

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 17-33 Financial Audit

USAID's Financial Access for Investing in the Development of Afghanistan Project: Audit of Costs Incurred by Chemonics International Inc.

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



MARCH
2017

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On February 3, 2011, the U.S. Agency for International Development (USAID) awarded an 18-month, \$151,495,093 cost-plus-fixed-fee contract to Chemonics International Inc. (Chemonics) to support the agency's Financial Access for Investing in the Development of Afghanistan (FAIDA) project. The project sought to help build a sustainable, diverse, and inclusive financial sector in Afghanistan to meet the needs of micro, small, and medium enterprises. According to the contract, Chemonics was required to engage in various activities, such as developing a strategy for lenders to reach underserved markets and partnering with Afghan governmental institutions to create conditions to increase institutional financial self-sufficiency. After 23 modifications, total funding for the contract was reduced to \$113,981,225, and the period of performance was extended until February 5, 2017.

SIGAR's financial audit, performed by Mayer Hoffman McCann (MHM), reviewed \$17,464,341 in expenditures that Chemonics charged to the contract from January 1, 2015, through August 31, 2016. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Chemonics' internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Chemonics took corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Chemonics' Special Purpose Financial Statement (SPFS). See MHM's report for the precise audit objectives.

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

March 2017

USAID's Financial Access for Investing in the Development of Afghanistan Project: Audit of Costs Incurred by Chemonics International Inc.

SIGAR 17-33-FA

WHAT THE AUDIT FOUND

MHM did not identify any deficiencies in Chemonics' internal controls but did identify one instance of non-compliance with the terms and conditions of applicable regulations. MHM found that during Chemonics' transition to using a new database, the company did not consistently perform checks to ensure, at the time of purchase, that the vendors it used were eligible to participate in U.S. government-funded activities. Upon further review, MHM determined that none of the vendors Chemonics used were excluded from receiving federal funds.

MHM did not identify any questioned costs, which would have consisted of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—or ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Contractual	\$0	\$0	\$0
Totals	\$0	\$0	\$0

MHM identified 61 findings and recommendations from nine prior engagements pertinent to Chemonics' performance under the contract. MHM determined that Chemonics had taken adequate corrective action on 56 of the prior findings and recommendations. The five findings for which adequate corrective action was not taken relate to Chemonics not checking that vendors were eligible to receive federal funds when making purchases from them.

MHM issued an unmodified opinion on Chemonics' SPFS, noting that it presents fairly, in all material respects, revenues received, costs incurred, and the balance for the indicated period audited.

WHAT SIGAR RECOMMENDS

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

1. Advise Chemonics to address the report's one noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 30, 2017

Mr. Wade Warren
Acting Administrator, U.S. Agency for International Development

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann (MHM) to audit the costs incurred by Chemonics International Inc. (Chemonics) under a U.S. Agency for International Development (USAID) contract to support the Financial Access for Investing in the Development of Afghanistan (FAIDA) project.¹ MHM's audit reviewed \$17,464,341 in expenditures that Chemonics charged to the contract from January 1, 2015, through August 31, 2016. Our contract with MHM required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. Advise Chemonics to address the report's one noncompliance finding.

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

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-092)

¹ USAID awarded contract no. 306-C-00-11-00531-00 to Chemonics to support the FAIDA project, which sought to help build a sustainable, diverse, and inclusive financial sector in Afghanistan.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
Financial Access for Investing in the
Development of Afghanistan (FAIDA)

For the Period January 1, 2015 through August 31, 2016

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

For the Period January 1, 2015 through August 31, 2016

Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	3
Objectives, Scope, and Methodology	3
Summary of Results	6
Review of Prior Findings and Recommendations	7
Summary of Chemonics Response to Findings	7
Independent Auditor's Report on Special Purpose Financial Statement	8
Special Purpose Financial Statement	10
Notes to Special Purpose Financial Statement	11
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing</i> Standards	14
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing</i> Standards	16
Status of Prior Findings	18
Detailed Audit Findings	25
Appendices:	
Appendix A: Chemonics Response to Detailed Audit Findings	27



Mayer Hoffman McCann P.C.
An Independent CPA Firm

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March 20, 2017

Enclosed is the final report on the financial audit of costs incurred under Contract No. 306-C-00-11-00531 ("Contract"), awarded by the United States Agency for International Development ("USAID") to Chemonics International, Inc. ("Chemonics") for implementation of the Financial Access for Investing in the Development of Afghanistan ("FAIDA") project. The audit covers the period January 1, 2015 through August 31, 2016.

