

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 19-14 Financial Audit

USAID's Afghan Trade and Revenue Project: 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.



SIGAR 19-14-FA/ATAR

JANUARY
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On November 7, 2013, the U.S. Agency for International Development (USAID) awarded a 4-year, \$77.8 million contract to Chemonics International Inc. (Chemonics) to fund the Afghan Trade and Revenue (ATAR) project. The purpose of the project was to provide technical support and assistance aimed at strengthening Afghanistan's business climate to enable private investment, enhanced trade, job creation, and fiscal sustainability. USAID modified the contract 12 times, extending the period of performance to February 28, 2018, while leaving the contract amount unchanged.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$17,881,176 in reimbursable costs charged to the contract from January 1, 2017, through February 28, 2018. The objectives of the audit were to (1) identify and report on significant deficiencies and material weaknesses 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, 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 Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

January 2019

USAID's Afghan Trade and Revenue Project: Audit of Costs Incurred by Chemonics International Inc.

SIGAR 19-14-FA

WHAT THE AUDIT FOUND

Crowe identified one significant deficiency in Chemonics's internal controls and two instances of noncompliance with the terms and conditions of the contract. Crowe found that Chemonics did not maintain complete inventory records to account for items no longer in its possession. Crowe also found that Chemonics did not submit an annual property report to USAID as required by the contract.

Because of the internal control deficiency and instances of noncompliance, Crowe identified \$346 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Materials	\$0	\$346	\$346
Totals	\$0	\$346	\$346

Crowe identified 12 prior findings that required corrective action that could have a material effect on the SPFS or other financial information for the ATAR contract. Crowe determined that Chemonics had taken adequate corrective actions in response to all of the findings.

Crowe issued an unmodified opinion on Chemonics's SPFS, finding that the statement presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period under the contract.

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, \$346 in questioned costs identified in the report.**
- 2. Advise Chemonics to address the report's internal control finding.**
- 3. Advise Chemonics to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 22, 2019

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. (Chemonics) under a U.S. Agency for International Development (USAID) contract to fund the Afghan Trade and Revenue project.¹ The purpose of the project was to provide technical support and assistance aimed at strengthening Afghanistan's business climate to enable private investment, enhanced trade, job creation, and fiscal sustainability. Crowe's audit covered \$17,881,176 in expenditures charged to the contract from January 1, 2017, through February 28, 2018. 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 audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$346 in total questioned costs identified in the report.**
- 2. Advise Chemonics to address the report's internal control finding.**
- 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 the 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 control or compliance with the contract, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where 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-126)

¹ The contract number is AID-OAA-I-12-00035.



Chemonics International, Inc.

Special Purpose Financial Statement

Afghan Trade and Revenue Project

For the Period January 1, 2017 through February 28, 2018

(With Independent Auditor's Report Thereon)

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TRANSMITTAL LETTER

Chairperson 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-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009 for the period January 1, 2017 through February 28, 2018.

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 has been incorporated as an appendix to the final report.

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

Sincerely,

Bert Nuehring, CPA, Partner
Crowe LLP

SUMMARY

Background

Chemonics International, Inc. (“Chemonics”) was awarded task order AID-306-TO-13-00009 under contract number AID-OAA-I-12-00035 issued by the U.S. Agency for International Development (“USAID”). USAID issued the task order on November 7, 2013 to Chemonics to fund the Afghanistan Trade and Revenue (“ATAR”) project. The ATAR project’s purpose was to provide technical support and assistance aimed to strengthen the business climate of Afghanistan to enable private investment, enhanced trade, job creation, and fiscal sustainability.

Chemonics was contracted to execute a range of activities aimed at increasing sustainable trade and investment, and the amount of customs and tax revenue collected by the Afghanistan government. Specifically, the contract required Chemonics to provide:

- (1) Technical assistance on trade agreements, World Trade Organization accession, and rules compliance;
- (2) Organization of regional trade fairs and private sector matchmaking events; and
- (3) Capacity building for the implementation of reforms in customs (e.g. Border Management Model (BMM), Risk Management (RM), customs procedures modernization and streamlining, customs procedures harmonization with customs of other countries), and for Value-Added Tax implementation.

The initial contract was a time and material (fixed daily rates or FDRs) task order. Fixed daily rates for U.S. Expatriates with reimbursement of actual salaries for locally hired national professionals and other non-U.S. expatriates and fixed multipliers applied to salaries for locally-hired national professionals and other non-U.S. expatriates; and modified time-and-material payment provisions. The task order covered a period of performance beginning November 7, 2013, and continuing through November 7, 2017. The task order was subsequently modified twelve times, ultimately extending the period of performance to February 28, 2018 and ending with a total budget of \$77,754,266.

