

OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

COVID-19: Audit of Costs Incurred By Chemonics International from March 1, 2020, to March 31, 2022

Audit Report 3-000-24-009-U
July 5, 2024





OFFICE OF INSPECTOR GENERAL

U.S. Agency for International Development

MEMORANDUM

DATE: July 5, 2024

TO: USAID/Bureau for Management/Office of Acquisition & Assistance, Director, Jamie J. Rodgers

FROM: Assistant Inspector General for Audits, Inspections, and Evaluations, Toayoa D. Aldridge /s/

SUBJECT: COVID-19: Audit of Costs Incurred By Chemonics International from March 1, 2020, to March 31, 2022 (3-000-24-009-U)

Enclosed is the final report on the audit of claimed costs incurred by Chemonics International (Chemonics) for USAID's Coronavirus Disease of 2019 (COVID-19)-related activities for the period of March 1, 2020, to March 31, 2022.¹ The Office of Inspector General (OIG) contracted with the independent certified public accounting and consulting firm of Kearney & Company P.C. (Kearney) to conduct a performance audit to determine allowability, allocability, and reasonableness of costs incurred by Chemonics.² The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards.

In carrying out its oversight responsibilities, OIG reviewed the audit firm's report and related audit documentation and discussed the findings with the firm's representatives. The audit firm is responsible for the enclosed report and conclusions. That said, we found no instances in which the audit firm failed to comply, in all material respects, with applicable standards.

The objectives of this audit were to:

1. Express a conclusion on whether the auditable costs incurred by Chemonics under the subject awards for the period audited are fairly presented and in conformity with the terms of regulatory and award requirements and generally accepted accounting principles (GAAP).

¹ Pursuant to Pub. L. No. 117-263 § 5274, USAID OIG provides nongovernmental organizations and/or businesses specifically identified in this report 30 days from the date of report publication to submit a written response to USAID OIG. Any comments received will be posted on <https://oig.usaid.gov/>. Please direct inquiries to oignotice_ndaa5274@usaid.gov.

² The contract provided for similar performance audits for a total of 12 different USAID recipients, the results of which are reported and transmitted separately.

2. Identify as unsupported, unreasonable, or ineligible, any questioned auditable costs incurred with implementing USAID's activities for the period audited in conformity with the terms of the regulatory and award requirements and GAAP.
3. Evaluate Chemonics's contract bidding and procurement processes to determine whether it complied with regulatory and award requirements.
4. Evaluate and obtain sufficient understanding of Chemonics' internal controls, assess control risks, and identify reportable conditions, including material internal control weaknesses.
5. Perform tests to determine whether Chemonics complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects.
6. Determine the extent to which Chemonics delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID.
7. Determine the extent to which Chemonics requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements.
8. Determine whether Chemonics has taken corrective actions on prior audit report recommendations.

To answer the audit objectives, Kearney reviewed Chemonics' policies, directives, procedures, and internal controls; conducted interviews and walkthroughs; and reviewed agency actions to address any prior audit recommendations for Chemonics' incurred cost audits.

Kearney concluded that Chemonics complied with the standards set by their awards; that costs incurred were allowable, allocable, and reasonable; and that Chemonics' controls were designed and operating effectively.

However, the auditors were unable to verify the accuracy and completeness of costs included in the testing population. This occurred because USAID did not require Chemonics to distinguish COVID-19 funds from non-COVID-19 funds in expenditure reports and invoices. As a result, even in cases where Chemonics separately recorded COVID-19 funded expenditures within their system of record, auditors could not reconcile the amounts with USAID's system. To complete its testing, Kearney relied on Chemonics to provide a transactional record of costs incurred with COVID-19 funding and adjusted its evaluation methodology. There remains an unmitigated risk that total costs incurred with COVID-19 funding as provided by USAID is not complete, and unallowable costs may exist that would not have been detected by Kearney's audit. Kearney has identified this as a systemic issue pertaining to USAID award terms and conditions and thus communicated the issue to us under separate cover for appropriate action with responsible parties. As a result, we are not making any recommendations to address this weakness at this time.

In finalizing the report, OIG evaluated USAID's response to the draft audit report.

We appreciate the assistance provided to our staff and the audit firm's employees during the engagement.



***Deliverable of the Performance Audit Report for the Incurred
Cost Audit over Chemonics International (Chemonics)
Coronavirus Disease 2019 (COVID-19) Related Activities for
the Period of March 1, 2020 to March 31, 2022***

Contract Number: 72001G22C00007

April 12, 2024

**KEARNEY &
COMPANY**

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Kearney & Company, P.C.'s TIN is 54-1603527, UEID is UC4BPA3LC4J6, CAGE Code is 1SJ14

April 12, 2024

Mr. David McNeil
Director, External Financial Audit (EFA) Division
Office of the Inspector General
United States Agency of International Development
1300 Pennsylvania Avenue, NW
Washington, D.C. 20523

Dear Mr. McNeil:

Kearney & Company, P.C. (Kearney) has conducted a performance audit of the costs claimed by Chemonics International (Chemonics) on its Coronavirus Disease 2019 (COVID-19) related activities for the period of March 1, 2020 to March 31, 2022. This audit, conducted under Contract No. 72001G22C0007 was designed to meet the objectives identified in the [Objectives](#) section of this report.

Kearney conducted this performance audit in accordance with the standards applicable to performance audits contained in Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States.

The purpose of this report is to communicate the results of Kearney's performance audit and any related findings and recommendations, where applicable.



