

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-75 Financial Audit

USAID's Accelerated Sustainable Agriculture
Program and Afghanistan Stabilization Initiative:
Audit of Costs Incurred by Chemonics
International, Inc.



JULY
2014

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

The U.S. Agency for International Development (USAID) awarded Contract No. 306-C-00-07-00501-00 to Chemonics International, Inc. (Chemonics) to implement the Accelerated Sustainable Agriculture Program (ASAP). The program sought to provide economic opportunities in agriculture for rural Afghans. USAID also awarded Contract No. 306-DOT-I-02-08-00033-00 to Chemonics to support the Afghanistan Stabilization Initiative (ASI) to build trust and confidence between communities and the Afghan government through small community improvement projects.

SIGAR's financial audit, performed by Kearney & Company, P.C. (Kearney), covered the period November 22, 2006, through October 30, 2011, and expenditures of \$132,818,195 for ASAP, and June 26, 2009, through June 25, 2012, and \$119,549,834 for ASI. Kearney (1) identified and reported on significant deficiencies or material weaknesses in Chemonics' internal controls related to the task order; (2) identified and reported on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determined and reported on whether Chemonics has taken corrective action on prior findings and recommendations; and (4) expressed an opinion on the fair presentation of Chemonics' Special Purpose Financial Statement. See Kearney's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of a contracted audit, SIGAR is required by auditing standards to provide oversight of the work performed. Accordingly, SIGAR reviewed Kearney's audit results and found them to be in accordance with generally accepted government auditing standards.

July 2014

USAID's Accelerated Sustainable Agriculture Program and Afghanistan Stabilization Initiative: Audit of Costs Incurred by Chemonics International, Inc.

SIGAR 14-75-FA

WHAT THE AUDIT FOUND

Kearney & Company, P.C. (Kearney) identified three internal control deficiencies and five instances of Chemonics International, Inc.'s (Chemonics) noncompliance with the terms of the award and applicable laws and regulations. These internal control deficiencies and instances of noncompliance resulted in Kearney questioning \$2,032,485 in costs; including \$2,032,312 in unsupported costs—costs not supported by sufficient documentation to allow Kearney to determine their accuracy and allowability; and \$173 in ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Questioned Costs Total	Ineligible	Unsupported
Allowances (ASAP)	\$43	\$43	\$0
Other Direct Costs (ASAP)	\$164,308	\$0	\$164,308
Subcontracts (ASAP)	\$49,170	\$0	\$49,170
Grants & Associated Fees (ASAP)	\$875,146	\$0	\$875,146
Salaries & Wages (ASI)	\$234	\$0	\$234
Allowances (ASI)	\$7,764	\$0	\$7,764
Other Direct Costs (ASI)	\$17,463	\$130	\$17,333
Grants (ASI)	\$918,357	\$0	\$918,357
Totals	\$2,032,485	\$173	\$2,032,312

With regard to internal controls, Kearney found deficiencies with Chemonics' review and approval procedures, recordkeeping, and cost allocations. These deficiencies affected the support for Chemonics' approval of and competition for grants and the allocation of costs. For example, the auditors questioned \$787,795 due to a lack of competitive bidding documentation. In another instance, Kearney found that \$19,899 in employee vacation costs were charged solely to one contract, although the employee worked on multiple projects.

The five instances of Chemonics' noncompliance with the terms of the award and applicable laws and regulations involved some overlap with the internal control findings, because the five instances related to documentation not provided to the auditors and to the improper cost allocations.

Kearney also identified 28 prior audit findings, which could have a material effect on the Special Purpose Financial Statement. Of those, Chemonics had not taken adequate corrective action on 13. Although Chemonics disagreed that any of the 13 were valid findings, Kearney identified three as repeat findings.



Aftermath of the April 15, 2010, attack on the Afghanistan Stabilization Initiative headquarters that destroyed original documentation.

Source: Chemonics

Lastly, in Kearney's opinion, Chemonics' Special Purpose Financial Statement for the Accelerated Sustainable Agriculture Program presented fairly in all material respects, revenues received, costs incurred and the balance for the indicated periods in accordance with requirements established by SIGAR. However, Kearny issued a qualified opinion on the Special Purpose Financial Statement for the Afghanistan Stabilization Initiative because of the unsupported costs related to Other Direct Costs and Grants balances. This lack of sufficient and appropriate evidence was partially attributable to a terrorist attack that destroyed Afghanistan Stabilization Initiative documentation.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

1. **Determine the allowability of and recover, as appropriate, \$2,032,485 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 five noncompliance findings identified.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 7, 2014

Dr. Rajiv Shah
Administrator
U.S. Agency for International Development

Mr. William Hammink
Mission Director for Afghanistan
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by Chemonics International, Inc. (Chemonics) under two USAID contracts—one supporting the Accelerated Sustainable Agriculture Program (ASAP)¹ and the other supporting the Afghanistan Stabilization Initiative (ASI).² The audit, performed by Kearney & Company, P.C. covered the period November 22, 2006, through October 30, 2011, and expenditures of \$132,818,195 for ASAP, and the period June 26, 2009, through June 25, 2012, and expenditures of \$119,549,834 for ASI. Based on the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

- 1. Determine the allowability of and recover, as appropriate, \$2,032,485 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 five noncompliance findings.**

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-024)

¹ USAID contract number 306-C-00-07-00501-00

² USAID contract number 306-DOT-I-02-08-00033-00

OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

Chemonics International, Inc.

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)

March 25, 2014



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TRANSMITTAL LETTER

May 23, 2014

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

To the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) is pleased to submit this Audit Report, as required under Contract Number GS-23F-0092J, Task HHSP233201300469G, for Chemonics International, Inc. (Chemonics). The Audit Report is in regard to Chemonics Contract Number 306-C-00-07-00501-00 for Accelerated Sustainable Agriculture Program (ASAP) for November 22, 2006 to October 30, 2011, and Chemonics Contract Number 306-DOT-I-01-08-00033-00 for Afghanistan Stabilization Initiative (ASI) for June 26, 2009 to June 25, 2012.

We appreciate the opportunity to provide you with our Report. When preparing the Report, we considered comments, feedback, and interpretations provided by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), both orally and in writing, throughout the audit Planning, Fieldwork, and Reporting Phases of this engagement.

Thank you for providing us with the opportunity to assist SIGAR and conduct the financial audit of the two contracts noted above. If any additional information is needed, please do not hesitate to contact me at (703) 931-5600.

Sincerely,



David Zavada, CPA, Partner
Kearney & Company, P.C.

TABLE OF CONTENTS

	Page #
EXECUTIVE SUMMARY	1
Background.....	1
Objectives, Scope, and Methodology	2
Summary of Results	4
Summary of Chemonics' Response to Findings	6
SPECIAL PURPOSE FINANCIAL STATEMENTS.....	7
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS.....	9
AUDITOR'S NOTES TO THE QUESTIONED COSTS	12
INDEPENDENT AUDITOR'S REPORT	14
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	17
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE.....	19
SCHEDULE OF FINDINGS AND RESPONSES	21
APPENDIX A – PRIOR AUDIT FINDINGS AND STATUS	46
APPENDIX B – CHEMONICS INTERNATIONAL, INC.'S RESPONSE TO AUDIT REPORT	54
APPENDIX C – AUDITOR'S EVALUATION OF CHEMONICS INTERNATIONAL, INC. RESPONSE TO AUDIT REPORT.....	82

EXECUTIVE SUMMARY

Background

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) to perform an audit of the Special Purpose Financial Statements (SPFS) of two contracts awarded to Chemonics International, Inc. (Chemonics) by the United States Agency for International Development (USAID).

Accelerated Sustainable Agriculture Program (ASAP) – Contract No. 306-C-00-07-00501-00

USAID initiated a contract to accelerate broad-based, market-led agriculture development capable of responding and adapting to market forces in ways that provide new economic opportunities for rural Afghans. Objectives of ASAP included identification of markets, the commodities appropriate for the market, the required package of interventions, technologies, and other technical assistance for a selected commodity group or market area.

The ASAP contract was awarded to Chemonics for the period of November 22, 2006 through March 31, 2010. The contract was a cost plus, fixed fee contract with an initial amount of \$61,697,007, covering the base and all option periods. Subsequent modifications increased the funding to \$132,673,106 and extended the period of performance to October 31, 2011.

Afghanistan Stabilization Initiative (ASI) – Contract No. 306-DOT-I-02-08-00033-00

The USAID, Office of Transition Initiative (OTI) initiated a three-year program in Afghanistan in June 2009 entitled “Afghanistan Stabilization Initiative” (ASI). The ASI program was designed to build confidence and trust between the Government of the Islamic Republic of Afghanistan (GIROA) and communities through the identification and implementation of small community improvement projects in unstable areas of Afghanistan.

ASI was designed to support GIROA in post-conflict areas through small, community-driven activities in order to increase the willingness and capacity of communities to cooperate and interact with GIROA, and expand GIROA’s capacity to exercise timely, credible, and responsive civil functions.

The ASI contract was awarded to Chemonics for the period of June 26, 2009 through June 25, 2012. Chemonics was contracted to increase public access to information about GIROA’s social, economic, and political activities and policies in Afghanistan; and create conditions that build confidence between communities and the GIROA through the improvement of the economic and social environment in the region. The contract was a cost plus, fixed fee contract for the amount of approximately \$159,600,000, with modifications revising the Statement of Work (SOW) and decreasing the funding of the contract to \$120,000,000.

Objectives, Scope, and Methodology

Objectives

In accordance with the contract awards, the specific audit objectives of this financial statement audit are to:

- Express an opinion on whether the SPFS for the awards presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and balances for the period audited, in conformity with the terms of the awards and Generally Accepted Accounting Principles (GAAP) or other comprehensive basis of accounting
- Evaluate and obtain a sufficient understanding of the audited entity's internal control related to the awards and assess control risk; and identify and report on significant deficiencies, including material internal control weaknesses
- Perform tests to determine whether the audited entity complied, in all material respects, with the awards' requirements and applicable laws and regulations; and identify and report on instances of material non-compliance with terms of the awards and applicable laws and regulations, including potential fraud or abuse that may have occurred
- Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS.

Scope

Our audits of the SPFS covered the following USAID contracts awarded to Chemonics:

- No. 306-C-00-07-00501-00: ASAP, for the period of November 22, 2006 through October 30, 2011
- No. 306-DOT-I-02-08-00033-00: ASI, for the period of June 26, 2009 through June 25, 2012.

Our review of indirect costs was limited to determining whether the indirect rates per the Negotiated Indirect Cost Rate Agreement were properly applied to the direct costs, subsequently reported on the SPFS, correctly calculated, and appropriately charged to the U.S. Government in accordance with the agreement. The scope of our audit does not include procedures to verify the material accuracy of Chemonics' indirect cost rates and fixed fee rates. These rates are subject to USAID oversight through an incurred cost audit. Therefore, such information has not been subject to the auditing procedures beyond those designed to test the application of those unaudited rates in the preparation of the SPFS; accordingly, we do not express an opinion or provide any assurance on the rates.

Our audit was conducted for the purpose of forming an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 1. Therefore:

- The Transmittal Letter and the information presented in the Table of Contents, Executive Summary, and Management’s Responses to Our Findings are presented for the purpose of additional analysis and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied during the audit of the SPFS, and accordingly, we do not express an opinion or provide any assurance on it
- The scope of our audit does not include procedures to verify the efficacy of the ASAP and ASI programs, and accordingly, we do not express an opinion or provide any assurance on it.

Methodology

We conducted our audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), as published in the Government Accountability Office’s (GAO) *Government Auditing Standards* (GAS or “Yellow Book”). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the SPFS of the costs incurred under the awards are free of material misstatement. An audit includes:

- Obtaining an understanding of Chemonics’ internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the SPFS.

Our audit approach enables us to redefine the audit scope as necessary, and consists of the following four phases:

Planning Phase: Kearney developed an understanding of Chemonics and the SPFS by performing the following:

- Analyzing and comparing booked to billed costs
- Reviewing for changes in estimation and allocation methodologies and/or processes
- Reviewing the financial statements and footnotes
- Holding preliminary discussions with Chemonics personnel concerning their methods and processes
- Identifying significant costs
- Reviewing indirect rate applications
- Identifying significant sub-contracts.

Kearney also obtained the status and adequacy of the corrective actions taken based on prior audits for follow-up in subsequent phases.

Internal Control Understanding/Evaluation Phase: Kearney performed procedures to obtain a sufficient understanding of the controls and compliance requirements in place over each of the cost categories to be tested. The results of this phase were considered in determining the nature and extent of procedures to be performed in the Testing Phase.

Testing Phase: This phase consisted of validating transaction populations and applying various sampling techniques, obtaining sufficient appropriate audit evidence that provides reasonable assurance as to whether the SPFS and related assertions are free of material misstatement, and determining whether costs claimed are allowable, allocable, and reasonable. This phase also consisted of testing costs incurred for compliance with the contract and applicable laws and regulations.

Reporting Phase: In this phase, Kearney provided Chemonics' management with an appropriate Management's Representation Letter and performed wrap-up procedures designed to assess and confirm the completion of the audit in accordance with all relevant standards.

The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

Summary of Results

Opinion

Kearney issued an unqualified opinion on the SPFS for ASAP, which concludes that the SPFS presents fairly, in material respects, the program revenues, costs incurred and fees applied, and resulting revenue over/(under) expenses for the indicated period in accordance with the terms of the agreements, and in conformity with the basis of accounting described in Note 2 of the SPFS. Kearney issued a qualified opinion on the SPFS for ASI, which concluded that except for the effects of the unsupported costs related to the Other Direct Costs (ODC) and Grants balances, the SPFS presents fairly, in material respects, the program revenues, costs incurred and fees applied, and resulting revenue over/(under) expenses for the indicated period in accordance with the terms of the agreements, and in conformity with the basis of accounting described in Note 2 of the SPFS. The qualification resulted from a lack of sufficient, appropriate audit evidence. This was partially attributable to lack of documentation as a result of a terrorist attack that destroyed ASI documentation. See the Independent Auditor's Report section of this document for our opinion.

Questioned Costs

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations. Unsupported costs are those costs for which Chemonics was unable to provide sufficient supporting documentation, including evidence of proper approvals, for Kearney to determine the accuracy and allowability of the costs. Kearney noted a total of \$173 in ineligible costs and \$2,032,312 in unsupported costs, for a total of \$2,032,485 of questioned costs, as shown in Table 1 below.

Table 1 – Total Questioned Costs

Contract	Cost Category	Questioned Amount (\$)	Schedule of Findings and Responses Reference
ASAP	Allowances	43	Chemonics ASAP NFR 2014-2.4
	ODCs	164,308	Chemonics ASAP NFR 2014-2.1 Chemonics ASAP NFR 2014-2.2 Chemonics ASAP NFR 2014-2.4 Chemonics ASAP NFR 2014-3
	Grants and Fees	875,146	Chemonics ASAP NFR 2014-2.3 Chemonics ASAP NFR 2014-2.4
	Subcontracts	49,170	Chemonics ASAP NFR 2014-2.1
Total Questioned Costs – ASAP		1,088,667	
ASI	Allowances	7,764	Chemonics ASI NFR 2014-2.2
	ODCs	17,463	Chemonics ASI NFR 2014-2.1 Chemonics ASI NFR 2014-2.6
	Grants	918,357	Chemonics ASI NFR 2014-1.1 Chemonics ASI NFR 2014-1.4 Chemonics ASI NFR 2014-2.1 Chemonics ASI NFR 2014-2.4
	Salaries and Wages	234	Chemonics ASI NFR 2014-1.4
Total Questioned Costs – ASI		943,818	
Total Questioned Costs – Chemonics		2,032,485	

Internal Control Findings

There are two categories of internal control findings—material weaknesses and significant deficiencies. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A summary of each category of internal control findings is as follows:

Kearney reported two material weaknesses as follows:

1. Inadequate Review and Approval Procedures (Chemonics ASAP NFR 2014-1, Chemonics ASI NFR 2014-1.1, Chemonics ASI NFR 2014-1.2, Chemonics ASI NFR 2014-1.3, Chemonics ASI NFR 2014-1.4, Chemonics ASI NFR 2014-1.5)
2. Inadequate Recordkeeping (Chemonics ASAP NFR 2014-2.1, Chemonics ASAP NFR 2014-2.2, Chemonics ASAP NFR 2014-2.3, Chemonics ASAP NFR 2014-2.4,

Chemonics ASI NFR 2014-2.1, Chemonics ASI NFR 2014-2.2, Chemonics ASI NFR 2014-2.3, Chemonics ASI NFR 2014-2.4, Chemonics ASI NFR 2014-2.5, Chemonics ASI NFR 2014-2.6).

Kearney reported one significant deficiency as follows:

1. Improper Cost Allocations (Chemonics ASAP NFR 2014-3).

Compliance Findings

As part of our audit of Chemonics' SPFS, we performed tests to determine compliance with provisions of the contract and other laws and regulations that have a direct and material effect on the SPFS. We identified the following instances of non-compliance:

1. Grant Supporting Documentation was Not Provided (Chemonics ASI NFR 2014-2.4)
2. Grant Closeout Documentation was Not Provided (Chemonics ASAP NFR 2014-2.3 and Chemonics ASI NFR 2014-2.5)
3. Unexplained Discrepancies between General Ledger (GL) Balances and Grant Closeout and/or Supporting Documentation (Chemonics ASI NFR 2014-1.3)
4. Competitive Bidding Documentation Not Provided (Chemonics ASAP NFR 2014-2.1 and Chemonics ASI NFR 2014-2.1) .
5. Improper Cost Allocations (Chemonics ASAP NFR 2014-3).

Review of Prior Findings and Recommendations

Kearney identified 28 findings stated in prior audit reports that could have a material effect on the SPFS. Kearney inquired about whether Chemonics had implemented corrective actions plans (CAP) to address the findings, and subsequently determined the status and adequacy of those corrective actions. Of the 28 findings, Kearney noted that Chemonics has implemented adequate corrective actions to address 15 findings, and that 13 have not been adequately addressed. Of those not adequately addressed as part of our fieldwork, Chemonics disagreed that all 13 were valid audit findings; as such, Chemonics had not yet taken corrective actions toward these findings. Of the 13 with which Chemonics disagrees, Kearney identified three findings as repeat findings, which we reported in Chemonics ASAP NFR 2014-2.1, Chemonics ASAP NFR 2014-2.4, Chemonics ASAP NFR 2014-3, Chemonics ASI NFR 2014-2.1 and Chemonics ASI NFR 2014-2.6. See Appendix A of this report for a summary of the prior audit findings and the status of each.

Summary of Chemonics' Response to Findings

Chemonics has provided a response to the findings contained in this report, which is included as Appendix B of this report.

SPECIAL PURPOSE FINANCIAL STATEMENTS

Chemonics International, Inc. Special Purpose Financial Statement for Costs Incurred under ASAP Contract No. 306- C-00-07-00501-00 For the period of November 22, 2006 through October 30, 2011				Auditor's Questioned Costs Note A		
	Budget (\$) (Audited)	Actual (\$) (Audited)	Notes (Audited)	Ineligible (\$)	Unsupported (\$)	Auditor's Notes
Amounts paid by the U.S. Government	<u>132,673,106</u>		4	0	0	
Costs Incurred and Fees:						
Salaries and Wages		35,274,711		0	0	
Travel and Transportation		3,597,951		0	0	
Allowances		9,341,567		43	0	B
Other Direct Costs		30,669,632		0	164,308	C
Subcontracts		49,815,015		0	49,170	D
Grants and Associated Fees		4,119,319		0	875,146	E
Total Costs Incurred and Fees	<u>132,673,106</u>	<u>132,818,195</u>	5	43	1,088,624	J
Amounts Paid by the U. S. Government over/(under) lesser of costs incurred and fees or project budget		0	6	(43)	(1,088,624)	
The accompanying notes are an integral part of this financial statement.						

Chemonics International, Inc. Special Purpose Financial Statement for Costs Incurred under ASI No. 306- DOT-I-00-08-00033-00 For the period of June 26, 2009 through June 25, 2012				Auditor's Questioned Costs Note A		
	Budget (\$) (Audited)	Actual (\$) (Audited)	Notes (Audited)	Ineligible (\$)	Unsupported (\$)	Auditor's Notes
Amounts Paid by the U.S. Government		119,549,834	4	0	0	
Costs Incurred and Fees:						
Salaries and Wages		30,993,638		0	234	F
Travel and Transportation		3,015,421		0	0	
Allowances		7,268,965		0	7,764	G
Other Direct Costs		19,851,731		130	17,333	H
Subtotal Costs Incurred and Fees:		61,129,755				
Grants		26,789,790		0	918,357	I
Subcontracts		31,630,289		0	0	
Subtotal Costs Incurred and Fees:		58,420,079				
Total Costs Incurred and Fees	120,000,000	119,549,834	5	130	943,688	J
Amounts Paid by the U. S. Government over/(under) lesser of costs incurred and fees or project budget		0	6	(130)	(943,688)	
The accompanying notes are an integral part of this financial statement.						

Chemonics International, Inc.
Notes to the Special Purpose Financial Statements
(Audited)

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statements (SPFS) include revenues and costs incurred under:

- Accelerating Sustainable Agriculture Program (ASAP) – Contract No. 306-C-00-07-00501-00 for the period of November 22, 2006 through October 30, 2011
- Afghanistan Stabilization Initiative (ASI) – Contract No. 306-DOT-I-02-08-00033-00 for the period of June 26, 2009 through June 25, 2012.

Because the SPFS for each contract present only a selected portion of the operations of Chemonics in Afghanistan, these SPFS do not, nor are they intended to, present the financial position, changes in net assets, or cash flows of Chemonics in Afghanistan. The information in these SPFS are presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and are specific to the aforementioned Federal awards. Therefore, some of the amounts presented in these SPFS may differ from amounts presented in, or used in the preparation of, Chemonics' basic financial statements.

Note 2. Basis of Accounting

The SPFS reflect the amount paid by the United States Government and the costs incurred and fees charged by Chemonics under the aforementioned ASAP and ASI contracts. The SPFS for each contract were prepared using a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). The contractual basis of accounting is in compliance with ASAP Contract No. 306-C-00-07-00501-00 and ASI Contract No. 306-DOT-I-02-08-00033-00. Revenues are recognized when earned and expenses are recognized when incurred. Direct costs are recorded when incurred and invoiced to the Government shortly thereafter. Indirect costs are estimated and invoiced using established indirect rates negotiated with the United States Agency for International Development (USAID) and subsequently adjusted when actual indirect rates are established.

Note 3. Foreign Currency Conversion Method

Chemonics converts its expenses that were paid in local currency (Afghanis) into reporting currency (U.S. Dollar [USD]) by applying a Standard Exchange Rate (SER) to foreign currency transactions. The SER is adjusted monthly.

Note 4. Amounts Paid by the United States Government

Both the ASI and ASAP contracts represent cost plus, fixed fee awards, and as such, the United States Government pays Chemonics as costs were incurred and fees were charged. Any amounts

paid by the United States Government in excess of costs incurred and applicable fees charged in accordance with the respective contract represent an adjustment due to USAID.

Note 5. Budget and Costs Incurred by Budget Category

Because the budgets presented in the respective contracts differ from the presentation in the SPFS, management has only presented the total budget amount for each contract in the SPFS.

For the purpose of this presentation, the actual incurred costs reported in the SPFS are reported fully burdened utilizing approved indirect rates as stated in the Chemonics' Negotiated Indirect Cost Rate Agreement with USAID, as allowed by the respective contracts. Fee amounts were allocated to the budget categories on a pro-rata basis. This presentation differs from Chemonics' usual presentation to USAID, for which the presentation displays direct costs, indirect costs, and fees as separate categories. The intent of presenting the financial information as shown in this SPFS is to prevent disclosure of Chemonics' proprietary indirect rates as well as the fee charged on the contract; disclosure could put Chemonics at a competitive disadvantage in future procurements. Chemonics has not undergone incurred cost audits of its indirect rates for any period covered by the SPFS. The results of the audits of the indirect rates may result in changes to the rates applied during the preparation of these SPFS, and consequently may result in changes to the incurred costs charged to the contracts.

