PD-ABI-141

Financial Audits

AUDIT OF CHEMONICS INTERNATIONAL CONSULTING DIVISION

Federal Contracts

April 1, 1990 to March 31, 1992

Report No. 0-000-94-005-N

March 16, 1994

"CONTRACTOR INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC."

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

March 16, 1994

MEMORANDUM FOR FA/OP, Frederick A. Will

FROM: IG/A/FA, Reginald Howard

SUBJECT: Audit of Chemonics International Consulting Division

The accounting firm of Clifton, Gunderson & Co. performed a financial-related audit of Chemonics International Consulting Division (Chemonics). Five copies of the report are enclosed for your action.

Chemonics is a division of Chemonics Industries, Inc. which is a subsidiary of ERLY Industries, Inc. Chemonics provides technical assistance on a variety of USAID projects. Clifton, Gunderson & Co. audited $42,552,950 in expenditures incurred by Chemonics under 32 USAID contracts during the period April 1, 1990 through March 31, 1992. During this period, USAID was the only Federal agency that had contracts with Chemonics.

The audit objectives were to determine whether (1) the Statement of Contract Expenditures presented fairly project revenues and costs incurred under USAID contracts; (2) Chemonics' internal control structure was adequate to protect it from material internal control weaknesses; and (3) Chemonics had complied with applicable laws, regulations, and terms of its USAID contracts. The audit also included supplementary audit procedures concerning Chemonics' procurement practices and various other issues raised by the USAID Representative, USAID/Oman.

Clifton, Gunderson, & Co. determined that Chemonics' Statement of Contract Expenditures was presented fairly in all material respects. However, the audit disclosed $321,667 in questioned costs consisting of $278,667 in potentially ineligible costs and $43,000 in unsupported costs. All questioned costs are indirect costs.

The audit of Chemonics' internal control structure did not disclose any significant weaknesses. Similarly, with respect to items tested, Chemonics complied in all material respects with applicable laws, regulations, and provisions of contracts.

In responding to a draft of this report, Chemonics:

- accepted questioned costs totalling $63,929,
- disagreed with questioned costs of $101,589, and
- stated that $156,149 of the questioned costs had previously been approved by USAID.

Chemonics' reply to the draft report is at Appendix I of the report.

In response, the auditors provided detailed justification for questioning the $101,589 with which management agreed (Audit Report, pages 4 to 6). The auditors further stated that the $156,149 previously approved by USAID are not allowable and should again be questioned (Audit Report, pages 6 to 8).

The audit also included supplementary audit procedures concerning Chemonics' procurement practices relating to:

- extent of subcontracting,
- determining whether payments to subcontractors were in accordance with applicable subcontract provisions,
- subcontracting practices,
- extent Chemonics used as subcontractor to other firms with prime contracts with USAID,
- use of consultants other than those proposed to USAID.

The audit determined that Chemonics' followed applicable rules and regulations concerning these five issues. The auditors' management letter citing the results of their supplementary work in this area is at Appendix II.

The audit also evaluated additional information brought to our attention by the USAID Representative in Oman. These matters concerned the following issues that the Representative, USAID/Oman, believed might impact on this financial audit of Chemonics: (1) use of the pouch system, (2) annual leave policies, (3) maximum salary limitations, (4) procurement polices, and (5) entertainment costs.

The audit examined these issues and concluded that Chemonics' procedures in these five areas were generally in agreement with the regulations or contracts. Accordingly, the auditors did not

question any costs incurred by Chemonics in these areas. (See Appendix III).

Based on our review of the auditors' work, however, we believe that the Agency's polices in one of these six areas—annual leave policies—should be changed. The USAID Acquisition Regulation states that a contractor may grant to its employees annual leave of reasonable duration, in accordance with its practice, of up to 26 days each year. Chemonics, in implementing this guidance, established a formal practice of granting all employees working overseas, even newly hired employees, with annual leave at the rate of 26 days each year.

In this respect, Chemonics' policy for overseas employees is more liberal than for its own domestic workers or that provided by the U.S. Government for its employees. Both Chemonics' domestic employees and Federal employees must be employed for many years before they approach the 26 days of annual leave Chemonics provided its overseas personnel immediately upon employment.

The auditors did not question costs relating to this area because USAID's acquisition regulation does not prohibit a contractor providing its overseas employees more annual leave than its domestic employees. Still, we believe that USAID's acquisition regulation should be re-evaluated to determine if it should be changed to preclude allowing contractors to grant newly-hired employees with 26 days of annual leave yearly.