The following items are included in the report:

- Summary
- Independent Auditor's Report on Special Purpose Financial Statement
- Special Purpose Financial Statement
- Notes to Special Purpose Financial Statement
- Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Status of Prior Findings
- Detailed Audit Findings
- Chemonics' Response to Detailed Audit Finding

Sincerely,

Mayer Hoffman McCann P.C.

Marcus D. Davis, CPA
Shareholder

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Contract No. 306-C-00-11-00531 FAIDA

For the Period January 1, 2015 through August 31, 2016

Background

On February 3, 2011, the United States Agency for International Development ("USAID") awarded Contract No. 306-C-00-11-00531 ("Contract") to Chemonics International, Inc. ("Chemonics" or "Company") for implementation of the Financial Access for Investing in the Development of Afghanistan ("FAIDA") project to build a sustainable, diverse and inclusive financial sector. The Contract was in the original amount of \$151,495,093, and was on a cost plus fixed fee basis [REDACTED]. The Contract was awarded with an original period of performance that consisted of a base period of 18 months, first option period of 6 months, second option period of 18 months, and third option period of 6 months. The Contract was modified 23 times through July 26, 2016 for reasons such as exercising the option periods, increasing or decreasing the total award amount, and adding or modifying contract clauses. With the modifications, the full period of performance was from February 3, 2011 through February 5, 2017. Some of the more significant modifications that had an impact on the original Contract are described below:

<u>Modification No.</u>	<u>Effective Date</u>	<u>Significance</u>
3	11/16/11	Reduced the total award amount from \$151,495,093 to \$75,236,532. Also reduced the option periods from 3 option periods to 1 option period of 24 months with a completion date of August 2, 2014. The total award amount for the base period was reduced to \$38,365,080 and the option period was revised to \$36,871,452. The obligated amount of the Contract was increased by \$8,069,140 to \$28,229,140.
5	July 1, 2012	Exercised option period in the amount of \$36,871,452, which also extended the period of performance to August 2, 2014. The obligated amount of the Contract was increased by \$14,168,000. This option increased the total estimated cost plus fixed fee to \$75,236,532 and the total obligated amount to \$42,397,240.
6	09/30/12	The obligated amount of the Contract was increased by \$781,816 to \$43,179,056. The total estimated cost plus fixed fee remained unchanged at \$75,236,532.
7	12/04/12	Increased the total award amount by \$13,308,251 to \$88,544,783. The obligated amount of the Contract was increased by \$12,526,435 to \$55,705,491.
9	05/06/13	The obligated amount of the Contract was increased by \$21,300,000 to \$77,005,491. The total estimated cost plus fixed fee remained unchanged at \$88,544,783.
10	11/05/13	The obligated amount of the Contract was increased by

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

For the Period January 1, 2015 through August 31, 2016

<u>Modification No.</u>	<u>Effective Date</u>	<u>Significance</u>
		\$2,264,769 to \$79,270,260. The total estimated cost plus fixed fee remained unchanged at \$88,544,783.
11	06/27/11	The obligated amount of the Contract was increased by \$4,000,000 to \$83,270,260. The total estimated cost plus fixed fee remained unchanged at \$88,544,783.
13	02/13/14	The obligated amount of the Contract was increased by \$5,274,523 to \$88,544,783. The total estimated cost plus fixed fee remained unchanged at \$88,544,783.
15	06/18/14	Extended the period of performance to October 3, 2014.
16	09/02/14	Extended the period of performance to February 6, 2016. Increased the total award amount by \$19,532,693 to \$108,077,476. The obligated amount of the Contract was increased by \$2,001,640 to \$90,546,423. The budget was revised to change the cost categories to Contract Line Item Numbers (CLINs).
17	10/22/14	The obligated amount of the Contract was increased by \$17,482,805 to \$108,029,228. The total estimated cost plus fixed fee remained unchanged at \$108,077,476.
19	12/23/14	Deobligated \$2,824,095 of agriculture funds based on an Office of Inspector General (OIG) audit recommendation, which reduced the total obligated amount to \$105,205,133.
20	02/04/15	Increased the total award amount by \$180,898 to \$108,258,374 for reimbursement of Chemonics' costs incurred in connection with the observation and audit of the Afghanistan election. The obligated amount of the Contract was increased by \$180,898 to \$105,386,031.
21	06/12/15	The total obligated amount of the Contract was increased by \$2,872,343 to \$108,258,374. The total estimated cost plus fixed fee remained unchanged at \$108,258,374.
23	07/26/16	Extended the period of performance to February 5, 2017. Increased the total award amount by \$5,722,851 to \$113,981,225. The obligated amount of the Contract was increased by \$5,722,851 to \$113,981,225. Revised the budget from CLINs back to cost categories.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