Note 6. Amounts Paid by the United States Government over/under Lesser of Costs Incurred and Fees or Project Budget

The amounts paid by the United States Government over/under costs incurred and fees applied on the SPFS represents the difference between the lesser of costs incurred and fees charged by Chemonics and the budget of the contract amount reimbursed to Chemonics by USAID.

An amount paid by the United States Government over/(under) costs incurred and fees applied of \$0 indicates that funds are neither expected to be received by Chemonics from the Federal Government, nor expected to be paid to the Federal Government by Chemonics, with the exception of possible future indirect rate adjustments.

For clarification, in the case of the ASAP contract, the total costs incurred and fees applied were \$132,818,195. Since this amount was in excess of the contract's budget of \$132,673,106, Chemonics only received \$132,673,106 from the U.S. Government for this contract. Thus, Chemonics does not expect to receive funds from the U.S. Government, nor does it owe funds to the U.S. Government, for this project, with the exception of possible future indirect rate adjustments.

In the case of the ASI contract, the total costs incurred and fees applied were \$119,549,834. Since this amount was less than the contract's budget of \$120,000,000, Chemonics only received \$119,549,834 from the U.S. Government for this contract. Thus, Chemonics does not expect to receive funds from the U.S. Government, nor does it owe funds to the U.S. Government, for this project, with the exception of possible future indirect rate adjustments.

Note 7. Currency

All amounts are presented in USDs and have been rounded to the nearest whole USD.

Note 8. Program Status

For ASAP, all program activities are completed and all fees and costs incurred have been billed to USAID, with the exception of indirect rate adjustments.

For ASI, all program activities are completed and all fees and costs incurred have been billed to USAID, with the exception of indirect rate adjustments.

Note 9. Subsequent Events

Chemonics' management has performed an analysis of the activities and transactions subsequent to the period of performances of the ASAP and ASI SPFS as of March 25, 2014. Chemonics has not undergone incurred cost audits of its indirect rates for any period covered by the SPFS. The results of the audits of the indirect rates may result in changes to the rates applied during the preparation of these SPFS, and consequently may result in changes to the incurred costs charged to the contracts.

Chemonics International, Inc.
Notes to the Special Purpose Financial Statements
Auditor's Notes to the Questioned Costs

In addition to the Notes to the Financial Statements presented above associated with the Afghanistan Stabilization Initiative (ASI) and Accelerated Sustainable Agriculture Program (ASAP) Special Purpose Financial Statements (SPFS), which are the responsibility of Chemonics International, Inc.'s (Chemonics) management and identified with numerical notations, Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) has included the following alphabetical notations to facilitate understanding.

Note A. Questioned Costs

Questioned costs are those costs that are questioned by the auditor because of an audit finding potentially related to:

1. A violation or possible violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds
2. Where, at the time of the audit, the costs are not supported by adequate documentation
3. Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Questioned costs identified by the auditor are presented in the SPFS in two categories—unsupported and ineligible costs. Unsupported costs are those costs that, after a full review of all documentation provided, the auditor has concluded are inadequately or insufficiently documented to determine the allowability and accuracy of costs. Ineligible costs are those that are explicitly questioned because they are unreasonable, prohibited by the audited contract or applicable laws and regulations, or not award-related. Questioned costs are fully burdened with applicable indirect rates and applicable fees assigned in the contract using the year in which the expense was incurred.

The questioned costs reported as unsupported costs on the SPFS are the actual dollars questioned as a result of our testing procedures. No projected error or consideration of precision is included in these amounts.

Notes B through I. Explanation of Questioned Costs

Table 2 – Explanation of Questioned Costs

Note	Line Item	Questioned Cost Description	Schedule of Findings and Responses Reference
B	ASAP Allowances	<ul style="list-style-type: none"> Ineligible costs of \$43 due to lodging costs exceeding the Department of State limitations 	Chemonics ASAP NFR 2014-2.4
C	ASAP ODCs	<ul style="list-style-type: none"> Unsupported costs of \$2,148 due to a lack of competitive bidding documentation 	Chemonics ASAP NFR 2014-2.1

Note	Line Item	Questioned Cost Description	Schedule of Findings and Responses Reference
		<ul style="list-style-type: none"> • Unsupported costs of \$440 due to a lack of proper timekeeping documentation • Unsupported costs of \$141,027 due to a lack of consent to subcontract • Unsupported costs of \$794 due to a lack of supporting documentation • Unsupported costs of \$19,899 due to improper cost allocation methods 	Chemonics ASAP NFR 2014-2.2 Chemonics ASAP NFR 2014-2.4 Chemonics ASAP NFR 2014-2.4 Chemonics ASAP NFR 2014-3
D	ASAP Sub-contracts	<ul style="list-style-type: none"> • Unsupported costs of \$49,170 due to a lack of competitive bidding documentation 	Chemonics ASAP NFR 2014-2.1
E	ASAP Grants and Associated Feed	<ul style="list-style-type: none"> • Unsupported costs of \$856,496 due to an unresolved prior year audit finding • Unsupported costs of \$18,650 due to a lack of approval to incur costs 	Chemonics ASAP NFR 2014-2.3 Chemonics ASAP NFR 2014-2.4
F	ASI Salaries and Wages	<ul style="list-style-type: none"> • Unsupported costs of \$234 due to period of performance discrepancies 	Chemonics ASI NFR 2014-1.4
G	ASI Allowances	<ul style="list-style-type: none"> • Unsupported costs of \$7,764 due to a lack of international travel approval 	Chemonics ASI NFR 2014-2.2
H	ASI Other Direct Costs (ODC)	<ul style="list-style-type: none"> • Unsupported costs of \$4,026 due to a lack of supporting documentation • Ineligible costs of \$130 due to purchase of ineligible goods • Unsupported costs of \$13,307 due to a lack of competitive bidding documentation 	Chemonics ASI NFR 2014-2.6 Chemonics ASI NFR 2014-2.6 Chemonics ASI NFR 2014-2.1
I	ASI Grants	<ul style="list-style-type: none"> • Unsupported costs of \$95,844 due to costs exceeding budgeted amounts • Unsupported costs of \$24,190 due to insufficient invoice approvals • Unsupported costs of \$10,528 due to a lack of Grant agreement documentation • Unsupported costs of \$787,795 due to a lack of competitive bidding documentation 	Chemonics ASI NFR 2014-1.4 Chemonics ASI NFR 2014-1.1 Chemonics ASI NFR 2014-2.4 Chemonics ASI NFR 2014-2.1

Note J. Auditor's Note to SPFS Budget Explanation

Neither the ASI nor the ASAP contracts delineated costs in the budget by line item. Thus, the presentation of Total Costs Incurred and Fees is presented for a comparison of total budgeted against total actual.

INDEPENDENT AUDITOR'S REPORT

To the President and Chief Executive Officer of Chemonics International, Inc. and the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) has audited the Special Purpose Financial Statements (SPFS) of Chemonics International, Inc. (Chemonics) for Contract Number 306-DOT-I-01-08-00033-00, Afghanistan Stabilization Initiative for the period of June 26, 2009 through June 25, 2012 (herein referred to as the ASI contract); and for Contract Number 306-C-00-07-00501-00, Accelerated Sustainable Agriculture Program for the period of November 22, 2006 through October 30, 2011 (herein referred to as the ASAP contract). The SPFS and accompanying footnote disclosures are the responsibility of Chemonics’ management. Our responsibility is to express an opinion on the SPFS based on our audit.

Except as discussed in the paragraph below, we conducted our audit of the SPFS in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SPFS for each contract are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the SPFS. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying SPFS for each contract was prepared for the purpose of complying with financial statement presentation requirements for the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and reporting the amounts paid by the U. S. Government, costs incurred and reimbursed, and resulting amounts paid by the U. S. Government over/(under) the lesser of costs incurred and fees or project budget for the ASAP contract between Chemonics and the United States Agency for International Development (USAID), as discussed in Note 1. Further, as described in Note 2, the SPFS for each contract were prepared using a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP).

We were unable to obtain adequate audit evidence specific to the Other Direct Costs (ODC) and Grants balances for the ASI contract. Kearney noted a material amount of unsupported costs related to these balances. Although the total questioned costs were not aggregately material to the SPFS taken as a whole, we believe that these cost categories are of particular significance to Chemonics and represent a substantial proportion of the SPFS.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine adequate evidence regarding the ODC and Grant balances, the matters discussed above, the SPFS for the contracts referred to in the first paragraph above, present fairly, in all material respects, the amounts paid by the U. S. Government, costs incurred and reimbursed, and resulting amounts paid by the U. S.

Government over/(under) the lesser of costs incurred and fees or project budget for the indicated periods, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2 of the SPFS.

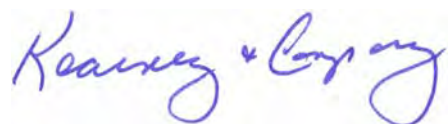
Our audit was conducted for the purpose of forming an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 1. Questioned costs are those costs that are questioned by the auditor because of an audit finding. Therefore:

- The Transmittal Letter and the information presented in the Table of Contents, Executive Summary, and Management's Responses to Our Findings are presented for the purpose of additional analysis and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS; accordingly, we do not express an opinion or provide any assurance on it
- The SPFS and accompanying notes are the responsibility of Chemonics' management. The auditor's questioned costs and accompanying notes are not part of the SPFS, and are a result of the audit procedures
- The scope of our audit of indirect costs was limited to determining whether the indirect rates per the Negotiated Indirect Cost Rate Agreement were properly applied to the direct costs and subsequently reported on the SPFS, and does not include procedures to verify the material accuracy of Chemonics' indirect cost rates and fixed fee rates, as discussed in Note 5. These rates are subject to USAID oversight through an incurred cost audit. Therefore, such information has not been subject to the auditing procedures beyond those designed to test the application of those unaudited rates in the preparation of the SPFS; accordingly, we do not express an opinion or provide any assurance on the rates.

In accordance with *Government Auditing Standards*, we have also issued reports, dated March 25, 2014, on our consideration of Chemonics' internal control over financial reporting (internal control) and on our tests of its compliance with certain provisions of the contract agreement and applicable laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control and compliance with certain provisions of the agreement and applicable laws and regulations, as well as the results of that testing, and not to provide an opinion on internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

* * * * *

This report is intended for the information of Chemonics, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. 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.



Alexandria, Virginia
March 25, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President and Chief Executive Officer of Chemonics International, Inc. and the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) has audited the Special Purpose Financial Statements (SPFS) of Chemonics International, Inc. (Chemonics) for Contract Number 306-C-00-07-00501-00, Accelerated Sustainable Agriculture Program for the period of November 22, 2006 through October 30, 2011 (herein referred to as the ASAP contract); and for Contract Number 306-DOT-I-01-08-00033-00, Afghanistan Stabilization Initiative for the period of June 26, 2009 through June 25, 2012 (herein referred to as the ASI contract), and have issued our Independent Auditor's Report dated March 25, 2014. Except as discussed in that report, we conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SPFS and accompanying footnote disclosures are free of material misstatement.

Chemonics' management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments made 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 Chemonics' 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 Chemonics management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the SPFS in conformity with the basis of accounting described in Note 2 to the SPFS. Because of inherent limitations in internal control, errors or fraud may nonetheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate due to 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 SPFS, Kearney considered Chemonics' internal control over financial reporting (internal control) by obtaining an understanding of the design effectiveness of Chemonics' internal controls, determining whether controls had been placed in operation, assessing the control risk, and performing tests of Chemonics' controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the SPFS, and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of Chemonics' internal control.

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 significant deficiencies or material weaknesses; therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as

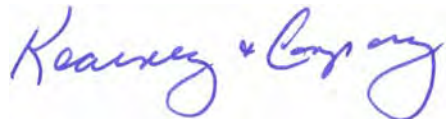
described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the two deficiencies described in the accompanying Schedule of Findings and Responses, Table 3, to be material weaknesses.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the one deficiency described in the Schedule of Findings and Responses, Table 4, to be a significant deficiency.

Additionally, Chemonics' management has given its response to the findings presented in our report. We did not audit Chemonics' response to the findings, and accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of Chemonics, the United States Agency for International Development (USAID), and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink that reads "Kearney & Company".

Alexandria, Virginia
March 25, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Chief Executive Officer of Chemonics International, Inc. and the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) has audited the Special Purpose Financial Statements (SPFS) of Chemonics International, Inc. (Chemonics) for Contract Number 306-C-00-07-00501-00, Accelerated Sustainable Agriculture Program for the period of November 22, 2006 through October 30, 2011, (herein referred to as the ASAP contract); and for Contract Number 306-DOT-I-01-08-00033-00, Afghanistan Stabilization Initiative for the period of June 26, 2009 through June 25, 2012 (herein referred to as the ASI contract) and have issued our Independent Auditor’s Report dated March 25, 2014. Except as discussed in that report, we conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SPFS is free of material misstatement resulting from violations of agreement terms, and laws and regulations that have a direct and material effect on the determination of the SPFS amounts. Chemonics’ management is responsible for compliance with agreement terms and applicable laws and regulations.

As part of obtaining reasonable assurance about whether the SPFS for each contract are free of material misstatement, we performed tests of Chemonics’ compliance with certain provisions of agreement terms, and applicable laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance with certain provisions of agreement terms and applicable laws and regulations disclosed five instances of non-compliance, described in the accompanying Schedule of Findings and Responses, Table 5, that are required to be reported under *Government Auditing Standards*.

Auditors must plan and perform the audit to obtain sufficient appropriate audit evidence for obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). The results of our tests of compliance with certain provisions of agreement terms, and applicable laws and regulations did not disclose any instances of fraud or abuse. However, our objective was not to provide an opinion on instances of fraud. Accordingly, we do not express such an opinion.

Additionally, Chemonics’ management has given its response to the findings presented in our report. We did not audit Chemonics’ response to the findings, and accordingly, we do not express an opinion on it.

* * * * *

This report is intended solely for the information and use of Chemonics, the United States Agency for International Development (USAID), and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. 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.



Alexandria, Virginia
March 25, 2014

SCHEDULE OF FINDINGS AND RESPONSES

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) noted individual control deficiencies that, in the aggregate, resulted in two material weaknesses, as shown in Table 3 below; one significant deficiency, as shown in Table 4 below; and instances of non-compliance, as noted in Table 5 below.

Material Weaknesses

The individual control deficiencies that contributed to the material weaknesses identified below are documented in the Condition sections of the referenced Notifications of Finding and Responses (NFR), and are summarized and referenced here accordingly.

Specific to the Other Direct Costs (ODC) and the subcontractor balances for both the Afghanistan Stabilization Initiative (ASI) and Accelerated Sustainable Agriculture Program (ASAP) contracts, and the Salaries and Grants balance for the ASI contract, Kearney noted a significant amount of internal control issues, that when taken considered aggregately, indicate a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Table 3 – Material Weaknesses

Deficiency Summary	Schedule of Findings and Responses Reference
Material Weakness #1 – Inadequate Review and Approval Procedures: Chemonics International, Inc. (Chemonics) did not have adequate internal review and approval procedures in place during the periods under audit	
<ul style="list-style-type: none"> Relevant supporting documentation for Grants was not properly approved, resulting in unsupported costs of \$24,190. Multiple other exceptions were noted due to inadequately approved grants and ODC documentation 	Chemonics ASAP NFR 2014-1 Chemonics ASI NFR 2014-1.1
<ul style="list-style-type: none"> Control deficiencies were noted due to inadequate review procedures over Grants and Payroll, resulting in unsupported costs of \$96,078. Additional exceptions were noted due to a transliteration issue and an exchange rate issue 	Chemonics ASI NFR 2014-1.4
<ul style="list-style-type: none"> Grant closeout documentation was not properly reviewed, resulting in unexplained discrepancies between general ledger (GL) balances and supporting documentation for Grants 	Chemonics ASI NFR 2014-1.3
<ul style="list-style-type: none"> Inadequate review and approval procedures led to unprevented/undetected clerical errors pertaining to Payroll and Grants transactions 	Chemonics ASI NFR 2014-1.2
<ul style="list-style-type: none"> Grants and subcontractor documentation was not properly reviewed resulting in timing issues for approvals and creation of agreement documentation 	Chemonics ASI NFR 2014-1.5

Deficiency Summary	Schedule of Findings and Responses Reference
Material Weakness #2 – Inadequate Recordkeeping: Chemonics was unable to provide adequate supporting documentation, as the required documentation to support the controls, and in some instances the costs incurred, was unavailable or did not exist	
<ul style="list-style-type: none"> Lack of competitive bidding documentation for Grants and ODCs resulted in unsupported costs of \$801,102, and lack of competitive bidding documentation for subcontractors and ODCs resulted in unsupported costs of \$51,318 	Chemonics ASAP NFR 2014-2.1 Chemonics ASI NFR 2014-2.1
<ul style="list-style-type: none"> Lack of documentation to support the adequate closeout of a Grant resulted in unsupported costs of \$856,496. Two other exceptions were noted due to lack of closeout documentation 	Chemonics ASAP NFR 2014-2.3 Chemonics ASI NFR 2014-2.5
<ul style="list-style-type: none"> Control deficiencies were noted due to lack of supporting documentation for Grants, Allowances, and ODCs resulting in unsupported costs of \$160,471 and ineligible costs of \$43, and for Grants and ODCs resulting in unsupported costs of \$4,026 and ineligible costs of \$130. One other exception was noted in which a subcontractor period of performance was not extended but the overarching Grant agreement was extended 	Chemonics ASAP NFR 2014-2.4 Chemonics ASI NFR 2014-2.6
<ul style="list-style-type: none"> Lack of documentation to support the Grant agreement for Grants costs incurred resulted in unsupported costs of \$10,528. Three other exceptions were noted related to lack of supporting documentation for Grant costs incurred 	Chemonics ASI NFR 2014-2.4
<ul style="list-style-type: none"> Lack of documentation to support the approval of international travel for allowance costs incurred resulted in unsupported costs of \$7,764. An additional exception was noted where an approved expense report was not provided to support the approval of travel costs incurred. 	Chemonics ASI NFR 2014-2.2
<ul style="list-style-type: none"> Lack of documentation to support the costs incurred and/or receipt of goods/services for ODCs resulted in unsupported costs of \$440. Four other exceptions were noted in which proper documentation to support the receipt of goods was not provided 	Chemonics ASAP NFR 2014-2.2 Chemonics ASI NFR 2014-2.3

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Significant Deficiency

The individual control deficiencies that contributed to the significant deficiency identified below are documented in the Condition sections of the referenced NFR, and are summarized and referenced here accordingly.

Table 4 – Significant Deficiency

Deficiency Summary	Schedule of Findings and Responses Reference
Significant Deficiency #1 – Improper Cost Allocations: Chemonics used improper accounting methods to allocate Rest and Relaxation (R&R), Regional Rest Break (RRB), and other vacation costs incurred by an employee	
<ul style="list-style-type: none"> Costs associated with R&R, RRB, and other vacation costs for an employee were charged solely to the ASAP contract; however, the employee worked on multiple projects throughout this time and the costs should have been allocated equitably, resulting in unsupported costs of \$19,899. As an allocation methodology was not determined, the entire amount of related costs were questioned. 	Chemonics ASAP NFR 2014-3

* * * * *

Non-compliance and Other Matters

The individual control deficiencies that contributed to the non-compliance and other matters identified below are documented in the Condition sections of the referenced NFR, and are summarized and referenced here accordingly.

Table 5 – Instances of Non-compliance and Other Matters

Instance of Non-compliance	Schedule of Findings and Responses Reference
Grants supporting documentation not provided	Chemonics ASI NFR 2014-2.4
Grants closeout documentation not provided	Chemonics ASI NFR 2014-2.5 Chemonics ASAP NFR 2014-2.3
Unexplained discrepancies between GL balances and Grants closeout documentation	Chemonics ASI NFR 2014-1.3
Competitive bidding documentation not provided	Chemonics ASI NFR 2014-2.1 Chemonics ASAP NFR 2014-2.1
Improper cost allocations	Chemonics ASAP NFR 2014-3

Chemonics ASAP NFR 2014-1

Condition: Inadequate Chemonics International, Inc. (Chemonics) internal processes over Accelerated Sustainable Agriculture Program (ASAP) transactions occurring between November 22, 2006 and October 31, 2011 resulted in control deficiencies, which are described in further detail below. The dollar values reported in this finding are whole United States Dollars (USD) fully burdened using the rates per Chemonics' Negotiated Indirect Cost Rate Agreement and other relevant fees to the contract.

Relevant supporting documentation pertaining to Grants was not properly approved by supervisory Chemonics personnel in the following instance:

- **Grants:** For a total of 10 instances related to one Grant, a Grant modification was not signed and agreed to by Chemonics and the grantee until after the effective date; however, additional documentation provided sufficiently supported the costs. These instances did not result in questioned costs.

Cause: Chemonics did not have adequate internal control processes, specifically related to the review and approval of transactions, in place during the period under audit to ensure documentation was reviewed and approved as appropriate, and was timely and adequately maintained to support incurred costs.

Criteria: Per the Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, dated November 1999:

"Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded."

The *Committee of Sponsoring Organizations of the Treadway Commission (COSO)*, *Internal Control – Integrated Framework*, Chapter 7, Control Activities, Principle 10 states, "The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels."

The *COSO*, *Internal Control – Integrated Framework*, Chapter 7, Control Activities, Principle 10, Subsection Business Process Control Activities states, "*Accuracy* – Transactions are recorded at the correct amount in the account (and on a timely basis) as each stage of processing."

Effect: Internal controls, in some instances, may not be operating effectively to prevent or detect material misstatements.

Recommendation #1: Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) recommends that Chemonics improve procedures to ensure that proper reviews and

approvals are performed and adequately documented with sufficient support for all contract costs incurred.

Management's Response:

Chemonics' management provided an overall response to the audit report and specific responses to each individual finding. The full text of Chemonics' response is included in Appendix B to this report.

Auditor's Evaluation of Management's Response:

Kearney has provided an evaluation of Management Response in Appendix C.

Chemonics ASAP NFR 2014-2

Condition: Chemonics' internal processes did not produce or retain sufficient documentation for ASAP transactions occurring between November 22, 2006 and October 31, 2011, resulting in control deficiencies and a total of \$1,068,768 in questioned costs (\$1,068,725 unsupported and \$43 ineligible), which are described in further detail below. The dollar values reported in this finding are whole USD fully burdened using the rates per Chemonics' Negotiated Indirect Cost Rate Agreement and other relevant fees to the contract.

ASAP NFR 2014-2.1 – Competitive Bidding Documentation

Chemonics did not provide sufficient documentation to evidence that competitive bidding procedures were followed when required, in the following instances:

- **Subcontracts:** For two instances related to one subcontract, one in 2009 and one in 2010, sufficient bidding documentation was not provided to support the fair value assessment and was not documented prior to the award. While a monthly report was provided, it did not support the vendor nor the expediency of the vendor chosen, resulting in unsupported costs of \$49,170. [REDACTED]
- **ODCs:** For one instance in 2008, sufficient bidding documentation was not provided to support the fair market value of the costs, resulting in unsupported costs of \$2,148. [REDACTED]

ASAP NFR 2014-2.2 – Timesheets, Receiving Reports, and Invoices

Chemonics could not provide sufficient documentation to support costs incurred and/or receipt of goods/services for Grants and ODCs, in the following instances:

- For two instances in 2007 for Grants, documentation to evidence receipt of goods/services was not provided until well after the costs were incurred
- For one instance in 2007 for ODCs, timesheets or other evidence that the intended recipients of the payments received payment was not provided, resulting in unsupported costs of \$440. [REDACTED]
- For four instances for ODCs, evidence that the goods were received was provided; however, an exception was noted as receipt of goods prior to payment was not provided.

