

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 25-20 Financial Audit

USAID's Support to the President's Emergency Plan for AIDS Relief in Afghanistan: Audit of Costs Incurred by Chemonics International Inc.

In accordance with legal requirements, SIGAR has redacted from this report certain information because it is proprietary, could impact public safety, privacy, or security, or is otherwise sensitive.



**MARCH
2025**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 17, 2015, the U.S. Agency for International Development's (USAID) Bureau for Global Health awarded a 5-year, \$2.49 billion task order to Chemonics International Inc. (Chemonics) to support the Global Health Supply Chain—Procurement and Supply Management program. The purpose of the task order was to advance the President's Emergency Plan for AIDS Relief (PEPFAR) by improving the availability of health commodities and providing technical assistance to meet PEPFAR's global procurement and supply chain needs. USAID modified the task order 112 times, extending the period of performance through November 28, 2024, and allocating \$5,000,000 to support PEPFAR activities in Afghanistan.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$4,038,500 in revenues received and costs incurred under the task order from January 1, 2021, through January 8, 2024, in support of PEPFAR activities in Afghanistan. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Chemonics' internal controls related to the task order; (2) identify and report on instances of material noncompliance with the award's terms 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' 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.

March 2025

USAID's Support to the President's Emergency Plan for AIDS Relief in Afghanistan: Audit of Costs Incurred by Chemonics International Inc.

SIGAR 25-20-FA

WHAT SIGAR FOUND

Conrad identified one significant deficiency in Chemonics' internal controls and one instance of noncompliance with the terms of the award. Conrad found that Chemonics charged the Afghanistan portion of the task order for the cost of commodities that were transferred for use in another country. Specifically, two oxygen generator plants were redirected from Afghanistan to other countries per USAID's direction; however, the expense was not shifted to the appropriate country and project area. Chemonics was notified of the internal control deficiency and compliance issue prior to the publication of this report.

Because of the deficiency in internal controls and the instance of noncompliance, Conrad identified \$126,187 in total questioned costs consisting entirely of ineligible costs—costs prohibited by the contract and applicable laws and regulations. Conrad did not identify any unsupported costs—costs that were not supported with adequate documentation or did not have required prior approvals or authorizations.

Category	Ineligible	Unsupported	Total Questioned Costs
Other Direct Costs	\$126,187	\$0	\$126,187
Total Costs	\$126,187	\$0	\$126,187

Conrad identified five prior audit reports containing ten findings with accompanying recommendations relevant to Chemonics' award. Conrad conducted follow-up procedures and determined that Chemonics had taken adequate corrective action on all ten prior findings.

Conrad issued an unmodified opinion on Chemonics' SPFS, noting it presents fairly, in all material respects, revenues 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, \$126,187 in questioned costs identified in the report.
2. Advise Chemonics to address the report's internal control finding.
3. Advise Chemonics to address the report's noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 31, 2025

The Honorable Marco Rubio
Secretary of State
Acting Administrator, U.S. Agency for International Development

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Chemonics International Inc. (Chemonics) under a task order awarded by the U.S. Agency for International Development's (USAID) Bureau for Global Health under the Global Health Supply Chain–Procurement and Supply Management Program.¹ Specifically, Conrad reviewed \$4,038,500 in revenues received and costs incurred from January 1, 2021, through January 8, 2024, in support of the President's Emergency Plan for AIDS Relief (PEPFAR) program in Afghanistan. The objective of the award was to improve the availability of health commodities and provide technical assistance to meet the global procurement and supply chain needs of the PEPFAR program. 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, \$126,187 in questioned costs identified in the report.**
- 2. Advise Chemonics to address the report's internal control finding.**
- 3. Advise Chemonics to address the report's noncompliance finding.**

Conrad discusses the results of the audit in detail in the attached report. In connection with the contract, we reviewed Conrad's report and related documentation and inquired of its representatives. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated March 12, 2024, and the conclusions expressed therein. However, our review disclosed no instances where Conrad did not comply, in all material respects, with U.S. 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.

Gene Aloise
Acting Special Inspector General
for Afghanistan Reconstruction

(F-303)

¹ The task order no. is AID-OAA-TO-15-00007 under contract no. AID-OAA-I-15-0004.