Kelly Gorrell
Engagement Partner



***Performance Audit Report for the Incurred Cost Audit over
Chemonics International (Chemonics) Coronavirus Disease
2019 (COVID-19)-Related Activities for the Period of March 1,
2020 to March 31, 2022***

October 13, 2023

**KEARNEY &
COMPANY**

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OBJECTIVES

As requested by the United States Agency for International Development (USAID) Office of Inspector General (OIG), Kearney & Company, P.C. (also referred to as “Kearney,” “we,” “us” and “auditor” in this report) audited the allowability, allocability, and reasonableness of costs incurred by Chemomics International (also referred to as “Chemomics” and “Recipient” in this report) under USAID-funded awards and related to Coronavirus Disease 2019 (COVID-19) activities for the period of March 1, 2020, to March 31, 2022 (hereinafter referred to as the “auditable costs incurred”). Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS).

The objectives of the performance audit in detail are to:

1. Express a conclusion on whether the auditable costs incurred by the Recipient under the subject awards for the period audited are fairly presented and in conformity with the terms of regulatory and award requirements and Generally Accepted Accounting Principles (GAAP) or other comprehensive basis of accounting
2. Identify as unsupported, unreasonable, or ineligible, any questioned auditable costs incurred in implementing the USAID activities for the period audited in conformity with the terms of the regulatory and award requirements and GAAP or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis)
3. Evaluate the Recipient’s contract bidding and procurement processes to determine whether it complied with all contract requirements of regulatory and award requirements
4. Evaluate and obtain a sufficient understanding of Recipient’s internal controls, assess control risk, and identify reportable conditions, including material internal control weaknesses
5. Perform tests to determine whether the Recipient complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects. All material instances of noncompliance and indications of illegal acts that have occurred or are likely to have occurred must be identified and reported to the OIG
6. Determine to the extent specified herein if the Recipient has delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID
7. Determine to the extent specified herein if the Recipient has requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements
8. Determine whether the Recipient has taken corrective actions on prior audit report recommendations.

Please see [Appendix A](#) for the scope and methodology of the performance audit.

BACKGROUND

About Chemomics

Chemomics is an international development partner operating globally in a number of countries, including: Philippines, Pakistan, Cote d'Ivoire, Mali, Democratic Republic of the Congo, and Ukraine; with two main headquarters, one in Washington, DC and one in London, UK. Its mission is to promote meaningful change around the world, helping people live healthier, more productive, and more independent lives. As part of USAID's COVID-19 relief, Chemomics provided support to various governments and communities in containing the spread of COVID-19 in vulnerable populations by creating awareness about the disease, offered vaccine support and research into the vaccine barriers, contributed to the prevention and reduction of excess mortality and morbidity of vulnerable population through strengthening COVID-19 outbreak preparedness, prevention and response capacities, and supported various health systems manage an outbreak of COVID-19. (<https://chemomics.com/> and <https://chemomics.com/region>)

Chemomics had over \$316 million in obligated funds from USAID for COVID-19 assistance. Chemomics has over 6,000 employees with over 90% working in their local communities. (<https://chemomics.com/who-we-are/>)

About USAID

USAID is an independent Federal agency headquartered in Washington, D.C., and it has a presence in 87 countries. Established in November 1961, USAID is the lead Federal agency that works to end extreme global poverty and enable resilient, democratic societies to realize their potential. USAID is headed by an Administrator and receives overall foreign policy guidance from the Secretary of State.

About USAID's Response to COVID-19

The USAID OIG's mission is to safeguard and strengthen United States foreign assistance through timely, relevant, and impactful oversight of the entities under its jurisdiction. USAID has developed programs to help deliver vaccines through the United States Government's Initiative for Global Vaccine Access (Global VAX), expand access to COVID-19 testing and treatment, protect and train health workers, deliver health commodities and equipment, share accurate and reliable public health information, and safeguard global health security.

In order to execute these programs, in October 2021, USAID developed the "USAID Implementation Plan for the U.S. COVID-19 Global Response and Recovery Framework." This plan establishes five goals:

1. Accelerate widespread and equitable access and delivery of safe and effective COVID-19 vaccinations
2. Reduce morbidity and mortality from COVID-19, mitigate transmission, and strengthen

- health systems, including preventing, detecting, and responding to pandemic threats
- 3. Address acute needs driven by COVID-19, mitigate household shocks, and build resilience
- 4. Bolster economies and other critical systems under stress due to COVID-19 to prevent backsliding and enable recovery
- 5. Strengthen the international health security architecture to prevent, detect, and respond to pandemic threats.

USAID awarded reimbursable contracts, grants, and cooperative agreements to multiple vendors to help achieve this Implementation Plan. Each of these awards included specific terms and conditions related to the usage of funds from the awards toward COVID-19-related activities.

AUDIT RESULTS

We conducted this engagement as a performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

Overall, our audit did not identify any findings in the context of the audit objectives and scope.

Conclusion

Except for the limitations discussed in the [Limitations or Uncertainties with the Reliability or Validity of Evidence](#) section of this report, Kearney concludes that the performance audit objectives were met.

