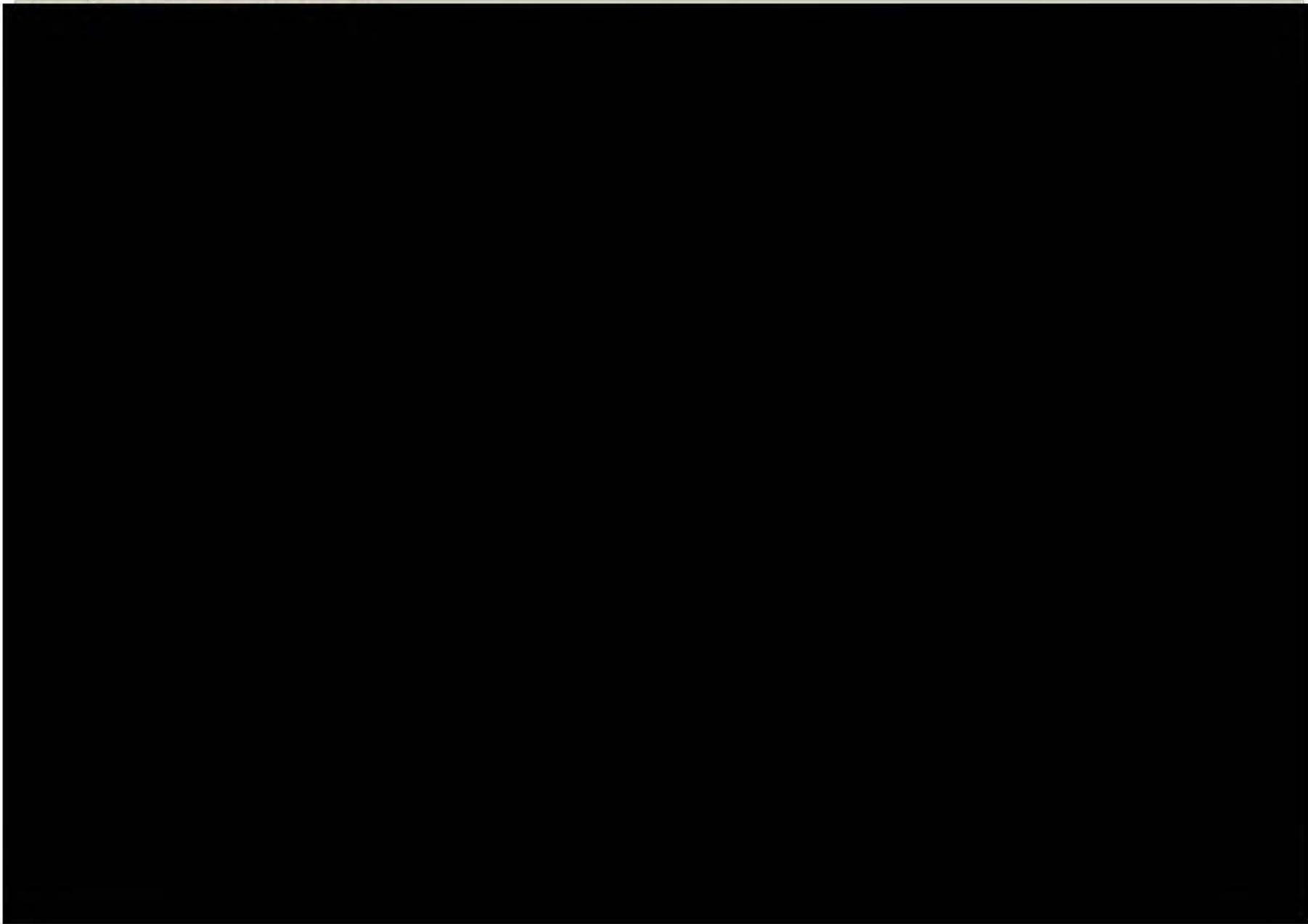
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Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