For the Period January 1, 2015 through August 31, 2016

The purpose of the FAIDA project is to build a sustainable, diverse and inclusive financial sector in Afghanistan that can generate and sustain quality employment to meet the needs of micro, small and medium enterprises throughout the country, with a special focus on the agricultural sector and the southern and eastern regions. Expected results from the project include increasing disbursements of lending capital to underserved enterprises, training financial sector professionals on international standards, enhancing the capacity of financial institutions, and assisting with improving financial system support services.

Chemonics, a U.S. company, was founded in Washington, D.C. in 1975. It provides consulting and development services. The Company promotes social and economic development through practices in the fields of agriculture, governance, education, energy, environmental and financial services, gender equality, conflict, disaster management, health, and private sector development. Chemonics operates worldwide. The Company was sold to a group of private investors on March 30, 1999.

Work Performed

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of Chemonics' FAIDA Special Purpose Financial Statement ("SPFS") for the period January 1, 2015 through August 31, 2016.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether Chemonics' SPFS for the Contract presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Chemonics' internal control related to the Contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Chemonics complied, in all material respects, with Contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

For the Period January 1, 2015 through August 31, 2016

- *Corrective Action on Prior Findings and Recommendations* – 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 special purpose financial statement or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period January 1, 2015 through August 31, 2016 under the Contract. Our testing of fringe benefits and indirect costs was limited to determining that the fringe benefits and indirect costs were calculated using the correct final or provisional negotiated indirect cost rates, as applicable for the given fiscal year, as approved by USAID.

Methodology

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

Entrance Conference

An entrance conference was held via conference call on September 29, 2016. Participants included representatives of MHM, Chemonics, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of Chemonics;
- Reviewed the Contract and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Contract;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

For the Period January 1, 2015 through August 31, 2016

- For accounts that appeared to contain unallowable and restricted items according to the terms of the Contract, Federal Acquisition Regulation (FAR) Part 31 and any other applicable regulations, we tested 100% of the transactions.
- For high risk cost categories, we sampled individual transactions greater than \$87,300, not to exceed 50% of the total amount expended for each cost category.
- For medium risk cost categories, we sampled individual transactions greater than \$174,600, not to exceed 20% of the total amount expended for each cost category.
- For low risk cost categories, we sampled individual transactions greater than \$174,600, not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk categories.

If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Control Related to the SPFS

We reviewed Chemonics' internal controls related to the SPFS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Contract, modifications, and major subcontractors and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

Corrective Action on Prior Findings and Recommendations

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract, modifications and general ledger;
- Traced receipt of funds to the accounting records; and

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Contract No. 306-C-00-11-00531 FAIDA

For the Period January 1, 2015 through August 31, 2016

- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract and reasonable.

Exit Conference

An exit conference was held on January 24, 2017 via conference call. Participants included representatives from MHM, Chemonics, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by Chemonics under the Contract with USAID identified the following audit results. Only one finding was noted, which is classified as a compliance finding.

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. There were no questioned costs identified under the Contract. A summary of findings is as follows:

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2017-1	Compliance	System for Award Management (SAM) check not performed at time of purchase	\$0	\$0

Internal Control Findings

No internal control findings were noted as part of our audit. See Independent Auditor's Report on Internal Control on page 14.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Contract and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

For the Period January 1, 2015 through August 31, 2016

the SPFS. The results of our tests disclosed one instance of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 16. The complete management responses from Chemonics to each of the compliance findings can be found in Appendix A to this report.

Review of Prior Findings and Recommendations

We requested copies of prior engagements including audits, reviews and evaluations pertinent to Chemonics' activities under the Contract. We identified 61 findings and recommendations from prior engagements that could have a material effect on the SPFS and reviewed the corrective actions taken to address the findings and recommendations. Chemonics has taken adequate corrective action on 56 out of the 61 prior findings and recommendations. The 5 findings for which adequate corrective action was not taken all relate to not consistently performing a System for Award Management (SAM) exclusion check at the time of purchase. We identified a similar condition as part of our audit. See the Status of Prior Findings on page 18 for a detailed description of the prior findings and recommendations.