Objective	Objective Met/Not Met
The auditable costs incurred by the Recipient under the subject awards for the period audited are fairly presented and in conformity with the terms of regulatory and award requirements and GAAP or other comprehensive basis of accounting	Met
Auditable costs incurred in implementing the USAID activities for the period audited are supported, reasonable, and eligible in conformity with the terms of the regulatory and award requirements and GAAP or other comprehensive basis of accounting (including the cash receipts and disbursements basis and modifications of the cash basis)	Met
The Recipient’s contract bidding and procurement processes complied with all contract requirements of regulatory and award requirements	Met
The Recipient’s internal controls related to the audit objectives are appropriate, with no identified reportable conditions, including material internal control weaknesses	Met
The Recipient complied in all material respects with regulatory and award requirements related to USAID-funded programs and projects	Met
The Recipient delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID	Met
The Recipient requested from USAID the necessary approval for the issuance of subawards according to regulatory and award requirements	Met
The Recipient took corrective actions on prior audit report recommendations.	Met

Limitations or Uncertainties with the Reliability or Validity of Evidence

Kearney was unable to validate the completeness of our substantive testing population and relied on the Recipient to provide to us with a transactional listing of auditable costs incurred, as it pertains to all awards in the scope of our audit. Kearney is unable to verify the accuracy and completeness of this testing population due to a lack of a reconciliation source, as 1) many of the COVID-19-funded activities in scope were the result of modifications to add COVID-19 funds and the award terms did not require the Recipient to report costs incurred at the fund level and 2) the period of performance of a portion of the in-scope awards were ongoing as of the end of our audit period end of March 31, 2022. Kearney verified that all costs incurred as provided by the Recipient were below the COVID-19 obligated amount by award; however, the difference between the obligated amount and auditable costs incurred may be reasonably explained by the scope period. Thus, there remains an unmitigated risk that the population of costs incurred under COVID-19 activities as provided by the Recipient is not complete and unallowable costs may exist that would not have been detected by our audit.

Additionally, Kearney is unable to isolate applied indirect costs on the awards that are funded through modifications or were new awards with multiple funding sources. All in scope awards include multiple funding sources, only one of which is COVID-19 funds, therefore we are unable to reconcile the transactional detail to the applicable Standard Form (SF)-425 or invoice and we are unable to quantify total applied indirect costs. Kearney evaluated the methodology of the applied indirects to the award as a whole based on the SF-425s or invoice and the Negotiated Indirect Cost Rate Agreement (NICRA).

We have identified this as a systemic issue pertaining to USAID award terms and conditions and thus have communicated the issue to the USAID OIG under separate cover for appropriate action with the responsible parties. USAID management provided a communication related to the limitation, which is included in [Appendix B](#).

EXHIBIT A: SCHEDULE OF COSTS INCURRED

Major Cost Category by Award	Budgeted (\$) <i>Note 1</i>	Actual Costs Incurred and Invoiced (\$)	Questioned Costs (\$)	Adjusted Costs (Incurred Less Questioned) (\$)
Cost Plus Fixed Fee (CPFF)				
Labor	18,144,185 (a)	6,878	-	18,756
Travel		1,501	-	1,501
Other Direct Costs (ODC)		4,405	-	4,405
Indirect Costs (Note 3)		5,972	-	5,972
Grants Under Contract Fund	4,940,000	-	-	-
72012120C00003 Subtotal	23,084,185	18,756	-	18,756
Subtotal CPFF	23,084,185 (a)	18,756	-	18,756
Cost-Reimbursement				
Labor	13,369,152 (a)	131,282	-	131,282
Direct Fringe		29,305	-	29,305
Travel		6,108	-	6,108
ODCs		928,268	-	928,268
Indirect Costs (Note 3)		210,762	-	210,762
72049219C00001 Subtotal	13,369,152 (a)	1,305,725	-	1,305,725
Salaries and Other Benefits	6,691,832	560,541	-	560,541
Travel and Transport	285,795	-	-	-
Equipment	315,186	-	-	-
ODCs	4,472,487	828,189	-	828,189
Subcontracts	8,581,472	435,127	-	435,127
Pakistan Challenge Fund	7,500,000	-	-	-
Indirect Costs (Note 3)	5,037,728	519,055	-	519,055
AID-391-C-17-00003 Subtotal	32,884,500	2,342,912	-	2,342,912
Salaries (Note 2)	290,905	375,405	-	375,405
Fringe Benefits (Note 2)	303,152	808,502	-	808,502
Overhead (OH) (Note 3)	291,667	663,772	-	663,772
Travel and Transport	25,880	71,774	-	71,774
Allowances	64,519	-	-	-
ODCs	472,642	706,941	-	706,941
Subcontractors	345,865	178,684	-	178,684
General and Administrative (G&A) (Note 3)	95,570	148,680	-	148,680