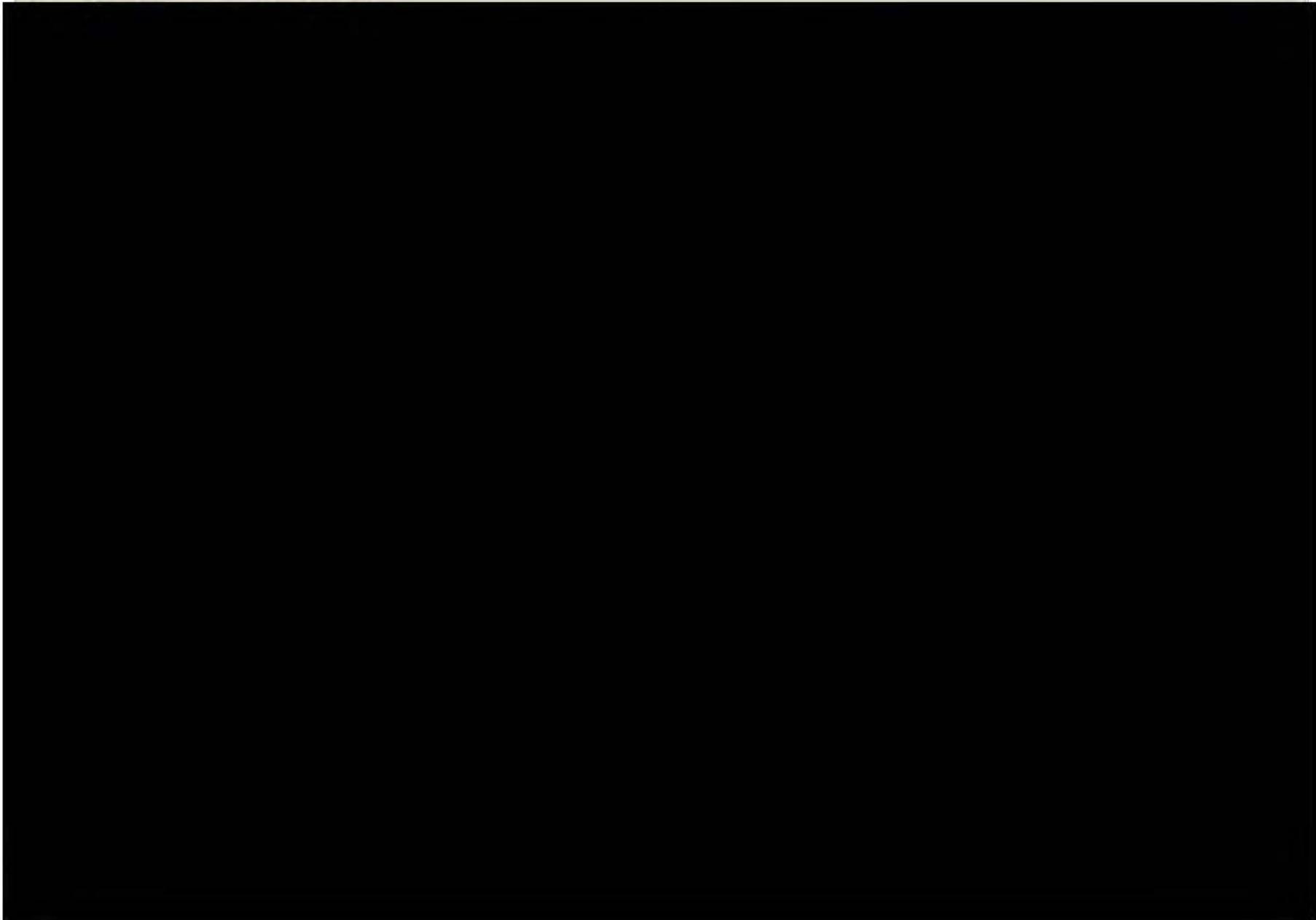
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