Summary of Chemonics' Response to Finding

The following represents a summary of the responses provided by Chemonics to the finding identified in this report. The complete response received can be found in Appendix A to this report.

- Finding Number 2017-1: Chemonics agrees with this finding. The Company indicates that it has systems in place to check for excluded parties and will provide training to staff in Afghanistan to ensure that the process is consistently followed.



INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Chemonics International, Inc.
Washington, D.C.

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Chemonics International, Inc. ("Chemonics") under Contract No. 306-C-00-11-00531 ("Contract"), with the United States Agency for International Development ("USAID") to support the Financial Access for Investing in the Development of Afghanistan ("FAIDA") project for the period January 1, 2015 and August 31, 2016, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by Chemonics under the Contract for the period January 1, 2015 through August 31, 2016 in accordance with the basis of accounting described in Note 2.

Restriction on Use

This report is intended for the information of Chemonics International, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 20, 2017 on our consideration of Chemonics' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chemonics' internal control over financial reporting and compliance.



Irvine, California
March 20, 2017

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. AID-306-C-00-11-00531
FAIDA

Special Purpose Financial Statement

For the Period January 1, 2015 through August 31, 2016

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
AID-306-C-00-11-00531	<u>\$113,981,225</u>	<u>\$17,464,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(3)
Total revenues	<u>113,981,225</u>	<u>17,464,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Salaries and wages	18,159,056	2,798,224	-	-	-	
Fringe benefits	1,666,683	290,388	-	-	-	
Allowances	7,169,910	791,934	-	-	-	
Travel, Transportation, and per diem	1,288,399	113,593	-	-	-	
Equipment and supplies	528,012	33,070	-	-	-	
Other direct costs	30,958,601	3,337,603	-	-	-	
Subcontracts	20,745,950	3,462,464	-	-	-	
Subrecipients	7,064,808	1,449,935	-	-	-	
Indirect costs	<u>25,204,297</u>	<u>3,991,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	(4)
Total costs incurred	112,785,716	16,268,832	-	-	-	
Fixed Fee	<u>1,195,509</u>	<u>1,195,509</u>	<u>-</u>	<u>-</u>	<u>-</u>	(5)
Total costs incurred plus fixed fee	<u>113,981,225</u>	<u>17,464,341</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(6)

See Notes to Special Purpose Financial Statement

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Notes to Special Purpose Financial Statement¹

For the Period January 1, 2015 through August 31, 2016

(1) **Background**

On February 3, 2011, the United States Agency for International Development (“USAID”) awarded Contract No. 306-C-00-11-00531 (“Contract”) to Chemonics International, Inc. (“Chemonics”) for the implementation of the Financial Access for Investing in the Development of Afghanistan (“FAIDA”) project to build a sustainable, diverse and inclusive financial sector in Afghanistan.

The Contract was in the amount of original amount of \$151,495,093 and was on a cost plus fixed fee basis [REDACTED]. The Contract was awarded with an original period of performance that consisted of a base period of 18 months, first option period of 6 months, second option period of 18 months, and third option period of 6 months. The Contract was modified 23 times through July 26, 2016 for reasons such as exercising the option periods, increasing or decreasing the total award amount, and adding or modifying contract clauses. With the modifications, the full period of performance was from February 3, 2011 through February 5, 2017.

(2) **Summary of Significant Accounting Policies**

Basis of Presentation

The accompanying Special Purpose Financial Statement (“SPFS”) includes costs incurred for FAIDA initiatives under the Contract for the period January 1, 2015 through August 31, 2016. Because the SPFS presents only a selected portion of the operations of Chemonics, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Chemonics. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (“SIGAR”), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Contract.

Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation Part 31 – *Contracts with Commercial Organizations*.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of Chemonics.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Currency

All amounts presented are shown in U.S. dollars, the reporting currency of Chemonics. Chemonics converts its expenses that were paid in Afghanistan (local currency) into U.S. dollars (reporting currency) by applying the exchange rate of the bank at the time of currency conversion.

(3) Revenue

As of August 31, 2016, Chemonics has reported \$17,464,341 in revenue. This revenue equals the expenditures invoiced to USAID for the period January 1, 2015 through August 31, 2016.