> Recommendation No. 1: We recommend that USAID's Office of Procurement (M/FA/OP) resolve the $321,667 ($278,667 ineligible and $43,000 unsupported) in questioned costs identified in the audit report (Exhibits A,B,C,D,E,F, and G).
>
> Recommendation No. 2: We recommend that USAID's Office of Procurement (M/FA/OP) finalize the indirect cost rates with Chemonics International Consulting Division for the period April 1, 1990 to March 31, 1992.
>
> Recommendation No. 3: We recommend that USAID's Office of Procurement (M/FA/OP), in coordination with senior USAID management, re-evaluate USAID's Acquisition Regulation to determine if it should be revised to require that USAID contractors not provide its overseas employees vacation leave allowances in excess of domestic employees or in excess of leave provided Federal employees.

The recommendations will be included in the Inspector General's audit recommendation follow-up system. Within 30 days, please provide IG/A/FA with the status of actions planned or taken to resolve and close the recommendations.

Clifton, Gunderson & Co.
Certified Public Accountants & Consultants

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CHEMONICS INTERNATIONAL CONSULTING DIVISION
Washington, D.C.

REPORT ON AUDIT OF STATEMENT OF FEDERAL CONTRACT EXPENDITURES

For The Period From April 1, 1990 to March 31, 1992

Members Of
NEXIA INTERNATIONAL

ARIZONA COLORADO ILLINOIS INDIANA IOWA MARYLAND MISSOURI NEW MEXICO OHIO WISCONSIN

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

4

TABLE OF CONTENTS

	PAGE
Transmittal Letter	
Independent Auditor's Report	1
Statements of Federal Contract Expenditures - FY 1991 and 1992	2
Independent Auditor's Report on Compliance with the Terms of the Contract and Applicable Laws and Regulations	4
Independent Auditor's Report on Internal Control Structure	5

	EXHIBITS
Summary of Proposed Indirect Rates and Results of Audit For 1 April 1990 through 31 March 1991	A
Statement of Contractor's Claimed Field and Home Office Overhead and Results of Audit For 1 April 1990 through 31 March 1991	B
Statement of Contractor's Claimed General and Administrative Costs and Results of Audit For 1 April 1990 through 31 March 1991	C
Summary of Proposed Indirect Rates and Results of Audit For 1 April 1991 through 31 March 1992	D
Statement of Contractor's Claimed Field and Home Office Overhead and Results of Audit For 1 April 1991 through 31 March 1992	E
Statement of Contractor's Claimed Field and Home Office Fringe Benefits Costs and Results of Audit For 1 April 1991 through 31 March 1992	F
Statement of Contractor's Claimed General and Administrative Costs and Results of Audit For 1 April 1991 through 31 March 1992	G

TABLE OF CONTENTS (Cont'd.)

APPENDIX

Letter from Chemonics Deputy Director dated October 18, 1993, responding to audit results I

Clifton,
Gunderson & Co.
Certified Public Accountants & Consultants

February 23, 1994

Mr. Reginald Howard
Director of Financial Audits
IG/A/FA SA-16 (RPE)
Room 14
Washington, D.C. 20523-1604

Dear Mr. Howard:

Clifton, Gunderson and Company and our subcontractor, Irving Burton Associates, Inc., have completed the audit of expenditures by Chemonics International Consulting Division (Chemonics) under its cost plus fixed fee contracts with the United States Agency for International Development (A.I.D.). This report presents the results of our financial-related audit of direct and indirect costs under those contracts for the two-year period from April 1, 1990 to March 31, 1992 (fiscal years 1991 and 1992). Our work was performed at Chemonics' office in Washington, D.C. from May 3 to August 3, 1993, and January 3 to January 31, 1994.

Chemonics, headquartered in Washington, D.C., is a division of Chemonics Industries, Inc., which is a subsidiary of ERLY Industries, Inc. Chemonics provides technical assistance on a variety of projects to developing countries. It receives most of its funding from A.I.D. under contracts for specific projects.

For the two fiscal years audited, 1991 and 1992, Chemonics reported direct costs totaling $13,174,222 and $17,806,350, respectively, and indirect costs totaling $5,254,560 and $6,317,818, respectively, on its cost plus fixed fee contracts with A.I.D. This was about 95 percent of Chemonics total expenditures during the 2-year period. All of its government contracts were with A.I.D.