ASAP NFR 2014-2.3 – Grant Closeout Documentation

The Grant Completion Certificate and other related closeout documentation, as required by the *Chemonics Grants Manual* to support the closeout of the Grant agreement, was not provided in the following instances:

- In 20 instances, adequate Grant closeout documentation was not provided, including the completion certificate, thus not allowing for completion of a reconciliation between the general ledger (GL) and the completion certificate, resulting in a control issue and no questioned costs

- In ten instances related to one grant, the audit report received for the grantee indicated questioned costs. Based on the questioned costs as a result of a previous audit, costs associated to the grantee were deemed unsupported in the amount of \$856,496. [REDACTED]

ASAP NFR 2014-2.4 – Miscellaneous

Chemonics could not provide sufficient documentation to support costs incurred for Grants, Allowances, and ODCs in the following instances:

- An instance for Grants was noted in which neither a Grant agreement nor a work plan, which was to serve as a Grant agreement, was provided, resulting in unsupported costs of \$18,650. [REDACTED]
- An instance for Allowances was noted in which lodging was claimed in excess of the Department of State (DOS) limit. United States Agency for International Development (USAID) approval was not provided to support the lodging amount exceeding the DOS limit, resulting in ineligible costs of \$43. [REDACTED]
- An instance for ODCs was noted in which consent to subcontract for Modifications 2 and 3 was not provided, resulting in unsupported costs of \$141,027. [REDACTED]
- An instance for ODCs was noted in which no supporting documentation was provided, resulting in unsupported costs of \$794. [REDACTED]

Cause: Chemonics was unable to provide adequate supporting documentation because the required documentation to support the controls, and in some instances the costs incurred, was unavailable or did not exist. Due to records maintenance and retention practices in place during the contract period, Chemonics' records are maintained in hard copy, which further complicates Chemonics' ability to provide sufficient, timely supporting documentation.

Criteria: Per the Federal Acquisition Regulation (FAR), Subpart 13.0, *Simplified Acquisition Procedures*, Section 13.003, "Policy":

- “(a) Agencies shall use simplified acquisition procedures to the maximum extent practicable for all purchases of supplies or services not exceeding the simplified acquisition threshold (including purchases at or below the micro-purchase threshold). This policy does not apply if an agency can meet its requirement using—
- (1) Required sources of supply under Part 8 (*e.g.*, Federal Prison Industries, Committee for Purchase from People Who are Blind or Severely Disabled, and Federal Supply Schedule contracts);
 - (2) Existing indefinite delivery/indefinite quantity contracts; or
 - (3) Other established contracts.
- (b)(1) Each acquisition of supplies or services that has an anticipated dollar value exceeding \$3,000 (\$15,000 for acquisitions as described in 13.201(g)(1)) and not exceeding \$100,000 (\$250,000 for acquisitions described in paragraph (1) of the

Simplified Acquisition Threshold definition at 2.101) is reserved exclusively for small business concerns and shall be set aside (see 19.000 and Subpart 19.5). See 19.000(b) and 19.502-2 for exceptions.”

Per the FAR, Subpart 13. 1, *Procedures*, Section 13.104, “Promoting Competition”:

“The contracting officer must promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government, considering the administrative cost of the purchase.

(a) The contracting officer must not—

- (1) Solicit quotations based on personal preference; or
- (2) Restrict solicitation to suppliers of well-known and widely distributed makes or brands.

(b) If using simplified acquisition procedures and not providing access to the notice of proposed contract action and solicitation information through the Governmentwide point of entry (GPE), maximum practicable competition ordinarily can be obtained by soliciting quotations or offers from sources within the local trade area. Unless the contract action requires synopsis pursuant to 5.101 and an exception under 5.202 is not applicable, consider solicitation of at least three sources to promote competition to the maximum extent practicable. Whenever practicable, request quotations or offers from two sources not included in the previous solicitation.”

Per the Federal Acquisition Regulation (FAR), Subpart 13.106, *Soliciting Competition, Evaluation of Quotations or Offers, Award and Documentation*, Section 13.106-3, “Evaluation of Quotations or Offer”:

“(a) *Considerations.* In soliciting competition, the contracting officer shall consider the guidance in [13.104](#) and the following before requesting quotations or offers:

(2) If only one response is received, include a statement of price reasonableness in the contract file. The contracting officer may base the statement on—

- (i) Market research;
- (ii) Comparison of the proposed price with prices found reasonable on previous purchases;
- (iii) Current price lists, catalogs, or advertisements. However, inclusion of a price in a price list, catalog, or advertisement does not, in and of itself, establish fairness and reasonableness of the price;
- (iv) A comparison with similar items in a related industry;
- (v) The contracting officer’s personal knowledge of the item being purchased;
- (vi) Comparison to an independent Government estimate; or
- (vii) Any other reasonable basis.”

Per FAR, Subpart 13.104, *Promoting Competition*:

“(b) If using simplified acquisition procedures and not providing access to the notice of proposed contract action and solicitation information through the Governmentwide

point of entry (GPE), maximum practicable competition ordinarily can be obtained by soliciting quotations or offers from sources within the local trade area. Unless the contract action requires synopsis pursuant to 5.101 and an exception under 5.202 is not applicable, consider solicitation of at least three sources to promote competition to the maximum extent practicable. Whenever practicable, request quotations or offers from two sources not included in the previous solicitation.”

Per FAR, Subpart 6.1, *Full and Open Competition*, Section 6.101, “Policy”:

- “(a) 10 U.S.C. 2304 and 41 U.S.C. 253 require, with certain limited exceptions (see Subparts 6.2 and 6.3), that contracting officers shall promote and provide for full and open competition in soliciting offers and awarding Government contracts.
- (b) Contracting officers shall provide for full and open competition through use of the competitive procedure(s) contained in this subpart that are best suited to the circumstances of the contract action and consistent with the need to fulfill the Government’s requirements efficiently (10 U.S.C. 2304 and 41 U.S.C. 253).”

Per FAR, Subpart 31.2, *Contracts With Commercial Organizations*, Section 31.201-2 (d), “Determining Allowability”:

“A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

Per the Code of Federal Regulations (CFR), Section 226.53, *Retention and Access Requirements for Records*:

- “(a) This section sets forth requirements for record retention and access to records for awards to recipients. USAID shall not impose any other record retention or access requirements upon recipients.
- (b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID.”

Per CFR, Section 226.71, *Closeout Procedures*:

- “(a) Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. USAID may approve extensions when requested by the recipient.
- (b) Unless USAID authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the

date of completion as specified in the terms and conditions of the award or in agency implementing instructions.”

Per the *Automated Directives System (ADS)*, Chapter 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*, Section 303.3.13, “The Award Process and Elements of an Award”:

“Before the award is signed, the AO must ensure that all of the elements of a legally binding agreement are present. These are:

- Competent parties,
- Proper subject matter,
- Sufficient consideration,
- Mutual understanding, and
- Agreement on the terms of the assistance instrument.”

The Chemonics’ USAID-approved *Grants Manual* states, “If the completion report is deemed acceptable and all other requirements have been met, the grants manager will prepare a Completion Certificate, which upon signature by the recipient and ASAP-Chemonics COP serves to formally close the grant file.”

Per Chemonics’ *Procurement Guidelines for the Accelerating Sustainable Agriculture Program (ASAP) in Afghanistan*, Section IV, “Local Procurement Procedures, C, Direct Contract Procedures”:

“Procurements of commodities and services within the host country which are undertaken directly by USAID or its contractors shall be in accordance with the requirements of FAR/AIDAR. Grants and cooperative agreements are subject to the procurement standards in those agreements.”

The Chemonics’ *Procurement Guidelines for the Accelerating Sustainable Agriculture Program (ASAP) in Afghanistan*, Section IV, “Local Procurement Procedures, G, Simplified Acquisition Procedures” states:

“Most local procurement can be done by ‘Simplified Acquisition’ Procedures (up to \$100,000):

Transaction Value	Procedure
1. \$500 and below*	May purchase without quotations. Make sure price is reasonable.
2. Over \$500 - \$100,000	Issue solicitation document with clear requirements, specifications and evaluation criteria. At least three (3) quotations required.”

Per Chemonics’ *Procurement Guidelines for the Accelerating Sustainable Agriculture Program (ASAP) in Afghanistan*, Section IV, “Local Procurement Procedures, I, Document the Award”:

“Document the award for the files. Show that:

1. Offers were properly solicited and/or advertised.
2. Offers were properly submitted.
3. Necessary waivers, approvals, and authorizations were obtained.
4. Competition requirements were met or lack of competition was justified.”

Effect: The conditions noted above, in regard to lack of supporting documentation, may result in the following:

- Increased risk that costs incurred are greater than the fair market value, and/or the Government does not receive the best value for procured goods/services when a contractor lacks sufficient competitive bidding documentation
- Increased risk that the work was not completed by the grantee or the costs claimed were not accurate due to lack of sufficient closeout documentation
- Increased likelihood or frequency that other miscellaneous costs incurred are unallowable because relevant documentation was not provided.

Recommendation #2: Kearney recommends that Chemonics either provide the necessary supporting documentation or reconciliation to USAID in support of their contract closeout procedures, or return the questioned amount of \$1,068,768 based on lack of supporting documentation or explanations for the variances identified.

Recommendation #3: Kearney recommends that Chemonics improve procedures to ensure that adequate documentation is maintained and readily available to support all costs incurred.

Management’s Response:

Chemonics’ management provided an overall response to the audit report and specific responses to each individual finding. The full text of Chemonics’ response is included in Appendix B to this report.

Auditor’s Evaluation of Management’s Response:

Kearney has provided an evaluation of Management Response in Appendix C to this report.

Chemonics ASAP NFR 2014-3

Condition: Chemonics' internal processes did not account for the allocation of costs to the appropriate ASAP cost objective for transactions between November 22, 2006 and October 30, 2011, resulting in non-compliance and a total of \$19,899 unsupported costs, which are described in further detail below. The dollar values reported in this finding are whole USDs fully burdened using the rates per Chemonics' Negotiated Indirect Cost Rate Agreement and other relevant fees to the contract.

Between November 2007 and February 2010, the rest and relaxation costs within ODCs for an employee were charged directly to the ASAP cost objective, although the employee's direct salary was spread across four contracts and seven Contract Line Item Numbers (CLIN). Chemonics did not implement proper accounting methods to ensure that costs were appropriately recorded to the proper contracts and CLINs, resulting in unsupported costs of \$19,899. [REDACTED]

Cause: Chemonics incorrectly interpreted the FAR and concluded that Rest and Relaxation (R&R) costs could be charged to the employee's default project assignment, even though the employee worked on multiple assignments. Chemonics did not have adequate internal review processes or other internal controls in place during the period under audit to ensure that accounting interpretations were fully justified and in compliance with guidance, specifically FAR.

Criteria: Per FAR, Subpart 31.2, *Contracts With Commercial Organizations*, Section 31.201-4, "Determining Allocability":

"A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it—

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown."

Per FAR, issued March 2005 by the General Services Administration (GSA), Department of Defense (DoD), and the National Aeronautics and Space Administration (NASA), Section 31.202, "Direct Costs, (a)":

"No final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other final cost objective. Direct costs of the contract shall be charged directly to the contract. All costs specifically identified with other final cost objectives of the contractor are direct costs of those cost objectives and are not to be charged to the contract directly or indirectly."

Per FAR, issued March 2005 by GSA, DoD, and NASA, Section 31.203, “Indirect Costs, (b)”:

“After direct costs have been determined and charged directly to the contract or other work, indirect costs are those remaining to be allocated to intermediate or two or more final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective.”

Effect: The condition noted above, in regard to misallocation of costs, results in costs being misallocated and incorrectly charged to the ASAP cost objective and other cost objectives being incorrectly undercharged.

Internal controls, in some instances, may not be operating effectively to prevent or detect material misstatements.

Recommendation #4: Kearney recommends that Chemonics improve procedures to ensure that all direct charges to cost objectives are proper and in accordance with FAR and other requirements.

Recommendation #5: Kearney also recommends that Chemonics return any or all of the questioned \$19,899 that remains unallowable based on the re-allocation of costs.

Management’s Response:

Chemonics’ management provided an overall response to the audit report and specific responses to each individual finding. The full text of Chemonics’ response is included in Appendix B to this report.

Auditor’s Evaluation of Management’s Response:

Kearney has provided an evaluation of Management Response in Appendix C to this report.

Chemonics ASI NFR 2014-1

Condition: Inadequate Chemonics internal processes over Afghanistan Stabilization Initiative (ASI) transactions occurring between June 26, 2009 and June 25, 2012 resulted in control deficiencies and a total of \$120,268 in unsupported costs, which are described in further detail below. The dollar values reported in this finding are whole USDs fully burdened using the rates per Chemonics' Negotiated Indirect Cost Rate Agreement and other relevant fees to the contract.

ASI NFR 2014-1.1 – Insufficient Approvals

Relevant supporting documentation pertaining to Grants and ODCs was not properly approved by supervisory Chemonics personnel in the following instances:

- **Grants:** Instances of insufficient approval related to Grant and subcontract agreements, modifications, Memorandum of Negotiation, Clearance Forms, Completion Certificates, and closeout documentation, specifically:
 - Six instances related to three Grants in which the Memorandum of Negotiation was not signed
 - 91 instances related to 76 Grants in which the Memorandum of Negotiation was signed after the start date of the Grant agreement
 - 20 instances related to 15 Grants in which the Grant closeout documentation was not signed for more than one year after the end of the Grant agreement
 - 41 instances related to 36 Grants in which USAID approval was not provided for the Grant closeout
 - 75 instances related to 61 Grants in which the Grant agreement was not signed until after the start date of the Grant
 - 44 instances related to 36 Grants in which the Grant modification was signed after the start date of the modification
 - 17 instances related to 12 Grants in which the Grant modification was not signed
 - Two instances related to two Grants in which the subcontract agreement was not signed
 - 16 instances related to 15 Grants in which the Grant Clearance Form was not signed until after the start date of the Grant agreement
 - 10 instances related to seven Grants in which the Grant Completion Certification was not signed by the grantee
 - 10 instances related to seven Grants in which the subcontract modification was not appropriately signed by all parties until after the effective date of the modification
 - One instance related to one Grant in which the Grant Clearance Form was not approved by USAID
 - 20 instances related to 10 Grants and one subcontractor that implemented 13 Grants in which the subcontract agreement not appropriately signed by all parties until after the start date of the agreement
- **Grants:** Instances of insufficient approval(s) of payment related supporting documentation:

- One instance in which the invoice was not properly approved by appropriate Chemonics personnel, resulting in unsupported costs of \$24,190. [REDACTED]
- Two instances in which the Purchase Order (PO) was not approved until after the delivery of goods occurred
- **ODCs:** Instances of insufficient approval were noted:
 - For one instance in 2009, the expense report was not approved. As costs were sufficiently supported, this exception did not result in questioned costs
 - For one instance, the PO was approved after the invoice and delivery of the goods. As the goods were received and the costs were sufficiently supported, this exception did not result in questioned costs.

ASI NFR 2014-1.2 – Clerical Issues

Clerical errors were not prevented or detected by Chemonics' internal controls in the following instances:

- **Payroll:** In one instance related to payroll, due to a clerical error, an employee had an incorrect amount of retroactive salary paid based on a pay raise. The error resulted in an inconsequential lower amount of costs incurred; therefore, this error did not result in questioned costs
- **Grants:** For four instances related to one subcontractor that implemented 13 Grants, fingerprints were used in lieu of signatures, and the fingerprints were either smudged or faint and would therefore be unusable to verify the identification of the individual. For one instance related to one Grant, the incorrect Grant budgeted amount was recorded on the activity closeout documentation.

ASI NFR 2014-1.3 – Unexplained Discrepancies between GL Balances and Grant Closeout Documentation

Unexplained discrepancies remained between GL balances and Grant closeout documentation, in the following instances:

- **Grants:** A total of 12 instances related to nine Grants were identified in which the transactions recorded in the GL did not reconcile to the amount that was recorded on the activity closeout documentation. While none of these costs were considered to be unsupported as sufficient supporting documentation was provided to support the individual costs, a control deficiency was noted.

ASI NFR 2014-1.4 – Improper Review Procedures

Adequate review procedures were not performed over Grants and Payroll in the following instances:

- In one instance in 2012 for Payroll, the period of performance on the Employee Agreement did not reconcile to the period of performance on the Earnings Statement,

resulting in unsupported costs of \$234. [REDACTED]

- For two instances for Payroll, a transliteration issue occurred, resulting in the employee's name not appearing the same on all supporting documentation. Since the costs were otherwise fully supported, only a control issue was noted
- For one instance for Grants, the total amount of subcontract costs incurred exceeded the amount of USD costs authorized by USAID in the consent to subcontract. This was the result of a change in the exchange rate applied per the consent to subcontract versus the exchange rate applied to the actual payment due to the timing of the payment. The final amount paid by Chemonics for all costs, including this subcontract, did not exceed the ceiling of the previously, USAID-approved in-kind grant, nor did it exceed the ceiling for the local currency (Afghani) amount per the subcontract, and therefore did not result in a questioned cost
- For eight instances in 2010 for Grants, the total costs incurred exceeded the budgeted amounts, resulting in unsupported costs of \$69,671. [REDACTED]
- For four instances in 2011 for Grants, the total costs incurred exceeded the budgeted amounts, resulting in unsupported costs of \$26,173. [REDACTED]

ASI NFR 2014-1.5 – Timing Issues

Timing issues were noted in the supporting documentation provided by Chemonics in the following instances:

- For nine instances for subcontractors, the payment was not made within 30 days of receipt of the invoice, as required by the subcontract agreement. Through review of other relevant documentation provided by Chemonics, the costs incurred were considered reasonable. As a result, these instances did not result in unsupported costs
- For one instance for Grants, the Grant modification was not issued until the previous modification had ended, resulting in a control issue
- For two instances for Grants related to one Grant, the Grant modification was not issued until six months after the original contract period of performance had ended, resulting in a control issue.

Cause: Chemonics did not have adequate processes specifically related to the review and approval of internal controls in place during the period under audit to:

- Identify and correct clerical errors during the course of its review processes (ASI NFR 2014-1.2)
- Ensure relevant reconciliations were performed to ensure that supporting documentation was accurate (ASI NFR 2014-1.3)
- Ensure documentation was reviewed and approved as appropriate, and was timely and adequately maintained to support incurred costs (ASI NFR 2014-1.1, 2014-1.4, 2014-1.5).

Criteria: The following criteria apply to various conditions identified, which are referenced accordingly as noted below.

ASI NFR 201401.1 – Insufficient Approvals; ASI NFR 2014-1.4 – Improper Review Procedures; and ASI NFR 2014-1.5 – Timing Issues

The COSO, Internal Control – Integrated Framework, Chapter 7, *Control Activities, Principle 10* states, “The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.”

The COSO, Internal Control – Integrated Framework, Chapter 7, *Control Activities, Principle 10, Subsection Business Process Control Activities* states, “Accuracy – Transactions are recorded at the correct amount in the account (and on a timely basis) as each stage of processing.”

Further, per FAR Subpart 52.2, *Text of Provisions and Clauses*, Section 52.216-7, “Allowable Cost and Payment”:

“(b) Reimbursing costs

- (1) For the purpose of reimbursing allowable costs (except as provided in paragraph (b)(2) of this clause, with respect to pension, deferred profit sharing, and employee stock ownership plan contributions), the term “costs” includes only—
 - (ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for—
 - (A) Supplies and services purchased directly for the contract and associated financing payments to subcontractors, provided payments determined due will be made—
 - (1) In accordance with the terms and conditions of a subcontract or invoice; and
 - (2) Ordinarily within 30 days of the submission of the Contractor’s payment request to the Government.”

Chemonics’ *Activity Management Guide Afghanistan Stabilization Initiative*, Section VI, “Forms, Subsection 11, Memorandum of Negotiation” states, “This is an internal form for completion by the grant specialist and signature by the Operations Manager or Field Director.”

Per Chemonics’ *Activity Management Guide Afghanistan Stabilization Initiative*, Section II, “Grants, Subsection F, Grant Implementation, sub-subsection F4, Modifications”:

“The OTI country representative must approve all modifications to grants where substantive programmatic elements are changing or that increase the total estimated cost by more than 10% or based on other criteria agreed established by either the TO or OTI. A modification is defined as a change in the project description, change to the start or end dates, or a change to the activity budget. OTI approval will be requested in writing by the COP and maintained in the grant file.”

Per Chemonics' *Activity Management Guide Afghanistan Stabilization Initiative*, Section VI, "Forms, Subsection Grant Agreement Templates, Certifications, and Annexes, sub-subsection 16(b). Simplified Grant Agreement Format for US grantees":

"ANNEX ONE: TERMS & CONDITIONS OF THE GRANT AGREEMENT

7) Allowable Costs. The Grantee shall neither request nor be reimbursed for expenditures incurred that are not allowable costs under this Agreement as detailed in Annex 4 or that are in excess of the ASI Grant Budget Commitment. Costs allowed are those that are both included in the approved Budget and allowable under all applicable USAID, Chemonics, and GRANTEE regulations including OMB Circular A-122. The Grantee is authorized up to ten percent (10%) flexibility to adjust costs within Approved Budget line items, as long as the ASI Grant Budget Commitment is not exceeded."

Per Chemonics' *Activity Management Guide Afghanistan Stabilization Initiative*, Section VI, "Forms, Subsection Grant Agreement Templates, Certifications, and Annexes, sub-subsection 16(a). Simplified Grant Agreement Format for non-US grantees":

"ANNEX ONE: TERMS & CONDITIONS OF THE GRANT AGREEMENT

7) Allowable Costs. The Grantee shall neither request nor be reimbursed for expenditures incurred that are not allowable costs under this Agreement as detailed in Annex 4 or that are in excess of the ASI Grant Budget Commitment. Costs allowed are those that are both included in the approved Budget and allowable under all applicable USAID, Chemonics, and GRANTEE regulations including OMB Circular A-122. The Grantee is authorized up to ten percent (10%) flexibility to adjust costs within Approved Budget line items, as long as the ASI Grant Budget Commitment is not exceeded."

ASI NFR 2014-1.2 – Clerical Errors

Per FAR, Subpart 31.2, *Costs with Commercial Organizations*, Section 31.201-2, "Determining Allowability":

"(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

ASI NFR 2014-1.3 – Unexplained Discrepancies between GL Balances and Grant Closeout Documentation

Per CFR, Section 226.53, "Retention and Access Requirements for Records":

"(a) This section sets forth requirements for record retention and access to records for awards to recipients. USAID shall not impose any other record retention or access requirements upon recipients.

(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of

submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID.”

Per CFR, Section 226.71, “Closeout Procedures”:

“(a) Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. USAID may approve extensions when requested by the recipient.

(b) Unless USAID authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.”

Effect: The closeout documentation and/or GL could be incomplete because the reconciliations and resulting discrepancies were not properly performed and/or documented. Lack of reconciliation and/or resolution of discrepancies resulting from the reconciliation increased the risk that costs were assigned to the incorrect Grant(s), which could result in a Grant being over-expended.

Internal controls, in some instances, may not be operating effectively to prevent or detect material misstatements.

Recommendation #6: Kearney recommends that Chemonics improve procedures to ensure that proper reconciliations, reviews, and approvals are performed and adequately documented with sufficient support for all contract costs incurred.

Recommendation #7: Kearney recommends that Chemonics either provide the necessary supporting documentation or reconciliations to USAID in support of their contract closeout procedures, or return the unsupported amount of \$120,268 based on lack of supporting documentation or explanations for the variances identified.

