

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 22-26 Financial Audit

USAID's Capacity Building Activity for the Afghan Ministry of Education: Audit of Costs Incurred by Chemonics International Inc.

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



MAY
2022

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On February 1, 2017, the U.S. Agency for International Development (USAID) awarded a 5-year, \$23,212,617 combination indefinite delivery/indefinite quantity and cost-plus-fixed-fee contract to Chemonics International Inc. (Chemonics) to implement a Capacity Building Activity for the Afghan Ministry of Education. The activity supported the ministry's goal of preparing skilled, competent citizens to sustain Afghanistan's socioeconomic development and social cohesion by improving systems related to education management information, teacher recruitment, payroll, internal audits, and resource planning and allocation. USAID modified the contract nine times; the total award amount and period of performance, ending January 31, 2022, did not change.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$4,624,804 in costs charged to the contract from January 1, 2020, through January 31, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Chemonics's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Chemonics has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Chemonics's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

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

May 2022

USAID's Capacity Building Activity for the Afghan Ministry of Education:
Audit of Costs Incurred by Chemonics International Inc.

SIGAR 22-26-FA

WHAT SIGAR FOUND

Conrad identified three deficiencies in Chemonics's internal controls, two of which were significant, and three instances of noncompliance with the terms of the contract. For example, Conrad identified 21 instances where Chemonics paid employees unable to work remotely during COVID-19-related office closures without obtaining the required approval from USAID. In another example, Chemonics made payments to 13 individuals who may be barred from receiving U.S. government funds because their names appeared on the System for Award Management exclusion list.

Because of the significant deficiencies in internal controls and instances of noncompliance, Conrad identified \$12,639 in total questioned costs, consisting of \$958 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$11,681 of ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	██████	██████	██████
Indirect Costs	██████	██████	██████
Total Costs	\$11,681	\$958	\$12,639

Conrad identified four prior audit reports that were relevant to Chemonics' contract. The reports had six findings that could have a material effect on the SPFS. Conrad performed follow-up procedures and concluded Chemonics took adequate action on five of the six findings. Conrad found Chemonics did not adequately address a recommendation intended to ensure payments were not made to parties included in the System for Award Management's exclusion list.

Conrad issued an unmodified opinion on Chemonics' SPFS, noting it presents fairly, in all material respects, revenue received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$12,639 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 three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 24, 2022

The Honorable Samantha Power
Administrator, U.S. Agency for International Development

Mr. Peter Duffy
Mission Director, U.S. Agency for International Development

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Chemonics International Inc. (Chemonics) under a U.S. Agency for International Development (USAID) contract to implement a Capacity Building Activity for Afghanistan's Ministry of Education.¹ The activity supported the ministry's goal of preparing skilled, competent citizens to sustain Afghanistan's socioeconomic development and social cohesion by improving systems related to education management information, teacher recruitment, payroll, internal audits, and resource planning and allocation. Conrad reviewed \$4,624,804 in costs charged to the contract from January 1, 2020, through January 31, 2021. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$12,639 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 three noncompliance findings.**

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

Please provide documentation related to corrective actions taken and/or target dates for planned completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-214)

¹ The contract number is AID-306-C-17-00005.

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity Contract No. AID-306-C-
17-00005 Awarded by the United States Agency for International
Development/Afghanistan ("USAID"),
for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

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April 12, 2022

Board of Directors
Chemonics International, Inc.
Washington, DC 20006

Special Inspector General for Afghanistan Reconstruction ("SIGAR")
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Chemonics International, Inc. ("Chemonics") Special Purpose Financial Statement ("SPFS") for costs incurred under Contract No. AID-306-C-17-00005 ("Contract") awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Capacity Building Activity ("CBA" or "Program"), for the period of January 1, 2020 through January 31, 2021.

On February 8, 2022, we provided SIGAR with a draft report reflecting our audit procedures and results. Chemonics received a copy of the report on March 15, 2022; and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Chemonics. Chemonics' responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this Contract.

Sincerely,

A handwritten signature in blue ink, appearing to read "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
Contract No. AID-306-C-17-00005 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

Background

On February 1, 2017, the United States Agency for International Development/Afghanistan ("USAID") awarded a five-year combination contract per FAR 16.102(b) consisting of two CLINs to Chemonics International, Inc. ("Chemonics") to implement a Capacity Building Activity ("CBA") for the Afghan Ministry of Education under Contract number AID-306-C-17-00005 ("Contract"). The contract consists of a Cost-Plus Fixed Fee ("CPFF") type CLIN ("CLIN0001") plus a single-award Indefinite Delivery/Indefinite Quantity ("IDIQ") type CLIN ("CLIN0002").

According to the award, the activity supports the ministry's goal of preparing skilled, competent citizens to sustain Afghanistan's socioeconomic development and social cohesion. It focuses on systems related to education management information, teacher recruitment, payroll, internal audits, and resource planning and allocation.

The contract is broken down into CLIN 0001 and CLIN 0002.

- Under CLIN 0001, Chemonics must furnish all personnel, materials, equipment, supplies, facilities, services, and perform all activities necessary for, or incidental to, to the performance of the project.
- Under CLIN 0002, Chemonics must furnish additional technical assistance arising out of or related to the completion portion of the Contract.

As detailed in the *Summary of Contract* below, the approved budget was \$23,212,617. From the beginning of the Contract through our audit period, there were nine modifications to the Contract to re-align the budgeted amount among different cost categories and among the two CLINs, with the period of performance and the total approved budget remaining the same.

Summary of Contract

Contract Number	Contract Type	Original			As Amended	
		Budget (\$)	Original Date	No. of Amendments	Total Final Budget (\$)	End Date
(CLIN 0001) *	CPFF	\$19,960,363	02/01/17-01/31/22	9	\$20,904,971	No Change
(CLIN 0002) *	IDIQ	\$3,252,254	02/01/17-01/31/22	9	\$2,307,646	No Change
Total:		\$23,212,617		9	\$23,212,617	

*Indicates the Contract was amended.

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
Contract No. AID-306-C-17-00005 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

Chemonics International, Inc. was founded in 1975 and is a for-profit consulting company based in Washington, DC. Chemonics' mission is to promote meaningful change around the world, helping people live healthier, more productive, and more independent lives.