The audit was conducted in accordance with generally accepted auditing standards and the Government Auditing Standards (1988 revision) issued by the Comptroller General, and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

AUDIT OBJECTIVES

Our audit objectives, were to:

- Determine whether Chemonics' Statement of Federal Contract Expenditures for the period April 1, 1990, through March 31, 1992 presents fairly, in all material respects, project revenues and costs incurred and reimbursed under the U.S. Government-financed contracts in conformity with generally accepted accounting principles or another comprehensive basis of accounting.

- Determine if the direct and indirect costs reported as incurred under the U.S. Government-financed contracts are allowable, allocable, and reasonable in accordance with the terms of the contracts, the Federal Acquisition Regulations and OMB Circulars (as applicable).

- Evaluate the internal control structure of Chemonics' organization, assess control risk, and identify reportable conditions, including material internal control weaknesses.

- Perform tests to determine whether Chemonics complied, in all material respects, with the terms of the contracts and applicable laws and regulations.

- Determine if Chemonics has taken adequate corrective actions on prior audit report recommendations.

AUDIT PROCEDURES

The audit covered the direct and indirect costs incurred during the audit period. Audit procedures included studying and evaluating Chemonics' internal control structure relative to the contracts and as a basis for our auditing procedures, and included the testing of a sample of transactions in the areas of salaries, allowances, subcontractor costs, other direct costs, and indirect costs.

Salaries: Examination of selected employees' timesheets was made to determine the propriety of amounts charged to the contracts.

Allowances: Analysis was made of selected allowances charged to the contracts to verify employees' eligibility to receive the allowances and determine whether the allowances were in accordance with applicable laws and regulations.

Subcontractor Costs: Evaluation was made of the support for and reasonableness of charges incurred by subcontractors and the allowability of those charges within the terms of the contracts. As you requested, we performed additional audit work on Chemonics' subcontracting policies and practices in January 1994.

Other Direct Costs: Examination of documentation supporting selected expenses was made to determine allowability of expenses and compliance with the terms of the contracts and applicable laws and regulations.

Indirect Costs: Examination of documentation supporting selected indirect costs was made for allowability, allocability, and reasonableness. These costs make up the pool of costs from which the overhead rate is calculated.

RESULTS OF THE AUDIT

Statements of Federal Contract Expenditures

We prepared the Statements of Federal Contract Expenditures for fiscal years 1991 and 1992 for Chemonics' cost plus fixed fee contracts with A.I.D. from Chemonics' "statements of contract costs" and tested these costs to the accounting records. Except for certain questionable indirect costs totaling about $321,000, which are discussed in the exhibits to the report, we believe that the Chemonics' Statements of Federal Contract Expenditures are accurate and the accounting system is adequate. Chemonics appears to have maintained adequate controls and sufficient evidential documents supporting the allowability of direct costs charged to the contracts.

Compliance with the Terms of the Contracts and Applicable Laws and Regulations

As a part of our audit, we performed tests of Chemonics compliance with certain provisions of the contracts, laws, regulations, and binding policies and procedures. We performed those tests of compliance in conjunction with our procedures to obtain reasonable assurance about whether the Statements of Federal Contract Expenditures are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

The results of our tests of compliance indicate, that with respect to the items tested, Chemonics had complied, in all material respects, with the provisions of the contracts, laws, regulations, grants, and binding policies and procedures. With respect to the items not tested, the extent of non-compliance noted in our testing indicates that there is relatively low risk that Chemonics may have violated the terms of the contracts or applicable laws and regulations.

Internal Control Structure

We studied and evaluated Chemonics internal control structure relative to the contracts in order to assess the control risks and in order to determine our auditing procedures for the purpose of expressing an opinion on the Statements of Federal Contract Expenditures, and not to provide assurance on Chemonics internal control structure taken as a whole.

We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined under generally accepted auditing standards and the

Government Auditing Standards (1988 revision) issued by the United States Comptroller General.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

MANAGEMENT RESPONSE

In its October 18, 1993 response to our findings, Chemonics accepted questioned costs totaling $63,929; did not accept questioned costs totaling $101,589; and said that $156,149 of the questioned costs had been previously approved by A.I.D. The complete response is included as Appendix I to this report. We have summarized, in the following paragraphs, Chemonics' response on those costs not accepted along with the auditor's comments to the responses.

