



MEMORANDUM

DATE: July 22, 2020

TO: USAID/Management/Office of Acquisition and Assistance, Cost, Audit and Support Division, Acting Supervisory Auditor, Eleanor C. Jefferson

FROM: Director of External Financial Audits Division (IG/A/EFA), David A. McNeil /s/

SUBJECT: Examination of Chemonics International Inc.'s Indirect Cost Rate Proposals and Related Books and Records for Reimbursement for the Fiscal Years Ended December 31, 2014 and December 31, 2015 (3-000-20-058-1)

This memorandum transmits the final audit report on the examination of indirect cost rate proposals and related books and records for reimbursement of Chemonics International, Inc. (Chemonics) for the fiscal years (FY) ended December 31, 2014 and December 31, 2015. The U.S. Agency for International Development's (USAID) Office of Acquisition and Assistance Cost, Audit and Support Division contracted with the independent certified public accounting firm Booth Management Consulting, LLC (BMC) to conduct the audit. The audit firm stated 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 the allowability, allocability, and reasonableness in accordance with contract terms; 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) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable of the direct and indirect costs claimed in the certified final indirect cost rate proposals for awards in the two FYs ended December 31, 2014 and December 31, 2015 by Chemonics.¹

The objective of this examination was to express an opinion on whether the costs claimed by

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 audit performed.

Chemonics' in-scope contracts and subcontracts for the two FYs ended December 31, 2014 and December 31, 2015 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. To answer the examination objective, BMC evaluated the contractor's internal controls, assessed control risk, and determined the extent of audit testing needed based on the control risk assessment; examined on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated; assessed the accounting principles used and significant estimates made by the contractor; and evaluated the overall data and records presentation. Testing covered direct labor cost, time and materials labor, indirect labor, direct travel cost, other direct costs, general and administrative expenses, subcontracts, and several other sampled cost categories. Additionally, as directed by the USAID contract with BMC, testing covered the special audit requirements for expenses of specific concern to USAID: consultants, subcontractors, staff and consultant limitations, and Buy-American requirements. The audit firm noted no issues in these sensitive areas. BMC's examination included evaluating the contractor's indirect cost allocation bases for equity and consistency with FAR, and AIDAR, where applicable, including verifying that the bases properly: (1) reflected the appropriate cost accounting period; and (2) allocated indirect cost to final cost objectives commensurate with the benefits received. The audit firm determined that the allocation bases were equitable and reasonable. The audit firm examined USAID claimed costs of \$951,940,315 for the two FYs ended December 31, 2015.

The audit firm expressed a qualified opinion, concluding that, except for the instances of noncompliance resulting in the questioned indirect costs, the costs claimed by Chemonics' in-scope contracts and subcontracts for the FYs ended December 31, 2014 and 2015 are acceptable as proposed, in accordance with contract terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Examination Requirements for Federal Awards*, as applicable, in all material respects. BMC's examination of Chemonics' indirect cost rate proposal for FYs 2014 and 2015 disclosed questioned costs for unallowable legal fees of \$98,531 in FY 2014 and \$47,350 in FY 2015 both in the General and Administrative indirect cost pool. The audit firm did not question any direct costs.

We appreciate the assistance extended 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").