Work Performed

Conrad LLP ("Conrad") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of the contract, as previously mentioned above, of Chemonics' Special Purpose Financial Statement ("SPFS") for costs incurred under the Contract totaling \$4,624,804 for the period January 1, 2020 through January 31, 2021

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit for the aforementioned Contract include the following:

- *Special Purpose Financial Statement ("SPFS")* – Express an opinion on whether Chemonics' SPFS for the Contract presents fairly, in all material respects, the 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 Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Chemonics' internal controls 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 the Contract requirements and applicable laws and regulations, and identify and report on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Chemonics has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
Contract No. AID-306-C-17-00005 Awarded by the
United States Agency for International Development/Afghanistan (“USAID”),
for the Capacity Building Activity (“CBA”)

For the Period of January 1, 2020 through January 31, 2021

Scope

The scope of this audit included all costs incurred under the Contract during the period of January 1, 2020 through January 31, 2021 totaling \$4,624,804. Our testing of the indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in the Negotiated Indirect Cost Rate Agreement (“NICRA”) and subsequent applicable amendments.

Audit 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 on August 10, 2021 with representatives of Chemonics, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of Chemonics. The scope of our audit includes Chemonics’ management and employees, internal and external factors that affect operations, and accounting policies and procedures. We gained an understanding of Chemonics through interviews, observations, and reading the policies and manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - Contract and all amendments;
 - Any subawards;
 - Any regulations that are specific to the Contract’s requirements, such as Federal Acquisition Regulations Part 31 (“FAR 31”), FAR 52, USAID Acquisition Regulations (“AIDAR”), and USAID Mission Order 201.6;
 - Previous audit reports.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
Contract No. AID-306-C-17-00005 Awarded by the
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For the Period of January 1, 2020 through January 31, 2021

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Contract, and reasonable;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional and final negotiated indirect cost rates to ensure that they were accurately applied.

Internal Controls Related to the Contract

We reviewed Chemonics' internal controls related to the Contract to gain an understanding of the implemented system of internal control to obtain reasonable assurance of Chemonics' financial reporting function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Contract Requirements and Applicable Laws and Regulations

We performed tests of transactions to determine whether Chemonics complied, in all material respects, with the Contract requirements, USAID Acquisition Regulation ("AIDAR"), Federal Acquisition Regulation, Part 31 ("FAR 31"), FAR 52, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested that Chemonics identify previous engagements, which could have a material effect on Chemonics' SPFS. In addition, we conducted a search online of various governmental websites, including SIGAR (www.sigar.mil), USAID (www.usaid.gov), and other applicable Federal agencies, to identify previous

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Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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For the Period of January 1, 2020 through January 31, 2021

engagements that could have a material effect on Chemonics' SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the *Status of Prior Audit Findings* section on page 28.

Exit Conference

An exit conference was held on February 10, 2022, via conference call. Participants included representatives from Conrad, Chemonics, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS.

We identified \$12,639 in total questioned costs, which are comprised of \$11,681 in ineligible costs and \$958 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Contract's provisions or applicable laws and regulations, or not related to the Contract. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on Chemonics' SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Internal Control Findings

Our audit discovered three internal control findings with one finding considered to be a deficiency and two findings considered to be significant deficiencies. See *Independent Auditor's Report on Internal Control* on page 16.

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
 Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
 Contract No. AID-306-C-17-00005 Awarded by the
 United States Agency for International Development/Afghanistan ("USAID"),
 for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

Compliance Findings

The results of our testing disclosed three instances of non-compliance. See the *Independent Auditor's Report on Compliance* on page 18.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Chemonics self-disclosed two incidents of alleged fraud that could have potentially impacted the Program and the SPFS. Based on further discussions with Chemonics and review of the alleged incident of fraud, an internal investigation into these allegations was completed and the results found that there was no material effect to the Program or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

The following summarizes the audit results:

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2022-01	Non-Compliance; Internal control – Significant Deficiency	Ineligible Payroll costs charged to the Program due to emergency closure from COVID-19	\$11,062	\$0	\$11,062
2022-02	Non-Compliance; Internal control – Significant Deficiency	Lack of procedures to verify vendor eligibility in cases where a vendor's name matches a name on the exclusion list	\$584	\$0	\$11,646
2022-03	Non-Compliance; Internal control – Deficiency	Unsupported and ineligible costs were charged to the Program	\$35	\$958	\$12,639
Total Questioned Costs			\$11,681	\$958	\$12,639

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
Contract No. AID-306-C-17-00005 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to Chemonics' activities under the Contract, we identified four prior audit reports that contained six findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Our review procedures included holding discussions with management regarding corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of items similar to those found in the prior findings. Based on our review, Chemonics has taken adequate corrective actions on five of the six findings and did not take adequate corrective action on one of the prior findings. See *Status of Prior Audit Findings* on page 28 for a detailed description of the prior findings and recommendations.

Summary of Chemonics' Responses to Findings

The following represents a summary of the responses provided by Chemonics to the findings identified in this report. The complete responses received can be found in **Appendix A** starting at page 31 of this report.

Finding 2022-01 –Chemonics acknowledged that timesheet management during the remote work period due to COVID-19 should have been thoroughly monitored to ensure compliance with internal policies. However, Chemonics disagreed they were required to obtain a formal approval from USAID. Chemonics stressed they were compelled to comply with Afghan labor law number 71, requiring employers to pay local staff who are unable to work remotely. Chemonics also emphasized their interpretation of USAID guidance, related to COVID-19 staff payments, noting USAID encouraged implementers to speak with USAID counterparts, but did not require formal approvals. Accordingly, Chemonics shared information with USAID regarding its compliance with Afghan labor law number 71 and did not seek formal approval. Chemonics stated they will take the following corrective action:

- a. Chemonics will seek approval from USAID for the staff hours in question.
- b. Chemonics will ensure there is training and support for supervisors who are reviewing timesheets and that advance approvals from the client, when warranted, are on file.