Crowe’s audit covered the period January 1, 2017 through February 28, 2018. During the audit period, Chemonics reported a total of \$17,881,176 in costs incurred.

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 number AID-OAA-I-12-00035, task order number AID-306-TO-13-00009.

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 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 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 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’s 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 the audit included the period January 1, 2017, through February 28, 2018. 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 Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Real Property Management;
- Procurement; and
- Reporting.

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 required that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the task order. Crowe identified – through review and evaluation of the task order 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, 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 task order; 2) testing whether indirect costs charged to the task order 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.

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. Three (3) such reports were provided or otherwise obtained.

There were a total of twelve (12) findings in the three audits related to cash management, procurement, and allowable costs. Crowe performed procedures to determine if adequate corrective action was performed. The results of our procedures are noted in **Section II**.

Summary of Results

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

With regard to matters of internal control and compliance, Crowe reported two (2) instance of noncompliance and one (1) instance identified as a significant deficiency.

Finally, Crowe conducted procedures to determine whether adequate corrective action was taken in response to the twelve prior audit findings and recommendations. Of the twelve matters requiring follow-up, no findings were repeated. 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**.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs
2018-01	Property Records Not Updated for Lost, Stolen, Damaged, or Transferred Property	\$346
2018-02	Annual Non-Expendable Property Report Not Submitted	\$0

Summary of Management Comments

Management agreed with both findings and recommendations.

References to Appendices

The auditor's reports are supplemented by - **Appendix A** containing the Views of Responsible Officials.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Chairperson 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, 2017 through February 28, 2018, with respect to Contract No. AID-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009.

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-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009 ("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.

(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 in Note 1 and on the basis of accounting described in Note 2.

Basis of Presentation and Accounting

We draw attention to Note 1 and Note 2 to the Statement, which describes the basis of presentation and accounting, respectively. 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-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009, 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 these matters.

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 January 9, 2019, 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

January 9, 2019
Washington, D.C.

Chemonics International Inc. - Afghanistan Trade and Revenue (ATAR) Project
Special Purpose Financial Statement
Contract No. AID-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009
For the Period January 01, 2017 to February 28, 2018

	Budget	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
Revenues					
Contract No. AID-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009	\$ 77,754,266	\$ 17,881,176			4, A
Total Revenue	<u>\$ 77,754,266</u>	<u>\$ 17,881,176</u>			
Costs Incurred					
Work Days Ordered	\$ [REDACTED]	\$ 7,879,467			6
Materials	\$ [REDACTED]	\$ 9,235,872		\$346	A, B
Indirect Costs On Materials	\$ [REDACTED]	\$ 765,837			
Total Costs Incurred	<u>\$ 77,754,266</u>	<u>\$ 17,881,176</u>			
Balance	<u>\$ -</u>	<u>\$ -</u>			7

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

Chemonics International Inc., Afghanistan Trade and Revenue (ATAR) Project
Notes to the Special Purpose Financial Statement
For the Period January 01, 2017, through February 28, 2018

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Contract Number AID-OAA-I-12-00035 for the Afghanistan Trade and Revenue (ATAR) Project for the period January 1, 2017, through February 28, 2018. Because the Statement presents only a selected portion of the operations of Chemonics International Inc. 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 AID-OAA-I-12-00035. 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

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 cash basis. This is an other comprehensive basis of accounting principle (including the cash receipts and disbursement basis and the modification of the cash basis). This is consistently followed; our client USAID is aware of the application. 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

For purposes of preparing the Statement, conversions from local currency to United States dollars were not required.

Note 4. Revenues

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. This is a Time and Materials type of contract.

Note 5. Revenue Recognition

Revenue equals cost invoiced to USAID as indicated in Costs Incurred by Budget Category the following categories: Workdays Ordered, Materials, and Indirect Cost on Materials

Note 6. Costs Incurred by Budget Category

The budget categories - Workdays Ordered, Materials, and Indirect Cost on Materials - represents life of project budget per ATAR Prime Task Order Modification no.12 to the contract dated 10/26/2017.

(Continued)

Chemonics International Inc., Afghanistan Trade and Revenue (ATAR) Project
Notes to the Special Purpose Financial Statement
For the Period January 01, 2017, through February 28, 2018

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

Note 8. Currency

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

Note 9. Program Status

The Afghanistan Trade and Revenue (ATAR) Project is complete. The period of performance for the contract concluded on February 28, 2018 as noted in modification number 12 dated October 26, 2017. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of trailing programmatic costs incurred during the period of performance.