Chemonics International Inc.

Task Order No. AID-OAA-TO-15-00007

Awarded by the United States Agency for International Development Global Health
in support of the President's Emergency Plan for AIDS Relief (PEPFAR) under the
Global Health Supply Chain-Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

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March 12, 2025

Board of Directors
Chemonics International Inc.
Washington DC

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

Conrad LLP (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.'s Special Purpose Financial Statement under Task Order No. AID-OAA-TO-15-00007 awarded by the United States Agency for International Development's Mission to Afghanistan for the period of January 1, 2021 through January 8, 2024, supporting the President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-Procurement and Supply Management Program .

On March 12, 2025, we provided SIGAR with a draft report reflecting our audit procedures and results. Chemonics International Inc. (Chemonics) received a copy of the report on March 12, 2025, 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' 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 Task Order.

Sincerely,

A handwritten signature in blue ink, reading "S Perera", enclosed within a thin black rectangular border.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007

President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain- Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Background

On April 17, 2015, the Office of HIV/AIDS at the United States Agency for International Development's Bureau for Global Health (USAID) awarded Contract No. AID-OAA-I-15-0004, Task Order No. AID-OAA-TO-15-00007 (TO) to Chemonics International, Inc. (Chemonics) under the Global Health Supply Chain – Procurement and Supply Management program to advance the President's Emergency Plan for AIDS Relief (PEPFAR). This Task Order has three main objectives:

- Objective 1: Improve the provision of health commodities through global health commodity procurement and logistics.
- Objective 2: Strengthen in-country supply chain systems through supply chain technical assistance.
- Objective 3: Global collaboration to engage strategically to improve long term global supply of health commodities.

The Task Order is a cost-plus fixed fee with the original period of performance from April 20, 2015, through April 19, 2020. The total estimated amount of the work required under the TO, inclusive of commodities but exclusive of any fixed fee, was [REDACTED]. The fixed fee was [REDACTED], and estimated cost-plus fixed fee totaled \$2,489,618,091. Subject to the terms and conditions of this Task Order, allowable costs incurred by Chemonics will be reimbursable during the period. An amount of \$2,500,000 was obligated under the original task order and was anticipated to be sufficient through approximately May 19, 2015. There were 112 modifications to the original TO that modified sections, incrementally added funds, and re-aligned agreements. The modifications also extended the completion date of the TO at no additional cost from April 19, 2020, to November 28, 2024. Modification 97 allocated \$5,000,000 to PEPFAR activities in Afghanistan.

Summary of Contract

Contract Number/Task Order Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
AID-OAA-1-15- 00004/AID-OAA- TO-15-00007	\$2,489,618,091	4/20/15	4/19/20	112	\$5,758,066,825	11/28/24

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007

President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain- Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

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 Task Order, as mentioned above, of Chemonics' Special Purpose Financial Statement (SPFS) for revenues received under the TO for work provided in connection with program initiatives serving Afghanistan totaling \$5,000,000 and costs incurred for the Afghanistan project area totaling \$4,038,500 with an outstanding fund balance of \$961,500 for the period of performance from January 1, 2021, through January 8, 2024.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit of the aforementioned Task Order include the following:

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

Scope

The scope of this audit included all costs incurred for programming in Afghanistan during the period of January 1, 2021, through January 8, 2024. Within the period under audit, the total revenues received amount is \$5,000,000 and the total costs incurred amount is \$4,038,500 with an outstanding fund balance of \$961,500. Our testing of the indirect cost charged to the Task Order was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007

President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain- Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

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 July 25, 2024, 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 affected operations, accounting policies and procedures. We gained an understanding of Chemonics through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - Task Order and modifications;
 - Any regulations that were specific to the agreement's requirements, such as Federal Acquisition Regulation (FAR) Parts 31, 45 and 52, as amended, USAID Automated Directives System (ADS) Chapter 303, Grants and Cooperative Agreements to Non-Government Organizations;
 - Audited financial statements; and
 - Previous SIGAR and USAID financial 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 were properly recorded.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Task Order, and the applicable general ledgers;

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

- 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, reasonable, and allocable to the Task Order;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional negotiated indirect cost rates to ensure that the rate was accurately applied.