Finding 2022-02 – Chemonics partially agreed with the finding. Chemonics explained that they use Visual Compliance to ensure that payments are not made to people on the SAM/OFAC exclusion list. Chemonics stated that the team uses additional information such as city and country to determine if a common name is a false positive. Chemonics agreed that their team missed an explanation memo on why the matches were false positives. However, Chemonics stated they provided additional information to Conrad demonstrating that the individuals identified on the SAM/OFAC list were false positive matches. Chemonics stated they will take the following corrective action:

- a. Chemonics will provide conclusive evidence to USAID to demonstrate that the individuals identified were not prohibited from receiving U.S. Government funding.

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
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For the Period of January 1, 2020 through January 31, 2021

- b. In accordance with the auditor's recommendations, for any future individuals or organizations that appear on the exclusion list, Chemonics will ensure their procedures are followed and a memo is included to document why the matches are false positives.

Finding 2022-03 - Chemonics acknowledged that they billed USAID for an ineligible item. They noted the transaction was a result of an administrative error. As such they will return the amount to USAID. However, Chemonics disagreed the unsupported transactions should be questioned. One transaction was missing invoice support. Chemonics explained they were unable to provide the invoice as they had, under the direction of USAID, destroyed all hard copy support files in Afghanistan. As such, they submitted alternative support such as evidence the service was received, and payment was remitted to the vendor. A second transaction was missing a receipt supporting an employee reimbursement. Chemonics maintained that although supporting documentation was not available, internal processes including approvals were documented and followed. Chemonics stated that they will take the following corrective action:

- a. Chemonics will return the ineligible and associated indirect costs of \$35 to USAID on the next project invoice.
- b. Chemonics will provide financial documentation for USAID's consideration and approval for the two unsupported costs
- c. Chemonics will provide additional training and support to project office staff on internal procedures on financial document review and management.



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Chemonics International, Inc.
Washington, DC 20006

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Chemonics International, Inc. ("Chemonics") and the related notes to the Special Purpose Financial Statement, with respect to the Contract ("Contract") No. AID-306-C-17-00005 awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the period of January 1, 2020 through January 31, 2021.

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 requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred and balances for the indicated period of January 1, 2020 through January 31, 2021, in accordance with the terms of the Contract and conformity with the basis of accounting described in Note 3.

Basis of Accounting

We draw attention to Note 2 and Note 3 to the Special Purpose Financial Statement, which describes the basis of presentation and basis of accounting. As described in Note 2 to the Statement, the Statement is prepared by Chemonics on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 12, 2022 on our consideration of Chemonics' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Contract 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.

Restriction on Use

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



Lake Forest, California

April 12, 2022

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
 Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
 Contract No. AID-306-C-17-00005 Awarded by the
 United States Agency for International Development/Afghanistan ("USAID"),
 for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
Contract No. AID-306-C-17-00005						
CLIN 0001	██████████	██████████	\$ -	\$ -	\$ -	(5)
CLIN 0002	██████████	██████████				(5)
Total revenues	<u>\$23,212,617</u>	<u>\$4,624,804</u>	-	-	-	
CLIN 0001 Costs incurred:						
Direct Costs	██████████	██████████	██████████	██████████	██████████	(A)
Indirect Costs	██████████	██████████	██████████	██████████	██████████	(B)
Grants Under Contract	██████████	██████████	-	-	-	
Security Costs	██████████	██████████	-	-	-	
Fixed Fee	██████████	██████████	-	-	-	
Total costs incurred	<u>\$20,904,971</u>	<u>\$4,547,238</u>	<u>\$11,681</u>	<u>\$ 958</u>	<u>\$12,639</u>	
CLIN 0002 Costs incurred:						
Labor Costs	██████████	██████████	-	-	-	
Other Direct Costs	██████████	██████████	-	-	-	
Indirect Costs	██████████	██████████	-	-	-	
Fixed Fee	██████████	██████████	-	-	-	
Total costs incurred	<u>\$2,307,646</u>	<u>\$ 77,566</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
Contract No. AID-306-C-17-00005 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

Notes to the Special Purpose Financial Statement¹

(1) Background

Chemonics International, Inc. is an employee-owned development consulting firm founded in 1975 by Thurston Ferdinand Teele. The company provides project management solutions in diverse areas such as Education, Health, Agriculture, Natural Resources & Environment and Economic Trade among others in developing countries around the world. On January 31, 2017, the U.S. Agency for International Development ("USAID") awarded Chemonics Contract No. AID-306-C-17-00005 to support the Ministry of Education ("MoE") in meeting its ambitious goals set forth in its 2015-2020 National Education Strategic Plan. To achieve this outcome, Capacity Building Activity ("CBA") provides training, facilitates policy and procedure revisions and development, and supports systems upgrades in five pre-identified focus areas within the MoE; payroll systems, education information management systems ("EMIS"), teacher recruitment, internal audit, and resource planning and allocation.

(2) Basis of Presentation

The accompanying Special Purposes Financial Statement ("SPFS") includes costs incurred under the CBA project, Contract No. AID-306-C-17-00005, for the period January 1, 2020 through January 31, 2021. The information in this SPFS is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned awards. Therefore, some amounts presented in this SPFS may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(3) Basis of Accounting

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

(4) Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars ("USD") were not required. Chemonics uses standard exchange rate method for converting local currency costs incurred in-country to USD. This is further explained below. Any foreign currency

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Chemonics International, Inc.

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Notes to the Special Purpose Financial Statement¹

costs incurred in the Chemonics home office are converted to USD at the oanda.com exchange rate of the day. Standard Exchange Rate ("SER") method: Chemonics sets a SER at the beginning of each month based on published exchange rates and actual transactions in-country, to apply uniformly throughout the monthly billing period on currency exchange transactions, thus simplifying accounting procedures. Although it is an informed estimate, the SER is often higher or lower than the actual exchange rate charged by the local bank at which dollars were converted to local currency and spent. At the end of each month, Chemonics adjusts total estimated monthly billings affected by currency exchange transactions by recording the difference between the SER and the actual exchange rate. This difference reflects the cumulative adjustment needed to reflect the real cost of each transaction based on the actual exchange rate we received, rather than the estimated rate. Although adjustments will sometimes be booked as credits to the contract and sometimes as debits, we expect in the long run that these gains and losses will balance each other out.