Note 10. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the January 01, 2017, through February 28, 2018 period covered by the Statement. Management has performed their analysis through January 9, 2019

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT¹

Note A. Finding 2018-01: Property Records Not Updated for Lost, Stolen, Damaged, or Transferred Property

Finding 2018-01 identified nine (9) items valued at \$12,833, which were reported by Chemonics on their master inventory listing. However, Chemonics had previously either transferred the items to other projects or reported the items as lost or stolen during the course of the project. We questioned \$346 for the remaining value after depreciation for two (2) of the items.

Note B. Finding 2018-02: Annual Non-Expendable Property Report Not Submitted

Finding 2018-02 noted that annually Chemonics was required to submit to USAID the Non-expendable Property Report. Chemonics did not submit a report for 2017. According to Chemonics personnel, the 2017 report was not completed in anticipation of the project termination date of November 7, 2017; however, the project was extended through February 28, 2018.

¹ Notes to the Questioned Costs Presented on 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

Chairperson 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, 2017 through February 28, 2018, with respect to Contract No. AID-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009. We have issued our report thereon dated January 9, 2019.

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, 2017 through February 28, 2018, we considered Chemonics’ internal controls 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’ 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 material noncompliance 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 compliance, yet important enough to merit attention by those charged with governance.

(Continued)

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified one (1) deficiency in internal control, Finding 2018-01, we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs.

Chemonics' Response to the Findings

Chemonics' response to the findings was not subject to the auditing procedures applied in the audit of the special purpose financial 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

January 9, 2019
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Chairperson 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, 2017 through February 28, 2018, with respect to Contract No. AID-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009. We have issued our report thereon dated January 9, 2019.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the task order 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 which are described in Findings 2018-01 and 2018-02 in the accompanying Schedule of Findings and Questioned Costs.

Chemonics' Response to the Findings

Chemonics' response to the findings were not subjected to the auditing procedures applied in the audit of the special purpose financial 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.

(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

January 9, 2019
Washington, D.C.

SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Property Records Not Updated for Lost, Stolen, Damaged, or Transferred Property

Significant Deficiency and Noncompliance

Condition: During our testing of non-expendable property (items valued greater than \$500) listed on the project inventory tracker, we noted nine (9) of 375 non-expendable property items to be no longer in the possession of Chemonics. The value of the 9 items totaled \$12,833. The project inventory tracker included a column for documentation of the disposition of the property item. This column included designations such as lost, stolen, transferred, and damaged. However, for the 9 items noted, this column was not completed even though the items were no longer in the possession of Chemonics. The property noted had either previously been transferred or reported as lost or stolen. The table below notes the item and the transfer date or the date at which Chemonics notified USAID of the transfer or loss of the item.

Inventory Control Number (ICN)	Item Description	Manufacturer	Acquisition Date	Price	Note
Transferred to Afghanistan Customs Department August 8, 2017					
2139	Server	DELL	9-Jan-17	\$ 3,938	
Transferred to Association of Customs Brokers of the Republic of Uzbekistan August 26, 2017					
1692	Laptop	HP	4-Mar-14	\$ 1,191	
Notice of Lost Government Property submitted April 27, 2018					
0085	Projector	SONY	25-Dec-10	\$ 528	1
1168	Laptop	HP	23-Feb-11	\$ 1,804	2
0108	Laptop	DELL	25-Feb-12	\$ 923	2
1982	Laptop	Lenovo	29-Jul-17	\$ 1,000	3
1342	Laptop	DELL	1-Jun-14	\$ 865	4
1343	Laptop	DELL	1-Jun-14	\$ 865	4
0468	Laptop	HP	30-Mar-11	\$ 1,719	5
Total				\$ 12,833	

NOTE:

1. Item originally reported as lost March 15, 2016
2. Items were noted as lost during 2016
3. Serious incident report made regarding stolen laptop February 27, 2018
4. Unsuccessful attempts had been made to recover items from former employees due to the passing away of one employee and outdated contact information for the other.
5. Laptop in possession of consultant. Chemonics is seeking return and destruction

Criteria: FAR 52-245-1(f)(1) states "(iii) Records of Government property. The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

(A) Property records shall enable a complete, current, auditable record of all transactions

According to Chemonics, "Project Property Management And Disposition Guidance," (Guidance) Chemonics is responsible for property purchased with project funds or furnished by USAID to Chemonics (including its partners). Chemonics retains the responsibility and liability for the non-expendable property until the CO, as the authorizing official, approves disposition per FAR 52.245. In addition, Section C (2) of

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the Guidance notes, "All projects must maintain an inventory tracker to monitor equipment purchased and used by the project."

