



MEMORANDUM

DATE: February 20, 2018

TO: USAID/Bureau for Democracy, Conflict, and Humanitarian Assistance,
Acting Assistant Administrator, Robert Jenkins
USAID/Bureau for Management, Office of Acquisition and Assistance/Cost
Audit and Support Division/Contract Audit Management Branch, Branch
Chief, David A. McNeil

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

SUBJECT: Closeout Audit of Costs Incurred by Chemonics To Pursue a
Peaceful Transition to a Democratic and Stable Syria, Under Award AID-
OAA-TO-13-00003, January 7, 2013 to October 6, 2016(3-000-18-008-N)

This memorandum transmits the final audit report on costs incurred by Chemonics for activities related to pursuing a peaceful transition to a democratic and stable Syria. The Office of Inspector General (OIG) contracted with the independent certified public accounting firm Bert Smith & Company to conduct the audit. The contract required Bert Smith & Company to perform the audit in accordance with generally accepted government auditing standards.

In carrying out its oversight responsibilities, OIG reviewed Bert Smith & Company's report and related audit documentation and inquired of its representatives. Our review, which was different from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Chemonics' schedule of costs incurred. Bert Smith & Company is responsible for the enclosed report and the conclusions expressed in it. We found no instances in which Bert Smith & Company did not comply, in all material respects, with applicable standards.

The audit objectives were to (1) express an opinion on whether costs incurred by Chemonics under the subject grant for the period audited are fairly presented and in conformity with the terms of the Federal Acquisition Regulation (FAR) and generally accepted accounting principles or other comprehensive basis of accounting, and identify any unsupported, unreasonable, or ineligible questionable costs incurred by Chemonics in implementing USAID activities for the period audited; (2) evaluate Chemonics' contract bidding and procurement processes to determine whether they complied with all contract

requirements; (3) evaluate and obtain sufficient understanding of Chemonics' internal controls, assess control risk, and identify reportable conditions, including material internal control weaknesses; and (4) determine whether Chemonics complied, in all material respects, with FAR requirements and applicable laws and regulations related to USAID-funded programs and projects.

To answer the audit objectives, Bert Smith & Company conducted an audit of award number AID-OAA-TO-13-00003 implemented by Chemonics, for the period January 7, 2013 to October 6, 2016, on a contract with a total estimated cost of \$128,501,308. The audit firm used statistical sampling which was based on American Institute of Certified Public Accountants guidance related to compliance and Single Audit work to determine the number of procurement transactions to select for substantive testing. Audit procedures were performed on these procurements to determine whether the contract bidding and procurement process complied with all contract requirements. In addition, the indirect cost testing was limited to determining whether the indirect cost rates were properly applied to the direct costs and reported in compliance with the negotiated indirect cost rate agreement.

Bert Smith & Company issued an unmodified opinion on the fairness of the presentation of the schedule of costs incurred. The audit firm detected three significant deficiencies in Chemonics' internal control, one of which the audit firm considered an instance of noncompliance. Bert Smith & Company noted that due to the closure of the Chemonics' field offices, all of the audit procedures were performed on site at Chemonics' headquarters located in Washington, DC.

OIG performed additional procedures on the sole source awards that were tested by Bert Smith & Company. We tested the justification for the sole sourcing of 41 awards reviewed by Bert Smith & Company and concluded that there was inadequate justification for allowing the cost of 36 of the 41 awards. Our assessment found Chemonics has the proper authority to sole source awards. However, according to Automated Directives System 303, Chemonics must describe other options explored. Chemonics failed to perform this step leading OIG to question costs of \$5,588,215.

To address the issues identified, Bert Smith & Company made and OIG agrees with the following recommendations to USAID's management, which we will track through implementation by USAID. We recommend that USAID's Bureau for Democracy, Conflict, and Humanitarian Assistance:

Recommendation 1. Require Chemonics to perform the required suspension and debarment verification of its subgrantees and assign individuals to perform independent reviews of the procurement files to authenticate the existence of the files (see page 10 of the audit report).

Recommendation 2. Verify that Chemonics performs independent reviews of its compliance documentation and ensures the documentation is properly reviewed and approved (see page 11 of the audit report).

Recommendation 3. Require Chemonics to enforce the internal control policy to

ensure all travel for employees is properly reviewed and approved, and that Chemonics properly retains all approval documentation in accordance with the established internal policies (see page 12 of the audit report).

In addition to the issues identified by the audit firm, OIG determined that there were questioned costs based on additional procedures we performed. We recommend that USAID's Office of Acquisition and Assistance, Cost Audit and Support Division:

Recommendation 4. Determine the allowability of the \$5,588,215 in questioned costs identified as unsupported, and recover from Chemonics any amounts determined to be unallowable.

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

The OIG does not routinely distribute independent public accounting reports beyond the immediate addresses 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").