(5) **Revenues**

Revenues on the Statement represent the amount of funds to which Chemonics International, Inc. is entitled to receive from the United States Agency for International Development ("USAID") for allowable, eligible costs incurred under the contract and fixed fees earned during the period of performance. Since CBA is a cost-reimbursement contract, revenues are recognized as expenses allocable and allowable under the contract and are recorded on a monthly basis. Chemonics has invoiced \$4,624,804 under this Contract during the stated audit period.

(6) **Cost Categories**

The budget categories presented, and associated amounts reflect the budget line items presented within the final, approved contract budget adopted as a component of Contract AID-306-C-17-00005.

(7) **Balance**

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

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Chemonics International, Inc.

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Notes to the Special Purpose Financial Statement¹

(8) Program Status

The CBA contract's period of performance was modified during the course of the audit, with the project's last date shifting from January 31, 2022 to January 10, 2022.

(9) Indirect Cost

Chemonics has an approved Negotiated Indirect Cost Rate Agreement ("NICRA") which establishes the following indirect cost rates:

Indirect Cost Rate							
Type	Effective Period		Fringe Benefit		Overhead		
	From	Through	Home/Expat	Host Country	Home	Field	G&A
Provisional	01 January 2020	Until Amended	██████	██████	██████	██████	██████

(10) Subsequent Events

Management had performed an analysis of the activities and transactions subsequent to the January 1, 2020 through January 31, 2021 period covered by the SPFS. Management has performed their analysis through April 12, 2022.

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Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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For the Period of January 1, 2020 through January 31, 2021

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Direct Costs

Chemonics reported a total of \$2,043,061 for CLIN 0001 Direct Costs for the period of January 1, 2020 through January 31, 2021. During our audit of these costs, we noted:

- (1) Twenty-one (21) instances where Chemonics charged hours to the Program for local national staff while they were unable to work remotely during the closure for COVID-19 and did not receive approval from USAID for the continued payment of these salaries. This resulted in ineligible direct costs of \$6,126. See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- (2) Seven (7) instances where Chemonics made payment to a vendor that appeared on the SAM.gov/OFAC exclusion list. This resulted in ineligible direct costs of \$555. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- (3) Two (2) instances where Chemonics was unable to provide source documentation or sufficient support to substantiate the expense charged to the project. This resulted in unsupported direct costs of \$910. See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs* section of this report.
- (4) One (1) instance where Chemonics charged costs to the Program at a higher amount than what was paid on the supporting documents. This resulted in ineligible direct costs of \$33. See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs* section of this report.

(B) Indirect Costs

Chemonics reported a total of \$1,262,074 for CLIN 0001 Indirect Costs and \$17,955 for CLIN0002 Indirect Costs for the period of January 1, 2020 through January 31, 2021. The indirect costs associated with questioned costs identified in Note A above resulted in total unsupported indirect costs of [REDACTED] and total ineligible indirect costs of [REDACTED] both for CLIN0001. This resulted in total questioned indirect costs of \$5,015.

² These Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only, and as such, are not part of the audited Special Purpose Financial Statement.



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Chemonics International, Inc.
Washington, DC 20006

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

We have audited, the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Chemonics International, Inc. ("Chemonics") under Capacity Building Activity ("CBA"), under Contract No. AID-306-C-17-00005, for the period of January 1, 2020 through January 31, 2021. We have issued our report thereon dated April 12, 2022, with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement of Chemonics for the period of January 1, 2020 through January 31, 2021, we obtained an understanding of Chemonics' internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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 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. We did identify three deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs*. Finding 2022-03 is considered to be a deficiency and Findings 2022-01 and 2022-02 are considered to be significant deficiencies.

Chemonics' Response to Findings

Chemonics' response to the findings 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.

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 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.

Restriction on Use

This report is intended for the information of Chemonics, the United States Agency for International Development/Afghanistan, and 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 Special Inspector General for Afghanistan Reconstruction in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California
April 12, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Chemonics International, Inc.
Washington, DC 20006

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

We have audited, the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Chemonics International, Inc. ("Chemonics") for the Capacity Building Activity ("CBA"), under Contract No. AID-306-17-00005, for the period of January 1, 2020 through January 31, 2021. We have issued our report thereon dated April 12, 2022, with an unmodified opinion.

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. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2022-01, 2022-02, and 2022-03.

Chemonics' Response to Findings

Chemonics' response to the findings 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.

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.

Restriction on Use

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

Conrad LLP

Lake Forest, California
April 12, 2022

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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Contract No. AID-306-C-17-00005 Awarded by the
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For the Period of January 1, 2020 through January 31, 2021

Schedule of Findings and Questioned Costs

Finding 2022-01: Ineligible Payroll Costs Charged to the Program During Emergency Closure due to COVID-19

Nature of Finding: Non-compliance; Internal Control – Significant Deficiency

Condition: Conrad selected two of the 13 months of payroll costs, which are part of the Direct Cost category. For the two months selected, we tested 137 samples out of a total 884 transactions. The tested payroll transactions represented \$161,957 of a total \$1,020,494 or the 13 months of payroll costs.

In 21 out of 137 payroll samples tested for Direct Costs, Chemonics charged hours recorded under Emergency Office Closure to the Program for local national staff who were unable to work remotely during the closure for COVID-19. These staff included cleaners, cooks, teachers, data entry officers, the data entry supervisor, and an IT specialist. Chemonics did not receive approval from USAID for the continued payment of these salaries. This resulted in ineligible costs in the amount of \$6,126.

Criteria:

Chemonics Field Office Policy Manual September 2019, Section II (E) Emergency Office Closure, states in part:

“There may be instances when the Country Security Team (“CST”) and chief of party delays opening, closes early, or closes the office for the entire day due to unplanned events that would prevent employees from performing their jobs... During these instances, employees who have work that can be performed remotely will be required to do so. If they do not have access to the resources available to do so, in coordination with their project and support from CST and Co-Op, they will be provided with necessary equipment. The staff will be required to fill out the Equipment use form (Annex G) if they wish to take the project equipment home and will obtain their supervisor approval to do so. Once approval is obtained, they will be expected to work, while those who cannot perform work at home due to the nature of their work or have no access to tools needed to perform the work will record these hours under “Emergency Office Closure” in the timesheet. Supervisors will be responsible to maintain contact and develop a plan with the staff to ensure that the work is completed during emergency office closure.