Questioned Costs: \$346². The questioned costs include only items from Note 4 above. All other items in the listing either had no remaining value or disposition direction had not been received from USAID.

Effect: Inventory records serve as an integral management tool for tracking and accountability for federally funded non-expendable property. When inventory records are not correct, the location and tracking of non-expendable property cannot be effectively accomplished and could lead to the loss or theft of the property.

Cause: Chemonics did not have a policy requiring on-going updates of the inventory tracker.

Recommendation: Crowe recommends 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(f)(1) (iii). Crowe also recommends that Chemonics reimburse the government for the remaining value (\$346) of the lost equipment.

² To calculate the questioned costs, we used the Internal Revenue Service (IRS) depreciation period of five (5) years for computer equipment. Two laptops purchased in 2014 for a total value of \$1,730 with one year remaining of useful life. $\$1,730 \times .20 = \346 .

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Finding 2018-02: Annual Non-Expendable Property Report Not Submitted

Non-compliance

Condition: Chemonics did not submit the annual non-expendable property report to USAID as required by USAID Acquisition Regulation (AIDAR) 752.245-70(b), “Government Property Reporting Requirements”. Chemonics submitted an annual non-expendable property report on April 4, 2016. However, as of February 28, 2018, a period of 23 months after April 2016, a non-expendable property report was not submitted. Although, the period of performance was extended from November 7, 2017 to February 28, 2018, the annual non-expendable property report would have been required to be submitted in April 2017.

Criteria: AIDAR 752.245-70(b) Government Property –Reporting Requirements. “The contractor will submit an annual report on all non-expendable property in a form and manner acceptable to USAID...”

According to Chemonics’ *Project Property Management and Disposition Guidance*, “Under prime contracts, in accordance with AIDAR 752.2 45-70, Chemonics is required to submit annual reports on non-expendable property. ”

Questioned Costs: None.

Effect: By not submitting the report to USAID as required by ADAIR 752.245-70, USAID was not able to effectively manage and monitor non-expendable property purchased with federal funds.

Cause: Chemonics noted that the project was originally scheduled to end on November 7, 2017. Project management planned to submit a project close-out disposition plan, which they believed could be submitted in lieu of the annual non-expendable property report. However, the period of performance was extended until February 28, 2018 and, consequently, a project close-out disposition plan was not submitted as originally planned to meet the November 7, 2017 performance end period. Due to this oversight Chemonics did not submit an annual non-expendable report in April 2017 in accordance with AIDAR 752,2 45-70 and Chemonics internal policies.

Recommendation: Crowe recommends Chemonics update its policies and procedures to implement controls that require the review and approval of the non-expendable property reports as required by ADAIR 752.245-70 and contact USAID to determine whether retroactive filing of the report is necessary.

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SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Crowe identified three (3) prior audit reports that are applicable to the ATAR program, which had findings pertinent to the audit objective prescribed by SIGAR. We utilized these reports, identified direct and material findings as they relate to the Statement or other financial information significant to the audit objectives and accordingly conducted follow-up activities. The reports considered were as follows:

- SIGAR Financial Audit 13-1, "Audit of Costs Incurred by Chemonics International, Inc. in support of USAID's Alternative Livelihoods Program - Southern Region"
- SIGAR Financial Audit 17-33, "Financial Audit of Costs Incurred Under Contract No. 306-C-00-11-00531, Financial Access for Investing in the Development of Afghanistan (FAIDA)," for the period January 1, 2015, through August 31, 2016.
- SIGAR Financial Audit 14-75, "Financial Audits of Costs Incurred under Contract Numbers 306-C-00-07-00501-00 (for the Period November 22, 2006 to October 30, 2011) and 306-DOT-I-01-08-00033-00 (for the Period June 26, 2009 and June 25, 2012)."

Upon review of the reports, twelve (12) findings were noted that required follow-up on corrective actions. The prior audit findings have been reflected below with Crowe's conclusion on the corrective action taken by Chemonics.

Report: *SIGAR Financial Audit 13-1, "Audit of Costs Incurred by Chemonics International, Inc. in support of USAID's Alternative Livelihoods Program - Southern Region"*

1. **Finding 2012-01**

Issue: Chemonics was unable to provide a listing of components of the indirect cost rate calculation to determine if the costs were appropriately charged to contract.

Status: During our testing of reimbursement requests, we tested the application of the approved indirect cost rates. No exceptions were noted; therefore, the finding was not repeated.

2. **Finding 2012-02:**

Issue: Chemonics awarded sole source procurements to three vendors and were unable to justify the reasons behind these awards.