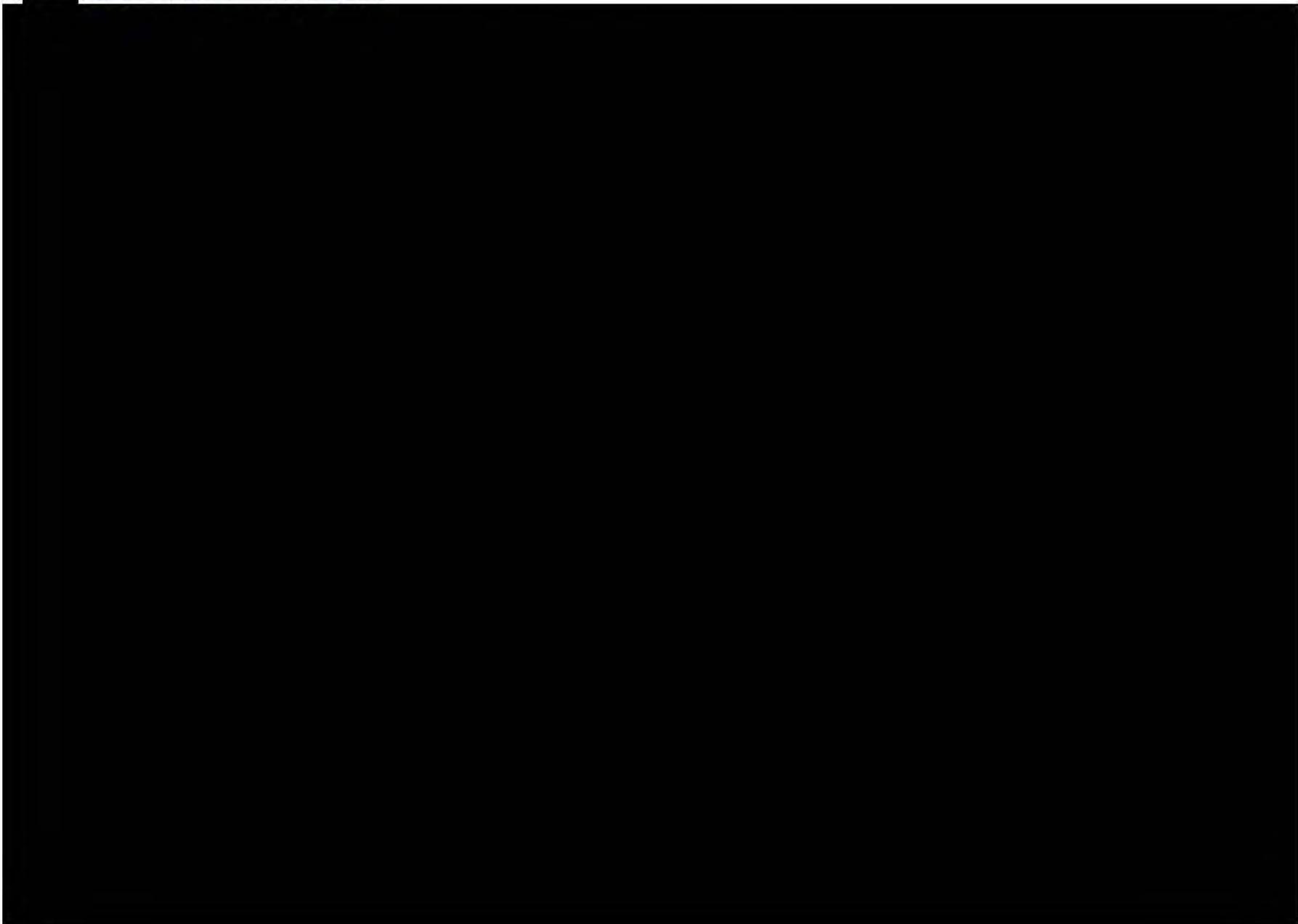
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