Recommendation #8: Kearney recommends that Chemonics work with USAID to determine a way to receive the appropriate amount in the consent to subcontract to account for potential exchange rate fluctuations.

Management’s Response:

Chemonics’ management provided an overall response to the audit report and specific responses to each individual finding. The full text of Chemonics’ response is included in Appendix B to this report.

Auditor’s Evaluation of Management’s Response:

Kearney has provided an evaluation of Management Response in Appendix C to this report.

Chemonics ASI NFR 2014-2

Condition: Chemonics internal processes did not produce or retain sufficient documentation for ASI transactions occurring between June 26, 2009 and June 25, 2012, resulting in control deficiencies and a total of \$823,550 in questioned costs (\$823,420 unsupported and \$130 ineligible), which are described in further detail below. The dollar values reported in this finding are whole USDs fully burdened using the rates per Chemonics' Negotiated Indirect Cost Rate Agreement and other relevant fees to the contract.

ASI NFR 2014-2.1 – Competitive Bidding Documentation

Chemonics did not provide sufficient documentation to evidence that competitive bidding procedures were followed when required in the following instances:

- **Grants:** Instances were noted in which sufficient competition documentation was not provided:
 - Two instances, one in 2009 and one in 2010, related to one Grant, in which evidence of competition for the Grant was not provided, resulting in unsupported costs of \$256,594. [REDACTED]
 - Four instances in 2010 in which evidence of competition for the subcontractor/vendor was not provided, resulting in unsupported costs of \$246,357. [REDACTED]
 - Four instances in 2011 in which evidence of competition for the subcontractor/vendor was not provided, resulting in unsupported costs of \$284,844. [REDACTED]
- **ODCs:** For one instance in 2011, sufficient bidding documentation was not provided to support the fair market value of the costs, resulting in unsupported costs of \$13,307. [REDACTED]

ASI NFR 2014-2.2 – Travel Documentation

Chemonics did not provide sufficient documentation to support the approval of travel expenses in the following instances:

- For two instances in 2010 for Allowances, documentation to support the pre-authorization of travel was not provided, resulting in unsupported costs of \$7,764. [REDACTED]
- For one instance for Allowances, an approved expense report was not provided to support the approval of travel costs incurred. Since the costs were sufficiently supported, this exception did not result in questioned costs.

ASI NFR 2014-2.3 – Receiving Reports

Chemonics did not provided sufficient documentation to support costs incurred and/or receipt of goods/services, in the following instances:

- For five instances for ODCs, receiving reports were not obtained until after the payment was made. While the costs are supported, a control deficiency was noted, as the goods were not noted as received until after the payment was made
- For one instance for Grants, photographs were received to indicate that the construction was completed and the materials were used; however, a formal receipt of goods prior to payment was not provided, resulting in a control issue.

ASI NFR 2014-2.4 – Grant Supporting Documentation

Chemonics did not provide sufficient Grant supporting documentation to support costs incurred or proper Grant agreement procedures were completed:

- Two instances in which evidence that an environmental assessment was completed was not provided
- One instance in which the activity closeout documentation was not provided to sufficiently support that the Grant activities were fully completed by the grantee
- One instance in which the Certification Regarding Terrorist Financing was not provided
- One instance in 2012 in which the Grant Agreement was not provided, resulting in unsupported costs of \$10,528. [REDACTED]

ASI NFR 2014-2.5 – Grant Closeout Documentation

Chemonics did not provide documentation to support the closeout of the Grant agreement, as required by the *ASI Grants Manual*. For five instances related to five Grants, adequate Grant closeout documentation was not provided, specifically the Grant Completion Certificate, causing no reconciliation to be completed between the GL and the Grant Completion Certificate, resulting in a control issue and no questioned costs.

ASI NFR 2014-2.6 – Miscellaneous

- In two instances for ODCs, one in 2009 and one in 2011, no supporting documentation was provided to support the costs incurred, resulting in unsupported costs of \$4,026. [REDACTED]
- In two instances for ODCs, both in 2009, luxury goods were purchased for a guest house, resulting in ineligible goods in the amounts of \$130. [REDACTED]
- For one instance for Grants, a Grant modification was provided extending the period of performance of the Grant; however, documentation was not provided to support the extension of the subcontractor period of performance. Costs were adequately supported; therefore, this exception did not result in questioned costs.

Cause: Chemonics was unable to provide adequate supporting documentation, as the required documentation to support the controls, and in some instances the costs incurred, was unavailable or did not exist. Due to records maintenance and retention practices in place during the contract

period, Chemonics' records are maintained in hard copy, which further complicates Chemonics' ability to provide sufficient, timely supporting documentation.

Criteria: Per FAR, Subpart 13.0, *Simplified Acquisition Procedures*, Section 13.003, "Policy":

- "(a) Agencies shall use simplified acquisition procedures to the maximum extent practicable for all purchases of supplies or services not exceeding the simplified acquisition threshold (including purchases at or below the micro-purchase threshold). This policy does not apply if an agency can meet its requirement using—
- (1) Required sources of supply under Part 8 (*e.g.*, Federal Prison Industries, Committee for Purchase from People Who are Blind or Severely Disabled, and Federal Supply Schedule contracts);
 - (2) Existing indefinite delivery/indefinite quantity contracts; or
 - (3) Other established contracts.
- (b)(1) Each acquisition of supplies or services that has an anticipated dollar value exceeding \$3,000 (\$15,000 for acquisitions as described in 13.201(g)(1)) and not exceeding \$100,000 (\$250,000 for acquisitions described in paragraph (1) of the Simplified Acquisition Threshold definition at 2.101) is reserved exclusively for small business concerns and shall be set aside (see 19.000 and Subpart 19.5). See 19.000(b) and 19.502-2 for exceptions."

Per FAR, Subpart 13.1, *Procedures*, Section 13.104, "Promoting Competition":

- "The contracting officer must promote competition to the maximum extent practicable to obtain supplies and services from the source whose offer is the most advantageous to the Government, considering the administrative cost of the purchase.
- (a) The contracting officer must not—
 - (1) Solicit quotations based on personal preference; or
 - (2) Restrict solicitation to suppliers of well-known and widely distributed makes or brands.
 - (b) If using simplified acquisition procedures and not providing access to the notice of proposed contract action and solicitation information through the Governmentwide point of entry (GPE), maximum practicable competition ordinarily can be obtained by soliciting quotations or offers from sources within the local trade area. Unless the contract action requires synopsis pursuant to 5.101 and an exception under 5.202 is not applicable, consider solicitation of at least three sources to promote competition to the maximum extent practicable. Whenever practicable, request quotations or offers from two sources not included in the previous solicitation."

Per FAR, Subpart 6.1, *Full and Open Competition*, Section 6.101 "Policy":

- "(a) 10 U.S.C. 2304 and 41 U.S.C. 253 require, with certain limited exceptions (see Subparts 6.2 and 6.3), that contracting officers shall promote and provide for full and open competition in soliciting offers and awarding Government contracts.

- (b) Contracting officers shall provide for full and open competition through use of the competitive procedure(s) contained in this subpart that are best suited to the circumstances of the contract action and consistent with the need to fulfill the Government's requirements efficiently (10 U.S.C. 2304 and 41 U.S.C. 253)."

Per FAR, Subpart 31.2, *Contracts With Commercial Organizations*, Section 31.201-2 (d) "Determining Allowability":

"A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."

Per ADS, Chapter 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*, Section 303.3.6.1, "Competition Requirements":

"In accordance with the Federal Grant and Cooperative Agreement Act, USAID encourages competition in the award of grants and cooperative agreements so that it may identify and fund the best projects to achieve program objectives. Unless USAID authorizes an exception in accordance with 303.3.6.5, USAID must award all grants and cooperative agreements competitively. Competition requires that the Agency publish an announcement in accordance with 303.3.5, seek applications from all eligible and qualified entities, conduct an impartial review and evaluation of all applications (see 303.3.6.4), and make an objective recommendation to the AO for award."

ADS, Chapter 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*, Section 303.3.6.1, "Exceptions to Competition" states, "When competition is required, an other than full competition action may only be taken by an AO when an exception to competition applies and is documented in accordance with this section 303.3.6.6."

Per CFR, Section 226.53, "Retention and Access Requirements for Records":

- "(a) This section sets forth requirements for record retention and access to records for awards to recipients. USAID shall not impose any other record retention or access requirements upon recipients.
- (b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID."

Per CFR, Section 226.71, "Closeout Procedures":

"(a) Recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and

conditions of the award. USAID may approve extensions when requested by the recipient.

(b) Unless USAID authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.”

Per *Administrative Procedures Afghanistan Stabilization Initiative - South*, Section II (L), “Travel Procedures”:

“Both expatriate and local employees might be required to travel on field trips outside project offices, and perhaps to other parts of Afghanistan. Chemonics’ policy is that such trips should, to the extent possible, be programmed and approved in advance by the employee’s supervisor and the Project, Country, or Regional Security Directors (as appropriate to the project) on a monthly basis. Under no conditions should travel be made on the assumption of approval.”

Per *Administrative Procedures Afghanistan Stabilization Initiative - South*, Section II (L.1), “International & Regional Travel Programming”:

“All employees who anticipate that they will be traveling for project purposes should submit a detailed agenda to their supervisors as early as possible. The high-risk security environment necessitates that trip programming is also reviewed and approved by appropriate Security Director in addition to the employee’s supervisor. The agenda should show the purpose of the field trip and its justification, the anticipated date and time of departure and return, as well as with whom they expect to meet and how they expect to allocate their time and effort in support of the trip purpose. Within two weeks of returning, the individual or team shall submit a trip report to their supervisor comparing the trip with the proposed agenda. The trip report shall show the reason for the trip, general observations, details of all activities, deliverables accomplished and/or failures and explanations, and shall conclude with recommendations. The same procedures and approvals apply to necessary but unanticipated field trips.”

Per the *Activity Management Guide Afghanistan Stabilization Initiative*, Section II (E), “Grant Award”:

“Once the grant has been cleared by the OTI representative (or TOCOTR/CO when applicable), the GS will generate the grant agreement. Grant agreements are generated through the Activity Database, using information contained in database grant fields. The template for these grant agreements are included in Forms 14-19. Any information required by the grant agreement that must be customized will be input into the grant agreement by the GS, and the grant agreement will be printed and finalized for signature by the grantee and ASI South’s representative (must have delegation of authority). The DCOP or designee signs all grants on behalf of ASI South. The official Grant Agreement will also document that the required USAID approval (country representative and, where applicable, TOCOTR or CO) has been obtained and is on file.”

Effect: The conditions noted above, in regard to lack of supporting documentation, may result in:

- Increased risk that costs incurred are greater than the fair market value, and/or the Government does not receive the best value for procured goods/services when a contractor lacks sufficient competitive bidding documentation
- Increased risk that the work was not completed by the grantee or the costs claimed are not accurate due to lack of sufficient closeout documentation
- Increased likelihood or frequency that other miscellaneous costs incurred are unallowable because relevant documentation was not provided.

Recommendation #9: Kearney recommends that Chemonics either provide the necessary supporting documentation or reconciliations to USAID in support of their contract closeout procedures, or return the questioned amount of \$823,550 based on lack of supporting documentation or explanations for the variances identified.

Please also see Recommendation #3.

Management's Response:

Chemonics' management provided an overall response to the audit report and specific responses to each individual finding. The full text of Chemonics' response is included in Appendix B to this report.

Auditor's Evaluation of Management's Response:

Kearney has provided an evaluation of Management Response in Appendix C to this report.

APPENDIX A – PRIOR AUDIT FINDINGS AND STATUS

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) identified findings stated in prior audit reports that could have a material effect on the Special Purpose Financial Statements (SPFS). Kearney then inquired about whether Chemonics International, Inc. (Chemonics) implemented corrective action plans (CAP) to address the findings and determined the status of the CAPs. Kearney identified the following prior audit findings:

Audit of Progress Made by Chemonics on Accelerated Sustainable Agriculture Program (ASAP) (United States Agency for International Development [USAID] Office of Inspector General [OIG] Audit Report No. 5-306-08-009-P).

The following represents a summary of the findings related to Chemonics’ ASAP contract, as reported by the USAID OIG in their report, dated August 8, 2008:

No	Previously Reported Findings	Kearney’s Conclusion on Current Status
1	We recommend that the USAID/ Afghanistan Cognizant Technical Officer (CTO) prepare an Implementation Plan identifying the critical tasks needed to implement the Mazar foods initiative. This Implementation Plan should identify all tasks that are behind schedule and how the mission is going to address the delay. Further, the mission should develop a process for periodically updating the Implementation Plan.	In coordination with the Mission and the Overseas Private Investment Corporation (OPIC), a Mazar foods initiative partner, USAID/Washington has been reevaluating the project’s structure to determine the most effective way for the initiative to meet USAID’s goals. This finding is considered closed with adequate actions taken.
2	We recommend that USAID/ Afghanistan require its Environmental Officer to provide annual training to CTOs and require mission personnel to comply with the environmental regulations outlined in Mission Order 04-14 and USAID’s Automated Directives System (ADS) 204.	The Mission conducted a training session on 22 Code of Federal Regulations (CFR) 216 (Regulation 16) as presented in ADS 204 in November 2007 and repeated the training in June 2008. This finding is considered closed with adequate actions taken.
3	We recommend that USAID/ Afghanistan revise its mission order to be consistent with USAID’s ADS 204, which defines CTO responsibilities for monitoring compliance with environmental regulations.	USAID/Afghanistan revised the Mission Order to more specifically define CTOs’ responsibilities when it comes to monitoring and follow-up of the environmental compliance issues in all USAID financed activities and projects. This finding is considered closed with adequate actions taken.
4	We recommend that USAID/Afghanistan obtain a written legal decision from its General Counsel on how to proceed for completed and in process projects in which environmental	Based on consultation with the USAID/Afghanistan Legal Advisor (RLA), the USAID Office of the General Counsel (OGC), and the USAID Agency Environmental Coordinator, the Mission is requiring that, in

No	Previously Reported Findings	Kearney's Conclusion on Current Status
	regulations were not followed.	accordance with 22 CFR 216.3(a)(7), the contractor shall conduct the environmental review of the ongoing or completed subprojects or aspects thereof, which was required by the Initial Environmental Evaluation for the Strategic Objective Grant Agreement. This finding is considered closed with adequate actions taken.
5	We recommend that USAID/ Afghanistan prepare procedures requiring review of construction design plans and provide quality assurance oversight by the Office of Infrastructure, Engineering, and Energy (OIEE).	The Mission revised the Mission Order 201.01 to include the requirement that programs considering construction in their activities be required to meet with OIEE. This finding is considered closed with adequate actions taken.
6	We recommend that USAID/ Afghanistan require engineers from the Office of Infrastructure, Engineering, and Energy work with Chemonics to take corrective action on each of the construction defects and require these engineers to be part of the final inspection.	The CTO and OIEE are actively working together to take corrective action on construction defects and to include OIEE engineers on final building inspections. This finding is considered closed with adequate actions taken.
7	We recommend that USAID/ Afghanistan reevaluate Chemonics' March 2008 revised Marking and Branding Plan and make a determination on whether to approve any exceptions to marking requirements included in the Plan.	The CTO and Office of Program and Project Development (OPPD) reviewed ASAP's revised Branding Strategy and Marking Plan, and approved all revisions including requests for exceptions. The CTO forwarded this revised Plan to the Contracting Officer (CO) on July 20, 2008 for approval per ADS 320.3.2.5. The CO will review and provide final plan approval or disapproval to Chemonics. This finding is considered closed with adequate actions taken.
8	We recommend that USAID/ Afghanistan develop procedures requiring CTOs to verify and document, as part of their site visits, that items purchased or built with USAID funds are properly marked.	The recent May 12, 2008 Mission Order 302.02 addresses CTO certification on contractor/recipient compliance with delivery requirements under their respective awards. Marking of the items purchased or built with USAID funds is part of the delivery requirement and by issuing the Mission Order the Mission fully complied with the auditors' recommendation. This finding is considered closed with adequate actions taken.
9	We recommend that USAID/ Afghanistan's CTO issue a technical directive requiring Chemonics to define	Chemonics/ASAP has revised its Performance Management Plan (PMP) to include responding to the audit recommendation. This third PMP

No	Previously Reported Findings	Kearney's Conclusion on Current Status
	the roles and responsibilities of the Monitoring and Evaluation Staff, to include a system to ensure that the program's data is accurate and easily accessible.	revision was sent to the CTO on July 17, 2008. This revised PMP is under review but includes all above recommended measures. The CTO does not believe an additional technical directive is necessary since the response to the recommendation is included in the July 17, 2008 ASAP PMP. This finding is considered closed with adequate actions taken.
10	We recommend that the CTO perform a data quality assessment before the issuance of the next annual report.	USAID/Afghanistan is planning to conduct a data quality assessment for all FY 2008 performance data that will be reported to Washington before November 16, 2008. OPPD will make sure that CTOs, in conjunction with their implementing partners, undertake this important task. This finding is considered closed with adequate actions taken.
11	We recommend that USAID/Afghanistan determine the allowability and collect as appropriate \$37,573 for commodities purchased by Chemonics without prior written approval from the mission.	The USAID/Afghanistan Office of Financial Management (OFM) is currently conducting a financial review that covers the questioned costs. OFM will submit its recommendation to the CO by August 15, 2008. If the CO determines that some or the entire commodity purchases shall be disallowed, a Bill for Collection will be issued to Chemonics. This finding is considered closed with adequate actions taken.
12	We recommend that USAID/Afghanistan's CTO issue a technical directive to require Chemonics to identify in its invoice costs associated with restricted commodities.	In a CTO meeting with ASAP on July 11, 2008, ASAP agreed to begin identifying restricted commodity purchases in their monthly invoices. The CTO and OFM will verify compliance with the requirement in Chemonics' July 2008 invoice that is expected to be received in August 2008. This finding is considered closed with adequate actions taken.
13	We recommend that USAID/Afghanistan direct Chemonics to reduce future billings to USAID by \$129,731 for program income collected as of March 31, 2008, and comply with the terms of the contract for any income received after March 31, 2008.	In a May 31, 2008 letter to the CTO and CO, Chemonics will credit all program income, including said amount, to the ASAP contract. Responsible parties (CO, CTO) will evaluate upcoming July and August invoices to ensure Chemonics' compliance. This finding is considered closed with adequate actions taken.
14	We recommend that USAID/Afghanistan develop procedures requiring the Program and Project Development Office to review performance management plans of	Since May 2008, OPPD has started the process of reviewing contractors' and grantees' PMPs for compliance with ADS 203 prior to approval by the CTO. OPPD will ensure formal procedures for reviewing partners' PMPs are in

No	Previously Reported Findings	Kearney's Conclusion on Current Status
	contractors and grantees for compliance with USAID's Automated Directives System 203 prior to approval by the CTO.	place by October 15, 2008. This finding is considered closed with adequate actions taken.
15	We recommend that USAID/ Afghanistan direct Chemonics to conduct a review of its billing system and take necessary action to address the systemic errors found in its billing of costs.	In concurrence with the CTO and CO, on May 18, 2008 OFM requested ASAP to review its billing system, correct systemic errors, and revise and resubmit January and February 2008 invoices (Attachment C). ASAP resubmitted January and February invoices from June 20 to June 22, 2008 along with invoices for March, April, May, and June. This finding is considered closed with adequate actions taken.

Financial Audit of Costs Incurred by Chemonics International, Inc. in Support of USAID's Alternative Livelihoods Program – Southern Region

The following represents a summary of the findings issued by Crowe Horwath, LLP in their report, dated May 3, 2013:

No	Previously Reported Finding	Kearney's Conclusion on Current Status
16	Chemonics direct charged home office costs are frequently observed within the components of indirect cost pools.	Chemonics disagreed with the finding, indicating that the auditor did not provide adequate time or information regarding issues related to these costs. The report has not been finalized to date as to whether this issue is closed or needs corrective action. As Chemonics disagrees with the finding, corrective action has not been taken.
17	Three vendors were selected using sole source procurements, and the contents of the procurement file were insufficient to support the justifications of the use of sole source procurements.	Chemonics disagreed with the finding, indicating that the procurement of the goods using sole source justification was adequately and sufficiently documented. The report has not been finalized to date as to whether this issue is closed or needs corrective action. As Chemonics disagrees with the finding, corrective action has not been taken. Kearney notes that this condition repeated in this audit. See Schedule of Findings and Responses Chemonics ASI NFR 2014-2.1 and Chemonics ASAP NFR 2014-2.1.

No	Previously Reported Finding	Kearney's Conclusion on Current Status
18	Two vendors incurred charges under the contract against which General and Administrative (G&A) indirect charges were assessed. Chemonics could not determine whether all or a subset of its subcontracts included fixed daily rate charges, or if procedures were conducted to determine if subcontractors' indirect costs were allowable.	Chemonics disagreed with the finding, indicating that the subcontractors used had the same contract terms as used by Chemonics themselves and that the charges are properly supported by contract terms and applicable regulations. The report has not been finalized to date as to whether this issue is closed or needs corrective action. As Chemonics disagrees with the finding, corrective action has not been taken.
19	Chemonics did not provide documentation supporting the pre-approval to procure the local services of one vendor.	Chemonics disagreed with the finding, indicating that documentation was provided and that additional documentation was provided in response to the audit report. The report has not been finalized to date as to whether this issue is closed or needs corrective action. As Chemonics disagrees with the finding, corrective action has not been taken.
20	Twenty-two instances were identified in which the G&A rate on the invoice submitted to USAID did not agree to the G&A rate agreed upon between Chemonics and USAID.	Chemonics disagreed with the finding, indicating that their accounting system is automated and did not miscalculate the G&A rate. Chemonics indicated that the materials amount on the cover page was inaccurate and would therefore cause the G&A calculation to also be inaccurate. The report has not been finalized to date as to whether this issue is closed or needs corrective action. As Chemonics disagrees with the finding, corrective action has not been taken.
21	Chemonics did not provide notice to Office of Small and Disadvantaged Business Utilization (OSDBU) at least 45 days prior to placing an order that exceeds the small purchase threshold, as required by USAID Acquisition Regulation (AIDAR) 752.219-8 and Federal Acquisition Regulation (FAR) 19.708(a)(2).	Chemonics disagreed with the finding, indicating that the company did not consider the requirement to apply due to the majority of the work being performed in Afghanistan. As Chemonics disagrees with the finding, corrective action has not been taken.
22	Chemonics invoiced USAID for costs for which the contractor could not provide sufficient documentation showing that the costs were paid as	Chemonics disagreed with the finding and provided additional supporting documentation, which was again found insufficient.