The CST will prepare an "Emergency Office Closure Memo" to be attached with timesheets. When an Emergency Office Closure is initiated, staff will use emergency office closure as the designated timesheet category until emergency office closure is declared over. However, the staff who worked during the emergency office closure will record normal working hours.”

Chemonics International, Inc.

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Schedule of Findings and Questioned Costs

U.S. Agency for International Development Bureau for Management Office of Acquisition and Assistance COVID-19 Implementing Partner Guidance Frequently Asked Questions, Published June 19, 2020, states in part:

1. General Questions p.9

“Question: USAID recognizes that if the outbreak of COVID-19 results in staff being temporarily unable to report to work, it could be prudent to maintain readiness – that is, continue to incur operating costs – to restart activities immediately if circumstances or instructions change. We will want to assure staff (direct and indirect charge) that they have a job when they are asked or forced to take leave. Do we have assurance to continue to charge all staffing-related charges?”

“USAID Response: For assistance, pursuant to OMB Memorandum M-20-17, recipients may continue to charge salaries and benefits to currently active Federal awards consistent with the recipients’ policy of paying salaries (under unexpected or extraordinary circumstances) from all funding sources, Federal and non-Federal. Prior to incurring such costs, recipients must notify the AO and AOR of these costs...”

“Pursuant to OMB Memo M-20-18, contractors must contact their CO for approval of such costs on a case-by-case basis, taking into account, among other factors, whether the requested costs would be allowable and reasonable to protect the health and safety of contract employees as part of the performance of the contract.”

4. Award Administration

“Question: What are our abilities to keep long-term staff such as cleaners, drivers, etc., who cannot simply telework as part of their duties, especially in countries where host governments have ordered citizens to remain at home, on our payroll?”

“USAID Response: Contractors and recipients are encouraged to speak with their Contracting Officers/Agreement Officers and CORs/AORs for those long-term personnel where telework cannot be performed.”

Contract AID-306-C-17-00005, Part I The Schedule, Section G: Contract Administration Data, G.6 Acceptance and Approval, in part states:

“In order to receive payment for costs incurred for services rendered under this contract, such costs and the work performed must be verified and approved by the COR...”

(Continued)

Chemonics International, Inc.

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Schedule of Findings and Questioned Costs

Cause: Chemonics did not carefully review and follow USAID COVID-19 instructions to discuss and obtain approval for paying the staff who cannot work during COVID-19 and charged to the Program. In addition, Chemonics did not have adequate policies in place to ensure supervisory or management review over timecards before they were submitted to ensure compliance with Emergency Office Closure guidance and USAID COVID-19 requirements requiring advance approvals for continuing the pay for staff ineligible for telework.

Effect: Lack of adequate policies and management controls to obtain funding agency approval, along with Chemonics not following USAID's instructions to ensure unallowable costs incurred for labor hours not worked on the Program, are excluded from the Program costs, resulted in ineligible costs charged to the U.S. Government. The U.S. government may have overpaid for labor services.

Questioned Costs: We identified [REDACTED] in ineligible costs and [REDACTED] in associated indirect costs, which resulted in \$11,062 in total questioned costs.

Recommendation:

- (1) We recommend that Chemonics obtain approval for hours the staff charged who did not work during COVID-19 to ensure that they are allowable or return the ineligible and associated indirect costs of \$11,062.
- (2) We recommend that Chemonics develop procedures to ensure supervisory review over timecards to ensure that time charged complies with Emergency Office Closure guidance and USAID COVID-19 requirements requiring advance approvals for continuing the pay for staff ineligible for telework.

(Continued)

Chemonics International, Inc.

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For the Period of January 1, 2020 through January 31, 2021

Schedule of Findings and Questioned Costs

Finding 2022-02: Payments made to persons whose names match those on the SAM/OFAC exclusion list

Nature of Finding: Non-Compliance; Internal Control – Significant Deficiency

Condition: Conrad tested 127 non-payroll samples out of 3,793 transactions, which are part of the Direct Cost category. The tested non-payroll transactions represented \$522,024 of a total \$985,530 for these transactions. Based on our testing, we noted seven transactions involving 13 individuals who appeared on the U.S. System for Awards Management (SAM)/OFAC exclusion list and had been barred from receiving payments from the U.S. government. The 13 individuals attended training seminars provided by the CBA, and the payments made were stipends for daily incidentals and transportation. Chemonics stated they were aware the names appeared on the exclusion list, but maintained they were actually different people who shared a common name. Chemonics also stated they investigated each individual with a match on the exclusion list. Chemonics, however, did not provide documentation supporting this claim, and were unable to provide evidence that the persons paid were different from those on the exclusion list. This resulted in ineligible costs of in the amount of \$555.

Criteria:

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

"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)... document. Suppliers for all procurements—petty cash transactions, oral contracts, purchase orders, subcontracts, etc.— must be screened through SAM. A printout of the screening results showing the selected supplier is not debarred, ineligible, or otherwise excluded from receiving contracts must be saved to the procurement file."

FAR 31.201-2(d), Determining allowability, in part, states:

"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"

USAID Mission Order 201.06, in part states:

"The CO or AO, as applicable, is required to check relevant public lists including the specially designated nationals (SDN) list and the excluded parties list found at the System for Award Management (SAM)."

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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Schedule of Findings and Questioned Costs

Contract AID-306-C-17-00005, Part II Clauses, Section H: Special Contract Requirements, in part states:

"H.28 USAID/Afghanistan Implementation of Executive Order 13224 On Terrorism Financing (August 2016)

"The Contractor/Recipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the contractor/recipient to ensure compliance with these Executive Orders and laws. This provision must be included in all subcontractor/sub-awards issued under this contract/agreement."

Cause: Chemonics does not have procedures in place requiring staff to perform additional checks to verify that Chemonics' payees whose names appear on the exclusion list are eligible to receive such funding. Such procedures would verify that the payees are not the individuals or entities identified on the exclusion list. Additionally, Chemonics does not have procedures requiring that staff maintain evidence of additional checks performed.