Internal Controls Related to the Task Order

We reviewed Chemonics' internal controls related to the Task Order 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, and identifying key controls within significant transaction cycles and testing those key controls.

Compliance with the Award Requirements and Applicable Laws and Regulations

We performed tests to determine whether Chemonics complied, in all material respects, with the Award requirements, Federal Acquisition Regulation (FAR) Parts 31, 45 and 52, as amended, ADS 303, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Task Order and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from Chemonics and reviewed these reports to determine if there were any findings and recommendations that could have a material effect on Chemonics' SPFS. In addition, we also 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 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 21.

Exit Conference

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007

President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain- Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

An exit conference was held on January 16, 2025, 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 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 \$126,187 in total questioned costs, comprised entirely of ineligible costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Task Order's provisions or applicable laws and regulations, or not related to the Task Order. 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 Controls

Our audit identified one (1) internal control finding. The one (1) internal control finding is considered to be a significant deficiency. See *Independent Auditor's Report on Internal Control* on page 15.

Compliance

The results of our testing identified one (1) instance of noncompliance. See the *Independent Auditor's Report on Compliance* on page 17.

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 did not disclose any instances of alleged fraud that could have a potential impact on the Program and the SPFS. As such, there are no further communications warranting additional consideration.

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007

President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain- Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2025-01	Non-compliance and Internal Control – Significant Deficiency	Cost incurred in another country was certified and charged to Afghanistan	\$ 126,187	\$ -	\$ 126,187
Total Questioned Costs			\$ 126,187	\$ -	\$ 126,187

Review of Prior Findings and Recommendations

We requested copies of prior audit reports and engagements from Chemonics, SIGAR, and USAID pertinent to Chemonics' activities under the Task Order. We identified five (5) prior audit reports that contained ten (10) findings and associated recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. We concluded that Chemonics had taken adequate corrective actions on all ten prior audit findings and associated recommendations. See *Status of Prior Audit Findings* on page 21 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* to this report):

- (1) **Finding 2025-01:** Chemonics disagreed with the finding and stated that it acted as directed by the funding agency. As a result, Chemonics believed the expense was not ineligible, nor did it indicate a weakness in internal controls. Chemonics provided additional support evidencing the funding agency's approval and reiterated that it maintains strong internal controls over Task Order costs.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Chemonics International Inc.
Washington DC

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 (Statement), with respect to the Task Order No. AID-OAA-TO-15-00007 (Task Order) awarded by the United States Agency for International Development (USAID) to support the President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-Procurement and Supply Management Program for the period of January 1, 2021, through January 8, 2024.

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, 2021, through January 8, 2024, in accordance with the terms of the Task Order and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR).

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of Chemonics, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Presentation and Accounting

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

Responsibilities of Management 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 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 it is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated March 12, 2025, 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 Task Order, and other matters. The purpose of these 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 International Inc., the United States Agency for International Development's Bureau for Global Health, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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 the United States Congress and 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
March 12, 2025

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007 President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain- Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Special Purpose Financial Statement

			Questioned Costs			
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
Task Order No. AID-OAA-TO-15-00007	\$ 5,000,000	\$ 5,000,000				(5)
Total revenues	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	-	-	-	
Costs incurred and Fixed Fee:						
Cost Recovery			-	-	-	
Salaries		45	-	-	-	
Travel and Transport		3,656	-	-	-	
Other Direct Costs		3,698,181	126,187	-	126,187	(A)
Subcontracts		19,588	-	-	-	
General & Administrative			-	-	-	
Fringe Benefits			-	-	-	
Overhead			-	-	-	
Fee			-	-	-	
Total Costs incurred	\$ -	\$ 4,038,500	\$ 126,187	\$ -	\$ 126,187	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 961,500</u>				(7)

See Notes to the Special Purpose Financial Statement and Notes to Questioned Costs Presented on the Special Purpose Financial Statement

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Notes to Special Purpose Financial Statement¹

(1) Background

Chemonics International, Inc. is a private international development firm founded in 1975 with the goal of providing expertise allowing learnings to efficiently flow and adapt between experts, projects, and countries to promote meaningful change around the world to help people live healthier, more productive, and more independent lives. Currently, Chemonics International, Inc. is based in Washington, D.C., and employs 6,000 experts in over 100 countries worldwide.