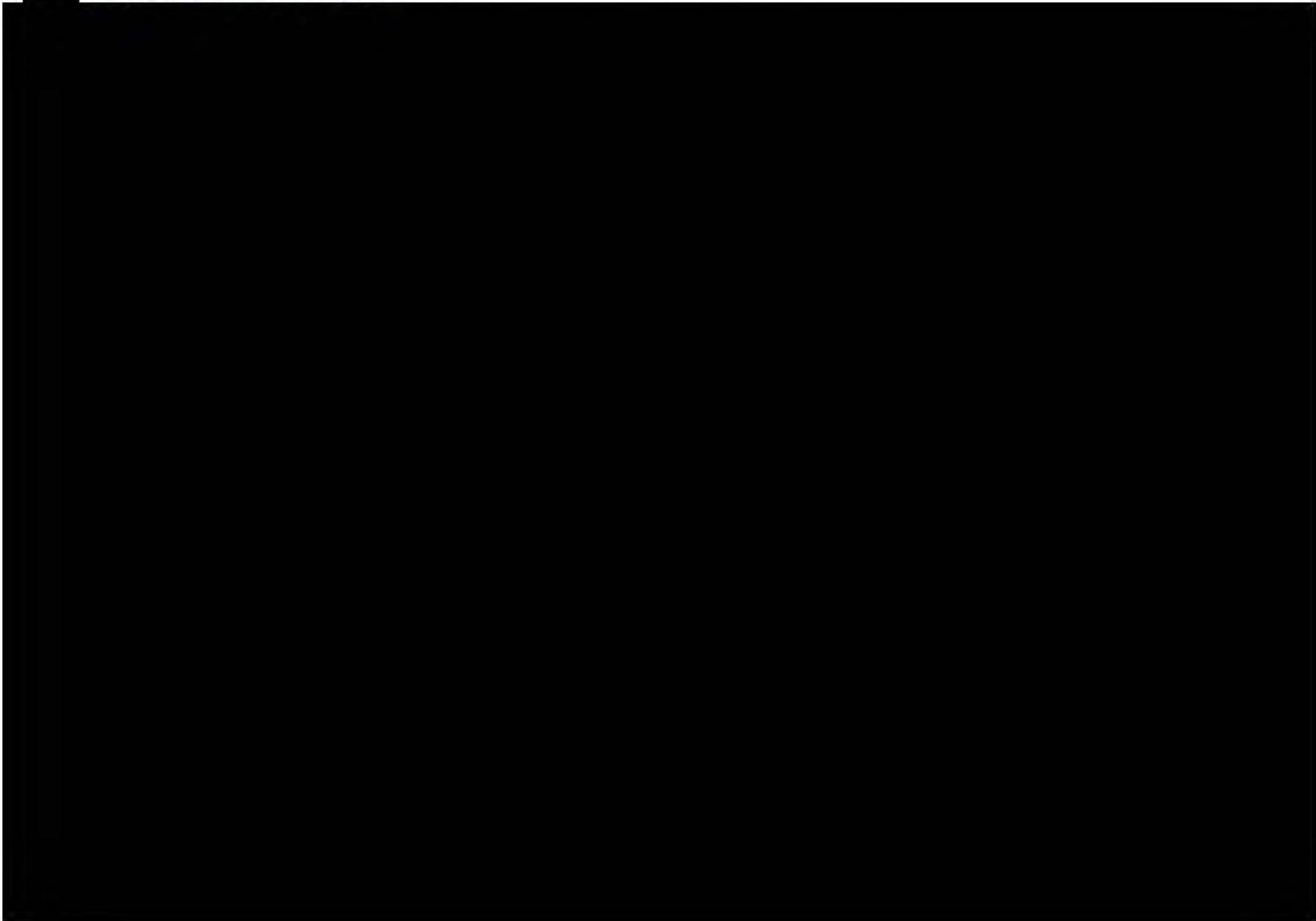
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

