



MEMORANDUM

DATE: May 1, 2019

TO: USAID/Management/Office of Acquisition and Assistance/Cost Audit and Support Division, Branch Chief, David A. McNeil

FROM: Deputy Assistant Inspector General for Audit, Alvin Brown/s/

SUBJECT: Report on the Examination of Costs Claimed for Chemonics International, Inc. for the Fiscal Years Ended December 31, 2010 and 2011(3-000-19-018-1)

This memorandum transmits the final audit report on the examination of costs claimed for Chemonics International, Inc. (CII) on in-scope contracts and subcontracts for the fiscal years (FYs) ended December 31, 2010 and 2011 to determine whether costs claimed are allowable, allocable and reasonable in accordance with contract terms; Part 31 of the Federal Acquisition Regulation (FAR); Agency for International Development Acquisition Regulations (AIDAR); Department of State Standardized Regulations (DSSR); and 2 Code of Federal Regulations (CFR) 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with Kearney & Company to conduct the examination. The contract required the audit firm to perform the examination in accordance with generally accepted government auditing standards.

The audit firm states that it performed its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in generally accepted government auditing standards. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed on in-scope contracts and subcontracts for each FY is allowable, allocable, and reasonable in accordance with contract terms; Part 31 for the FAR; AIDAR; DSSR; and 2 CFR 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.¹

The examination's objectives were to express an opinion on whether the costs claimed by CII on in-scope contracts and subcontracts for the two FYs ended December 31, 2011 are allowable, allocable, and reasonable in accordance with contract terms; Part 31

¹ We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the examination performed.

of the FAR; AIDAR; DSSR; and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. To answer the examination's objectives the audit firm designed their testing procedures to evaluate the internal control environment surrounding CII's subcontract management process and to verify that CII had adequate controls in place for monitoring subcontractor costs.

The audit firm expressed a qualified opinion that costs claimed by CII on in-scope contracts and subcontracts for the FYs ended December 31, 2010, and 2011 are allowable, allocable, and reasonable in accordance with contract terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. The audit firm examined \$819,964,001 of incurred costs, of which \$813,923,038 consisted of USAID's incurred costs for the two FYs ended December 31, 2011. The audit firm questioned \$396,400 in USAID direct costs (\$1,451 ineligible and \$394,949 unsupported). The examination disclosed one finding, consisting of a material noncompliance.

To address the issues identified in the audit report, we recommend that the USAID's Office of Acquisition and Assistance Cost, Audit and Support Division:

Recommendation 1. Determine the allowability of \$396,400 in questioned direct costs (\$1,451 ineligible and \$394,949 unsupported) detailed on pages 2, 3, 8 and 9 of the report and recover any amount that is unallowable.

Recommendation 2. Verify that Chemonics International, Inc. addresses the material non-compliance in Finding # 1 detailed on pages 14 through 16, of the audit report.

We ask that you provide your written notification of actions planned or taken to reach a management decision. We appreciate the assistance extended to audit staff during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").