The purpose of this Task Order is to move towards an AIDS-free generation and strengthening health systems by improving the availability of health commodities and the provision of technical assistance. The objectives of this activity are to (1) improve the provision of health commodities through global commodity procurement and logistics, (2) strengthen in-country supply chain systems through supply chain technical assistance, and (3) improve long term global supply of health commodities through global collaboration.

USAID issued Modification Number 97 to Task Order No. AID-OAA-TO-15-00007, dated July 21, 2022, which obligated a total of \$5,000,000 in funding for Afghanistan. Prior to this, no funding had been obligated for Afghanistan. This Special Purpose Finance Statement reflects the budgeted amounts under this Modification Number 97.

(2) Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred under Task Order No. AID-OAA-TO-15-00007 for the period from January 1, 2021, through January 8, 2024. 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 net assets, or cash flows of Chemonics. 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 Task Order. 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 and revenue reported on the SPFS are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Notes to Special Purpose Financial Statement¹
(Continued)

(4) Foreign Currency Conversion Method

For purposes of preparing the SPFS, in Afghanistan, the Afghani is the functional (local) currency. Costs incurred in Afghanistan that are denominated in United States dollars are converted into Afghani using the spot rate as of the effective date of the transaction. Conversions of those transactions back into United States dollars for consolidated financial reporting purposes are based on the average rate for the month, calculated by the accounting system based on the weighted average currency exchange rate of transactions recorded in each month. For this reason, differences in the United States dollar value of transactions as of the effective date of the transaction and the United States dollar value for those transactions in financial reports differ slightly, reflecting differences between the spot rate and the average rate for the month.

(5) Revenue

Revenues presented in the SPFS represent the amounts earned through the PEPFAR program for allowable, eligible costs incurred under the Task Order during the period presented.

(6) Costs incurred by Budget Category

The budget categories and associated amounts presented reflect the budget line items presented within the final, approved contract budget adopted as a component of Task Order No. AID-OAA-TO-15-00007.

(7) Outstanding Fund Balance

For the period January 1, 2021, through January 8, 2024, PEPFAR received \$5,000,000 in obligated funds from USAID for Afghanistan. Expenditures in the same period are \$4,038,500. The difference of \$961,500 is the Outstanding Fund Balance and consists of revenues received from USAID that have not yet been spent. This Outstanding Fund Balance represents the amount of cash on hand as of January 8, 2024, to cover expenses in the period beginning January 9, 2024.

(8) Program Status

The President's Emergency Plan for AIDS Relief (PEPFAR), Task Order No. AID-OAA-TO-15-00007, remains active beyond the audit period. The period of performance for the Task Order is scheduled to conclude November 28, 2024.

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

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for

Task Order No. AID-OAA-TO-15-00007

President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Notes to Special Purpose Financial Statement¹
(Continued)

(9) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the January 1, 2021, through January 8, 2024, period covered by the SPFS. Management has performed their analysis through March 12, 2025.

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

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Other Direct Costs

Chemonics reported a total of \$3,698,181 for Other Direct Costs for the period of January 1, 2021, to January 8, 2024. During our audit of these costs, we noted two (2) instances where commodities destined for Afghanistan were redirected to Ghana per USAID request. However, costs of the commodities remained as an Afghanistan specific expense and were not shifted to the appropriate country/project area. This resulted in ineligible Other Direct Costs of \$126,187. See **Finding No. 2025-01** in the *Schedule of Findings and Questioned Costs* section of this report.

² The 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

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Task Order AID-OAA-TO-15-00007 (Task Order) in support of the President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-Procurement and Supply Management Program for the period of January 1, 2021, through January 31, 2023. We have issued our report thereon dated March 12, 2025, with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of January 1, 2021, through January 31, 2023, we considered Chemonics' internal control over financial reporting (internal control) to determine the audit procedures that are 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been 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 identified one (1) deficiency in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. **Finding 2025-01** is considered to be a significant deficiency.