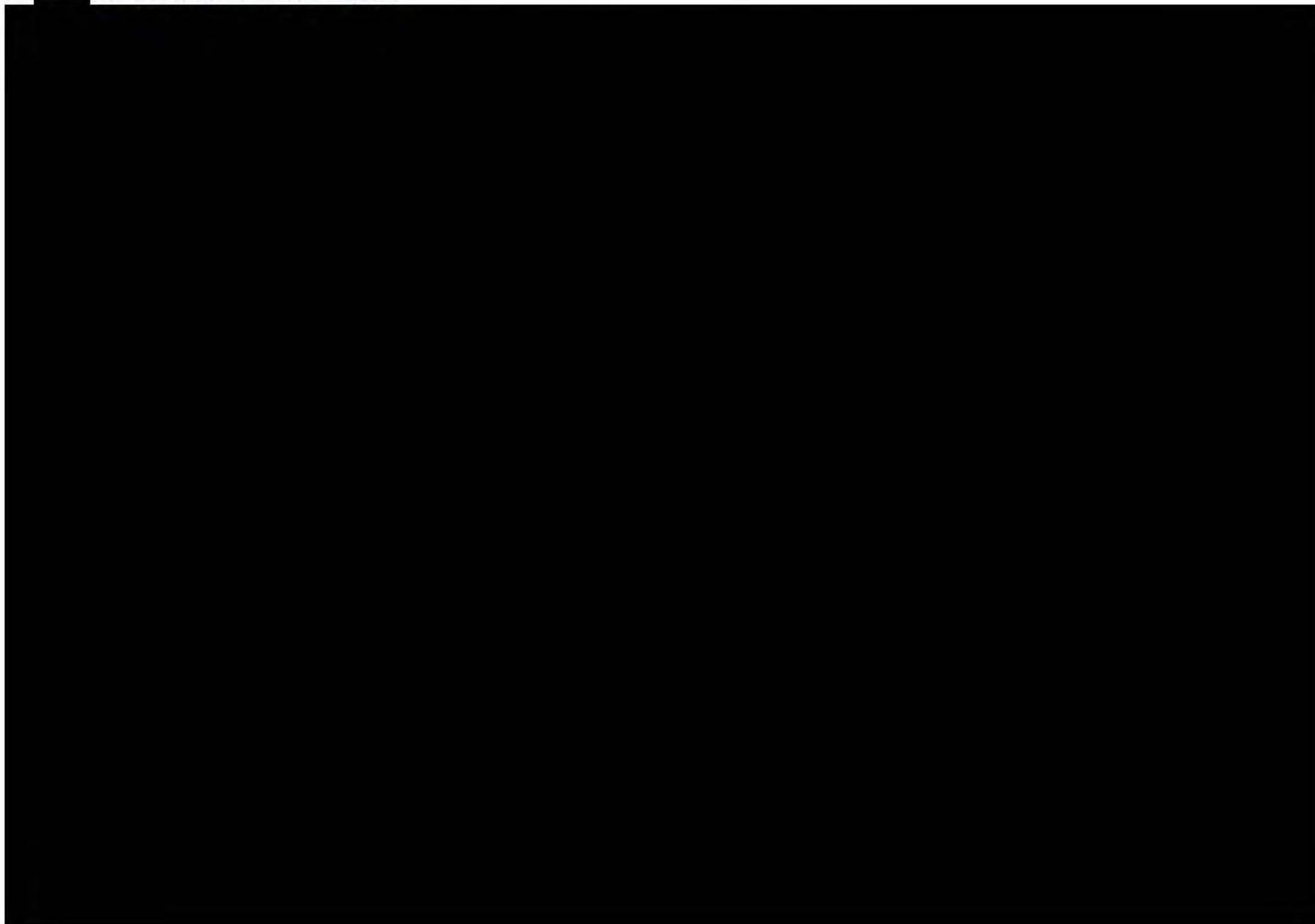
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

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Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