No	Previously Reported Finding	Kearney's Conclusion on Current Status
	required by Federal regulations.	<p>As Chemonics disagrees with the finding, corrective action has not been taken.</p> <p>Kearney notes that this condition repeated in this audit. See Schedule of Findings and Responses Chemonics ASAP NFR 2014-2.4 and Chemonics ASI NFR 2014-2.6.</p>
23	Chemonics invoiced USAID for costs that may be unallowable or inappropriately allocated to the contract.	<p>Chemonics disagreed with the finding and provided additional supporting documentation, which resulted in one item being cleared. The documentation provided for the remaining two items was found insufficient.</p> <p>As Chemonics disagrees with the finding, corrective action has not been taken on the remaining two items related to the finding.</p> <p>Kearney notes that this condition repeated in this audit. See Schedule of Findings and Responses Chemonics ASAP NFR 2014-3 and Chemonics ASI NFR 2.6.</p>
24	Chemonics entered into a contract without executing the procurement process to help ensure that a reasonable cost was obtained in exchange for the services provided per the Memorandum of Understanding (MOU).	<p>Chemonics disagreed with the finding, as they did not consider the agreement to be indicative of a vendor contractual relationship, and therefore, did not consider the procurement requirements to be applicable.</p> <p>As Chemonics disagrees with the finding, corrective action has not been taken.</p>
25	Due to inconsistent approaches to converting foreign currency to United States Dollars (USD), invoices to USAID have been inaccurately calculated.	<p>Chemonics agrees with two of the items related to the finding and will be making the appropriate adjustments in an invoice to USAID.</p> <p>Chemonics disagreed with one item related to the finding, asserting that the correct exchange rate was used.</p> <p>As Chemonics disagrees with the finding, corrective action has not been taken on the remaining item related to the finding.</p>
26	A review of eight quarterly financial reports indicated that the actual costs on the quarterly financial reports did not reconcile to the expenditures reflected in the detail report produced by	Chemonics disagreed with the finding, indicating that the quarterly financial reports are required to be submitted prior to the end of the quarterly billing cycle; therefore, they would not reconcile to the actual costs. The report has not

No	Previously Reported Finding	Kearney's Conclusion on Current Status
	Chemonics.	<p>been finalized to date as to whether this issue is closed or needs corrective action.</p> <p>As Chemonics disagrees with the finding, corrective action has not been taken.</p>
27	Chemonics did not provide an analysis of prevailing wages or other documentation to ensure that prevailing compensation levels were not exceeded.	<p>Chemonics disagreed with the finding, indicating that the compensation was in line with pay rates for similar work in the area and was in line with Chemonics' own policies and procedures. The report has not been finalized to date as to whether this issue is closed or needs corrective action.</p> <p>As Chemonics disagrees with the finding, corrective action has not been taken.</p>
28	Chemonics invoiced USAID for an amount of \$72,000, which contained \$61,320 of questioned costs from a previous audit report.	<p>Chemonics disagreed with the finding, indicating that the CO had previously reversed the ruling that these costs were unallowable and provided the letter indicating that these costs were allowable. The report has not been finalized to date as to whether this issue is closed or needs corrective action.</p> <p>As Chemonics disagrees with the finding, corrective action has not been taken.</p>

**APPENDIX B –
CHEMONICS INTERNATIONAL, INC.’S RESPONSE TO
AUDIT REPORT**



May 2, 2014

David Zavada, CPA
Partner
Kearney & Company, P.C.
1701 Duke Street, Suite 500
Alexandria, VA 22314

Dear Mr. Zavada,

Attached please find Chemonics' response to Kearney's draft audit report for Chemonics Contract Number 306-C-00-07-00501-00 for the Accelerated Sustainable Agriculture Program (ASAP) for November 22, 2006 to October 30, 2011, and Chemonics Contract Number 306-DOT-I-01-08-00033-00 for the Afghanistan Stabilization Initiative (ASI) for June 26, 2009 to June 25 2012.

We appreciate the opportunity to respond to the observations and to provide additional information and clarify our position in regard to questioned costs in the draft audit report.

As detailed in our response, for the ASAP portion of the audit, Chemonics contests all of the \$1,088,667 in costs that Kearney has characterized as unsupported or ineligible. For the ASI portion of the audit, Chemonics contests approximately 99% of the \$943,818 in costs that Kearney has characterized as unsupported or ineligible. Although Chemonics acknowledges some of Kearney's findings, Chemonics does not agree with many of the findings Kearney characterizes as control issues.

Of particular concern to Chemonics is Kearney's decision to issue a qualified audit opinion for the ASI portion of the audit. In issuing this opinion, Kearney states it was "unable to obtain adequate audit evidence specific to the Other Direct Costs (ODC) and Grants balances for the ASI contract."

We believe the issuance of a qualified audit opinion leaves a misimpression concerning Chemonics' administration of the project and cooperation with the audit, for the following reasons. On April 15, 2010, a terrorist detonated a Vehicle Borne Improvised Explosive Device outside Chemonics' ASI offices in Kandahar city. The attack and ensuing confusion resulted in the death of two guards, injury to several employees, and the loss of certain project equipment and documentation. During the audit, to support certain grant costs, Kearney asked Chemonics

to produce documentation that was destroyed or lost as a result of this attack, despite Chemonics informing Kearney of the attack and the likelihood that such documentation could not be provided. Although Chemonics was unable to provide the specific documents Kearney requested, Chemonics provided sufficient documentation to fully support the costs. Kearney did not accept this documentation.

Further, while preparing our response to the draft audit report, we conducted an exhaustive search of our archives, which we were unable to accomplish during the audit fieldwork due to time constraints. As a result, we were able to locate additional documentation to support these costs. We ask that Kearney consider this supplemental documentation, per GAGAS 4.38, before issuing the final audit report. These costs comprise a majority of the grants and ODC costs Kearney characterizes as unsupported for the ASI audit. Chemonics has also provided sufficient support for the other grants and ODC costs, unrelated to this attack, that Kearney characterized as unsupported.

We respectfully request that Kearney remove the qualification in its audit opinion as well as any reference to a qualified audit opinion in the audit report. At a minimum, we request that Kearney provide a more accurate and complete characterization of the circumstances described above in its audit opinion.

We appreciate the professionalism of Kearney's leadership and staff during the course of this audit, and the opportunity to work with Kearney over the last six months as we responded to an extensive audit program, including thousands of requests, tens of thousands of supporting documents, and thousands of hours of our staff's time.

Because the audit report will be made a part of the public record, we respectfully request that Kearney and SIGAR include this letter and our attached response in their entirety when publishing the final audit report.

Please do not hesitate to contact me if you have any questions or require additional information regarding our response.

Sincerely,



Eric Hunt Howell
Chief Financial Officer

Response to Draft Audit Report for
Chemonics Contract Number 306-C-00-07-00501-00 for the
Accelerated Sustainable Agriculture Program (ASAP) for
November 22, 2006 to October 30, 2011, and Chemonics Contract
Number 306-DOT-I-01-08-00033-00 for the Afghanistan
Stabilization Initiative (ASI) for June 26, 2009 to June 25 2012.

Chemonics would like to thank Kearney for the opportunity to respond to this draft audit report.

We address below each of the findings in the order they are presented in the draft audit report. We would be happy to address any further questions regarding our responses at Kearney's convenience.

Finding Chemonics ASAP NFR 2014-1

Kearney identifies a control deficiency on the basis that, under one grant, the actual signature date of modifications was later than the effective date. We do not believe this evidences a deficiency because, as a general contractual matter, it is permissible for parties to sign an agreement subsequent to its effective date. There are myriad reasons why simultaneous signatures would not always be possible in dynamic and conflict-affected environments such as Afghanistan. We note that there were no questions regarding the legitimacy of the modifications or the costs associated with them. While we agree that obtaining the necessary signatures on modification promptly is a good practice, we do not believe that the circumstances here point to a control issue. As a general principle, we agree with the language Kearney quotes from the GAO publication *Standards for Internal Control in the Federal Government*. However, this publication is not applicable to a private corporation such as Chemonics and does not appear to address execution of modifications in a field environment such as Afghanistan.

We therefore respectfully request that this finding be removed from the audit report.

Finding Chemonics ASAP NFR 2014-2

Response to Recommendation #2. Chemonics contests all of the \$1,068,768 of costs questioned under this finding. We address Kearney's general comments below, followed by specific comments on each subfinding.

General comments. At the conclusion of finding ASAP NFR 2014-2, Kearney recites numerous clauses from the Federal Acquisition Regulation, the Code of Federal Regulations, and USAID's Automated Directives System (ADS), but does not explain their connection to the ASAP contract or relevance to the audit findings. We note that there are no provisions of our contract that incorporate, or require adherence to, FAR Parts 6 or 13. The 22 CFR 226.53 and 226.71 clauses are requirements for grantees, not contractors. Finally, while we are familiar with the cost principle Kearney cites at FAR 31.201-2(d), the audit report does not identify whether Kearney is characterizing these costs as unsupported or ineligible on the basis of whether they

were paid, are allocable, or conform to some other specific cost principle. This makes it difficult to provide a comprehensive response.

Subfinding ASAP NFR 2014-2.1 – Competitive Bidding Documentation.

Kearney characterizes as unsupported the full \$49,170 invoiced amount (burdened) for a subcontract for the purchase of saplings based solely on lack of competition. However, Kearney does not address its finding to the terms and conditions of the ASAP contract. As we noted in our general comments above, the contract does not incorporate the regulatory requirements Kearney seeks to impose. The only requirement we find for competition is the requirement at FAR 52.244-5, Competition in Subcontracting, which states that “The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.” Chemonics takes this clause seriously and does promote competition in subcontracting to the maximum extent practical. However, as this FAR clause also recognizes, there are times when competition is not practicable or, due to an urgent need, would be inconsistent with diligent fulfillment of the objectives and requirements of the contract. In such circumstances, Chemonics may conduct a sole-source procurement to ensure that the interests of the project and the government are protected. The sapling procurement in question was such a circumstance.

We provided Kearney with an explanation of these circumstances and the need for expediency, which can be summarized as follows: In 2008, ASAP purchased 500,000 Kandahar sweet red pomegranate saplings as part of a strategy to spur pomegranate production by Balkh province farmers under a voucher program. Due to a confluence of circumstances, including an unusually abrupt transition from harsh winter to hot summer conditions that year and an avalanche that stopped delivery trucks for more than a week in the Salang Pass, local farmers had already made their own planting decisions by the time the saplings arrived in late February and early March. This left insufficient time to effectively conduct sales and planting in that season. The unplanted saplings began to die, and there was no suitable nursery with sufficient available space to maintain the saplings. To protect USAID’s interests and ensure that the saplings the agency had paid for would survive and remain available for future use, ASAP urgently needed to identify a suitable land site and subcontract the construction and maintenance of a nursery to transfer the pomegranate saplings and avoid further losses. We believe our actions were consistent with those that a prudent person would take in the ordinary course of business, and reflected the seriousness with which we take our role as responsible stewards of taxpayer resources.

Kearney has not explained why this explanation was inadequate, or why the circumstances for the sole-sourced procurement were inherently unreasonable.

Kearney also characterizes \$2,148 as unsupported for an item that it claims was not competed. However, this claim is inconsistent with the facts. Chemonics obtained two written quotations for this item and selected the lower priced vendor. We provided both quotations to Kearney during the audit. Kearney responded by stating “Yes, we acknowledge that two bids were provided. However, regulations require three bids. We did not receive documentation that only two vendors were eligible or that the award was issued through a sole-source transaction.”

(Email, Sarah Lakkis [Kearney] to Chemonics, March 17, 2014). We are unaware of any contractual requirement, or regulation incorporated in the ASAP contract, that requires three bids, and Kearney has not provided any evidence that such a contract clause exists. Indeed, FAR 15.403-1(c)(1), while not incorporated as a requirement of Chemonics' contract, establishes government wide guidance that *two* offers—or, indeed, the mere prospect of receiving two offers—is sufficient evidence of adequate price competition for prime contract procurements. It is unclear to us why Kearney seeks, on a very small expenditure, to impose on Chemonics a standard more rigorous than the standard that the FAR Council considers sufficient for contracting officers conducting multimillion dollar procurements. Also, as noted above, competition or the lack thereof is not itself dispositive of cost allowability under the contract terms and conditions.

We respectfully request that this subfinding be removed from the audit report.

Subfinding ASAP NFR 2014-2.2 – Timesheets, Receiving Reports, and Invoices.

Kearney characterizes \$440 as unsupported based on the lack of timesheets or proof of payment for occasional laborers paid in cash. The laborers were tomato farmers who were assisting the project with demonstrations to other farmers in their region. We provided Kearney with supporting documentation related to the payment, including a list of the laborers, contemporaneous email correspondence requesting payment for the named laborers, a payment request form from the project's Horticulture and Plant Protection Advisor, and a coding sheet approving the payment that was signed by three separate ASAP employees. We agree that timesheets would be an optimal practice, however this is not a realistic documentation requirement for occasional laborers of this type; our experience is that such persons often have limited literacy. Moreover, there was no requirement for Chemonics to retain timesheets for any longer than the two-year period specified by FAR 4.705-2(b), nor to retain proof of payment for longer than the two-year period specified by FAR 4.705-2(c). Accordingly, there is no basis for characterizing the costs as unsupported solely due to the lack of such documentation. We believe the documentation we provided is sufficient to demonstrate the required nexus between the costs incurred and the contract for which they were incurred.

While we believe that the above response should be dispositive of the matter, we note that any claim based on costs Kearney characterizes as unsupported for ASAP NFR 2014-2.2 would be time-barred under 41 USC § 7103(a)(4)(A). More than six years have elapsed since the costs were invoiced to USAID, and the lack of an audit does not toll the statute of limitations for a claim. See *Raytheon Co. v. United States*, Fed. Cl. 2012 WL 3040113 (No. 09-306C, July 26, 2012) (denying reconsideration of *Raytheon Co. v. United States*, Fed. Cl. 2012 WL 1072294 [Apr. 2, 2012]).

Kearney also comments in this subfinding on two instances where there was a timing disparity between when costs for goods provided to a beneficiary were incurred and when the goods were acknowledged as received. There could be many valid reasons for such disparities, from common commercial terms providing for payment before delivery to responsiveness of the beneficiary in signing a receiving report. We have focused our response to this subfinding on the costs characterized as unsupported, however we would be happy to discuss the specific

circumstances of these six items with the contracting officer should USAID desire more information.

We respectfully request that this subfinding be removed from the audit report.

Subfinding ASAP NFR 2014-2.3 – Grant Closeout Documentation

Kearney's draft audit report provides two distinct and conflicting narratives for why Kearney characterizes \$856,496 as unsupported, comprising the entire (burdened) amount invoiced for one of the grants under contract that ASAP issued with USAID approval. On page 23 of the draft audit report, Kearney states they are questioning the entire amount of the grant because of alleged "lack of documentation to support the adequate closeout" of the grant. This is the rationale that was conveyed to Chemonics at the exit conference and in previous correspondence. However, on pages 27-28 of the draft audit report, Kearney states that the same purported issue with grant closeout documentation resulted "in a control issue and no questioned costs." Kearney also presents a different explanation on pages 13 and 28 that the entire amount of the grant is being questioned because there were questioned costs in a previous audit of the grantee that Kearney alleges are unresolved.

We address each of Kearney's two narratives independently below.

Grantee closeout documentation

While the failure to issue a grant completion certificate may warrant an administrative finding, nothing in our contract terms and conditions establishes a completion certificate as a condition precedent to reimbursement for the costs Chemonics incurred in issuing and paying for this grant on USAID's behalf. Kearney references 22 CFR 226.71 and Chemonics' grant manual as sources for the completion certificate requirement. However, the cited section of the regulations does not address such certificates. While they are part of the internal guidance in Chemonics grant manual, and a step that Chemonics routinely takes, the lack of such a document does not, in itself, negate the government's binding obligation under FAR clause 52.216-7 incorporated in the contract, to reimburse Chemonics for the costs that it incurred.

Additionally, Chemonics provided sufficient evidence to Kearney that we incurred costs for the grantee consistent with what we invoiced. During the audit, Kearney sampled numerous transactions for this grant, and we provided ample documentation that more than exceeded the legal standards for supporting each sampled charge. This included:

- a. Supporting documentation for all disbursements.
- b. Supporting documentation for direct procurement performed from Chemonics under the grant.
- c. Original grant, modifications 1 and 2, and their respective modifications.
- d. Competition related information.
- e. Ferguson audit report and related response information.
- f. Grantee's final report.

- g. Copies of 300 rural store agreements signed by each beneficiary with their respective pictures, list of items received with their serial numbers, and list of repairs performed to their stores with their estimated U.S. dollar value.
- h. Monthly financial reports.

Kearney claims that a final financial report was not provided. The following section is part of Durukshan's final report:

Financial Report:

The financial report according to ASAP financial requirements and format is prepared and submitted on monthly bases to ASAP Financial Management Unit. This shows the cumulative expenditure to date.

As noted in the list above, these monthly reports were part of the supporting documentation provided to the auditors.

Nevertheless, to provide even further assurances that match the intent and substance of the grantee completion report, in preparing the response to this draft audit report Chemonics has obtained a sworn affidavit from the grantee confirming the amount it received under the grant in question. We are providing this affidavit under separate cover. We ask that Kearney consider this documentation now as part of our full response, and consider modifying its finding in light of our response, in accordance with GAGAS 4.38.

Prior audit report findings

Kearney's claim regarding the prior audit report from PricewaterhouseCoopers' affiliate A.F. Ferguson is not supported by the facts. The Ferguson audit of the grantee did *not* question the entire amount of the grant. This was an initial position taken by the auditor, however they revised this position prior to issuance of the audit report upon receipt of additional documentation, as noted in Section 3.iii of the Ferguson audit report. In the finalized audit report, Ferguson questioned only \$125,816 (unburdened). This was related to investment in rural agricultural stores that exceeded the initial estimate of \$2,500 per store. The \$2,500 was an initial estimate reflected in the "program description" section of the grant agreement, but Ferguson mistakenly believed it to be an enforceable ceiling, and this was the source of the questioned costs. Both Chemonics and the grantee disagreed with the basis for the questioned costs, and Attachment 5 of the Ferguson audit report contained a detailed explanation of why the initial estimate was not sufficient to accomplish the objectives of the grant. Moreover, both Chemonics and the grantee believed there were flaws in Ferguson's analysis of the value of the associated construction, which occurred well after the fact. Chemonics followed up on the audit report with written analysis and disposition of the findings by Chemonics' chief of party. We also shared the audit report with USAID. USAID did not respond with any decision to disallow costs or otherwise overturn the determination of Chemonics' chief of party.

A review of our records indicates that we did not initially provide Kearney with Attachment 5 to the Ferguson audit report or the chief of party's decision memo and disposition of the audit findings. We are submitting under separate cover those documents as part this response, and request that Kearney consider them, in accordance with GAGAS 4.38.

We could understand an observation from Kearney that the Ferguson audit report was not concluded with written disposition from USAID. However, such an observation would not provide any independent basis for Kearney to question the same costs. Rather, if this is the nature of Kearney's concern, we believe such concern would more appropriately be reflected as an outstanding prior audit in the list of prior audit findings Kearney has included in Appendix A of the draft report. We note, however, that we do not regard the audit as outstanding, since it was Chemonics and not USAID who was charged with administering the grant, and Chemonics' chief of party performed a proper analysis and disposition of the audit findings.

Additionally, Kearney has provided no explanation for why the Ferguson audit report would justify characterizing as unsupported the full amount of the grant. We previously noted to Kearney that the Ferguson audit only questioned \$125,816, and asked Kearney to explain its position. Kearney's response was that "The complete amount is being questioned because close-out documentation created by the grantee and/or Chemonics did not include financial amounts. The only financial amounts were included with the A. F. Ferguson audit, thus we felt that the close-out of the grant performed was inadequate when the value of the cost that A. F. Ferguson was questioning is considered, therefore leading to questioned costs." (Email, Sarah Lakkis [Kearney] to Chemonics, March 17, 2014). This further highlights the inconsistency in Kearney's stated justifications for characterizing the costs as unsupported.

Conclusion

Given that neither of the narratives Kearney has provided justifies characterizing as unsupported the costs discussed above, we respectfully request that this subfinding and associated costs characterized as unsupported be removed from the audit report.

We note that any claim regarding the costs characterized as unsupported under subfinding ASAP NFR 2014-2.3 would, in whole or part, be time-barred under 41 USC § 7103(a)(4)(A).

With regard to the statement by Kearney that there were "20 instances where adequate grant closeout was not provided," it is unclear to us to which 20 instances Kearney is referring. There were only five grants issued on ASAP. Our records indicate that Kearney had questions about the closeout documentation for three of the five grants, including the grant that is the subject of the questioned costs under this subfinding. We do concur that there were not completion certificates for these grants.

Subfinding ASAP NFR 2014-2.4 – Miscellaneous

Chemonics contests the \$141,027 in costs characterized as unsupported for Modifications 2 and 3 to Chemonics' subcontract with Partners in Revitalization and Building (PRB). We note Modification 2 increased the obligated amount, not the subcontract ceiling, and thus did not require contracting officer consent or approval. We do acknowledge that we should have obtained written contracting officer consent for Modification 3. Obtaining consent when required is an obligation that we take seriously and, with the exception of this isolated incident, an obligation that we believe we consistently met on the ASAP contract. However, we note that USAID approved the original subcontract and the first subsequent modification thereto, and

that USAID was aware of the activities covered by the modifications and the government received the full benefit for the expenses incurred. We do not believe the government should now receive those services at no cost due solely to the lack of formalized consent on one of the modifications to a previously consented-to subcontract.

We also note that any claim based on the costs Kearney characterizes as unsupported or ineligible under this subfinding, including costs not explicitly discussed in the preceding paragraph regarding PRB, would be affected by the time bar at 41 USC § 7103(a)(4)(A).

We respectfully request that this subfinding be removed from the audit report.

Response to Recommendation #3. Chemonics has robust systems for maintaining adequate documentation, as evidenced by the small amount of questioned costs relative to the contract value. Additionally, we are always continually improving these systems, and in recent years we have established an ISO 9001-certified quality management system to further reinforce our continuous process improvement loop. We regard the few uncontested documentation related items in Recommendation #3 as isolated incidents.

Finding Chemonics ASAP NFR 2014-3

Kearney questions \$19,899 of rest and recuperation (R&R) travel charges for an employee who worked across multiple USAID-funded prime contracts in order to implement and supervise a shared security platform for all Chemonics contracts in Afghanistan. Kearney is questioning this cost based on what its auditors consider an incorrect methodology for allocating the costs across contracts. Chemonics does not dispute that the R&R charges were allocated to the employee's home project. This was consistent with Chemonics' practices at the time, which were discussed with USAID. We allocated R&R to an employee's home project so that there was a central location where eligibility for such travel could be tracked, and because we believed the marginal benefit that might accrue to the government from a different methodology would be outweighed by the increased costs necessary to implement a different methodology.

Nevertheless, to the extent that any claims and counterclaims between the parties would still be timely under 41 USC § 7103(a)(4)(A), we remain open to discussing this matter with USAID, and to reallocating a portion of the cost to the other relevant contracts if USAID prefers a different methodology. We note that any such reallocation would likely result in increased overall cost to the government, as the indirect cost rate ceilings Chemonics and USAID negotiated on the ASAP contract were considerably lower than our provisional NICRA rates and lower than what we would be required to bill under the terms and conditions of the other contemporaneous contracts at issue.

Finding Chemonics ASI NFR 2014-1

Based on documentation provided to the auditor, Chemonics believes that \$115,834.62 of the \$120,268.00 characterized as unsupported under this heading, including all costs under Subfindings ASI NFR 2014-1.1 and all but \$4,433.38 (unburdened) of the costs under Subfinding ASI NFR 2014-1.4, are supported and allowable under the terms of the contract.

The majority of the costs that Kearney characterizes as unsupported relate to USAID-approved procedures whereby grant budgets could change by 5-10%, depending on the date, without additional USAID/OTI approval or notification requirements. Kearney did not recognize this pre-existing approval, and instead has attempted to hold Chemonics to documentation standards that are not required by the ASI contract.

Chemonics agrees that there were some minor administrative processing and documentation completion issues. This is a challenge common to projects operating in high risk environments with limited staff and resources. Chemonics continues to implement processes aimed at improving these areas. However, we do not agree that the project lacked adequate controls over material matters, including expenditures.

We address Kearney's general comments below. We then address each of Kearney's specific subfindings in turn. Because there are different explanations for some of the items grouped together under the subfindings, we have interspersed Kearney's bullet points with our responses to provide a more logical flow. We stand ready to answer any additional questions or provide clarification regarding this response.

Subfinding ASI NFR 2014-1.1 – "Insufficient" Approvals

- **Grants:** Instances of insufficient approval related to Grant and subcontract agreements, modifications, Memorandum of Negotiation, Clearance Forms, Completion Certificates, and closeout documentation.

Chemonics' response: Chemonics does not believe that the materials provided evidence lack of proper approvals.