Effect: The lack of procedures for conducting additional verifications on individuals who appear on the exclusion list, and documenting that these checks were complete, increases the risk of the U.S. Government funding individuals or organizations who can be supporting or involved in terrorism and resulted in ineligible costs claimed.

Questioned Costs: We identified [REDACTED] in ineligible costs and [REDACTED] in associated indirect costs, which resulted in \$584 in total questioned costs.

Recommendation:

- (1) We recommend that Chemonics provide conclusive evidence to demonstrate the individuals identified were not prohibited from receiving U.S. Government funding or return the ineligible and associated indirect costs of \$584.
- (2) To ensure that no U.S. funding is provided to individuals identified on the SAM exclusion list, we recommend that Chemonics develop guidance directing staff to review any name matches identified in a check of the SAM exclusion list, and to maintain documentary evidence that such a check was effectively completed.

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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For the Period of January 1, 2020 through January 31, 2021

Schedule of Findings and Questioned Costs

Finding 2022-03: Unsupported and Ineligible Costs were Charged to the Program

Nature of Finding: Non-compliance; Internal Control – Deficiency

Condition: Conrad tested 127 non-payroll samples out of 3,793 transactions, which are part of the Direct Cost category to determine if the costs incurred under the Program were adequately supported, accurate, and properly approved. The tested non-payroll transactions represented \$522,024 of a total \$985,530 for these transactions

- In 2 out of the 127 samples tested for non-payroll costs, Chemonics did not provide invoices from the vendor to substantiate the expense charged to the project. This resulted in unsupported costs in the amount of \$910.
- In 1 out of 127 samples tested for non-payroll costs, cost charged to the program was more than the amount paid to the vendor's invoice. This resulted in ineligible costs in the amount of \$33.

Criteria:

Chemonics Field Accounting and Compliance Manual 2020, Section II Project Compliance, in part, states:

"B.3 Approval Authority

"4. The Finance Manager reviews the package for accuracy (including payment terms for invoices), backup documentation, allowability, allocability, and reasonableness. The Finance Manager signs the coding sheet as the "reviewer". The Finance Manager gives the entire package to the "approver" for review.

"5. The approver reviews the package for accuracy (including payment terms for invoices), backup documentation, allowability, allocability, and reasonableness."

Chemonics Field Office Commodity Procurement Handbook, January 2020, Chapter VI Administration and Monitoring, in part, states:

"G. Payment

The invoice received from the supplier must be reviewed by the Procurement Agent to ensure it is accurate, and that invoiced items have been both delivered to and accepted by Chemonics. The original invoice is submitted to the finance department along with the

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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Schedule of Findings and Questioned Costs

original copy of the entire procurement package, including all the documents in the Procurement File Checklist (Annex O of this handbook)."

Chemonics Field Office Policy Manual, September 2019, Section VII Information Technology, in part, states:

"H. Retention Control and Classification

"All data and communications are retained for specified periods depending on the type and requirements. Personnel and financial records are retained according to legal requirements, business practices, and policies of the units that manage them – Human Resources, Finance and Administration, and the Risk Management Divisions.

N. Archiving and Records

The Records Management Department manages the archiving process, detailed in the Project File Archiving Work Instructions. Project records, reports photos, and related materials are visible evidence of work that Chemonics has accomplished. Staff must preserve these materials in accordance with local labor law and Chemonics procedures.

FAR 31.201-2(d), Determining allowability, in part, states:

"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."

Cause: Due to an administrative oversight, Chemonics did not properly adhere to its retention policy to retain receipts nor adhere to its procurement policy to ensure the invoice was accurately recorded and billed to the Government.

Effect: The US government may have overpaid for services.

Questioned Costs: We identified [REDACTED] in unsupported costs and [REDACTED] in associated indirect costs, which resulted in \$958 in unsupported questioned costs. We also identified [REDACTED] in ineligible direct costs with [REDACTED] in associated indirect costs, which resulted in \$35 in ineligible questioned costs. This resulted in \$993 in total questioned costs

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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For the Period of January 1, 2020 through January 31, 2021

Schedule of Findings and Questioned Costs

Recommendation:

- (1) We recommend that Chemonics return the ineligible and associated indirect costs of \$35.
- (2) We recommend that Chemonics provide the invoice for the direct costs charged to the Program or return the unsupported and associated indirect costs of \$958.
- (3) We recommend that Chemonics develop additional internal controls procedures and management oversight to ensure that supporting documents for costs made under the Program are properly retained and accurately billed to the Government.

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
Cost Plus Fixed Fee and Indefinite Delivery/Indefinite Quantity
Contract No. AID-306-C-17-00005 Awarded by the
United States Agency for International Development/Afghanistan ("USAID"),
for the Capacity Building Activity ("CBA")

For the Period of January 1, 2020 through January 31, 2021

Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from Chemonics, SIGAR, and USAID pertaining to Chemonics and activities under this Contract and other Government funded awards. We identified four (4) prior audit reports conducted on behalf of USAID/Afghanistan and SIGAR. Based on our review of these reports, we identified six (6) prior findings that could have a material effect on the SPFS and other financial data significant to the audit objectives. Our review procedures included a follow up discussion with Chemonics' management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

- (1) USAID Audit – Financial Audit of Costs Incurred in Afghanistan January 1, 2019 – December 31, 2019 – An audit of costs incurred was conducted in 2021 by an external accounting firm on behalf of USAID on two contracts awarded to Chemonics for the period of January 1, 2019 through December 31, 2019.

Finding 2021-01 – Inaccurate Amounts Reported on Government Property Records:

Issue: During the testing of Chemonics' government property procedures, it was noted that three items within the inventory tracker were recorded improperly, which resulted in the inventory tracker being understated by \$375.

Status: For the current engagement, we reviewed the asset listing for the CBA Program and there were no instances where Chemonics recorded items in the inventory tracker improperly. As such, we concluded that that Chemonics has taken adequate corrective action on this finding.

- (2) USAID Audit Report (USAID's Afghan Trade and Revenue Project: Audit of Costs Incurred by Chemonics International, Inc.) – An audit of the fund accountability statement by an external accounting firm on behalf of USAID for the period of April 20, 2015 through December 31, 2018.