Major Cost Category by Award	Budgeted (\$) <i>Note 1</i>	Actual Costs Incurred and Invoiced (\$)	Questioned Costs (\$)	Adjusted Costs (Incurred Less Questioned) (\$)	
<i>AID-660-C-15-00001 Subtotal</i>	<i>1,890,200</i>	<i>2,953,758</i>	-	<i>2,953,758</i>	
Salaries	311,189,038 (a)	3,237,751	-	3,237,751	
Fringe Benefits		86,594	-	86,594	
Travel and Transport		267,360	-	267,360	
Subcontractors		8,522,733	-	8,522,733	
ODCs		32,642,500	-	32,642,500	
Indirect Costs (Note 3)		62,339,910	14,806,476	-	14,806,476
Commodities	2,106,000,000	133,417,204	-	133,417,204	
<i>AID-OAA-TO-15-00007 Subtotal</i>	<i>2,479,528,948 (a)</i>	<i>192,980,618</i>	-	<i>192,980,618</i>	
Salaries	82,954,230 (a)	90,041	-	90,041	
Fringe Benefits		9,263	-	9,263	
Travel and Transport		46,240	-	46,240	
ODCs		210,980	-	210,980	
Indirect Costs (Note 3)		23,116,415	109,542	-	109,542
Commodities		120,294,579	-	-	-
<i>AID-OAA-TO-16-00018 Subtotal</i>	<i>226,365,224 (a)</i>	<i>466,066</i>	-	<i>466,066</i>	
Labor	16,346,101	8,019	-	8,019	
Subcontractors	28,614,038	7,364	-	7,364	
Travel and Transport	11,703,107 (a)	2,170	-	2,170	
Fringe Benefits		2,228	-	2,228	
ODCs		31,344	-	31,344	
Indirect Costs (Note 3)		29,192,031	16,262	-	16,262
<i>AID-OAA-TO-17-00006 Subtotal</i>	<i>85,855,277</i>	<i>67,387</i>	-	<i>67,387</i>	
<i>Subtotal Cost-Reimbursement</i>	<i>2,839,893,301 (a)</i>	<i>200,116,466</i>	-	<i>200,116,466</i>	
Cooperative Agreement					
Salaries	15,849,059	111,567	-	111,567	
Fringe Benefits	8,627,400	21,403	-	21,403	
OH (Note 3)	13,174,569	74,451	-	74,451	
Travel and Transport	1,708,246	13,202	-	13,202	
Allowances	3,420,081	609,952	-	609,952	
ODCs	5,639,148	-	-	-	
Equipment, Vehicles, and Freight	686,802	19,859	-	19,859	
Subrecipients	82,400,599	-	-	-	

Major Cost Category by Award	Budgeted (\$) <i>Note 1</i>	Actual Costs Incurred and Invoiced (\$)	Questioned Costs (\$)	Adjusted Costs (Incurred Less Questioned) (\$)
Special Activities Fund	179,627	-	-	-
Chemonics Security Costs	1,878,697	-	-	-
G&A (<i>Note 3</i>)	8,200,844	45,112	-	45,112
<i>AID-OAA-A-15-00046 Subtotal</i>	<i>141,765,072</i>	<i>895,546</i>	<i>-</i>	<i>895,546</i>
<i>Subtotal Cooperative Agreement</i>	<i>141,765,072</i>	<i>895,546</i>	<i>-</i>	<i>895,546</i>
Grand Total	3,004,742,558	201,030,768	-	201,030,768

- a) The provided budgets for these awards were not documented to the cost element level. Therefore, the provided budget level is what is presented in this exhibit.

Note 1 – Kearney noted that all awards in scope were the result of add on work; therefore, the budget information displayed is at the total award level and represents additional funding sources outside of COVID-19.

Note 2 – Chemonics does not track the salary and fringe benefit costs at the COVID-19 funding level for this award. Chemonics allocates 50% of the salary costs and 35% of fringe benefit costs from the total amount incurred under the award to its COVID-19-funded specific projects. As such, Kearney kept 100% of the transactions within the scope of our audit in order to appropriately conclude on the costs.

Note 3 – The applied indirect cost amount shown in this exhibit for all awards are based on the application of provisional indirect cost rates to the COVID-19-related costs in the bases as shown in the General Ledger provided to us by the Recipient; therefore, the indirect costs will not reconcile to the SF-425s. See the [Limitations or Uncertainties with the Reliability or Validity of Evidence](#) section for our full-scope limitation.

EXHIBIT B: SCHEDULE OF INDIRECT COST RATES

Award Number	NICRA Effective Dates	Indirect Category	NICRA Rate (%)	Base Allocation (\$)	Recalculated Applied Indirect Costs (\$) (Note 1)
72012120C00003	Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	Fringe Benefits – Home/Expatriate (a)	83.68%	-	-
		Fringe Benefits – Host Country (b)	10.95%	-	-
		OH – Home (c)	59.04%	-	-
		OH – Field (d)	54.08%	-	-
		G&A (e)	5.31%	-	-
	Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)	Fringe Benefits – Home/Expatriate (a)	79.00%	-	-
		Fringe Benefits – Host Country (b)	9.80%	3,351	328
		OH – Home (c)	62.77%	-	-
		OH – Field (d)	56.18%	3,679	2,067
		G&A (e)	5.30%	7,771	412
	Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)	Fringe Benefits – Home/Expatriate (a)	82.00%	-	-
		Fringe Benefits – Host Country (b)	13.00%	3,527	459
		OH – Home (c)	58.44%	-	-
		OH – Field (d)	54.89%	3,986	2,188
		G&A (e)	5.15%	10,055	518
72049219C00001	Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	Fringe Benefits – Home/Expatriate (a)	83.68%	23,037	19,277
		Fringe Benefits – Host Country (b)	10.95%	21,405	2,344
		OH – Home (c)	59.04%	42,314	24,982
		OH – Field (d)	54.08%	26,585	14,377
		G&A (e)	5.31%	109,155	5,796
	Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)	Fringe Benefits – Home/Expatriate (a)	79.00%	5,751	4,543
		Fringe Benefits – Host Country (b)	9.80%	71,400	6,997
		OH – Home (c)	62.77%	10,295	6,462
		OH – Field (d)	56.18%	94,692	53,198
		G&A (e)	5.30%	1,128,838	59,828
	Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)	Fringe Benefits – Home/Expatriate (a)	82.00%	-	-
		Fringe Benefits – Host Country (b)	13.00%	9,688	1,259
		OH – Home (c)	58.44%	-	-
		OH – Field (d)	54.89%	21,122	11,594
		G&A (e)	5.15%	2,005	103
AID-391-C-17-00003	Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	Fringe Benefits – Home/Expatriate (a)	83.68%	-	-
		Fringe Benefits – Host Country (b)	10.95%	26,413	2,892
		OH – Home (c)	59.04%	-	-