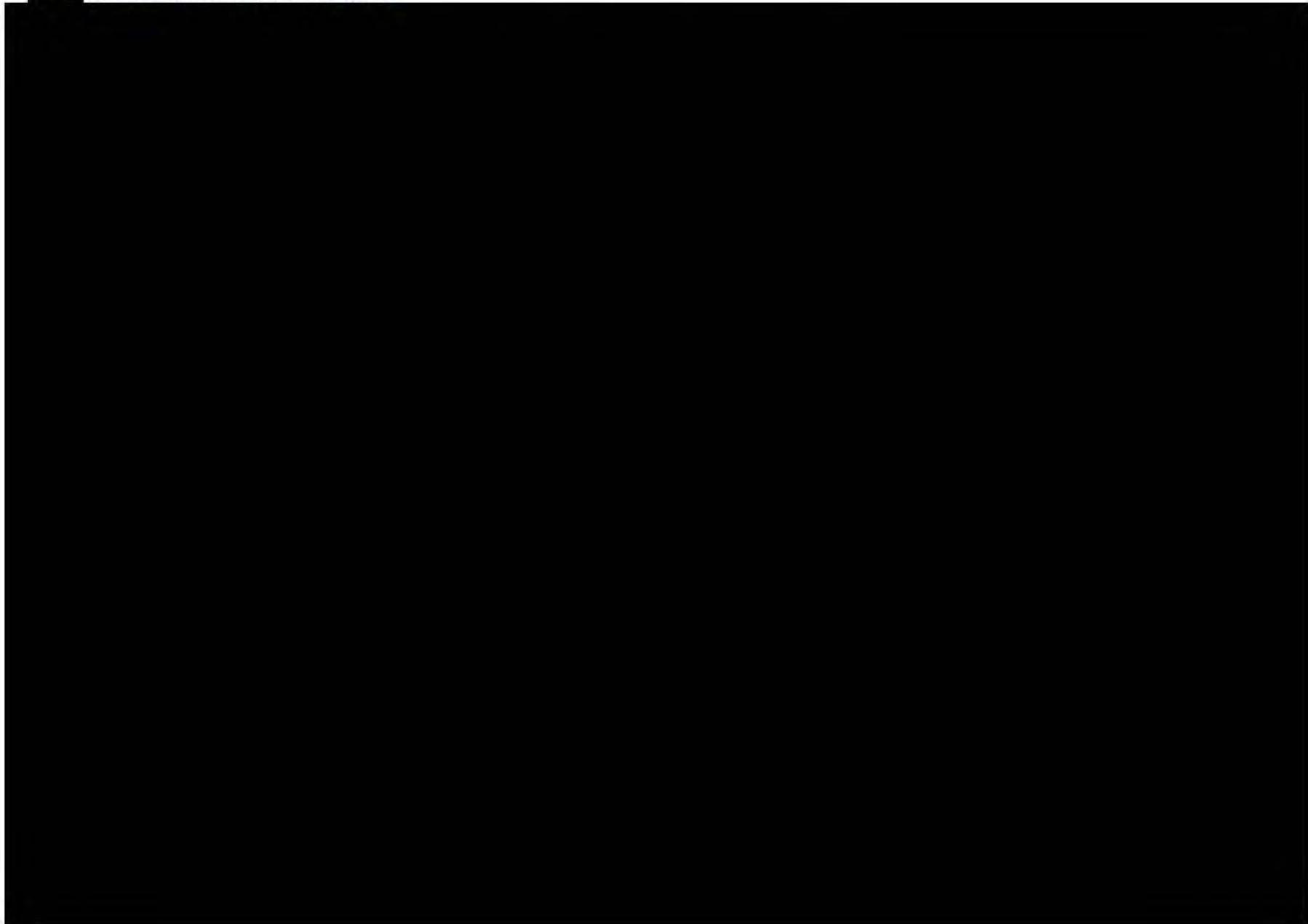
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Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