The items cited by the auditors can be broken down into three main categories. First, the auditors state that memoranda of negotiations were not signed or were signed after the start date of the Grant Agreement. While ASI staff did generally sign the negotiation memoranda, there was no obligation requiring them to do so. The lack of signature does not undermine the legitimacy of the document or evidence a control issue. Because the memoranda exist to document the results of negotiations, it is not unusual that they would be completed after finalization of the grant agreement or respective procurement under the in-kind grant and filed in the appropriate files. We do not believe that any failure in controls is present here.

Second, many of the items concern cases where Grant Agreements or modifications were signed after the cited effective date. We believe these are not control issues, because as a general contractual matter it is permissible for parties to an agreement to sign the agreement subsequent to the effective date of the agreement. This is especially true for in-kind grants — comprising the majority of the grants listed in this section — which are not obligating instruments for the grantee to expend funds.

Third, for those instances related to USAID approvals for closeout or grant clearance, the OTI Activity Database was the method for confirming actions and activities between OTI

Washington, OTI field staff and various ASI offices. ASI updated each activity in the database with information and status which was uploaded to OTI at USAID/Washington on a weekly basis. In coordination and communication with OTI, updates were available in the field for OTI review and oversight through the database. OTI tracked active and closed activities. Timelines on closeout activities varied based on the ability to coordinate or visit Grantees due to changing security situations. Management concurs that it is preferable to finalize documentation expediently and maintain redundant confirmations of approvals. Considering the changing security situation, it is reasonable that approvals would be captured as actions within the final OTI Activity Database and that closeout of in-kind grants may have been delayed. We believe that this is not an indication of an internal control issue, since delays or lack of secondary evidence of OTI approvals captured in the database did not affect our ability to prevent or detect and correct misstatements on a timely basis.

Thus, we respectfully request that this item be removed from the audit report.

- **Grants:** Instances of insufficient approvals of payment related supporting documentation.
 - One instance in which the invoice was not properly approved by appropriate Chemonics personnel, resulting in unsupported costs of \$24,190.
 - Two instances in which the Purchase Order (PO) was not approved until after the delivery of goods occurred.

Chemonics' response: The instance Kearney cites in which an invoice "was not properly approved by appropriate Chemonics personnel" refers to a grant for the purchase of chemistry kits for local schools. During the course of the audit, we provided Kearney with the following documentation to support this cost:

- a) All procurement documentation for the purchase.
- b) The approved purchase order.
- c) The final invoice processed for payment with a stamp "received."
- d) A memo to file from the ASI finance team completed post transaction confirming that the transaction entry was reviewed and approved by appropriate project finance staff.
- e) The signed and accepted Deed of Donation and grantee completion certificate, showing that all of the requested materials (37 total chemical sets) were delivered to and accepted by the intended beneficiary.

The USAID-approved ASI-South procurement manual provided that a responsible staff member should review the original invoice to ensure accuracy. If the invoice was accurate according to the purchase order, the staff member should sign or stamp the invoice showing his/her review and approval, thus indicating the invoice is accurate and acceptable. As mentioned above, the invoice in question was stamped as "received" with a date indicated.

In discussions during the course of the audit, Kearney stated that they would determine this cost to be unsupported because the invoice stamp included a place to "sign", which was not signed and by this logic there was nothing on the stamp to indicate which department received or reviewed it.

However, we disagree because (a) there was no requirement either in the procurement manual or in the contract that a reviewed invoice requires a signature, (b) the memo to file from the ASI finance team completed post transaction confirmed that the transaction entry was reviewed and approved by appropriate finance staff, (c) the invoice was stamped as received and other documentation makes clear the beneficiaries received the chemical sets per the grant agreements, and (d) there is no question that the costs are reasonable.

Therefore, Chemonics maintains that the documentation submitted support these costs and respectfully requests that this item be removed from the audit report.

- **ODCs:** Instances of insufficient approval were noted:
 - For one instance in 2009, the expense report was not approved. As costs were sufficiently supported, this exception did not result in questioned costs.
 - For one instance, the PO was approved after the invoice and delivery of the goods. As the goods were received and the costs were sufficiently supported, this exception did not result in questioned costs.

Chemonics' response: We acknowledge these instances were aberrations from our policies. We agree with the conclusion that we provided sufficient documentation to support the costs.

Subfinding ASI NFR 2014-1.2 – Clerical Issues

- **Payroll:** In one instance related to payroll, due to a clerical error, an employee had an incorrect amount of retroactive salary paid on a pay raise. The error resulted in an inconsequential lower amount of costs incurred; therefore, this error did not result in questioned costs.

Chemonics' response: We provided calculations to the auditor to show that the clerical errors in applying the retroactive salary approval were negligible.

Therefore, we respectfully request that this item be removed from the audit report.

- **Grants:** For four instances related to one subcontractor that implemented 13 Grants, fingerprints were used in lieu of signatures, and the fingerprints were either smudged or faint and would therefore be unusable to verify the identification of the individual. For one instance related to one Grant, the incorrect Grant budgeted amount was recorded on the activity closeout documentation.

Chemonics' response: We agree that some fingerprints were smudged or faint, possibly as a result of the passing of time or the relocation of records, and that these and other minor clerical issues do not result in unsupported costs. Chemonics will continue to place management emphasis on ensuring that the correct budgeted amount for grants is recorded in closeout documentation.

ASI NFR 2014-1.3 – Unexplained Discrepancies between GL Balances and Grant Closeout Documentation

- **Grants:** A total of 12 instances related to nine Grants were identified in which the transactions recorded in the GL did not reconcile to the amount that was recorded on the activity closeout documentation. While none of these costs were considered to be unsupported as sufficient supporting documentation was provided to support the individual costs, a control deficiency was noted.

Chemonics' response: General Ledger balance differences sometimes occurred when the in-kind grant activity closeout documentation was processed prior to a financial period closing, or when the grant activity included different types of costs; for example, an in kind procurement as well as short term technical assistance. As Kearney notes, we provided sufficient documentation to support these costs.

Therefore, we respectfully request that this subfinding be removed from the audit report.

AID NFR 2014-1.4 – "Improper" Review Procedures

- In one instance in 2012 for Payroll, the period of performance on the Employee Agreement did not reconcile to the period of performance on the Earnings Statement, resulting in unsupported costs of \$234.

Chemonics' response: During the course of the audit, we explained to Kearney that the electronic payroll system put into place during the project captured the termination date for all employees based on data entered from the Human Resources Department. Although we were unable to locate the hard copy modification to the employment agreement related to the \$234 of burdened costs that Kearney has characterized as unsupported, we did provide Kearney with the earnings statement generated from the payroll module indicating that the employee's active status started on 2009-12-12 and terminated on 2011-12-11, as well as the employee's approved full-time timesheet and corresponding pay rate for the month in question. The payroll module would not have allowed the employee's pay to be processed had her status not been active with time approved. We believe the employee's timesheet and earnings statement are sufficient documentation to support this cost.

We therefore respectfully request that that this item be removed from the audit report.

- For two instances for Payroll, a transliteration issue occurred, resulting in the employee's name not appearing the same on all supporting documentation. Since the costs were otherwise fully supported, only a control issue was noted.

Chemonics' response: We acknowledge the transliteration issue identified and agree with the conclusion that these costs were fully supported. We also note that the issue of transliteration or translation for names was significantly reduced when Chemonics developed and began using an automated payroll module on the projects we implement in Afghanistan.

- For one instance for Grants, the total amount of subcontract costs incurred exceeded the amount of US Dollar costs authorized by USAID in the consent to subcontract. This was the result of a change in the exchange rate applied per the consent to subcontract versus the exchange rate applied to the actual payment due to the timing of the payment. The final amount paid by Chemonics for all costs, including this subcontract, did not exceed the ceiling of the previously, USAID-approved in-kind grant, nor did it exceed the ceiling for the Afghani amount per the subcontract, and therefore did not result in a questioned cost.

Chemonics' response: We agree with the conclusion that there are no questioned costs for this item. We further note that the ASI Activities Management Guide (AMG) included provisions whereby the grant budget could change by 5-10%, depending on the date, without USAID/OTI approval or notification requirements. This provision allowed for exchange rate changes and minor changes to actual costs for items procured in-kind to move ahead without undue administrative burden and delays in the challenging conflict environment. This structure was agreed to by USAID/OTI as part of the contracting officer's approval of the AMG.

Activities that included short-term technical assistance or direct distribution of goods and services were processed in accordance with the subcontracts issued to vendors within the USAID/OTI cleared activity description.

The final USD value for the subcontract is within the budget change threshold authorized per the USAID/OTI approved AMG; thus, no additional approvals were requested or required.

Therefore, we respectfully request that this item be removed from the audit report.

- For eight instances in 2010 for Grants, the total costs incurred exceeded the budgeted amounts, resulting in unsupported costs of \$69,671.
- For four instances in 2011 for Grants, the total costs incurred exceeded the budgeted amounts, resulting in unsupported costs of \$26,173.

Chemonics' response: As noted above, the USAID-approved ASI Activities Management Guide (AMG) included provisions whereby the grant budget could change by 5-10%, depending on the date, without USAID/OTI approval or notification requirements. This provision allowed for exchange rate changes and minor changes to actual costs for items procured in-kind to move ahead without undue administrative burden and delays in the challenging conflict environment.

When the activity involved an in-kind grant, the grant completion certificate was used to finalize the details for the activity in the OTI e-Rooms files and Grants Database which served as OTI's official record of grant activity actions. Thus, overages within this parameter for in-kind grant activities could be recognized through the grant completion certificates signed by both parties certifying the completion of the activity and final reconciliation of in-kind grant value.

Activities that included short-term technical assistance or direct distribution of goods and services were processed in accordance with the subcontracts issued to vendors within the USAID/OTI cleared activity description.

The discussion below provides detail of the agreements that Kearney has characterized as unsupported:

- i. PBC 25-68, Activity ARG-011
 - a. Original budget: \$89,188.37
 - b. Costs incurred in excess of original budget: \$1,756 (2.0%)
 - c. Discussion: The original USD grant budget was the equivalent of 4,459,419 AFA. The grant completion certificate, signed by both the grantee and Chemonics representatives, served as the final reconciliation of the value of all in-kind support provided under the grant, and certified to the completion of the grant activities. Chemonics provided to Kearney the final duly executed grant completion certificate amending the Grant Budget to \$90,944.72 along with the supporting documentation for the selected cost sample under this grant. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.
- ii. PBC 25-92, Activity ARG-032
 - a. Original budget: \$44,545
 - b. Costs incurred in excess of original budget: \$1,510 (3.4%)
 - c. Discussion: This was a non-grants activity. The clearance form signed by USAID/OTI is for a short-term technical assistance activity with a private entity which was accomplished through a fixed price subcontract. The total payments were consistent with the subcontract as amended for 2,045,434 AFA, which at the prevailing exchange rate resulted in costs billed to the government of \$46,055 (unburdened). Because the subcontract was firm-fixed-price and did not exceed the simplified acquisition threshold, Chemonics had discretion to enter into and modify the subcontract without further USAID action consistent with FAR 52.244-2. Furthermore, the subcontract entered into was consistent with the activity budget as modified and the final USD equivalent was within the budget change threshold authorized per the USAID-approved AMG. Kearney has not provided any argument that supports its characterization of this cost as unsupported.
- iii. PBC 25-41, Activity GAR-052
 - a. Original budget: \$74,230
 - b. Costs incurred in excess of original budget: \$2,899 (3.9%)
 - c. Discussion: The AFA equivalent at the time of grant signature was 3,686,006 AFA. Following initial grant clearance, there was a significant change in the exchange rate between the USD and AFA. Total subcontract payments under this in-kind grant were consistent with the subcontract as amended for a total fixed price amount of 3,449,400 AFA. Although this amount was lower in AFA terms than

the original budget, the exchange rate fluctuation resulted in a higher USD value for the AFA in-kind grant and corresponding fixed price subcontracts denominated in AFA. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.

iv. PBC 25-27, Activity GAR-054

- a. Original budget: \$312,454
- b. Costs incurred in excess of original budget: \$19,907 (6.4%)
- c. Discussion: Following initial grant clearance, there was a significant change in the exchange rate between USD and AFA. This resulted in a higher USD value for the AFA in-kind grant and corresponding fixed price subcontracts denominated in AFA. This was explained in a note to the file included in the grant documentation Chemonics submitted to Kearney. The total subcontract payments were consistent with the subcontract as amended and as approved at the time of issuance. However, due to exchange rate changes, the USD equivalent increased. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.

v. PBC 25-66, Activity GAR-068

- a. Original budget: \$28,086.85
- b. Costs incurred in excess of original budget: \$466 (1.7%)
- c. Discussion: The AFA equivalent at the time of grant signature was 1,292,002AFA. This activity was a fixed obligation grant. Payments made on this activity equaled the original AFA budget. However, there were slight exchange rate differences when recording the actual payments in AFA during the course of the activity, resulting in a slightly higher total USD expended amount for the grant. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.

vi. PBC 25-47, Activity MAR-003

- a. Original budget: \$55,533
- b. Costs incurred in excess of original budget: \$2,127 (3.8%)
- c. Discussion: The AFA equivalent at the time of grant signature was 2,776,650AFA. The grant completion certificate signed by grantee and ASI for the value of 2,663,900 AFA was less than the original AFA equivalent at time of grant signature and was equal to the exact amount of a subcontract issued under the grant. The subcontract, according to the cost selected for the audit, was paid in full. Although the amount paid for this grant was less than the original value of the grant in AFA terms, exchange rate fluctuation resulted in a higher USD value than originally budgeted. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.

vii. PBC 25-62, Activity MAR-011

- a. Original budget: \$149,360
- b. Costs incurred in excess of original budget: \$12,825 (8.6%)
- c. Discussion: The AFA equivalent at the time of grant signature was 7,429,000AFA. The grant completion certificate signed by the grantee and ASI certified the amount reimbursed as 7,309,000AFA which was the exact amount of a subcontract issued under the grant. Although this amount was less than the original value of the grant in AFA terms, exchange rate fluctuation resulted in a higher USD value than originally budgeted. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.

viii. PBC 25-28, Activity SPI-030

- a. Original budget: \$284,510
- b. Costs incurred in excess of original budget: \$25,270 (8.9%)
- c. Discussion: The AFA equivalent at the time of grant signature was 14,225,500AFA. As shown on the Activity Completion Certificate and Final Evaluation Report submitted to OTI, the fixed price subcontract for the work under this grant was issued at 13,939,020AFA and payments were issued in accordance with that subcontract. Although this amount was less than the original value of the grant in AFA terms, exchange rate fluctuation resulted in a higher USD value than originally budgeted. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.

ix. PBC 25-102, Activity KAN-031

- a. Original budget: \$78,668
- b. Costs incurred in excess of original budget: \$7,816 (9.9%)
- c. Discussion: KAN-031 was a non-grants activity involving the provision of technical assistance from engineers hired on short-term employment agreements to be embedded with counterparts at the Kandahar City mayor's office with all costs managed by ASI. The clearance form signed by USAID/OTI is for a short-term technical assistance activity and was modified to the referenced activity budget. The final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required.

x. PBC25-81, Activity KAN-047:

- a. Original budget: \$71,082
- b. Costs incurred in excess of original budget: \$11,146 (15.7%)
Discussion: The budget change threshold authorized per the USAID/OTI approved Activities Management Guide (10%), was \$78,190.20. The subcontract costs charged to the contract under this grant exceeded this threshold by \$4,037.38. The overage was an aberration due to an internal miscommunication.

xi. PBC 25-38, Activity ARG-049

- a. Original budget: \$55,900
- b. Costs incurred in excess of the original budget: \$5,986 (10.7%)
- c. Discussion: The AFA equivalent at the time of grant signature was 2,571,400AFA. As shown on the Activity Completion Certificate submitted to OTI, the costs charged to the contract for in-kind support provided under this grant were 2,802,714AFA. In USD terms, it appears on review that this exceeded the AMG-authorized budget change threshold by \$396 (unburdened). We would not contest a revised total that characterized as unsupported this \$396 amount.

xii. PBC 25-92, Activity ARG-032

- a. Discussion: This activity was discussed in item (ii) in our response above. We refer the reader to that discussion.

As shown above, for ten of the twelve USAID cleared activities Kearney cites, the final USD value was within the budget change threshold authorized per the USAID-approved AMG; thus, no additional approvals were requested or required. The purchases, subcontracts, and provision of short-term technical assistance under each of the activities were administered consistent with contract requirements. For the other two activities, we believe only the costs incurred in excess of the budget change threshold authorized per the AMG, totaling \$4,433.38, should be characterized as unsupported.

During the course of the audit, Kearney asserted that, while OTI may not be required to approve budget modifications under 10% of the total budget, modifications to the grants are still required and therefore should be documented and approved by Chemonics and the grantee. However, we maintain that as the grant was not an obligating instrument, formal grant modifications were not necessary to authorize provision of support within the USAID/OTI thresholds for the activity budget. Further, the final grant completion certificates, when signed by ASI and the Grantee, provided sufficient additional documentation of the value of the in-kind grant. When ASI activities were outside of an in-kind grant, no formal modifications were necessary, as the activity budget was tracked in the OTI Activities Database and was in accordance with the AMG authorized budget thresholds.

Regardless, since Chemonics possessed the authority to allow limited deviations in budget and properly recorded final grant amounts in the grant completion certificates and OTI Activities Database, the lack of an intervening modification is not a material matter and would not form any basis for disallowance. Requiring such a modification places an added administrative burden (and expense) on projects with no apparent corresponding benefit. Chemonics will nonetheless address this matter with in the future USAID to determine USAID's preferences.

We therefore respectfully request that the audit report be amended to characterize as unsupported only the uncontested amount of \$4,433.38 in this subfinding, and to remove other unassociated items from this subfinding.

ASI 2014-1.5 – Timing Issues

- For nine instances for subcontractors, the payment was not made within 30 days of receipt of the invoice, as required by the subcontract agreement. Through review of other relevant documentation provided by Chemonics, the costs incurred were considered reasonable. As a result, these instances did not result in unsupported costs.

Chemonics' response: We agree with the conclusion that there are no unsupported costs for this item. We do not agree this represents a control issue because there can be many reasons for delayed payments, including reasons that exist to protect the legitimate interests of USAID and/or Chemonics. Chemonics takes seriously its responsibilities to pay subcontractors in a timely manner, but this obligation is balanced against our other obligations. Most commonly, a delay in payment is due to questions from project staff regarding the invoice and associated supporting documentation from the subcontractor, though security concerns in delivering payment, incorrect or suspicious payment instructions, or security or logistical restrictions preventing communications can also be factors. These delays are not due to control issues; to the extent that they are within any party's manageable control, they are commonly examples of effective controls in action.

- For one instance for Grants, the Grant modification was not issued until the previous modification had ended, resulting in a control issue
- For two instances for Grants related to one Grant, the Grant modification was not issued until six months after the original contract period of performance had ended, resulting in a control issue.

Chemonics' response: We agree with the conclusion that there are no questioned costs for these two items. We also note that there can be many reasons for delays in executing modifications to grants, including reasons that exist to protect the legitimate interests of USAID and/or Chemonics.

Finding Chemonics ASI NFR 2014-2

Chemonics contests \$819,640 of the \$823,550 questioned under this finding, including all costs questioned under Subfindings ASI NFR 2014-2.1 through 2014-2.5 and the \$130 of purported "luxury goods" questioned under Subfinding ASI NFR 2014-2.6. We do concur with some of Kearney's observations related to internal controls.

We first provide commentary below on Kearney's qualified opinion and a general cause for some of the items Kearney cites as missing, as we believe Kearney did not give due consideration to the terrorist attack that destroyed a significant portion of ASI documentation. We then address Kearney's general comments in this finding, followed by our response to each of Kearney's specific subfindings.

Terrorist attack. At 9:03 PM on April 15, 2010, a terrorist detonated a massive Vehicle Borne Improvised Explosive Device (VBIED) outside Chemonics' ASI offices in Kandahar. In the blast, two Chemonics guards were slain, several other employees were injured, and equipment and documentation was destroyed or lost. The photographs below show the extent of the destruction to the project's offices.



At the entrance conference, during audit field work, and at the exit conference, Chemonics informed Kearney's auditors of this event, and the likelihood that we would not be able to produce all of the complete original documentation supporting certain costs as a result of this terrorist attack. Chemonics made clear that it would provide alternative documentation to support costs where original materials were not complete or unavailable.

In its draft audit report, Kearney has made clear it was unwilling to consider any documentation other than the specific documentation requested. As such, Kearney's draft audit report contains a qualified opinion for the ASI portion of the audit, stating that this action is because Kearney was "unable to obtain adequate audit evidence specific to the Other Direct Costs (ODC) and Grants balances for the ASI contract."

Chemonics is perplexed as to how Kearney came to such a conclusion. Characterizing costs for which the supporting documentation was destroyed or lost as a direct result of a terrorist attack as "unsupported" does not accurately reflect the circumstances surrounding these costs nor does it take into consideration the challenging operating environment present in Southern Afghanistan during 2010. In addition, Kearney's determination to question all costs not supported by complete sets of original documentation, without considering the adequacy of evidence and available alternatives, is inconsistent with the regulatory and audit standards that apply to government contracts and with well established legal precedent.

We believe it is inequitable for Kearney to issue a qualified audit opinion without stating that Chemonics suffered a terrorist attack and as a result was unable to produce documentation Kearney requested. Doing so leaves a misimpression concerning Chemonics' administration of the project and cooperation with the audit.

Further, as outlined below, we conducted an exhaustive search of our archives while preparing our response to the draft audit report and we were able to locate additional documentation to support these costs. We are providing this documentation to Kearney for consideration.

We respectfully request that Kearney remove the qualification of its audit opinion, and remove any reference to a qualified audit opinion in the audit report. At a minimum, we request that Kearney provide a more accurate and complete characterization of the circumstances described above in its audit opinion.

Response to Kearney's general comments. At the conclusion of finding ASI NFR 2014-2, Kearney recites numerous clauses from the Federal Acquisition Regulation, the Code of Federal Regulations, and USAID's Automated Directives System (ADS), but does not explain their connection to the ASI contract or relevance to the audit findings. We note that there are no provisions of our contract that incorporate, or require adherence to, FAR Parts 6 or 13. The 22 CFR 226.53 and 226.71 clauses are requirements for grantees, not contractors. Finally, we are familiar with the cost principle found at FAR 31.201-2(d). But the audit report does not identify whether Kearney is characterizing these costs as unsupported on the basis of whether they were paid, are allocable, or conform to some other specific cost principle. This makes it difficult to provide a comprehensive response.

Subfinding ASI NFR 2014-2.1 Competitive Bidding Documentation

Kearney has characterized as unsupported \$787,795 that was invoiced for multiple grants or subcontracts based solely on the amount of documentation provided to support competition. We believe Kearney's finding is flawed for multiple independent reasons. First, each of the grants in question was approved in writing by USAID, according to the approval procedures that had been mutually agreed between Chemonics and USAID. The information USAID examined as part of its approval included budget estimates that the cognizant USAID official¹ deemed to be reasonable. The procurements-under-grants that form the basis for Kearney's questioned costs were conducted within these estimates. The SWIFT III IQC contract under which ASI was tendered additionally provides that, in selecting grantees, "USAID must be significantly involved in establishing selection criteria and must approve the actual selection of grant recipients and grant activities," which accurately describes the level of USAID/OTI's participation in the process. Kearney has provided no explanation as to why Kearney has effectively substituted its own retrospective judgment of this matter, notwithstanding the prior and contemporaneous approvals by the cognizant USAID officials.

¹ Depending on the grant value and type of recipient, the cognizant official could be the OTI country representative or field director, the task order contracting officer's technical representative, or the task order contracting officer, according to the approval procedures that were approved by the contracting officer as part of the project's grant manual.