Award Number	NICRA Effective Dates	Indirect Category	NICRA Rate (%)	Base Allocation (\$)	Recalculated Applied Indirect Costs (\$ (Note 1))	
		OH – Field (d)	54.08%	29,305	15,848	
		G&A (e)	5.31%	52,280	2,776	
	Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)	Fringe Benefits – Home/Expatriate (a)	79.00%	-	-	
		Fringe Benefits – Host Country (b)	9.80%	516,333	50,601	
		OH – Home (c)	62.77%	-	-	
		OH – Field (d)	56.18%	566,934	318,503	
		G&A (e)	5.30%	2,124,317	112,589	
		Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)	Fringe Benefits – Home/Expatriate (a)	82.00%	-	-
	Fringe Benefits – Host Country (b)		13.00%	17,795	2,313	
	OH – Home (c)		58.44%	-	-	
	OH – Field (d)		54.89%	20,108	11,037	
	G&A (e)		5.15%	48,454	2,495	
	AID-660-C-15-00001	Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	Fringe Benefits – Home/Expatriate (a)	83.68%	-	-
			Fringe Benefits – Host Country (b)	10.95%	5,311	582
			OH – Home (c)	59.04%	-	-
OH – Field (d)			54.08%	64,135	34,684	
G&A (e)			5.31%	110,514	5,868	
Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)		Fringe Benefits – Home/Expatriate (a)	79.00%	-	-	
		Fringe Benefits – Host Country (b)	9.80%	370,094	36,269	
		OH – Home (c)	62.77%	-	-	
		OH – Field (d)	56.18%	1,119,773	629,088	
Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)		G&A (e)	5.30%	2,694,564	142,812	
		Fringe Benefits – Home/Expatriate (a)	82.00%	-	-	
		Fringe Benefits – Host Country (b)	13.00%	-	-	
		OH – Home (c)	58.44%	-	-	
		OH – Field (d)	54.89%	-	-	
AID-OAA-TO-15-00007		Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	G&A (e)	5.15%	-	-
	Fringe Benefits – Home/Expatriate (a)		83.68%	508,542	425,548	
	Fringe Benefits – Host Country (b)		10.95%	190,166	20,823	
	OH – Home (c)		59.04%	934,090	551,486	
	OH – Field (d)		54.08%	221,863	119,984	
	Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)	G&A (e)	5.31%	62,083,170	3,296,616	
		Fringe Benefits – Home/Expatriate (a)	79.00%	1,669,846	1,319,178	
		Fringe Benefits – Host Country (b)	9.80%	649,412	63,642	
		OH – Home (c)	62.77%	2,991,524	1,877,780	
		OH – Field (d)	56.18%	780,455	438,460	

Award Number	NICRA Effective Dates	Indirect Category	NICRA Rate (%)	Base Allocation (\$)	Recalculated Applied Indirect Costs (\$ (Note 1))
	Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)	G&A (e)	5.30%	117,320,347	6,217,978
		Fringe Benefits – Home/Expatriate (a)	82.00%	95,221	78,082
		Fringe Benefits – Host Country (b)	13.00%	124,564	16,193
		OH – Home (c)	58.44%	173,303	101,278
		OH – Field (d)	54.89%	146,575	80,455
		G&A (e)	5.15%	3,863,535	198,972
AID-OAA-TO-16-00018	Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	Fringe Benefits – Home/Expatriate (a)	83.68%	-	-
		Fringe Benefits – Host Country (b)	10.95%	-	-
		OH – Home (c)	59.04%	-	-
		OH – Field (d)	54.08%	-	-
		G&A (e)	5.31%	-	-
	Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)	Fringe Benefits – Home/Expatriate (a)	79.00%	10,473	8,274
		Fringe Benefits – Host Country (b)	9.80%	63,689	6,242
		OH – Home (c)	62.77%	18,747	11,768
		OH – Field (d)	56.18%	78,695	44,211
		G&A (e)	5.30%	357,283	18,936
	Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)	Fringe Benefits – Home/Expatriate (a)	82.00%	3,110	2,550
		Fringe Benefits – Host Country (b)	13.00%	12,768	1,660
		OH – Home (c)	58.44%	5,660	3,308
		OH – Field (d)	54.89%	14,927	8,193
		G&A (e)	5.15%	85,447	4,401
AID-OAA-TO-17-00006	Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	Fringe Benefits – Home/Expatriate (a)	83.68%	-	-
		Fringe Benefits – Host Country (b)	10.95%	-	-
		OH – Home (c)	59.04%	-	-
		OH – Field (d)	54.08%	-	-
		G&A (e)	5.31%	-	-
	Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)	Fringe Benefits – Home/Expatriate (a)	79.00%	4,020	3,176
		Fringe Benefits – Host Country (b)	9.80%	997	98
		OH – Home (c)	62.77%	7,196	4,517
		OH – Field (d)	56.18%	3,047	1,712
		G&A (e)	5.30%	52,989	2,808
	Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)	Fringe Benefits – Home/Expatriate (a)	82.00%	865	709
		Fringe Benefits – Host Country (b)	13.00%	2,137	278
		OH – Home (c)	58.44%	1,575	920
		OH – Field (d)	54.89%	2,690	1,476
		G&A (e)	5.15%	11,021	568