Finding 2018-01 – Failure to Properly Dispose of Government Property:

Issue: Chemonics did not properly record government property in the disposition instruction form, and as a result, did not obtain disposition instructions from the contracting officer. Chemonics did not dispose of the item based on the Government's directive.

Status: For the current engagement, we received and reviewed the disposition approval for government property. There were no instances where Chemonics did not properly record government property in the disposition instruction form, did not obtain disposition instructions from the contracting officer, or did not dispose of items based on the Government's directive. As such, we concluded that that Chemonics has taken adequate corrective action on this finding.

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- (3) USAID Audit Report - A financial and closeout audit of costs incurred in Afghanistan by an external accounting firm on behalf of USAID for the period of April 15, 2015 through December 31, 2017.

Finding 2018-01 – Improper Calculation of Separation Maintenance Allowance:

Issue: During the testing of expenditures, it was noted that three programs in which there was a miscalculation of the amortization of annual Separation Maintenance Allowance ("SMA") that resulted in overpayment to the employees. This was due to a systemic issue within the Chemonics accounting system.

Status: For the current engagement, we received and reviewed Chemonics' policies and procedures and supporting documentation including SMA calculations, payroll registers, approvals, and employment contracts as part of our testing. We noted appropriate SMA calculations of costs incurred under the Program. As such, we concluded that Chemonics has taken adequate corrective action on this finding.

Finding 2018-02 – Timeliness of Payment Made to Subcontractor:

Issue: Chemonics made payment to an approved subcontractor on the award six days past the required payment period.

Status: For the current engagement, there were no instances where Chemonics did not make subcontractor payments within the required payment period. As such, we concluded that Chemonics has taken adequate corrective action on this finding.

Finding 2018-03 – Failure to Perform Inventory Counts:

Issue: Chemonics did not perform the required annual inventory counts of non-expendable property based on their internal policies and procedures.

Status: Chemonics stated they have focused on additional training and oversight to adequately document periodic inventory checks and we will continue to emphasize the importance of complying with their internal procedures to ensure appropriate compliance. For the current engagement, there were no instances where Chemonics did not perform the required annual inventory counts of non-expendable property based on their internal policies and procedures. As such, we concluded that that Chemonics has taken adequate corrective action on this finding.

- (4) SIGAR Audit Report 17-33 (USAID's Financial Access for Investing in the Development of Afghanistan Project: Audit of Costs Incurred by Chemonics International, Inc.) – An audit of costs incurred from January 1, 2015 through August 31, 2016.

(Continued)

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Finding 2017-01 – System of Award Management ("SAM") Checks not Performed:

Issue: Chemonics did not consistently perform the SAM review at the time of purchase of goods or entering into contracts for service.

Status: For the current engagement, we noted seven (7) instances where Chemonics made payment to an individual on the SAM.gov/OFAC exclusion list. This resulted in ineligible direct costs of \$584. This issue is described in **Finding 2022-02**. Conrad concluded that adequate corrective action was not taken with respect to this matter.

(Continued)

Chemonics International, Inc.

Financial Audit of Costs Incurred Under
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For the Period of January 1, 2020 through January 31, 2021

Chemonics' Response to Audit Findings

Included on the following pages are Chemonics' responses received to the findings identified in this report.

March 30, 2022

Sam Perera, Partner, CPA, CFE, CITP, CGMA
Conrad LLP
23161 Lake Center Drive, Suite 120
Lake Forest, CA 92630

Subject: Management Response to Report on Financial Audit of Costs Incurred in Afghanistan, Contract No. AID-306-C-17-00005, under Capacity Building Activity at the Ministry of Education (CBAME) for the period of January 1, 2020, to January 31, 2021

Dear Mr. Perera,

In response to the draft audit report submitted to us on March 15, 2022, Chemonics International is pleased to submit our response to the findings from the draft report.

After careful review of our records, we are submitting the following responses to the auditor's findings for the subject audit.

Chemonics Management Response

Finding Number 2022-01: Ineligible Payroll Costs Charged to the Program During Emergency Closure due to COVID-19: Chemonics acknowledges that timesheet management during the COVID remote work should have been thoroughly monitored to ensure compliance of internal policies. However, the payment of mentioned staff who could not work remotely during the emergency office closure was in accordance with local Afghan labor law number 71, which requires employers to continue paying employees who cannot complete work remotely for prescribed lengths of time. Chemonics shared this labor law and related legal guidance with the auditor. USAID guidance on this specific topic encouraged implementing partners to speak with their USAID counterparts but did not require a formal approval. Accordingly, Chemonics emailed a notification to the client informing them of these costs on April 06, 2020, and followed up with the CBA COR about this topic on June 17, 2020.

Action Items:

1. Chemonics will seek approval from USAID for the staff hours in question.
2. Chemonics will ensure there is training and support for supervisors who are reviewing timesheets and that advance approvals from the client, when warranted, are on file.

Finding Number 2022-02: Payments made to persons whose names match those on the SAM/OFAC exclusion list: Chemonics follows a comprehensive screening approach to check individuals and entities against denied or debarred lists. The project used Visual Compliance, a globally recognized screening solution which offers a robust, up-to-date database of dozens of U.S. and International denied and restricted party lists including those from government authorities, as well as a global list maintained by multinational bodies such as the United Nations and the World Bank, for all screening. Given the common names in Afghanistan, we see a lot of false positives, which the team can identify using the different information in the search criteria such as city and country. However, Chemonics acknowledges that the project team missed an explanation memo on why the matches were a false positive. Upon further inquiry by the auditors, Chemonics provided additional information to the auditor to demonstrate that the individuals identified were false positive matches.

Action Items:

1. Chemonics will provide conclusive evidence to USAID to demonstrate that the individuals identified were not prohibited from receiving U.S. Government funding.

2. In accordance with the auditor's recommendations, for any future individuals or organizations that appear on the exclusion list, Chemonics will ensure our procedures are followed and a memo is included to document why the matches are false positives.