Second, while our contract does generally incorporate the requirements of ADS 303, this includes clauses that existed contemporaneously with the contract period of performance which provide specific authority for exemption from competition due to several circumstances such as exclusive or predominant capability. Kearney has provided no analysis of the justifications for absence of competition that Chemonics provided during the audit for some of the questioned items, nor explanation as to why it believes these justifications were so facially deficient as to require the substitution of Kearney's retrospective judgment, nor explanation as to why, even if this were the case, USAID would therefore be entitled to a refund of the entire universe of costs associated with these grants and subcontracts.

Third, we have, since the issuance of the draft audit report, recovered some of the documentation that was believed lost in the VBIED attack or its aftermath that establishes competition did occur for each of the procurements under grants that are questioned in this subfinding. We have included this documentation as part of our response, as discussed further below.

- i. Grant SPI002 awarded to FAF in 2009 for \$256,694 (burdened): The project received an unsolicited list of 10 proposed projects for Spin Boldak area for consideration by ASI and USAID/OTI. ASI and USAID agreed to an initial project as one of the first major activities for the ASI project and negotiated the grant accordingly. The auditors assert that the justification included in the negotiation memorandum for Grant SPI002 awarded to FAF is insufficient, although USAID/OTI approved the grant as required by the ASI AMG. This was a grant with a U.S. firm with specific technical expertise and local knowledge and so meets the exclusive or predominant capability requirements of ADS 303.3.6.5(c) (as it existed during the contract period of performance). FAF was also a USAID/OTI vetted firm with strong-track record, adequate financial systems and active engineering capacity in Kandahar City and presence in the key districts of Arghandab and Spin Boldak, which was required for implementation of this activity.

The grant documentation provided to Kearney includes the USAID/OTI grant approval as well as the negotiation memoranda for the grant. Chemonics also provided to the auditors a copy of the FAF corporate capabilities statement as evidence of FAF's expertise related to the activity. Present in Afghanistan since 2004, FAF had a long history working in the technical and geographic areas relevant to ASI and predominant capability with the expertise and context for this activity.

Kearney asserted in discussions about this item that they did not believe the documentation proved FAF was uniquely capable. However, the required standard was *predominant* capability, not *unique* capability. More importantly, USAID/OTI considered the documentation to be sufficient in granting its clearance of the activity and approval of the grant. Therefore, Chemonics maintains that the grant was awarded with the appropriate justification for lack of competition as required by the ASI contract, and that all costs of the grant are fully supported.

We therefore respectfully request that this item be removed from the audit report.

- ii. Grants ARG-004, ARG-006, ARG-026, ARG-016, ARG-049, KAN-028, KAN-095 and KAN-105, totaling \$531,201 (burdened). The procurements in question under these grants occurred either prior to (in the case of the first three grants) or shortly after (in the case of the other five) the VBIED terrorist attack. Much of the documentation associated with competition, as well as any applicable justifications for lack of competition, was lost or destroyed. The project files related to the first three grants contain a memorandum with the following language:

"On April 15, 2010, the ASI-5 Kandahar City office and residence was attacked via a massive Vehicle Borne Improvised Explosion Device (VBIED). The VBIED destroyed the office and the expatriate residence was severely damaged. With the integrity of security for the compound severely compromised, the expatriate members of the team were evacuated that evening. Concerted efforts were made over the following days to recover as much paper and electronic program documentation as possible. However, due to the magnitude of the attack and subsequent damages, with the structural integrity of the building compromised and deemed unsafe to enter, a substantial amount of program documentation had been lost. Upon the transfer of the project office from the building following the incident, the landlord precluded further access to the property. Additionally, many of the individual computers utilized by the national staff were damaged or destroyed during the blast, and thus many of the electronic files were lost."

The project files for the other five grants contain a note that the procurements occurred after the VBIED terrorist attack but during the period when the project offices moved several times and there were high instances of turnover due to the unstable security situation. The general language used is as follows, accompanied by a list of the missing documentation for each grant:

"The files listed below are missing from the subcontracts folder due to the following reasons. In April of 2010 the ASI-South office in Kandahar was the target of a car bomb. After the explosion the subcontracts department moved to Kabul from May 2010 through November 2010. In November the subcontracts team relocated back to Kandahar and was based out of the Sherzai office located by KAF. During this time the subcontracts management team changed numerous times. Every new subcontracts manager/director initiated a new file structure but did not stay with the project long enough to fully implement the changes. This memo justifies the absence of the items listed below due to the high turnover rate in the subcontracts management team, the blast in April, and the multiple times the office relocated during the course of the project."

Additionally, since receiving the draft audit report, Chemonics conducted an exhaustive scan of staff computer archives that was not possible within the audit timeframe. We were able to retrieve documentation from staff computer archives that shows there was competition for each of the eight items in question. We are submitting these documents under separate cover to Kearney as a part of our response, though we maintain that the costs would be adequately supported even without this additional documentation. Due to the time required to retrieve such archived information, we were not able to locate this information within the time constraints of the audit fieldwork. We respectfully request that Kearney consider this documentation now as part of our response and modify its findings as appropriate, consistent with GAGAS 4.38.

In sum, we have, in each of the eight instances, provided Kearney with sufficient documentation to support allowance of the costs. We have now, additionally, provided documentation with this response that we believe addresses Kearney's comments on competition.

We therefore respectfully request that these items be removed from the audit report.

Additionally, we note that Kearney has characterized as unsupported the entire value of the in-kind grant ARG-004 despite the fact that the sample cost and question on competition documentation was associated with only one of the fixed price subcontracts issued under this grant. The Grant with the Arghandab Joint District Coordination Center (JDCC) was cleared by OTI on November 7, 2009 for the in-kind provision for strengthening the security at the JDCC, including boundary wall construction and installation of blast film. The selected cost under the audit was related only to the fixed price subcontract for boundary wall construction. The remainder of the grant was for blast film. While we maintain that all costs characterized as unsupported under this subfunding should be removed from the audit report, we believe that for internal consistency Kearney should, at a minimum, revise its questioned costs to correspond only to the procurement in question.

- iii. Questioned ODC costs of \$13,307 (burdened). The project supported maintenance and repairs to the toilets in the MAIL building in Garmseer District. The rehabilitation and maintenance service was procured through a fixed price subcontract with payment due upon the completion of the work. Supporting documentation provided to the auditors included the fixed price subcontract, the approved invoice and payment request form, as well as the approved financial processing forms. The scope of work required the excavation of an old septic tank, repairing the slab for the septic tank and installing toilet connecting pipes, repairing two toilets, and installing two wash tubs and one shower as well as repairing electrical switches and lights.

Consistent with FAR 52.244-5, Chemonics promotes competition in procurements to the maximum extent practicable. For obvious reasons, the nature of work servicing a septic tank and repairing toilet connections typically requires a quick response. It is reasonable to include related items in the same procurement such as installation of fixtures to minimize disruption to facilities. Chemonics maintains that the services provided under this subcontract were reasonable with costs sufficiently supported per the requirements of the contract, and that it was necessary to avoid the delays that competition would have required in the case of this urgent circumstance for these small-value services. The prices paid and visible on the Bill of Quantities we supplied to the auditors were based on the company's commercial rates, and such rates are themselves established in a commercial marketplace with robust competition. Kearney has provided no analysis of Chemonics' justification for absence of competition, nor any basis grounded in the contract terms and conditions for characterizing these costs as unsupported. We maintain that the costs are fully supported according to the contract terms and conditions.

We therefore respectfully request that this item be removed from the audit report.

Subfinding ASI NFR 2014-2.2 – Travel Documentation

Kearney characterizes as unsupported \$7,764 as the burdened cost of lodging for two local nationals who were lodged in Kandahar for one month each in October 2010 due to the needs of the project. The basis Kearney provides for questioning these costs is the lack of international travel approval.

As the lodging provided was for local national staff, international travel approval was not applicable. We find nothing in ASI contract requiring USAID approval for in-country travel. The invoice from the PSS guesthouse, naming the two local employees for whom accommodation had been provided, was approved by the ASI deputy chief of party and finance team. The local engineers' timesheets show corresponding days worked for the month. We believe that per the contract terms, this is sufficient to document that the costs were incurred for the benefit of the contract.

We therefore respectfully request that this subfinding be removed from the audit report.

We do not dispute Kearney's assertion regarding the expense report issue Kearney noted. We regard this as an isolated incident. We appreciate Kearney's concurrence with our position that the other supporting evidence for this charge is sufficient to substantiate allowability.

Subfinding ASI NFR 2014-2.3 – Receiving Reports

Kearney comments in this subfinding on five instances where there was a timing disparity between when costs for goods provided to a beneficiary were incurred and when the goods were acknowledged as received. There could obviously be many valid reasons for such disparities, from common commercial terms providing for payment before delivery to responsiveness of the beneficiary in signing a receiving report. We would be happy to discuss the specific circumstances of these items with the contracting officer should USAID desire more information.

For the grant example Kearney highlighted, the goods that did not have a receiving report were expendable items that were incorporated into the larger construction (gravel, sand, rebar, etc). The engineer inspections noted work progressing and the delivery of materials, and the final construction documentation serves as evidence of completion/receipt. We consider such documentation sufficient for internal control purposes and we disagree that Kearney's observation points to a control issue.

We therefore respectfully request that this subfinding be removed from the audit report.

Subfinding ASI NFR 2014-2.4 – Grant Supporting Documentation

Kearney characterizes \$10,528 as unsupported under this subfinding because Kearney asserts a grant agreement was not provided to support the costs. We contest these questioned costs, because: (a) a grant agreement was not required for the implementation of these activities, and

(b) the costs were approved by USAID. The costs characterized as unsupported were part of a cash-for-work (CFW) activity performed by IRD and authorized under IRD's subcontract for a cleared activity. The subcontract itself had USAID consent. The specific CFW activity received the required Activity Clearance from OTI, which we provided to Kearney during the audit as well as the email authorization from Chemonics to IRD to implement the work order activity as cleared by OTI. Additionally, because this particular CFW activity was cancelled after three months due to lack of cooperation from the local village and security considerations, USAID/OTI *specifically* approved the amount paid to IRD as part of its approval of the cancellation of the activity. We provided this cancellation approval to Kearney. Kearney has provided no basis for questioning costs that were incurred under IRD's valid, consented to subcontract, and that were in fact approved by USAID/OTI.

We therefore respectfully request that this element of Subfinding ASI NFR 2014-2.4 be removed from the audit report.

Regarding Kearney's other assertions about missing documentation, we note that we received some 416 follow up questions from Kearney for grants alone after our initial submission of documents, most related to sampling of certificates or other grant documents. We were pleased that, in the relatively short time period afforded to us after the receipt of this set of questions, we were able to locate most of the requested documents. We do concur that there were some documents we were not able to locate within the required timeframe, but we believe these may have been available had the timeframe been less limited. We concur with Kearney that none of the unfulfilled requests for documentation would be reason to characterize any of the related costs as unsupported.

Subfinding ASI NFR 2014-2.5 – Grant Closeout Documentation

While we do not dispute Kearney's comments regarding differences in closeout documentation for grants under the contract, we note that such differences largely reflect changes that occurred over the life of the contract in how ASI and OTI staff interpreted the closeout documentation procedures in the grant manual. However, in all cases one constant remained: The OTI database was the final official record for closeout, and approval by OTI of a grant closure was inherent in a grant being marked "closed" in that database. Thus, we believe there were adequate controls surrounding the grant closeout process, notwithstanding minor differences in the specific documents that were retained in ASI's project files.

Subfinding ASI NFR 2014-2.6 – Miscellaneous

Kearney has characterized as unsupported \$4,026 of costs (burdened) related to ODCs, and has characterized as ineligible \$130 of alleged luxury items. The \$4,026 of ODCs consists of fuel charges in August 2011 and the purchase of a juicer in 2009.

Chemonics has decided it will not contest the questioned fuel charges, which are \$3,726 (unburdened). Although the amount incurred for fuel charges is consistent with what Chemonics incurred for contemporaneous and fully-documented fuel purchases on the ASI contract, we have been unable to locate the supporting documentation for this specific charge.

Regarding the juicer, upon further review of the transaction sampled by Kearney, we found that the initial entry identified in the sample was corrected in a subsequent entry in the accounting system. The supporting documentation for the selected sample was attached to the subsequent entry, and this is why we could not locate it initially in response to Kearney's question. Submitted under separate cover is the full set of journal entries and associated backup for this cost, as well as the report of the transaction history from our ABACUS field accounting system.

Since we have now provided documentation of the charge, we respectfully request that this item be removed from the audit report.

The items that Kearney claims are ineligible "luxury goods" consist of a DVD player and an iPod for the ASI guest house. While Kearney did not cite a specific regulation in its draft audit report, its auditors explained in correspondence preceding the issuance of the draft report that their position was based on AIDAR 752.225-70(b)(5), which states that the contractor "shall not procure...luxury goods and gambling equipment." While the AIDAR does not specifically define the term "luxury good," USAID has provided the following definition at ADS 312.3.4.5: "Luxury goods include such commodities as alcoholic beverages and equipment for their production and use, equipment and supplies for gambling facilities, certain recreational supplies and equipment, jewelry, stamps, coins, furs, and the more expensive textiles." We do not believe the items in question meet this definition. Moreover, in a conflict-affected operating environment where staff are largely confined to the project offices or project-provided living quarters 24 hours a day, 7 days a week for security reasons, we do not believe it was unreasonable to furnish the guest house with some basic amenities (that were less than what would be available in a commercial hotel) to support the mental health of project staff.

Therefore, we respectfully request that this item be removed from the audit report.

We do concur with Kearney's observation regarding the missing subcontract modification. We provided supporting documentation to show that an authorized ASI engineer issued directives and approvals to the subcontractor to continue to fulfill the subcontract as originally issued. Payments were in accordance with the subcontract value and amended grant. We regard this as an isolated incident, and we appreciate Kearney's concurrence with our position that the other supporting evidence for this charge is sufficient to substantiate allocability to the contract.

**APPENDIX C –
AUDITOR’S EVALUATION TO CHEMONICS
INTERNATIONAL, INC. RESPONSE TO AUDIT
REPORT**

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this document) appreciates the thorough and thoughtful responses to the audit report provided by Chemonics International, Inc.’s (Chemonics) management. Chemonics disagreed with the majority of the issues presented and agreed with a limited number of the issues presented. Kearney presents a complete evaluation to the full response from Chemonics’ management below.

Chemonics has indicated they are particularly concerned with the issuance of a qualified opinion for the Afghanistan Stabilization Initiative (ASI) Special Purpose Financial Statements (SPFS), as it leaves the reader with a “misimpression concerning Chemonics’ administration of the project and cooperation of the audit.” The audit was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States. Specifically, GAGAS, Section “Integrity”, Paragraph 1.17, states:

“Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and nonideological with regard to audited entities and users of the auditors’ reports. Within the constraints of applicable confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.”

An auditor’s report offers the auditor’s opinion. Kearney has taken care to determine that the proper opinion was issued. Kearney respectfully declines to remove the qualification from the opinion. The report taken as a whole, with Management’s Responses and the Auditor’s Evaluation of Management’s Response, presents a thorough and accurate depiction of the findings as of the end of fieldwork. Kearney believes that the findings as written present a clear and unbiased depiction of the conditions that occurred.

The root cause of the qualified opinion was a lack of sufficient audit evidence. Kearney is aware of the Vehicle Borne Improvised Explosive Device (VBIED) that detonated outside of the ASI offices. From the standpoint of internal controls, contingency plans should include data and documentation back-up requirements that would prevent or reduce the impact of loss of information in case of an uncontrollable event, such as the one that occurred. Documentation redundancy is essential, even more so when documentation is being retained in a location that is susceptible to events such as a VBIED. Upon review of the testing results, the VBIED does not appear to be the primary cause for the lack of supporting documentation, as Chemonics was able to recover “some of the documentation that was believed lost in the VBIED attack or its aftermath” (e.g., documentation to establish competition) and also because documentation that would have been available only after the VBIED attack was also missing (e.g., *ASI NFR 2014-2.1 Competitive Bidding Documentation* included five grants that did not have adequate documentation that were procured after the April 15, 2010 VBIED attack).

Chemonics also stated, “Although Chemonics was unable to provide the specific documents Kearney requested, Chemonics provided sufficient documentation to fully support the costs.”

Kearney did not accept this documentation.” Kearney used its understanding of Chemonics’ controls and processes and auditor judgment to test and conclude on which transactions were adequately supported by documentation, and which costs should be questioned based on the documentation obtained. An example is evidence of adequate competition. When Chemonics could not provide documentation supporting adequate competition, the entirety of the costs were determined to be questioned as unsupported.

As these SPFS are classified as “special purpose”, the SPFS structure is designed to communicate very specific information to the readers. The content of these SPFS includes management’s contract costs incurred and fees applied for two contracts, followed by the reporting of questioned costs as a result of applied audit procedures. Questioned costs are reported, in conjunction with control and compliance findings, in order to alert the users of this report, which are limited to specific instances in which questioned costs exist within Chemonics, the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), and the United States Agency for International Development (USAID). The SPFS requirements were designed to support the identification and communication of questioned costs, whether unsupported or ineligible, and are intended to assist USAID’s Contracting Officer (CO) in the execution of his/her duties in compliance with Federal Acquisition Regulation (FAR) Subpart 1.6, *Career Development, Contracting Authority, and Responsibilities*. The SPFS requirements are also intended to support SIGAR in its duties in accordance with Section 1229 of the National Defense Authorization Act for Fiscal Year 2008. Ultimately, FAR Section 1.602-2, “Responsibilities” states:

“Contracting officers are responsible for ensuring performance of all necessary actions for effective contracting, ensuring compliance with the terms of the contract, and safeguarding the interests of the United States in its contractual relationships... (c) Request and consider the advice of specialists in audit, law, engineering, information security, transportation, and other fields, as appropriate.”

As part of FAR Subpart 1.602-2, it is the CO’s responsibility to make a final determination as to allowability of a cost, but he/she may consider the audit results when doing so. It is Kearney’s responsibility to conduct this SPFS audit in accordance with GAGAS and the requirements of the SPFS, which includes reporting questioned costs. When considering the instances of control and compliance findings, including those with related questioned costs, we have sufficient audit evidence in support of our conclusions related to our audit opinion and supporting Schedule of Findings and Responses.

Kearney defers to the CO to determine the final amount of costs that should be recorded as unsupported. Kearney was unable to determine which portion of the amount of costs paid were reasonable without evidence of competition; therefore, a determination could not be made as to the amount that should be considered reasonable and thus allowable, leading Kearney to question the entire amount of the transaction. There were also instances where documentation was provided to determine that costs were allowable; however, an internal control issue persists. An example of this is when an invoice is paid, and evidence to demonstrate that the goods and/or services were received prior to the date of payment is not provided. Overall, Kearney considers

the costs questioned in this report as being necessary for the CO's review and final determination as to allowability.

Chemonics has indicated that an insufficient amount of time was provided for an adequate response, and that while preparing their response to this report during a two-week timeframe, an exhaustive search of Chemonics' archives was conducted. Kearney believes that sufficient time was provided for Chemonics to obtain documentation from their records. During fieldwork, Kearney provided between one and two months to provide documentation in response to our initial requests, and provided between two weeks and two months for Chemonics to respond to follow up questions. Therefore, Kearney has determined that the total amount of time provided was considered adequate to research and locate the supporting documentation.

Chemonics frequently noted that FAR references cited as criteria for several findings were not applicable. In these instances, Chemonics noted, "there are not provisions of our contract that incorporate, or require adherence to FAR [applicable reference inserted here]." Kearney has determined that the FAR guidance remains relevant and applicable for both the Accelerating Sustainable Agriculture Program (ASAP) and ASI contracts. Supporting this position is Chemonics internal guidance, including:

- Chemonics' *Procurement Guidelines for ASAP in Afghanistan*, Section III, "Chemonics Home Office Procurement Policy/Procedures", Subsection A, "General", Paragraph 2 states, "The Procurement Department's procurement and contracting methods will be guided by the FAR, AIDAR, and other USAID guidelines to the maximum extent possible."
- Chemonics' *Procurement Manual for the USAID Afghanistan Stability Initiative Project*, Section III, "Chemonics Home Office Procurement Policy/procedures", Subsection A, "General", Paragraph 2 states, "The home office procurement department procurement/contracting methods will be guided by FAR/AIDAR to the most practicable extent as a Contractor."

Kearney would like to thank Chemonics for their professionalism and dedication to the support of this audit. Kearney appreciates the efforts that were undertaken by Chemonics to provide the requested documentation, respond to inquiries, and provide detailed responses to the findings in this report.

Throughout the detailed findings, Chemonics indicated that all questioned costs would be affected by the time bar at 41 USC § 7103(a)(4)(A). The purpose of this report is to alert its users, specifically USAID, with regard to questioned costs. Kearney defers to the CO, in the course of executing their assigned duties, to determine allowability of the questioned costs and the effects of the USC referenced by Chemonics.

Below, Kearney has provided our evaluation of Chemonics' management's individual responses to the findings noted in the Schedule of Findings and Responses.

ASAP NFR 2014-1 – Inadequate Review and Approval Procedures

Chemonics indicated, “While we agree that obtaining the necessary signatures on modification promptly is a good practice, we do not believe that the circumstances here point to a control issue.” Kearney contends that while there may not be a legal requirement to sign a grant modification prior to the effective date, the operating environment is why Chemonics should take added care in ensuring that signatures are obtained timely. Circumstances may rapidly change, thus Chemonics should be vigilant in ensuring that both parties agree to any grant agreements or modifications prior to the effective date. The purpose of the signatures is to ensure understanding and agreement with the terms and conditions of a legal document by those individuals who are parties to the agreement. Internal controls should be designed to ensure agreement with the terms and conditions of a legal instrument prior to commencing efforts against said grant or other legal instrument.

Chemonics also indicated that the stated criteria were not applicable, but they agreed to the criteria in concept. Kearney has modified the Schedule of Findings and Responses to provide additional criteria; however, otherwise maintains the finding as appropriate. The responsibility to design and implement a control environment lies with management, including the adaptation of that control environment to the circumstances that exist within the locations it conducts business.

Kearney acknowledges that this finding alone does not meet the definition of material weakness or significant deficiency; however, when taken collectively with other findings as presented in Table 3 of the Schedule of Findings and Responses, we believe an aggregated material weakness exists. As such, this issue is included in the report for an understanding of the aggregated material weakness.

ASAP NFR 2014-2 – Inadequate Recordkeeping

In regard to Chemonics’ position that the cited FAR criteria are not applicable, Kearney contends that the FAR criteria remains applicable. In support of this position, Kearney provided an evaluation of management’s response at the sub-finding level below.

Chemonics further indicated they were unable to determine whether a cost was considered to be ineligible or unsupported. In the audit report, Kearney states whether an amount has been determined to be unsupported or ineligible. All but \$43 of the questioned costs have been determined to be unsupported; specific references were included in each Notice of Finding and Response (NFR) that further explained why costs were questioned. The remaining \$43 dollars were deemed ineligible.

ASAP NFR 2014-2.1 – Competitive Bidding Documentation

Chemonics indicated:

“As we noted in our general comments above, the contract does not incorporate the regulatory requirements Kearney seeks to impose. The only requirement we find for competition is the requirement at FAR 52.244-5, Competition in Subcontracting, which

states that ‘The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract.’ Chemonics takes this clause seriously and does promote competition in subcontracting to the maximum extent practical. However, as this FAR clause also recognizes, there are times when competition is not practicable or, due to an urgent need, would be inconsistent with diligent fulfillment of the objectives and requirements of the contract. In such circumstances, Chemonics may conduct a sole-source procurement to ensure that the interests of the project and the government are protected. The sapling procurement in question was such a circumstance.”