Award Number	NICRA Effective Dates	Indirect Category	NICRA Rate (%)	Base Allocation (\$)	Recalculated Applied Indirect Costs (\$) (Note 1)
AID-OAA-A-15-00046	Provisional rates (effective for scope period of 02/06/2020 through 09/07/2020)	Fringe Benefits – Home/Expatriate (a)	83.68%	3,814	3,191
		Fringe Benefits – Host Country (b)	10.95%	35,590	3,897
		OH – Home (c)	59.04%	7,005	4,136
		OH – Field (d)	54.08%	42,343	22,899
		G&A (e)	5.31%	390,082	20,713
	Provisional rates (effective for scope period of 09/08/2020 through 02/28/2022)	Fringe Benefits – Home/Expatriate (a)	79.00%	3,710	2,931
		Fringe Benefits – Host Country (b)	9.80%	68,453	6,708
		OH – Home (c)	62.77%	6,641	4,168
		OH – Field (d)	56.18%	76,982	43,248
		G&A (e)	5.30%	460,352	24,399
	Provisional rates (effective for scope period of 03/01/2022 through 03/31/2022)	Fringe Benefits – Home/Expatriate (a)	82.00%	-	-
		Fringe Benefits – Host Country (b)	13.00%	-	-
		OH – Home (c)	58.44%	-	-
		OH – Field (d)	54.89%	-	-
		G&A (e)	5.15%	-	-
Grand Total				202,949,908	16,653,664

- a) The Fringe Benefits – Home office, long-term expatriate and third country national direct labor dollars and G&A labor dollars
- b) The Fringe Benefits – Host Country base is host country professional field direct labor dollars
- c) The OH – Home base is home office direct labor dollars, G&A labor dollars, and applicable fringe benefits
- d) The OH – Field base is home office direct labor dollars, field direct labor dollars, G&A labor dollars, and applicable fringe benefits, excluding local support labor dollars
- e) The G&A base is total costs excluding USAID-furnished local currency, pass-through commodities, and G&A expenses

Note 1 – The applied indirect cost amount shown in this exhibit all awards is based on the application of provisional indirect cost rates to the COVID-19-related costs in the bases as shown in the General Ledger provided to us by the Recipient; therefore, the indirect costs will not reconcile to the SF-425s. See the [Limitations or Uncertainties with the Reliability or Validity of Evidence](#) section for our full-scope limitation.

APPENDIX A – SCOPE AND METHODOLOGY OF THE PERFORMANCE AUDIT

Scope and Limitations

For a performance audit, scope is defined as the boundary of the audit and is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included. The scope of this performance audit:

- Is limited to the testing of the documentation and costs incurred for Coronavirus Disease 2019 (COVID-19) activities under Chemonics International’s (also referred to as “Chemonics” and “Recipient”) multiple awards for the period March 1, 2020, to March 31, 2022

Award	United States Agency for International Development (USAID) Obligated Amount	Total Auditable Costs (\$)
72012120C00003	600,000	12,784
72049219C00001	1,500,000	1,094,963
AID-391-C-17-00003	2,000,000	1,823,856
AID-660-C-15-00001	2,000,000	1,370,352
AID-OAA-A-15-00046	1,000,000	759,255
AID-OAA-TO-15-00007	306,533,675	178,174,142
AID-OAA-TO-16-00018	650,000	356,524
AID-OAA-TO-17-00006	2,067,415	51,124

- Included the necessary documents or records requested from the awardees, USAID, and USAID Office of Inspector General (OIG) to complete testing and perform walkthroughs for key controls/processes as they relate to COVID-19 activities performed by the Recipient.
- Included fieldwork that was conducted virtually from April 21, 2023 to October 13, 2023 and covered the period from March 1, 2020 to March 31, 2022. In addition, the following Chemonics overseas locations had transactions that were included in our samples: Ukraine, Philippines, Pakistan, Cote d'Ivoire, Dominican Republic of the Congo, Ghana, Guinea, and Benin.

Limitation

See the [Limitations or Uncertainties with the Reliability or Validity of Evidence](#) section of this report for the limitations noted.

To obtain background information for this performance audit, Kearney & Company, P.C. (Kearney) reviewed:

1. The Federal Acquisition Regulation (FAR)

2. The Agency for International Development Acquisition Regulation (AIDAR)
3. Department of State Standardized Regulations (DSSR) for travel-related expenses
4. Title 2 Code of Federal Regulations (CFR) 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
5. Title 2 CFR 700 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards USAID Supplement*
6. Contract/Award Terms
7. Other relevant regulations/policies.

Methodology and Work Performed

Kearney conducted this performance audit in the following three phases:

1. **Planning** – Obtaining initial documentation to document our understanding of the needs of the user, the objectives of the audit, establishing a team that possesses the adequate professional competence, and determining if there were investigations or legal proceedings and prior audit findings to be considered in our risk assessment and planned procedures. Conducting a risk assessment, including an evaluation of control risk, and preparing an audit plan/program that is responsive to risks identified
2. **Internal Controls and Testing** – Testing the auditable costs incurred, operating effectiveness of internal controls, and compliance with award terms as they pertain to the objectives and the audit plan/program
3. **Wrap-Up and Reporting** – Concluding on the objectives under USAID-funded COVID-19 activities for the period of March 1, 2020, to March 31, 2022.