(4) Indirect Cost

Chemonics' most recent negotiated indirect cost rates were approved on August 30, 2016, and the indirect cost rates applicable for the period January 1, 2015 through August 31, 2016 were as follows. Chemonics calculated adjustments to reflect the approved indirect cost rate for each period.

			Indirect Costs				
			Fringe Benefits		Overhead		
<u>Effective Period</u>			Home/ Expatriate	Host Country	Home	Field	G&A
<u>Type</u>	<u>From</u>	<u>Through</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(d)</u>	<u>(e)</u>
Provisional	1/1/15	12/31/15					
Provisional	1/1/16	Until Amended					

The basis of allocation for the indirect costs is as follows:

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

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Notes to Special Purpose Financial Statement

(Continued)

(5) Fixed Fee Rates

For the period January 1, 2015 through August 31, 2016, Chemonics' contracted fixed fee was [REDACTED]. The fixed fee is invoiced to USAID at the rate of [REDACTED] of total costs, less grants, [REDACTED] of grants, which is in accordance with the approved budget per the Contract.

(6) Outstanding Fund Balance

As of August 31, 2016, there was no outstanding fund balance under the Agreement as the SPFS is prepared under the accrual basis of accounting described in Note 2.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chemonics International, Inc.
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Chemonics International, Inc. ("Chemonics") representing revenues received and costs incurred under Contract No. 306-C-00-11-00531 ("Contract"), with the United States Agency for International Development ("USAID") to support the Financial Access for Investing in the Development of Afghanistan ("FAIDA") project for the period January 1, 2015 through August 31, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated March 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered Chemonics' internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Chemonics' internal control. Accordingly, we do not express an opinion on the effectiveness of Chemonics' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be



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material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

This report is intended for the information of Chemonics International, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California
March 20, 2017



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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**REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chemonics International, Inc.
Washington, D.C.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Chemonics International, Inc. ("Chemonics"), representing revenues received and costs incurred under Contract No. 306-C-00-11-00531 ("Contract"), with the United States Agency for International Development ("USAID") to support the Financial Access for Investing in the Development of Afghanistan ("FAIDA") project for the period January 1, 2015 through August 31, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated March 20, 2017.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chemonics' Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Detailed Audit Findings as Finding 2017-1.

Chemonics' Response to Finding

Chemonics' response to the finding identified in our audit is included verbatim in Appendix A. Chemonics' response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.



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Purpose of this Report

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

This report is intended for the information of Chemonics International, Inc., the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

A handwritten signature in blue ink, reading "Mayer Hoffmann M.C. P.C.".

Irvine, California
March 20, 2017

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Status of Prior Findings

For the Period January 1, 2015 through August 31, 2016

We requested copies of prior engagements including audits, reviews and evaluations pertinent to Chemonics' activities under the program. We reviewed the corrective actions taken to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There were nine prior engagements with findings and recommendations that were included in the scope of our audit. These engagements identified 61 findings with a potential material effect on the SPFS and/or control deficiencies effect on the Contract. Based on our review, adequate corrective actions were implemented on 56 of the 61 prior findings.

USAID Office of Inspector General's (OIG's) Audit of USAID/Afghanistan's FAIDA Project

There were four prior findings and recommendations identified in the USAID OIG audit of USAID/Afghanistan's FAIDA project dated March 29, 2014 (Audit Report No. F-306-14-002-P). Based upon our review, adequate corrective action was taken on all findings and recommendations as described below.

- (1) The USAID OIG recommended that all remaining agricultural funds for the FAIDA project be deobligated due to a variety of factors that gave rise to minimal agribusiness loans being made. Modification 19 to the Contract deobligated these funds. As such, the corrective action has been adequately implemented.
- (2) The USAID OIG recommended that expectations from Chemonics be modified due to the unsuccessful grant-funded pilot programs for mobile network operators. Modification 21 to the Contract incorporates results Chemonics expects to achieve. As such, the corrective action has been adequately implemented.
- (3) The USAID OIG recommended that USAID investigate whether mobile money solutions are appropriate for Afghanistan and modify the FAIDA project accordingly. Modification 21 to the Contract incorporated changes to address mobile money solutions. As such, the corrective action has been adequately implemented.
- (4) The USAID OIG recommended that a contract for an audit of costs incurred by Chemonics under the FAIDA project be awarded. The FAIDA project is currently being audited by SIGAR. As such, the corrective action has been adequately implemented.