Chemonics' Response to Findings

Chemonics' response to the findings identified in our audit is included verbatim at the *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 International Inc., the United States Agency for International Development's Bureau for Global Health, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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
March 12, 2025

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Chemonics International Inc.
Washington DC

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Task Order No. AID-OAA-TO-15-00007 (Task Order) in support of the President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-Procurement and Supply Management Program, for the period of January 1, 2021, through January 8, 2024. We have issued our report thereon dated March 12, 2025, 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 Task Order, 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 one (1) instance 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 **Finding 2025-01**.

Chemonics' Response to Findings

Chemonics' response to the findings identified in our audit is included verbatim at the *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 compliance. 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's Bureau for Global Health, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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 that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font. The letters "C", "L", and "P" are capitalized and prominent. The signature is contained within a thin black rectangular border.

Lake Forest, California
March 12, 2025

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Schedule of Findings and Questioned Costs

Finding 2025-01: Cost incurred in another country was certified and charged to Afghanistan.

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

Condition: Conrad tested 50 transactions out of 199 transactions in the Other Direct Costs cost category, representing \$1,580,736 out of a total of \$3,698,181 for these transactions. Based on our testing and communications with Chemonics, we noted two (2) instances where Oxygen Generator Plants originally destined for Afghanistan were redirected to Ghana and Mozambique, as per USAID decision. However, it was noted that the costs for the Oxygen Generator Plants remained recorded as Afghanistan-specific expenses and were certified on the SPFS as costs incurred by Afghanistan. This resulted in ineligible costs of \$126,187.

Criteria:

FAR Subpart 31.201-2 Determining allowability, states in part:

- “(a) A cost is allowable only when the cost complies with all of the following requirements:
(1) Reasonableness.
(2) Allocability...”

FAR Subpart 31.201-4 Determining allocability, states in part:

- “A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it-
(a) Is incurred specifically for the contract...”

Cause: Chemonics stated that the funding agency requested to have commodities destined for Afghanistan redirected to another country. Chemonics however, did not request guidance from the funding agency on whether a modification should be initiated to reduce the allotted budget for the Afghanistan portion of this program or if the oxygen plants will be delivered to Afghanistan on a future date.

Effect: Chemonics' lack of adherence to Federal Acquisition Regulation requirements resulted in misallocation of U.S. Government funds that were destined for Afghanistan.

Questioned Costs: We identified \$126,187 in ineligible costs and \$0 in associated indirect costs, which resulted in \$126,187 in total questioned costs.

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007

President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Schedule of Findings and Questioned Costs (Continued)

Recommendation:

- 1) We recommend that Chemonics provide additional evidence to demonstrate that the costs in question were shifted to the appropriate project country or return the \$126,187 questioned costs.
- 2) We recommend that Chemonics develop and implement a policy to ensure request direction from the funding agency on any future changes in the destination for commodities delivery in order to properly allocated costs to correct countries.

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from Chemonics, SIGAR, and USAID pertaining to Task Order activities under this audit. We identified five prior audit reports which contained ten findings and associated recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures, including discussion with Chemonics' management, and performed testing of similar activities during our audit. We have summarized the results of our procedures below:

1. **Report: SIGAR Financial Audit 18-49-FA (USAID's Early Grade Reading (EGR) Survey Project), Financial Audit of Costs Incurred under Task Order No. AID-306-TO-15-00064 for the Period from July 27, 2015 through May 15, 2017.**

Finding 2018-01: Allowances Overbilling – Chemonics incorrectly overcharged a per diem allowance for lodging for one out of 38 travel disbursements totaling \$62,878. The lodging allowance charged exceeded the maximum amount listed on Chemonics' Allowance Policy Manual. This resulted in questioned costs of \$147.

Status: For the current engagement, Conrad reviewed Chemonics' general ledger and tested Travel and Transport samples for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

2. **Report: SIGAR Financial Audit 19-14-FA (USAID's Afghan Trade and Revenue Project), Financial Audit of Costs Incurred under Contract No. AID-OAA-I-12-00035, Task Order No. AID-306-TO-13-00009 for the period January 1, 2017 through February 28, 2018.**

Finding 2018-01: Property Records Not Updated for Lost, Stolen, Damaged, or Transferred Property – Chemonics erroneously reported nine (9) items valued at \$12,833, which were listed on their master inventory listing. However, Chemonics transferred the items to other projects or reported the items as lost or stolen during the course of the project. This resulted in questioned costs of \$346.