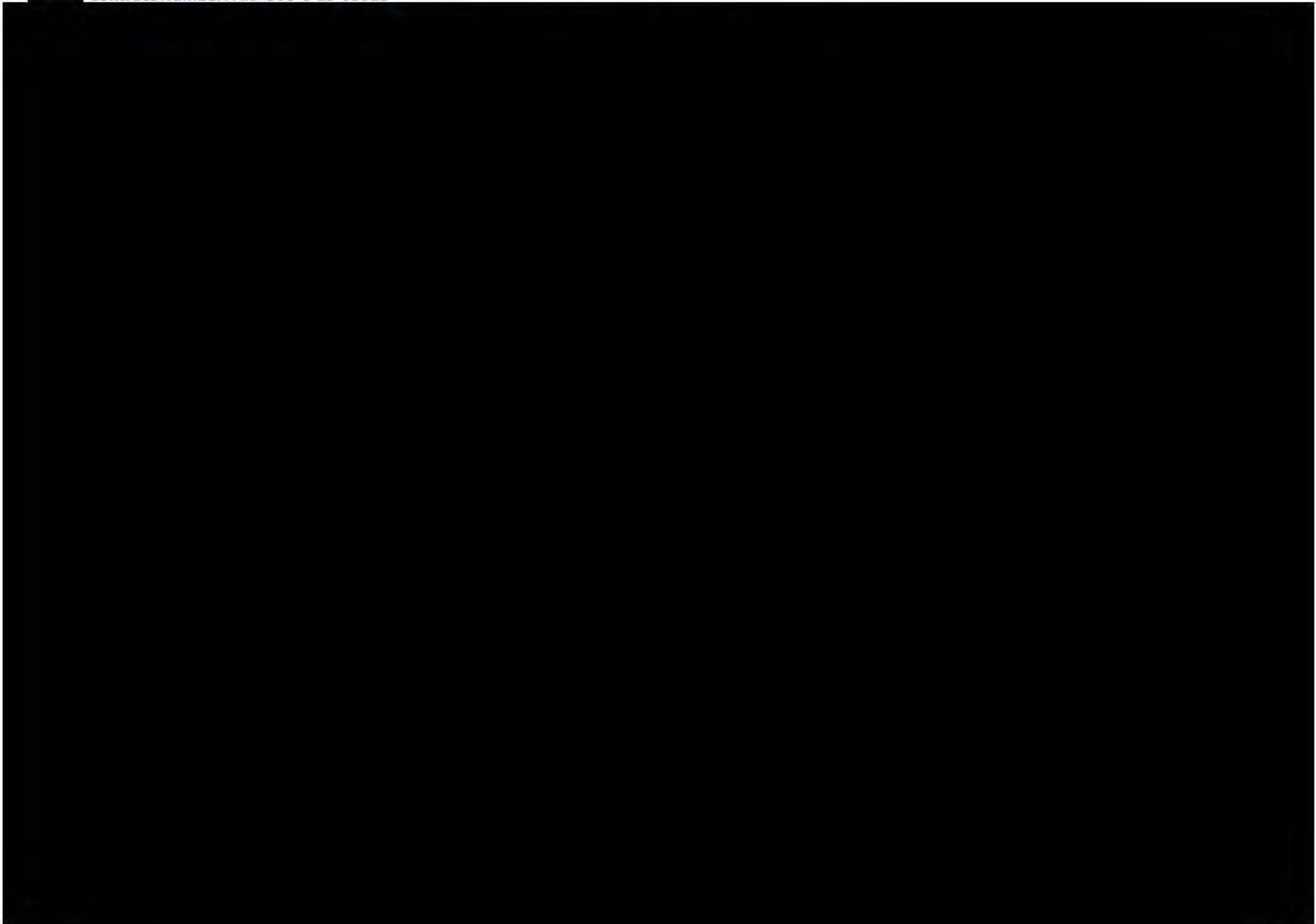
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