Kearney designed our methodology to obtain reasonable assurance that the evidence is sufficient and appropriate to support our conclusion in relation to the audit objectives and to reduce audit risk to an acceptable level. Our methodology included the following procedures for gathering and analyzing evidence to address the audit objectives:

- Requesting overview information from the Recipient, USAID, and the USAID OIG for the in-scope awards
 - Contract(s)/award(s) between USAID and the Recipient for the applicable years
 - Relevant previous audits undergone by the Recipient
 - Subcontracts/subawards with third parties, if applicable
 - Budgets, authorization letters, and written procedures approved by USAID
 - USAID Automated Directives System (ADS)
 - All program financial and progress reports; accounting ledgers; charts of accounts; organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, inventory, warehousing, and distribution procedures for materials/supplies/commodities necessary to successfully complete the required work
- Conducting walkthroughs with the Recipient’s personnel on its procedures and progress relating to COVID-19 activities and awards
- Conducting interviews to discuss the procedures in place to prevent/detect fraudulent

activities

- Completing risk assessments to assess inherent risk and control risk and determine the combined risk of failed objectives
- Evaluating the control environment and control procedures
- Testing properly designed controls/process for completeness and operating effectiveness
- Identifying the legal and regulatory requirements and award provisions and determining which of those, if not observed, could have a direct and material effect on the general and subsidiary ledgers
- Reconciling direct costs incurred and reported to USAID to the program and general ledgers
- Reviewing procurement procedures to determine that sound procedures and practices exist for competitive sourcing, reasonable prices, and adequate administrative control over the qualities and quantities of goods and services ordered and received, as well as any applicable USAID approval of subawards
- Reviewing the status of actions taken on findings and recommendations reported in prior audit reports that affect the audit
- Reviewing a maximum statistical sample (i.e., sampling at the maximum confidence level prescribed by standards and permits projection of results) of direct costs incurred and reported to USAID, identifying and quantifying questioned costs. For each sample:
 - Determining if payments have been made in accordance with legal and regulatory requirements and award provisions
 - Determining if funds have been expended for purposes not authorized or not in accordance with applicable regulatory requirements and award provisions
 - Identifying any costs not considered appropriate, as well as classifying and explaining why these costs are questioned
 - Determining whether any commodities directly procured by USAID are unaccounted for or have not been used for their intended purposes in accordance with the award. If so, the cost of such commodities must be questioned
 - Determining whether any technical assistance provided under the award is unaccounted for or has not been used for its intended purpose in accordance with the agreement
 - Determining if the technical assistance as applicable was provided according to the award and to the project needs
 - Determining if those who received services and benefits were eligible to receive them
 - Determining if the Recipient’s financial reports and claims for costs reported to USAID contain information that is supported by the books and records
- Recalculating the applied indirect costs on auditable direct costs incurred, including evaluating the appropriateness of indirect rates used and their application
- Reviewing general and program ledgers to determine whether costs incurred were properly recorded
- Determining whether program income was added to funds used to enhance eligible program objectives, to finance the non-Federal share of the program, or was deducted from program costs in accordance with USAID regulations, other implementing guidance, or the terms and conditions of the award

- Reviewing time and attendance records, payroll, personnel, and/or other records to determine if an employee was a real employee who worked on the contract/award effort, comparing the total hours charged to each project between the time and attendance records and the summary of payroll report, and ensuring that the total hours charged for the staff during the month are in accordance with the approved Level of Effort (LOE)
- If applicable, determining whether adequate approvals on labor costs have been obtained for any works/changes made to the contract/award, determining if overtime was charged to the program and whether it is allowable under FAR requirements or contract provisions, and reviewing salary charges to determine whether salary rates and salary increases are approved by the USAID Contracting Officer (CO) for that position when USAID approval is required and supported by appropriate payroll records
- Reviewing travel and transportation charges to determine whether they are adequately supported and approved
- Reviewing commodities (e.g., supplies, materials, vehicles, equipment, food products, tools) procured by the Recipient, as well as those directly procured by USAID for the Recipient's use, to determine if the Recipient has delivered, accounted for, and made proper disposition of commodities and supplies purchased under the contract or furnished by USAID
- Ensuring that items included in inventory indicate that they were titled to the appropriate entity based on existing regulatory and other requirements
- Conducting an Exit Conference upon the conclusion of testing
- Evaluating any control deficiencies noted during the performance audit
- Reporting on costs to conclude on the allowability, allocability, and reasonableness of costs incurred related to COVID-19 activities
- Drafting an audit report with findings and conclusions for internal Kearney review
- Issuing the draft report to the USAID OIG on Kearney's findings and conclusions for review and comment
- Obtaining comments from the Recipient on any reportable findings
- Completing Quality Control (QC) and wrap-up procedures to verify compliance of the performance audit with GAGAS
- Evaluating and incorporating OIG's feedback, as necessary, and the Recipient's responses to any findings, issuing a final report to the USAID OIG.

Work Related to Internal Controls

Kearney performed steps to assess the adequacy of internal controls that we deemed to be significant within the context of the audit objectives. We assessed the design of controls by evaluating the control environment and the key control procedures, and tested properly designed controls for operating effectiveness. Specifically, we reviewed key controls with regard to the following:

- Ensuring that charges to the contracts were proper and supported
- Managing cash on hand and in bank accounts
- Reviewing procurement procedures and practices

- Receiving and inventory functions, if applicable
- Managing personnel functions (e.g., timekeeping, salaries, benefits)
- Managing and disposition of commodities (e.g., vehicles, equipment, tools) purchased either under the program or furnished by USAID
- Ensuring compliance with regulatory and contractual requirements that collectively have a material impact on Chemomics' general and subsidiary ledgers.


Results of the work performed on internal controls during the performance audit are detailed in the [Audit Results](#) section of the report.

APPENDIX B – USAID MANAGEMENT COMMENTS

At the request of the USAID OIG, a communication from USAID management regarding the limitations of the audit is included below. The communication was not subject to any procedures and, accordingly, we express no assurance on the communication as it is not required under GAGAS.