Status: For the current engagement, Conrad reviewed Chemonics' general ledger and tested Other Direct Costs samples for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

Finding 2018-02: Annual Non-Expendable Property Report Not Submitted – Chemonics failed to submit to USAID the Non-expendable Property Report for 2017. According to Chemonics personnel, the 2017 report was not completed in anticipation of the project termination date of November 7, 2017; however, the project was extended through February 28, 2018.

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
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President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
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For the Period of January 1, 2021 through January 8, 2024

Status of Prior Audit Findings (Continued)

Status: For the current engagement, Conrad reviewed Chemonics' Task Order requirements and complete Compliance Testing for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

3. **Report: SIGAR Financial Audit 20-34-FA (USAID's Regional Agriculture Development Program in Southern Afghanistan ("RADP-S")), Financial Audit of Costs Incurred under Contract No. AID-306-C-13-0001800512 for the Period January 1, 2016 through November 20, 2017.**

Finding 2017-01: Chemonics did not submit the Annual Report of Government Property consistent with USAID's requirements. Chemonics' inventory submission did not contain the required attestation statement and authorized signature. The inventory was not submitted in a format that is substantially the same as the format prescribed by USAID. The inventory submitted to USAID did not present the value of the property items as of the last report, transfer information, or disposition information. The report does not adequately and consistently classify property as government furnished property or contractor acquired property. The inventory includes unpopulated data cells such that data omissions appear to have been uncorrected during Chemonics' annual check, or internal review, of the inventory to verify the inventory tracker has all the relevant and required information.

Status: For the current engagement, Conrad reviewed Chemonics' Task Order requirements and complete Compliance Testing for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

Finding 2017-02: Incomplete property records and inadequate property management procedures – Chemonics' inventory identified 13 vehicles valued at \$54,760 during the audit period, but no costs were recorded under account code 45500 – Project Vehicles. These vehicles were purchased by a subcontractor and recorded under Other Direct Costs, with missing posting references and transaction dates. Additionally, \$69,375 in property was acquired, but the general ledger showed \$72,417, resulting in a \$3,042 discrepancy attributed to shared project items. A full reconciliation was not timely completed. Issues also included missing acquisition dates, unit prices, and titles, as well as unsupported disposition results, leading to a questioned cost of \$3,042.

Status: For the current engagement, Conrad reviewed Chemonics' general ledger along with Task Order requirements and tested Other Direct Costs and Compliance Testing for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Status of Prior Audit Findings (Continued)

Finding 2017-03: Undetected misstatements within the special purpose financial statement (SPFS) and accompanying notes – During the testing of the SPFS and accompanying notes noted that Chemonics incorrectly represented the basis of accounting used to recognize revenue and expenditures. In addition, a material error was noted within the revenue note that disclosed the total amount of funds invoiced by Chemonics during the audit period.

Status: For the current engagement, Conrad reviewed the SPFS and accompanying notes for the audit period. This issue was not repeated. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

4. **Report: SIGAR Financial Audit 22-26-FA (USAID's Capacity Building Activity ("CBA")), Financial Audit of Costs Incurred under Contract No. AID-306-C-17-00005 for the Period of January 1, 2020 through January 31, 2021.**

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

Status: For the current engagement, Conrad reviewed Chemonics' general ledger and tested Salaries samples for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

Finding 2022-02: Payments made to persons whose names match those on the SAM/OFAC exclusion list. – Out of 3,793 Direct Cost transactions, 127 non-payroll samples totaling \$522,024 were tested. During testing, seven transactions involving 13 individuals matched names on the U.S. System for Awards Management (SAM)/OFAC exclusion list, indicating they were barred from receiving U.S. government payments. These individuals attended CBA training seminars and received stipends for incidentals and transportation. Chemonics acknowledged the name matches but claimed they were different people with the same names and stated they investigated each match. However, they did not provide supporting documentation, leading to ineligible costs of \$555.