Close-out and Financial Audit of Costs Incurred

Davis and Associates, Certified Public Accountants, PLLC performed a close-out and financial audit of costs incurred by Chemonics of the following programs:

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Status of Prior Audit Findings

(Continued)

- Famine Early Warning System Network (FEWSNET) – Phase III for the period December 29, 2011 through December 31, 2015;
- Regional Agriculture Development Program (RADP) – South for the period October 7, 2013 through December 31, 2014;
- Regional Afghan Municipalities Program for Urban Population (RAM UP) – RC South for the period October 1, 2013 through March 31, 2014;
- FAIDA for the period April 1, 2014 through December 31, 2014;
- Technical Assistance Project/W (TAP/W) Contract for the period July 25, 2008 through July 26, 2012; and
- Afghanistan Trade and Revenue Project (ATAR) for the period November 7, 2013 to December 31, 2014

This audit identified three findings and recommendations. Based upon our review, adequate corrective action was taken on all findings and recommendations as described below.

- (1) The auditors noted that costs were not adequately supported. During our testing of costs charged to the FAIDA project, all transactions selected for testing were adequately supported. As such, the corrective action has been adequately implemented.
- (2) The auditors noted that the procurement process was not consistently followed in that some procurements did not contain documentation that a competitive procurement was performed, or that the procurement file did not contain evidence to support a sole source procurement. Our testing of procurement indicated that Chemonics followed proper procurement procedures without exception. As such, the corrective action has been adequately implemented.
- (3) The auditors noted that Chemonics did not adequately monitor its subrecipients. Two subrecipients were identified that should have had Office of Management and Budget (OMB) Circular A-133 audits performed. Audits for the two subcontractors have either been scheduled or are in process. As such, the corrective action has been partially implemented. Once the audits are complete and submitted to the Federal Audit Clearinghouse, then the corrective action will be fully implemented.

Chemonics Internal Finance and Compliance Review (FCR) Recommendations Matrix – 2015

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Status of Prior Audit Findings

(Continued)

[REDACTED]

FCR Recommendations for which adequate corrective actions were implemented

[REDACTED]

FCR Recommendations for which adequate corrective actions were not implemented

[REDACTED]

Chemonics Internal FCR Recommendations Matrix – 2016

[REDACTED]

FCR Recommendations for which adequate corrective actions were implemented

[REDACTED]

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

(Continued)

Age Group	Percentage
18-29	85%
30-49	75%
50-64	70%
65+	65%
75+	60%

Crowe Horwath performed a financial audit of the fund accountability statement of Bolor Afghanistan, which is a subgrantee of Chemonics under Grant Agreement No. SPG-15-026 for the FAIDA project for the period July 22, 2015 through March 31, 2016. The audit identified two findings and recommendations. Based upon our review, adequate corrective action was taken on one of the two findings and recommendations as described below.

- Financial Audit of Fund Accountability Statement of Bolor Afghanistan (Subgrantee) under Grant Agreement No. FAA-15-025 for the FAIDA Project**

- 21 -

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Status of Prior Audit Findings

(Continued)

- (1) The auditors recommended that payments for payroll should be made through bank or wire transfer. Chemonics implemented procedures to make payroll payments through wire transfer subsequent to the audit. As such, the corrective action has been adequately implemented.
- (2) SAM checks were not performed. During our testing, we noted that SAM checks were not consistently performed. As such, the corrective action has not been adequately implemented. See Finding 2017-1 in the Detailed Audit Findings Section of this report.

Close-out Audit of Fund Accountability Statement of Afghan Wireless Communication Company (Subgrantee) under Grant No. SPG-12-014-AWCC for the FAIDA Project

Crowe Horwath performed a close-out audit of the fund accountability statement of Afghan Wireless Communication Company, which is a subgrantee of Chemonics under Grant No. SPG-12-014-AWCC for the FAIDA project for the period September 1, 2012 through August 31, 2014. The audit identified one finding and recommendation indicating that SAM checks were not performed. During our testing, we noted that SAM checks were not consistently performed. As such, the corrective action has not been adequately implemented. See Finding 2017-1 in the Detailed Audit Findings Section of this report.

SIGAR Financial Audit 13-1: Audit of Costs Incurred by Chemonics in Support of USAID's Alternative Livelihoods Program – Southern Region

There were 13 findings and recommendations identified in SIGAR's Financial Audit 13-1 performed by Crowe Horwath. The period covered by the audit was February 15, 2005 through October 31, 2009. Based upon our review, adequate corrective action was taken on all 13 findings and recommendations as described below.