Status: During our testing of Procurement activity, we did not identify any instances when sole source procurements were not adequately supported. Therefore, the finding was not repeated.

3. **Finding 2012-03:**

Issue: Chemonics could not produce evidence to help determine if all or a subset of subcontracts included fixed daily rate charges or if procedures were conducted to determine if subcontractors' indirect costs were allowable.

Status: During our testing of Allowable Costs, we tested to determine if subcontractors included indirect costs as part of the invoicing process. We noted no exceptions; therefore, the finding was not repeated.

4. Finding 2012-04:

Issue: Ineligible local procurement. Chemonics did not provide documentation of the contracting officer's pre-approval to procure the services locally.

Status: During our testing of procurement, we did not identify any instances where Chemonics did not follow contract regulations. Therefore, the finding was not repeated.

Report: *SIGAR Financial Audit 17-33, "Financial Audit of Costs Incurred Under Contract No. 306-C-00-11-00531, Financial Access for Investing in the Development of Afghanistan (FAIDA)," for the period January 1, 2015, through August 31, 2016.*

5. Finding 2017-01:

Issue: Chemonics did not consistently perform checks for suspended and debarred vendors.

Status: Crowe included the testing of SAM searches during our testing of procurements. No exceptions were noted; therefore, the finding was not repeated.

Report: *SIGAR Financial Audit 14-75, "Financial Audits of Costs Incurred under Contract Numbers 306-C-00-07-00501-00 (for the Period November 22, 2006 to October 30, 2011) and 306-DOT-I-01-08-00033-00 (for the Period June 26, 2009 and June 25, 2012)."*

6. Finding ASAP NFR 2014.2.1 and ASI NFR 2014-2.1:

Issue: Chemonics did not provide sufficient documentation to evidence that competitive bidding procedures were followed when required.

Status: During our testing of procurement, we tested required competitive bidding compliance. We noted no exceptions; therefore, the finding was not repeated.

7. Finding ASAP NFR 2014-2.2 - Timesheets, Receiving Reports, and Invoices and ASI NFR 2014-2.3 -Receiving Reports:

Issue: Chemonics could not provide sufficient documentation to support costs incurred and/or receipt of goods/services for Grants and other direct costs (ODCs).

Status: During testing of allowable costs, we tested invoices for adequate documentation. No exceptions were noted; therefore, the finding was not repeated.

8. Finding ASAP NFR 2014-2.4 Miscellaneous– Also ASI NFR 2014-2.6 – Miscellaneous:

Issue: Chemonics could not provide sufficient documentation to support costs incurred for Grants, Allowances, and ODCs.

Status: During testing of allowable costs, we tested invoices for adequate documentation. No exceptions were noted; therefore, the finding was not repeated.

9. Finding ASAP NFR 2014-3:

Issue: Rest and recuperation costs were not allocated across the same programs that incurred the employees time.

Status: During our testing of allowable costs, we noted no instances where allocated costs were not properly supported; therefore, the finding was not repeated.

10. Finding ASI NFR 2014-1:

Issue: Transactions for grants and Other Direct Costs (ODC') did not have proper approval.

Status: During our testing of allowable costs, which included ODC's, we noted no instances where costs were not properly supported; therefore, the finding was not repeated.

11. Finding ASI NFR 2014-1.5:

Issue: Chemonics did not make payment to vendors within 30 days of invoicing.

Status: Crowe included the testing of SAM searches during our testing of procurements. No exceptions were noted; therefore, the finding was not repeated.

12. Finding ASI NFR 2014-2.2:

Issue: Chemonics did not provide sufficient documentation to support the approval of travel expenses.

Status: During testing of allowable costs, we tested invoices for adequate documentation. No exceptions were noted; therefore, the finding was not repeated.

APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS

Finding 2018-02 noted that annually Chemonics was required to submit to USAID the Non expendable Property Report. Chemonics did not submit a report for 2017. According to Chemonics personnel, the 2017 report was not completed in anticipation of the project termination date of November 7, 2017; however, the project was extended through February 28, 2018.

Chemonics Response: The ATAR project was originally scheduled to end on November 7, 2017. We planned to submit a project close-out disposition plan in lieu of the annual non-expendable property report. However, the period of performance was extended until February 28, 2018 so the close-out disposition plan was not submitted as originally planned to meet the November 7, 2017 performance end period. In accordance with AIDAR 752, 2 45-70 and Chemonics' internal policies, we will strengthen our internal controls to ensure timely submission of project annual non-expendable property reports.

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

Sincerely,

A handwritten signature in black ink, appearing to read 'V. Mitchev', written in a cursive style.

Vlad Mitchev
Controller
Chemonics International, Inc.

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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