Kearney contends that the FAR criteria remain applicable. This is supported by Chemonics *Procurement Guidelines for the Accelerating Sustainable Agriculture Program (ASAP) in Afghanistan*, Section IV, “Local Procurement Procedures”, Subsection C, “Direct Contract Procedures”, which states, “Procurements of commodities and services within the host country which are undertaken directly by USAID or its contractors shall be in accordance with the requirements of FAR/AIDAR.”

Chemonics indicated that an explanation of the need for expediency and lack of competition for the sampling procurement was provided; however, FAR criteria and Chemonics guidelines state that competition, or the determination to provide a sole source award, must be documented. Further, a sound internal control structure requires that documentation should occur timely. Chemonics *Procurement Guidelines for ASAP in Afghanistan*, Section IV, “Local Procurement Procedures”, Subsection I, “Document the Award” requires such documentation be in the award file. Without support for competition, or a written justification for a lack of competition documented at the time of the procurement, the costs are determined to be questioned as unsupported. For the purposes of the audit of these SPFS, it is our responsibility to alert the users of this report as to instances where costs are unsupported, so as to aid the CO in executing their responsibility under FAR Subpart 1.602-2 in making a final determination as to the allowability of a cost.

In regard to the \$2,148 amount, for which Chemonics responded was adequately competed based on the fact that they obtained two bids, Kearney reasserts that Chemonics is required to follow the FAR, and FAR, Subpart 13.1, *Procedures*, Section 13.104, “Promoting Competition” states, “consider solicitation of at least three sources to promote competition.” FAR, Subpart 13.106, *Soliciting competition, evaluation of quotations or offers, award and documentation*, Section 13.106-3, “Evaluation of quotations or offer”, (a), 2 states, “If only one response is received, include a statement of price reasonableness in the contract file.” FAR, Subpart 13.104, *Promoting competition* states, “Unless the contract action requires synopsis pursuant to 5.101 and an exception under 5.202 is not applicable, consider solicitation of at least three sources to promote competition to the maximum extent practicable.” Further, as copied below, Chemonics’ *Procurement Guidelines for ASAP in Afghanistan*, Section IV, “Local Procurement Procedures”, Subsection G, “Simplified Acquisition Procedures” states, “at least three (3) quotations required” for transactions between \$500 and \$100,000. If three vendors were not available to provide a bid, this should have been documented as part of the justification for proper competition and award. Kearney noted that Chemonics had support for one bid received

and documentation that a second vendor had been contacted twice, but a quote was not obtained. No further evidence of competition or sole source justification was provided. Kearney has modified the Schedule of Findings and Responses to provide additional criteria; however, otherwise maintains the finding as appropriate.

ASAP NFR 2014-2.2 – Timesheets, Receiving Reports, and Invoices

Kearney maintains that the documentation provided to support the validity of payment to these laborers was inadequate, as there is no support from the final payee that work was performed and cash received.

Chemonics indicated there may have been valid reasons for receiving reports and invoices to have a timing disparity; however, specific explanations were not provided.

Therefore, Kearney has determined that the finding stands as issued.

ASAP NFR 2014-2.3 – Grant Closeout Documentation

Chemonics indicated that there were “two distinct and conflicting narratives for why Kearney characterizes \$856,496 as unsupported.” Kearney would like to note that the explanation on Page 23 relates to the ASAP NFR 2014-2.3 as a whole; however, to further clarify, Kearney has provided additional discussion below of the findings identified during fieldwork.

When testing grant payments Kearney selected a sample of grant transactions recorded in the general ledger (GL). Upon review of these transactions, Kearney noted that for 20 transactions related to two grants (Grant Numbers ASAP-0001-G-07-Durukshan and ASAP-0001-G-07-Samaritan’s Purse), documentation to support adequate grant close out in accordance with Chemonics’ controls requiring a grant completion certificate was not provided. There was adequate documentation provided for one grant, ASAP-0001-G-07-Samaritan’s Purse, with ten instances to support the costs incurred. Chemonics concurred that completion certifications were not provided for our review. Kearney alerted the users of this report as to the lack of compliance with Chemonics’ own reporting requirements and to the resulting control issue.

The costs questioned relate to ten instances for one grant, ASAP-0001-G-07-Durukshan, as discussed above, where adequate close-out documentation was not provided to support the costs incurred; this is the same grant for which the A.F. Ferguson audit report was issued where a significant portion of costs were questioned. Chemonics provided additional documentation in response to this draft audit report. Documentation included: an affidavit dated 2014 signed by the grantee asserting the validity of the costs; a document explaining the justification for the costs from the Durukshan Agriculture and Social Association (DASA) dated 2011; and a memorandum to the file dated 2011 stating the reasons why Chemonics accepted the costs questioned in the audit report as allowable. The two items dated 2011 were related to the A.F. Ferguson audit previously performed over this grant. The memorandum stated that the DASA’s confirmation of the validity of the costs was a reason to determine the costs were valid and allowable. Another explanation was that too much time, approximately three years, passed between completion of the work and assessment of the value of the work. These assertions and

explanations made by Chemonics and DASA are not sufficient for the purposes of audit evidence.

Further, Chemonics stated that the \$2,500 ceiling was an unenforceable limit, thus the costs reported in the A.F. Ferguson audit report should not have been questioned. The DASA grant agreement, Grant Number ASAP-0001-G-07-Durukshan, Attachment II Program Description, Section, “What will ASAP do?” states, “Provide US\$2,500.00 (two thousand and five hundred) to each retailer to renovate or reconstruct a rural farm store according to ASAP specifications and design... Any extra cost will be borne by the store owner.”

The statement that “any extra cost will be borne by the store owner” sets a not-to-exceed ceiling, which was exceeded. This resulted in questioned costs.

ASAP NFR 2014-2.4 – Miscellaneous

Chemonics noted that the lack of signatures on the grant modifications was an “isolated incident”; however, this occurred twice on the same grant (modifications 2 and 3), suggesting that this was not an isolated incident. Kearney provided additional criteria in the Schedule of Findings and Responses to further support the finding as issued.

ASAP NFR 2014-3 – Improper Cost Allocations

Chemonics does not dispute that the Rest and Relaxation (R&R) charges were allocated to the employee’s home project; therefore, the finding stands as issued, in order to alert the users of improper cost allocation to the ASAP cost objective.

ASI NFR 2014-1 – Inadequate Review and Approval Procedures

Chemonics has indicated that the majority of the questioned costs related to exceeding the grant budgets should not be considered questioned costs. Kearney maintains that these costs were properly questioned and presents additional information below.

Chemonics stated, “grant budgets could change by 5-10%, depending on the date, without additional USAID/OTI approval or notification requirements.” Review of the requirement in its entirety indicates that individual line items could change by 5 to 10 percent without additional USAID/Office of Transition Initiatives (OTI) involvement, but that the total amount of the budget could not be exceed without prior USAID/OTI involvement. Further detail is provided below in the specific subsections.

ASI NFR 2014-1.1 – Insufficient Approvals

With regard to insufficient approvals surrounding various grant and subcontractor related documentation, Chemonics policy and best practice related to internal controls dictate the receipt of proper and sufficient approvals. For example, Chemonics specifically noted that the Memorandum of Negotiation is not required to be signed; however, the Chemonics, *Activity Management Guide Afghanistan Stabilization Initiative*, Section VI, “Forms”, Subsection 11,

“Memorandum of Negotiation” states, “This is an internal form for completion by the grant specialist and signature by the Operations Manager or Field Director.”

For this example, this policy established the internal control program under which Chemonics expended Government resources for ASI. Accordingly, when insufficiently documented approvals were noted during our testing, they resulted in a finding.

In regard to the timing of grant agreements and modifications, Chemonics should reconsider the position that it is permissible to obtain valid signatures/authorization subsequent to the start of activities, or work against a grant or other agreement. The presence of a signature or other evidence of acceptance confirms the recipient or an officer of the receiving organization understands and concurs with the terms and conditions of the agreement. In a volatile environment, such as Afghanistan, signature prior to the effective date is even more critical.

Chemonics indicated that lack of evidence of OTI approvals on grant close-out documentation is not an internal control issue. However, the database system currently in place does not retain evidence of review by OTI. As with each action performed on a grant in the database, the prior approval is overwritten, thus preventing adequate audit trail.

In regard to the second grants issue, Chemonics has indicated that a “received” stamp is sufficient evidence that an invoice has been approved for payment. Per Chemonics’ *Procurement Manual for the USAID Afghanistan Stability Initiative Project*, “The Procurement Process, Step 8”:

“Payment of the vendor begins with the receipt of their original invoice following acceptance of the equipment and/or services.

The original invoice should be reviewed by the Procurement Specialist to ensure accuracy. If the invoice is accurate according to the purchase order, the Procurement Specialist will stamp the invoice showing his/her review and approval that indicates the invoice is accurate and acceptable. The invoice and approval memo are then forwarded to the DCOP [Deputy Chief of Party].”

Chemonics guidance suggests that a stamp showing approval be included on the invoice as a separate step from the acceptance of the goods or services. Kearney maintains this should not be the same as the “receipt” which starts the process. Chemonics provided a memorandum in regard to “Missing Coding Sheet Approvals” that “will serve as approval although post transaction.” This memo, which does not include a list of applicable transactions, was dated April 19, 2011; the transaction in question was dated October 31, 2010. Evidence of the approval memo to be forwarded to the DCOP was also not provided.

ASI NFR 2014-1.2 – Clerical Issues

In regard to the payroll issue, Kearney agrees that the clerical error for payroll resulted in an inconsequential dollar difference. However, this does not negate the fact that an error in computation occurred. In regard to the grants issue, Chemonics should take care to ensure that

fingerprints used as evidence of agreement to an agreement or receipt of a payment are legible, due to the fact that in some cases they represent the only means afforded to Chemonics to support approval or acceptance. These findings are presented as further support of the various instances where controls did not prevent or detect an error, or where evidence supporting the control was not sufficient.

ASI NFR 2014-1.3 – Unexplained Discrepancies between GL Balances and Grant Closeout Documentation

Kearney contends that Chemonics does not disagree with the existence of the condition, and as such, the finding stands as a control deficiency even though costs were not questioned. Chemonics' processes and controls should have identified and addressed the issue within the GL within a reasonable amount of time.

ASI NFR 2014-1.4 – Improper Review Procedures

Kearney agrees that sufficient documentation was provided to support the costs incurred; however, sufficient documentation was not provided to support the update or modification of the Employment Agreement. Without a modified agreement, the employee should not have been incurring hours, nor receiving pay. Such agreements are to protect the employee and Chemonics, and by extension the Government, from any misunderstandings with regard to their employment status and resulting payments.

In regard to the grant transactions that exceeded the budget amount, Chemonics stated "the ASI Activities Management Guide (AMG) included provisions whereby the grant budget could change by 5-10%." For 10 of the 12 grants questioned, Chemonics indicated that the amount of the grant budget was exceeded, but was within allowable limits. Per review of the Activity Management Guide for ASI, the flexibility of the budget amount on which Chemonics is speaking is for "the Grantee ... to adjust costs within Approved Budget line items", not for the total grant budget amount to be exceeded by 10 percent. Further, the removal of OTI approval for changes less than 10 percent does not negate Chemonics' responsibility to enforce proper controls and procedures between themselves and the grantees. The relevant sections of the AMG to support this position are included below, and added to criteria within the finding in the Schedule of Findings and Responses. By exceeding the budgeted amount on these grants without proper modifications with the grantee, Chemonics has not provided the grantee with an opportunity to understand the revised terms and conditions. Also, for the two instances where the budget was exceeded by 10 percent, USAID was not provided with an opportunity to approve the revised grant amount.

Per Chemonics' *Activity Management Guide Afghanistan Stabilization Initiative*, Section II, "Grants", Subsection F, "Grant Implementation", Sub-subsection F4, "Modifications":

"The OTI country representative must approve all modifications to grants where substantive programmatic elements are changing or that increase the total estimated cost by more than 10% or based on other criteria agreed established by either the TO or OTI. A modification is defined as a change in the project description, change to the start or end

dates, or a change to the activity budget. OTI approval will be requested in writing by the COP and maintained in the grant file.”

Per Chemonics’ *Activity Management Guide Afghanistan Stabilization Initiative*, Section VI, “Forms”, Subsection “Grant Agreement Templates, Certifications, and Annexes”, Subsubsection 16(b), “Simplified Grant Agreement Format for US grantees”:

“ANNEX ONE: TERMS & CONDITIONS OF THE GRANT AGREEMENT

7) Allowable Costs. The Grantee shall neither request nor be reimbursed for expenditures incurred that are not allowable costs under this Agreement as detailed in Annex 4 or that are in excess of the ASI Grant Budget Commitment. Costs allowed are those that are both included in the approved Budget and allowable under all applicable USAID, Chemonics, and GRANTEE regulations including OMB Circular A-122. The Grantee is authorized up to ten percent (10%) flexibility to adjust costs within Approved Budget line items, as long as the ASI Grant Budget Commitment is not exceeded.”

Per Chemonics’ *Activity Management Guide Afghanistan Stabilization Initiative*, Section VI, “Forms”, Subsection “Grant Agreement Templates, Certifications, and Annexes”, Subsubsection 16(a), “Simplified Grant Agreement Format for non-US grantees”:

“ANNEX ONE: TERMS & CONDITIONS OF THE GRANT AGREEMENT

7) Allowable Costs. The Grantee shall neither request nor be reimbursed for expenditures incurred that are not allowable costs under this Agreement as detailed in Annex 4 or that are in excess of the ASI Grant Budget Commitment. Costs allowed are those that are both included in the approved Budget and allowable under all applicable USAID, Chemonics, and GRANTEE regulations including OMB Circular A-122. The Grantee is authorized up to ten percent (10%) flexibility to adjust costs within Approved Budget line items, as long as the ASI Grant Budget Commitment is not exceeded.”

ASI 2014-1.5 – Timing Issues

While valid reasons for delayed payments may exist, Chemonics should document the circumstances for the delays to show that active involvement and continued effort was being conducted on these transactions, in order to evidence controls were in place and operating effectively. Maintenance of this information as support of the control structure should occur while the transaction is being reviewed and questions resolved.

ASI NFR 2014-2 – Inadequate Recordkeeping

Kearney maintains that Chemonics was aware of the environment in which operations were occurring and should design and implement policies and controls to mitigate those circumstances. It should also be noted that certain documentation unavailable for audit were for transactions and financial events that occurred after the attack, and some documentation that was thought to be lost in the attack was later able to be found. Based on the varied causes for missing documentation, it is important for the users of this report to understand the impact of missing

documentation as a result of our tests. Kearney is acting in the users' best interest by questioning these costs, thus bringing them to the COs attention for final determination on allowability.

Chemonics stated, "Kearney did not give due consideration to the terrorist attack that destroyed a significant portion of ASI documentation." To aid in the users' review of the report, Kearney has added language to the opinion section of the Executive Summary related to the effects of the terrorist attack. Further, the inclusion of management's responses in our audit report gives the perspective of the responsible officials and further communicates the causes of the lack of supporting documentation.

Chemonics has again indicated that the FAR references cited do not apply; Kearney maintains these references are still relevant based on the same premises outlined in above findings and specifically stated within the sub-findings below.

ASI NFR 2014-2.1 – Competitive Bidding Documentation

Overall, Kearney contends that the FAR criteria requiring competition remains applicable. Chemonics indicated that an instance where an explanation on lack of competition was provided, however, requirements state that the justification for lack of competition must be documented. In the instances where a finding was recorded, the justification was determined to be inadequate based on a review of the justification provided using the criteria for an "Exemption from Competition Requirement". USAID's Automated Directives System (ADS), Chapter 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*, Section 303.3.6.6 (2)(a), "Exclusive or predominant capability" states that, "When this exception is used, the Activity Manager must describe in detail the uniqueness of the proposed recipient and how it applies to the activity to be supported." Further, a sound internal control policy means that documentation should occur timely. Without timely documented support for competition, or a sole-source procurement, the costs are determined to be questioned as unsupported.

Chemonics stated that, "Kearney has provided no analysis of the justifications for absence of competition that Chemonics provided." When Chemonics provided its documentation, it did not provide an explanation of the specific reason as to why a vendor met the criteria, only the criteria was stated. Criteria alone is inadequate to justify lack of competition. An example from a Memorandum of Negotiation of an explanation is included below.

"3. Description of Competitive Process or Justification for Exemption from Competition Requirements. ASI South determined that competition was not required for award of a grant to Abdul Matalib Marjeh District Sub-Governor because Abdul Matalib met the ADS 303.3.6.5 Exemptions from Competition Requirement as follows:

(c) Exclusive or predominant capability. USAID does not require competition when it considers one recipient to have exclusive or predominant capability based on the following criteria:

- *Proprietary capability,*

This Activity involved on Rehabilitation of Kuru Chareh Bazaar in Marjeh District

- *An existing unique relationship with the cooperating country or beneficiaries ASI-South has an established working relationship in implementing projects in Marjeh.”*

Per the ADS, Chapter 303, *Grants and Cooperative Agreements to Non-Governmental Organizations*, Section 303.3.6.6 (2)(a), “Exclusive or predominant capability”:

“USAID may make other than full competition, including sole-source, awards when it considers a recipient to have exclusive or predominant capability based on one of the following criteria:

- Proprietary resources,
- Specialized facilities or technical expertise,
- An existing and unique relationship with the cooperating country or beneficiaries, or
- Participation in a Global Development Alliance, USAID’s business model promoting public-private alliances as a central element of the Agency’s strategic assessment, planning, and programming efforts.

This exception may not be used to continue an on-going relationship when the applicant developed the exclusive or predominant capability during performance of a USAID award, or when the previous award was made without competition using the small grants award exception.

When this exception is used, the Activity Manager must describe in detail the uniqueness of the proposed recipient and how it applies to the activity to be supported. The JEC must also describe what other options USAID explored.”

Chemonics also stated, “we have, since the issuance of the draft audit report, recovered some of the documentation that was believed lost in the VBIED attack or its aftermath that establishes competition did occur for each of the procurements under grants that are questioned in this subfunding.” Chemonics has indicated that they were able to locate and provide additional documentation. As discussed above, Kearney will not review documentation received after the close of field work. Chemonics should present this documentation to the CO as part of the final determination of allowability of costs. Kearney maintains that adequate time was provided to Chemonics to provide supporting documentation.

Chemonics stated that an incorrect amount of grant ARG-004 was questioned. Kearney was unable to determine, due to insufficient vendor information in the general ledger detail provided, which specific vendor the costs recorded in the GL were charged to, therefore resulting in the entire amount of the grant being questioned.

ASI NFR 2014-2.2 – Travel Documentation

While Chemonics’ approval was indicated on the guesthouse invoice, approval of the employee’s authority to travel prior to the trip was not received. Chemonics’ internal policies

indicate that all travel should be approved in advance, as shown below and added to the Schedule of Findings and Responses in support of the issue.

Per the *Administrative Procedures Afghanistan Stabilization Initiative - South*, Section II (L) “Travel Procedures”:

“Both expatriate and local employees might be required to travel on field trips outside project offices, and perhaps to other parts of Afghanistan. Chemonics’ policy is that such trips should, to the extent possible, be programmed and approved in advance by the employee’s supervisor and the Project, Country, or Regional Security Directors (as appropriate to the project) on a monthly basis. Under no conditions should travel be made on the assumption of approval.”

Per the *Administrative Procedures Afghanistan Stabilization Initiative - South*, Section II (L.1) “International & Regional Travel Programming”:

“All employees who anticipate that they will be traveling for project purposes should submit a detailed agenda to their supervisors as early as possible. The high-risk security environment necessitates that trip programming is also reviewed and approved by appropriate Security Director in addition to the employee’s supervisor. The agenda should show the purpose of the field trip and its justification, the anticipated date and time of departure and return, as well as with whom they expect to meet and how they expect to allocate their time and effort in support of the trip purpose. Within two weeks of returning, the individual or team shall submit a trip report to their supervisor comparing the trip with the proposed agenda. The trip report shall show the reason for the trip, general observations, details of all activities, deliverables accomplished and/or failures and explanations, and shall conclude with recommendations. The same procedures and approvals apply to necessary but unanticipated field trips.”

ASI NFR 2014-2.3 – Receiving Reports

A strong internal control environment would indicate that an invoice should not be paid until the goods have been inspected and accepted. Therefore, Kearney has determined the finding stands as issued. For the construction example provided by Chemonics, when Chemonics is required to reimburse on a cost-by-cost basis, inspection and receipt should occur for ordered materials as they are received prior to their use. This process not only provides support from a cost standpoint, but also protects Chemonics, and by extension the Government, from using inferior or unsuitable materials in the execution of the program objectives.

ASI NFR 2014-2.4 – Grant Supporting Documentation

Chemonics has stated that, “We contest these questioned costs, because: (a) a grant agreement was not required for the implementation of these activities, and (b) the costs were approved by USAID”. Kearney maintains that a grant agreement was required due to the nature of the costs incurred being against grant KHA002. During fieldwork, Chemonics stated, “KHA002 did not have a signed grant agreement and the activity was cancelled. No certifications or neg [negotiation] memo were signed, as the grant was never signed. An activity modification was

approved by USAID, but since no grant had yet been signed, there was no grant modification.” The documentation provided by Chemonics supports USAID’s approval of the Grant Under Contract Clearance Form and Time Modification 1 to grant number KHA002; however, the initial grant agreement, approved or otherwise, was not provided by Chemonics. USAID approved the Grant Agreement Cancellation Request, which included an amount disbursed against the grant. However, the Grant Agreement Cancellation Request and related approving USAID email did not contain explicit approval of the costs incurred related to this grant, but states, “As a result of the above considerations, ASI-South respectfully requests to cancel Activity Number: KHA002 with final signatory authority residing with the USAID/OTI Country Representative or designee.”

See below for additional references, which were also added to the Schedule of Findings and Responses.

Per the *Activity Management Guide Afghanistan Stabilization Initiative*, Section II (E), “Grant Award”:

“Once the grant has been cleared by the OTI representative (or TOCOTR/CO when applicable), the GS [Grant Specialist] will generate the grant agreement. Grant agreements are generated through the Activity Database, using information contained in database grant fields. The template for these grant agreements are included in Forms 14-19. Any information required by the grant agreement that must be customized will be input into the grant agreement by the GS, and the grant agreement will be printed and finalized for signature by the grantee and ASI South’s representative (must have delegation of authority). The DCOP or designee signs all grants on behalf of ASI South. The official Grant Agreement will also document that the required USAID approval (country representative and, where applicable, TOCOTR or CO) has been obtained and is on file.”

ASI NFR 2014-2.5 – Grant Closeout Documentation

Chemonics has indicated general agreement with this finding. Chemonics uses a database to record closeout activities. However, the database system currently in place does not retain evidence of review by OTI. As with each action performed on a grant in the database, the prior approval is overwritten, thus preventing an adequate audit trail. The finding stands as issued.

ASI NFR 2014-2.6 – Miscellaneous

Chemonics has indicated they were able to locate and provide documentation related to the ODC questioned cost for a juicer. Kearney reviewed the documentation provided and determined it was insufficient to support the costs, as it only included a list of transactions and no invoices, evidence of approval, evidence of competition, etc. The finding for this transaction stands as issued.

In regard to the “luxury goods”, Kearney agrees that the USAID Acquisition Regulation (AIDAR) does not sufficiently define this term in detail. The ADS reference provided by

Chemonics in its response is not a full listing, but rather examples of certain types of goods that should be considered luxury. This finding was the result of Chemonics' purchase of an iPod and a DVD player, and while we appreciate Chemonics' position that such purchases aid in maintaining the mental health of program staff, such purchases should not result in cost reimbursement plus a fee on behalf of the Government. Further, Chemonics indicated that a DVD player and iPod are "basic amenities (that were less than what would be available in a commercial hotel)." While television and music are available in a typical hotel, DVD players and iPods are not available in a typical hotel, thus resulting in our finding that these are classified as "luxury goods".

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