- (1) The auditors noted that some home office costs were directly charged to the program. We tested various cost categories on the SPFS and noted that there were no costs charged that were home office costs. As such, the corrective action has been adequately implemented.
- (2) The auditors noted that some vendors were selected on a sole source basis and adequate documentation was not included in the procurement files to support the sole source justification. During our testing of procurement, we noted that vendors were selected through competitive bidding processes. As such, the corrective action has been adequately implemented.
- (3) The auditors noted that indirect costs were allocated to subcontracts. Based upon our testing of costs charged to the program and our review of indirect costs, there were no indirect costs allocated to subcontracts. As such, the corrective action has been adequately implemented.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Status of Prior Audit Findings

(Continued)

- (4) The auditors noted that documentation did not exist in the procurement files to support local procurement. Based upon our testing of procurement, no exceptions were noted related to following procurement policies. As such, the corrective action has been adequately implemented.
- (5) The auditors noted that procurements in excess of the simplified acquisition threshold were not communicated to the Office of Small Disadvantaged Business Utilization (OSDBU). Based upon our testing of procurement, no exceptions were noted related to following procurement policies. As such, the corrective action has been adequately implemented.
- (6) The auditors noted that documentation was missing to support amounts paid and evidence of payment was missing. Based upon our test of transactions, all payments were adequately supported by an invoice. As such, the corrective action has been adequately implemented.
- (7) The auditors noted that documentation no documentation was provided to support expenses. Based upon our test of transactions, all payments were adequately supported by an invoice. As such, the corrective action has been adequately implemented.
- (8) The auditors noted that the indirect cost rate was not correctly applied. During our testing of indirect costs, we noted that the indirect costs rates were correctly applied. As such, the corrective action has been adequately implemented.
- (9) The auditors noted that the procurement files were not complete and vendors were misclassified. Based upon our testing of procurement, no exceptions were noted related to following procurement policies. As such, the corrective action has been adequately implemented.
- (10) The auditors noted that the currency exchange rate was not correctly applied. We noted no exceptions when converting Afghanis to US dollars. As such, the corrective action has been adequately implemented.
- (11) The auditors noted that amounts reported on quarterly financial reports did not agree to the general ledger. We agreed the SPFS to the general ledger without exception. As such, the corrective action has been adequately implemented.
- (12) The auditors noted that Cooperating Country Nationals (CCNs) were paid in excess of the prevailing wage for the geographic region. We noted no exceptions in our testing of salaries. As such, the corrective action has been adequately implemented.
- (13) The auditors noted that disallowed fertilizer costs were charged to the program. During our test of transactions, no disallowed costs were noted. As such, the corrective action has been adequately implemented.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Status of Prior Audit Findings

(Continued)

SIGAR 14-75 Financial Audit: Audit of Costs Incurred by Chemonics in Support of USAID's Accelerated Sustainable Agriculture Program (ASAP) and Afghanistan Stabilization Initiative (ASI)

There were 5 findings and recommendations identified in SIGAR's 14-75 Financial Audit performed by Kearney & Company. Two separate contracts were included in the scope of the audit. The first was Contract No. 306-C-00-07-00501-00 for the period November 22, 2006 through October 30, 2011, and the second was Contract No. 306-DOT-I-01-08-00033-00 for the period June 26, 2009 through June 25, 2012. The period covered by the audit was February 15, 2005 through October 31, 2009. Based upon our review, adequate corrective action was taken on all 5 findings and recommendations as described below.

- (1) The auditors noted that there were inadequate internal control processes related to the review and approval of transactions for ASAP. Based upon our test of transactions, all transactions were adequately reviewed and approved. As such, the corrective action has been adequately implemented.
- (2) The auditors noted that documentation for ASAP was not retained to support transactions charged to the program. All transactions we selected for testing were adequately supported. As such, the corrective action has been adequately implemented.
- (3) The auditors noted that costs were not allocated to the proper cost objective for ASAP. All transactions we selected for testing were allocable to the project. As such, the corrective action has been adequately implemented.
- (4) The auditors noted that there were inadequate internal control processes related to the review and approval of transactions for ASI. Based upon our test of transactions, all transactions were adequately reviewed and approved. As such, the corrective action has been adequately implemented.
- (5) The auditors noted that documentation for ASI was not retained to support transactions charged to the program. All transactions we selected for testing were adequately supported. As such, the corrective action has been adequately implemented.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Detailed Audit Findings