Status: For the current engagement, there were no instances where Chemonics repeated issues related to failing to screen vendors and/or individuals. As such, Conrad concluded that Chemonics has taken adequate corrective action on this finding.

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Status of Prior Audit Findings (Continued)

Finding 2017-03: Unsupported and Ineligible Costs were Charged to the Program – Out of 3,793 Direct Cost transactions, 127 non-payroll samples totaling \$522,024 were tested for accuracy, support, and approval. In the testing, Chemonics failed to provide vendor invoices for two samples, resulting in unsupported costs of \$910. Additionally, in one sample, the cost charged exceeded the amount on the vendor's invoice, leading to ineligible costs of \$33. This resulted in \$910 in unsupported costs and \$48 in associated indirect costs, totaling \$958 in unsupported questioned costs. Furthermore, \$33 in ineligible direct costs with \$2 in associated indirect costs led to \$35 in ineligible questioned costs, bringing the total questioned costs to \$993.

Status: For the current engagement, there were no instances where Chemonics repeated issues related to failed to provide vendor invoices. As such, the corrective action has been adequately implemented.

5. **Report: SIGAR Financial Audit 23-28-FA (USAID's Capacity Building Activity for the Afghan Ministry of Education), Financial Audit of Costs Incurred under Contract No. AID-306-C-17-00005 for the period of February 1, 2021 through January 10, 2022.**

Finding 2022-01: Ineligible Payroll Costs Charged to the Program During Emergency Closure due to COVID-19 – The auditor tested 143 direct cost transactions totaling \$413,861 out of a population of 2,937 transactions totaling \$811,911. Of the 143 transactions tested, no documentation was provided to support nine transactions related to travel in the amount of \$2,025.

Status: For the current engagement, Conrad reviewed Chemonics' general ledger and tested Travel and Transport samples for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that Chemonics' has taken adequate corrective action on this finding.

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007 President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain- Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Chemonics' Responses to Audit Findings



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March 6, 2025

Sam Perera, CPA, CFE, CITP, CGMA Partner
Conrad LLP

Subject: Management Response to Report on Financial Audit of the Special Purpose Financial Statements for Task Order No. AID-OAA-TO-15-00007, for the Period of January 1, 2021, through January 8, 2024

Dear Mr. Perera,

In response to the draft audit report submitted to us on February 19, 2025 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.

Audit Finding, page 6 of the Draft Report F-303

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2025-01	Non-compliance and Internal Control – Significant Deficiency	Cost incurred in another country was certified and charged to Afghanistan	\$ 126,187	\$ -	\$ 126,187
Total Questioned Costs			\$ 126,187	\$ -	\$ 126,187

Chemonics Management Response:

Chemonics disagrees with this finding. The commodities were procured in the US based on a Requisition Order (RO) and issuance of a Purchase Order (PO) for delivery to Afghanistan. Prior to shipping, USAID directed Chemonics to ship the PSA plant to [Ghana or Mozambique] (ref: Annex A Technical Direction Memorandum (TDM) GHSC-PSM 2022-01 Amendment 2, attached). USAID's guidance, furthermore, was to keep the PSA plant cost charged to Afghanistan O2 funding, as noted in an email from USAID TO1 COR to Chemonics dated January 27, 2023 and confirmed on January 17, 2025 (Annex A). As referenced in TDM GHSC-PSM 2022-01, Amendment 2, the cost of transportation to the new location was covered from the American Rescue Plan Act (ARPA) Rapid Response Fund (RRF) and Chemonics complied with this direction.

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
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President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
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Chemonics' Responses to Audit Findings (Continued)

Additionally, on page 16 of the Draft Report, the auditors stated: "We identified one (1) deficiency in internal control as described in the accompanying Schedule of Findings and Questioned Costs. Finding 2025-01 is considered to be a significant deficiency."

Chemonics disagrees with this deficiency because the Finding 2025-01 is unsubstantiated since Chemonics acted per instructions received from the client. Chemonics has comprehensive internal controls, policies, and procedures to ensure proper documentation to support costs incurred. The cost was incurred consistent with USAID guidance and was charged to Afghanistan. After USAID's decision to redirect two of the plants to Mozambique and Ghana, Chemonics followed USAID's subsequent guidance to keep the cost charged to Afghanistan. Therefore, this cost was incurred and charged correctly consistent with the guidance provided by the client and therefore does not represent an ineligible cost or result in an internal control finding.