**MEMORANDUM**

TO: Deputy Assistant Inspector General for Audits, Toayoa D. Aldridge

FROM: USAID/Office of Acquisition and Assistance, Director, Jami J. Rodgers 

DATE: April 4, 2024

SUBJECT: Management Comments to Respond to the Draft Audit Report Produced by the Office of Inspector General (OIG) titled, "COVID-19: Audit of Costs Incurred by Chemonics International from March 1, 2020, to March 31, 2022" (3-000-24-009-U) prepared by Kearney & Company P.C. (Kearney) on behalf of the Office of the USAID Inspector General (OIG) on March 26, 2024

The U.S. Agency for International Development (USAID) thanks the Office of Inspector General (OIG) for the opportunity to provide comments on the subject draft report regarding the audit of incurred costs by Chemonics International (Chemonics) for Coronavirus Disease 2019 (COVID-19) activities for the period of March 1, 2020, to March 31, 2022.

USAID acknowledges that Kearney obtained sufficient, appropriate evidence to provide a reasonable basis for audit findings and conclusions. USAID appreciates that the evidence obtained during this audit provides a reasonable basis for Kearney's overall conclusion that the audit did not identify any findings and offered no recommendations.

Although this audit did not result in recommendations which require management comment, USAID would like to provide comment on the following two issues highlighted in the audit:

- (1) Audit Barriers for Awards with Multiple Funding Sources; and
- (2) Limitations or Uncertainties with the Reliability or Validity of Evidence

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID) ON THE DRAFT REPORT RELEASED BY THE USAID OFFICE OF THE INSPECTOR GENERAL (OIG) TITLED, "COVID-19: AUDIT OF COSTS INCURRED BY CHEMONICS INTERNATIONAL FROM MARCH 1, 2020, TO MARCH 31, 2022" (3-000-24-009-U) PREPARED BY KEARNEY & COMPANY P.C. (KEARNEY) ON BEHALF OF THE OFFICE OF THE USAID INSPECTOR GENERAL (OIG) ON MARCH 26, 2024

Audit Barriers for Awards with Multiple Funding Sources

During the audit period, Kearney was unable to isolate the applied indirect costs under the following Chemonics awards:

- 72012120C00003
- 72049219C00001
- AID-391-C-17-00003
- AID-660-C-15-00001
- AID-OAA-A-15-00046
- AID-OAA-TO-15-00007
- AID-OAA-TO-16-00018
- AID-OAA-TO-17-00006

These awards include multiple funding sources, only one of which is for COVID-19 funds. As a result, Kearney was unable to reconcile the transactional detail to the applicable SF-425s for these awards and was unable to quantify the total applied indirect costs. Consequently, Kearney evaluated the methodology of the applied indirect costs to each award as a whole based on the SF-425s or invoice and the Negotiated Indirect Cost Rate Agreement (NICRA).

USAID acknowledges the difficulties in auditing cost-reimbursable awards with multiple funding sources and is committed to improve the transparency of these awards by developing specific award terms and conditions related to awards that have separate and distinct funding sources. USAID will ensure that the newly developed award terms and conditions provide the clarity needed to allow for the proper reconciliation of these costs to the SF-425s and to the applicable NICRA rates used under these awards.

- **Target Completion Date:** Because Kearney identified this as a systemic issue pertaining to USAID award terms and conditions and has communicated the issue to the USAID OIG under separate cover, USAID will wait for OIG recommendations regarding the specific actions needed to fully address this issue.

Limitations or Uncertainties with the Reliability or Validity of Evidence

USAID also recognizes the audit limitations discussed in the *Limitations or Uncertainties with the Reliability or Validity of Evidence* section of this report. Kearney was unable to validate the completeness of the testing population and relied on Chemonics to provide Kearney with a transactional listing of auditable costs incurred for these awards. Kearney was unable to verify the accuracy and completeness of this testing population due to a lack of a reconciliation source for the following reasons:

- (1) All COVID-19-funded activities in scope were the result of modifications to add COVID-19 funds and the award terms did not require Chemonics to report costs incurred at the fund level.
- (2) The period of performance of these awards were ongoing as of the end of the audit period end date of March 31, 2022.

Kearney verified that all costs incurred as provided by Chemonics were below the COVID-19 obligated amount by award; however, Kearney stated that the difference between the obligated amount and auditable costs incurred may be reasonably explained by the scope period. Thus, Kearney asserts that there remains an unmitigated risk that the population of costs incurred under COVID-19 activities as provided by Chemonics is not complete and unallowable costs may exist that would not have been detected by its audit.

While USAID understands that there may be a chance that questioned costs could exist under these contracts due to the audit scope period, the overall audit risk is low. As evidence of this, USAID must highlight that Kearney did not identify any questioned costs of the total “auditable costs incurred” under any of the Chemonics awards selected for the audit scope period.

In conclusion, USAID looks forward to working with the OIG on its forthcoming recommendations regarding the possible revision of terms and conditions for awards with multiple funding sources.

CLEARANCE PAGE FOR Management Comments in response to the Draft Audit Report
Produced by the Office of Inspector General (OIG) titled, "COVID -19: Audit of Costs Incurred by Chemonics International from March 1, 2020, to March 31, 2022" (3-000-24-009-U) Prepared by Kearney & Company P.S. (Kearney) on behalf of the Office of the USAID Inspector General (OIG) on March 26, 2024

Approved: M/OAA: JRodgers 4/04/2024

Clearances:

Bureau/IO/Mission	Clearance Status	Date
M/OAA/ACTS: DBroderick	Clear	04/02/2024
M/OOAA/CAS: SSnyder	Clear	04/01/2024
GC/A&A: DPerone	Clear	04/01/2024

Drafter: M/OAA/CAS