Finding Number 2202-03: Unsupported and ineligible costs were charged to the program: Chemonics' procurement process is guided by USAID regulations and policies, as well as our corporate policies and procedures. We acknowledge that one of the finance packages submitted to the auditors was missing an invoice in the amount of \$374.69. Given we were asked to destroy all hard copy files in Afghanistan, the project team was unable to do its due diligence and search for the missing invoice. However, the finance package submitted to the auditor shows that the service was received, and payment was remitted to the vendor. The second unsupported cost included is related to a reimbursement of excess baggage payment in the amount of \$535.50, incurred in lieu of household effects shipping allowance. While the transaction receipt for this expense was not available, Chemonics followed internal processes to include appropriate approvals and documentation.

Chemonics acknowledges that an administrative error resulted in a \$35 variance in our billing to the client. The project has already initiated a reversal of the excess amount.

Action Items:

1. Chemonics will return the ineligible and associated indirect costs of \$35 to USAID in the next project invoice.
2. Chemonics will provide the financial documentation for USAID's consideration and approval for the two unsupported cost items.
3. Chemonics will provide additional training and support to project office staff on our internal procedures on financial document review and management.

Thank you for your continued collaboration throughout the course of this audit. Please do not hesitate to contact me with additional questions.

Sincerely,



Efrain Laureano
Senior Vice President
Asia Regional Business Unit
Chemonics International Inc.

Chemonics International, Inc.

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Auditor's Rebuttal to Chemonics' Responses to Audit Findings

Chemonics partially agreed with **Finding 2022-01**, **Finding 2022-02**, and **Finding 2022-03**. We have reviewed Chemonics' responses and provided the following rebuttals:

Finding 2022-01 –Chemonics acknowledged that timesheet management during the remote work period due to COVID-19 should have been thoroughly monitored to ensure compliance with internal policies. However, Chemonics disagreed they were required to obtain a formal approval from USAID. Chemonics stressed they were compelled to comply with Afghan labor law number 71, requiring employers to pay local staff who are unable to work remotely. Chemonics also emphasized their interpretation of USAID guidance, related to COVID-19 staff payments, noting USAID encouraged implementers to speak with USAID counterparts, but did not require formal approvals. Accordingly, Chemonics shared information with USAID regarding its compliance with Afghan labor law number 71 and did not seek formal approval. Chemonics stated they will take the following corrective action:

- a. Chemonics will seek approval from USAID for the staff hours in question.
- b. Chemonics will ensure there is training and support for supervisors who are reviewing timesheets and that advance approvals from the client, when warranted, are on file.

Auditor Rebuttal:

- Per the U.S. Agency for International Development Bureau for Management Office of Acquisition and Assistance COVID-19 Implementing Partner Guidance Frequently Asked Questions, Published June 19, 2020, and Pursuant to OMB Memo M-20-18, contractors must contact their CO for approval of such costs on a case-by-case basis, taking into account, among other factors, whether the requested costs would be allowable and reasonable to protect the health and safety of contract employees as part of the performance of the contract. Chemonics did not receive approval from their CO. As such, our finding and recommendation remains unchanged.

Finding 2022-02 – Chemonics partially agreed with the finding. Chemonics explained that they use Visual Compliance to ensure that payments are not made to people on the SAM/OFAC exclusion list. Chemonics stated that the team uses additional information such as city and country to determine if a common name is a false positive. Chemonics agreed that their team missed an explanation memo on why the matches were false positives. However, Chemonics stated they provided additional information to Conrad demonstrating that the individuals identified on the SAM/OFAC list were false positive matches. Chemonics stated they will take the following corrective action:

- a. Chemonics will provide conclusive evidence to USAID to demonstrate that the individuals identified were not prohibited from receiving U.S. Government funding.

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Auditor's Rebuttal to Chemonics' Responses to Audit Findings

- b. In accordance with the auditor's recommendations, for any future individuals or organizations that appear on the exclusion list, Chemonics will ensure their procedures are followed and a memo is included to document why the matches are false positives.

Auditor Rebuttal:

- The additional information Chemonics provided was a document previously reviewed by Conrad which had been updated to include comments from Chemonics stating the individuals paid were not from the same region as the individuals on the SAM/OFAC list. However, Chemonics did not provide evidence to support that the individuals were from a different region or what additional steps or verifications were made to assure the individuals appearing on the exclusion list were distinct from those paid. As such, our finding and recommendation remains unchanged.

Finding 2022-03 - Chemonics acknowledges that they billed USAID for an ineligible item. They noted the transaction was a result of an administrative error. As such they will return the amount to USAID. However, Chemonics disagreed the unsupported transactions should be questioned. One transaction was missing invoice support. Chemonics explained they were unable to provide the invoice as they had, under the direction of USAID, destroyed all hard copy support files in Afghanistan. As such, they submitted alternative support such as evidence the service was received, and payment was remitted to the vendor. A second transaction was missing a receipt supporting an employee reimbursement. Chemonics maintained that although supporting documentation was not available, internal processes including approvals were documented and followed. Chemonics stated that they will take the following corrective action:

- a. Chemonics will return the ineligible and associated indirect costs of \$35 to USAID on the next project invoice.
- b. Chemonics will provide financial documentation for USAID's consideration and approval for the two unsupported costs
- c. Chemonics will provide additional training and support to project office staff on internal procedures on financial document review and management.

Auditor Rebuttal:

- Ineligible Transaction.
 - No rebuttal is deemed necessary as Chemonics concurred it was an administrative error, and they will refund the U.S. Government on the next project invoice.

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Auditor's Rebuttal to Chemonics' Responses to Audit Findings

- Unsupported Transactions.
 - Missing invoice. Chemonics field office commodity procurement handbook states that the invoice received from the supplier must be reviewed and sent to the finance department. Chemonics field office policy manual also states that all financial records must be retained and archived. Chemonics did not retain and archive the invoices as their policies state and as these expenses were from February and March of 2020 the invoices should have been archived prior to the instruction to destroy all hard copy files in Afghanistan. In addition, Chemonics did not provide sufficient audit evidence to substantiate that the service was rendered, and payment was remitted to the vendor for the transaction with the missing invoice. As such, our finding and recommendation remains unchanged.
 - Missing Receipt. Chemonics was unable to provide a receipt and did not follow their internal procedures to retain and archive the receipt. As such, our finding and recommendation remains unchanged.

SIGAR's Mission

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

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

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

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- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

SIGAR's Mission

Public Affairs Officer

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