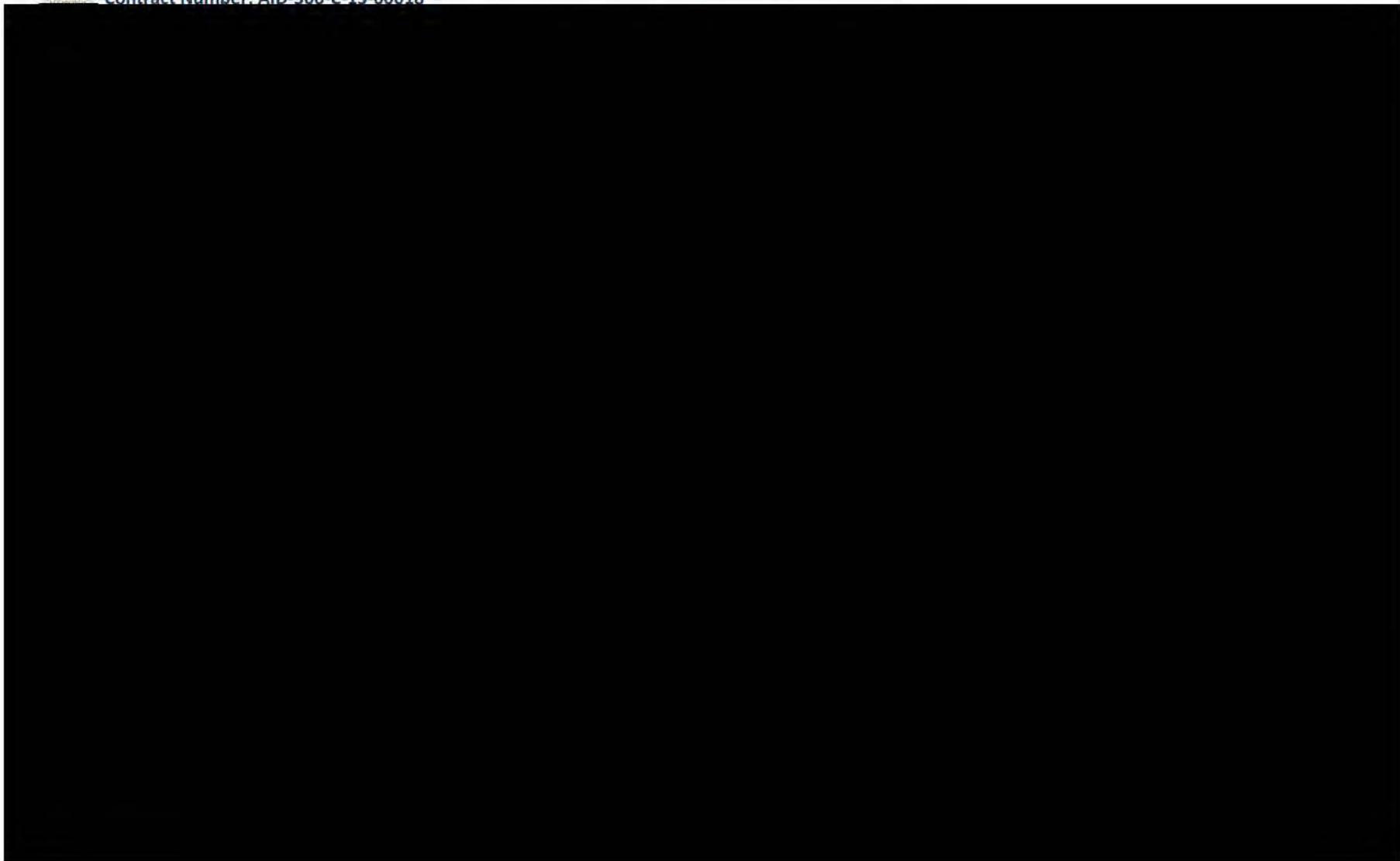
Contract Number: AID-306-C-13-00018





Regional Agricultural Development Program - South (RADP-S) NXP Inventory Tracker - Equipment

Contract Number: AID-306-C-13-00018



# APPENDIX D – ANNUAL REPORT OF GOVERNMENT PROPERTY TEMPLATE

Included herein is the annual report of government property format contained within AIDAR 752.245-70.

*Reporting Requirements:* The contractor will submit an annual report on all non-expendable property in a form and manner acceptable to USAID substantially as follows:

**ANNUAL REPORT OF GOVERNMENT PROPERTY IN CONTRACTOR'S CUSTODY**

**[NAME OF CONTRACTOR AS OF (END OF CONTRACT YEAR), 20XX]**

	Motor vehicles	Furniture and furnishings -		Other nonexpendable property
		Office	Living quarters	
A. Value of property as of last report				
B. Transactions during this reporting period				
1. Acquisitions (add):				
a. Purchased by contractor <sup>1</sup>				
b. Transferred from USAID <sup>2</sup>				
c. Transferred from others, without reimbursement <sup>3</sup>				
2. Disposals (deduct):				
a. Returned to USAID				
b. Transferred to USAID - contractor purchased				
c. Transferred to other Government agencies <sup>3</sup>				
d. Other disposals <sup>3</sup>				
C. Value of property as of reporting date				
D. Estimated average age of contractor held property	Years	Years	Years	Years

## 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.

## Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

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](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto: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
- U.S. fax: +1-703-601-4065

## Public Affairs

Public Affairs Officer

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