As evidence of USAID's guidance on the billing treatment of this cost, we present in Annex A the following documentation to support the correct charging of the PSA plant:

1. Email from USAID TO1 COR dated January 17, 2025 confirming the direction to keep the charges to Afghanistan of PSA plants directed to Ghana and Mozambique.
2. Email from USAID TO1 COR dated January 27, 2023, agreeing to keep the PSA plant itself charged to Afghanistan.
3. Technical Direction Memorandum (TDM) GHSC-PSM 2022-01 Amendment 2 dated July 12, 2021.

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

Sincerely,

Chemonics International Inc.

(Continued)

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
Task Order No. AID-OAA-TO-15-00007
President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Auditor's Rebuttal to Chemonics' Responses to Audit Findings

(1) Finding 2025-01: Chemonics disagreed with the finding and asserted the following points.

- The commodities were procured in the U.S. based on a Requisition Order (RO) and issuance of a Purchase Order (PO) for delivery to Afghanistan. Prior to shipping, USAID directed Chemonics to ship the PSA plant to Ghana or Mozambique.
- Furthermore, USAID's guidance was to keep the PSA plant cost charged to Afghanistan O2 funding, as noted in an email from USAID TO1 Contracting Officer's Representative (COR) to Chemonics dated January 27, 2023, and confirmed on January 17, 2025. This email was provided to the auditor.
- After USAID's decision to redirect two of the plants to Mozambique and Ghana, Chemonics followed USAID's subsequent guidance to keep the cost charged to Afghanistan.
- Therefore, the cost was incurred and charged correctly and was consistent with the guidance provided by the client. Accordingly, the expense was not ineligible, nor did it indicate a weakness in controls.
- Chemonics' response noted that it maintains comprehensive internal controls, policies, and procedures to ensure proper documentation to support costs incurred.
- Chemonics provided an email from the USAID COR that confirmed that the costs charged for the two PSA plants that were originally destined for Afghanistan and redirected to Ghana and Mozambique would remain charged to Afghanistan, and that Chemonics was directed to not reimburse the Afghanistan mission for the costs of the PSA plants.

Auditor's Rebuttal

The auditor agrees that the commodities were procured for Afghanistan and shipped as directed by the USAID COR to Ghana and Mozambique. However, the auditor disagrees with the direction to maintain the costs charged to the Afghanistan mission as it will lead to misrepresentations when reporting funds spent in the designated program areas by overstating the amount of assistance provided to beneficiaries in Afghanistan and understating the assistance provided to Ghana and Mozambique. Furthermore, the auditor questions the authority of the COR to direct the charging of funds originally obligated by the task order and subsequent modifications as it appears to exceed the limitations set by the Task Order. Instead, the authority to make such changes lies with the Contracting Officer, whose approval or direction was not observed.

Task Order No. AID-OAA-TO-15-00007 states in part:

"G.9. Technical Directions / Relationship with USAID

(b) The Contracting Officer, by separate designation letter, authorizes the COR to take any or

Chemonics International Inc.

Financial Audit of the Special Purpose Financial Statements for
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President's Emergency Plan for AIDS Relief (PEPFAR) under the Global Health Supply Chain-
Procurement and Supply Management Program

For the Period of January 1, 2021 through January 8, 2024

Auditor's Rebuttal to Chemonics' Responses to Audit Findings (Continued)

all action with respect to the following which could lawfully be taken by the Contracting Officer, except any action specifically prohibited by the terms of this contract:

LIMITATIONS: The COR is not empowered to award, agree to, or sign any contract (including delivery or purchase orders) or modifications thereto, or in any way to obligate the payment of money by the Government. The COR may not take any action which may impact on the contract schedule, funds, scope or rate of utilization of Level of Effort (LOE). All contractual agreements, commitments, or modifications which involve prices, quantities, quality, or schedules shall be made only by the Contracting Officer."

For these reasons, the finding and recommendations remain unchanged.

(Continued)

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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SIGAR's Mission

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