For the Period January 1, 2015 through August 31, 2016

Finding Number 2017-1: System for Award Management (SAM) Checks Not Performed

Nature of Finding:

Compliance

Condition:

Chemonics did not consistently perform the System for Award Management (SAM) review at the time of purchase of goods or entering into contracts for services. Of the 14 different vendors tested within the equipment and supplies, training, and subcontracts cost categories included on the SPSF, Chemonics did not perform a SAM check at the time of purchase for 6 of the vendors as follows:

<u>Cost Category</u>	<u>Vendors Tested</u>	<u>Vendors with No SAM Check</u>
Equipment and supplies	3	3
Training	9	1
Subcontracts	<u>2</u>	<u>2</u>
Totals	<u>14</u>	<u>6</u>

Criteria:

Chemonics' Field Office Commodity Procurement Handbook, Chapter IV, *Evaluation*, Section K, *Screening*, states, in part:

"For any procurement transaction, it is critical that the selected offeror be eligible to participate in U.S. Government-funded activities, since USAID is funding the procurement. As such, all suppliers must be screened through the U.S. Government's System for Award Management (SAM)..."

USAID Standard Provisions for U.S. Nongovernmental Organizations, Section M.9, *Debarment, Suspension, and Other Responsibility Matters* (June 2012), states, in part:

"...b. The recipient agrees that, unless authorized by the AO, it will not knowingly enter into any subawards or contracts under this award with a person or entity that has an active exclusion on the System for Award Management (SAM) (www.sam.gov)..."

Cause:

Chemonics has subscribed to Visual Compliance, which is a database checker that incorporates the SAM database for checking vendors against exclusion and debarred databases. The transition to implement this database caused some vendors to not be checked during the transition.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Detailed Audit Findings

(Continued)

Effect:

By not checking SAM for vendors excluded from Federal procurement and non-procurement programs, Federal funds might be paid to a vendor that is debarred, suspended, or otherwise prohibited from receiving Federal funds.

Questioned Costs:

No costs were questioned as none of the vendors had an active exclusion within SAM.

Recommendation:

We recommend that Chemonics establish procedures to ensure that it reviews all vendors to ensure they do not have an active exclusion within SAM prior to entering into a contract for goods and/or services, and retain evidence of this review in its procurement files.

CHEMONICS INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Contract No. 306-C-00-11-00531
FAIDA

Chemonics' Responses to Detailed Audit Findings

For the Period January 1, 2015 through August 31, 2016

Included on the following page is Chemonics' response received to the finding identified in this report.

14 March 2017

Marcus D. Davis
Mayer Hoffman McCann P.C.
2301 Dupont Drive, Suite 200
Irvine, CA 92612
(949) 474-2020

Dear Mr. Davis,

In response to the recommendation provided on page 26 of the draft report, “Financial Audit of Costs Incurred Under Contract No. 306-C-00-11-00531 FAIDA, For the Period January 1, 2015 Through August 31, 2016,” Chemonics International Inc. offers the following response:

Chemonics understands that for any procurement transaction funded by the U.S. Government it is critical to first ensure that the selected offeror is eligible to participate in U.S. Government-funded activities. As such, Chemonics’ standard practice is to screen all selected suppliers through the U.S. Government’s System for Award Management (SAM) prior to executing an agreement or modification. As an added measure of robustness, all Chemonics projects in Afghanistan – including FAIDA – utilize the eCustoms.com Visual Compliance software, which facilitates comprehensive, streamlined, and efficient screening against a variety of U.S. and international databases, including the U.S. Office of Foreign Assets Control (OFAC), the Department of State Designated Terrorist Organizations List, and the U.S. Parties Excluded from Federal Procurement Programs List that SAM utilizes. A particularly useful feature of Visual Compliance for Chemonics is that if the status of an entity previously checked changes, Visual Compliance automatically sends an update of the change. This allows Chemonics to easily mitigate risks and take any necessary actions.

To ensure that Chemonics policies related to SAM checks are consistently followed across all of our projects in Afghanistan going forward, Chemonics will institute a training session for all relevant project staff detailing the process and importance of both conducting and documenting SAM checks.

Chemonics appreciates your consideration of this response. Please let us know if you have any additional comments or questions

Sincerely,



Eric Howell
Senior Vice President
Afghanistan Regional Business Unit

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

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

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

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

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

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