Costs Not Accepted

A. FY 1991: *$24,000 in retainer fees, of $2,000 per month, paid to a consultant for services which were not supported in accordance with FAR. (See Exhibit B, Page 2, note 1.b.)*

FY 1992: *$19,000 in retainer fees paid to the same consultant for services which were not supported in accordance with FAR. (See Exhibit E, page 2, Note 3.a.)*

Chemonics Response: Chemonics does not accept the report's findings regarding the payments of retainer fees. We believe that the referenced FAR (FAR 31.205-33) has been confused in the discussion provided and that on the contrary, Chemonics has complied with all of the conditions mentioned.

The costs should be considered allowable because the "services required under the retainer agreement are necessary and customary...the level of past performance justifies the amount of retainer fees...the retainer fee is reasonable in comparison with retaining in-house capability to perform the covered services and the actual services performed are documented" as per the contract scope of work. It should be noted that the allocation of time to the work was a cost estimating procedure for establishing consideration levels for the agreement and thus was never intended as a time and material arrangement. We firmly believe that the memoranda and other

documents clearly and adequately demonstrate performance as expected under the terms of the agreement.

Auditor Comments: We continue to believe that the documentation provided by Chemonics did not provide a basis to support the effort as required by the contract and in accordance with requirements in FAR 31.205-33(e)(2) & (3). These sections require evidence to determine that work performed is proper and shall include invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of actual services provided. Consultant work products and related documents are also required. The contract required that the consultant devote 25% of his time on average, to Chemonics work each month. No invoices, billings or time sheets were ever submitted by the consultant detailing time expended and nature of actual services provided.

B. FY 1992: *$58,589 for a bonus to the Director in addition to his bonus under the regular employee bonus plan. (See Exhibit F, page 1, Note 2.)*

Chemonics Response: With regard to the issue raised about bonuses paid to the Director of Chemonics, we do not accept the audit recommendation. Chemonics is well aware of the reporting requirement referenced in the audit report. The bonus plan was adjusted three years ago in 1990 but we believed that the changes did in no way constitute "major revisions of existing compensation plans" as the monies involved are a small portion of our overall compensation plan. Thus, we did not consider reporting to USAID on this issue. We believe that the FAR citation referenced in the audit report supports our position in this regard.

Further, we believe that the citation referenced clearly supports the reasonableness "test" in this matter. The reference states that a market survey within an industry, among organizations of equal size, and/or within the same geographical area can be used in determining the reasonableness of compensation. Such a market survey was independently commissioned by Chemonics and provided strong support for the payment amounts in question. The survey report commended Chemonics for employing "a prudent business practice of paying for results as reflected by the mix of variable compensation to the total compensation for the CEO." A major factor in determining Chemonics' bonus payments to the director is the increase or decrease in the amount of business within a fiscal year as compared with the amount of business in the previous fiscal year. As such, Chemonics' Director received no compensation during the first year of the revised application (1990) process for determining bonus payments and approximately half the cited amount the year following. This can only be considered reasonable to have a Director's bonus tied to the performance of his/her company.

For the above reasons, Chemonics remains strongly convinced of the appropriateness of our compensation plans and specifically with regard to the payments made to our Director. As discussed, the bonus amounts cannot be looked at as a percentage of salary as this is irrelevant.

Auditor Comments: We are not questioning the $92,000 bonus to the Director under the regular employee bonus plan. The questioned $58,589 was for a bonus to the Director in addition to his bonus under the regular employee bonus plan. The $58,589 represents a three percent compensation bonus paid to the Director on all pretax earnings made above $1 million. We saw no indication that this bonus arrangement had been approved by A.I.D., as required by FAR 31.205-6(a)(4).

Costs Questioned Previously: Chemonics cited the following issues as previously approved by A.I.D.

A. FY 1991: *$20,360 of transportation costs paid by Chemonics to its employees to offset some of their commuting expense. (See Exhibit B, page 2, Note 3.)*

FY 1992: *$24,500 of transportation costs paid by Chemonics to its employees to offset some of their commuting expenses. (See Exhibit E, page 2, Note 5.)*

Chemonics Response: With regard to the issue raised regarding our practice of paying a "commuter" allowance to Chemonics personnel, we still stand behind our earlier position (which was agreed to by USAID) that this subsidy is reasonable and widely practiced even within the U.S. Government without it being taxable income. We ask that you reconsider questioning this item and our related policies and procedures as they currently exist.

Auditor Comments: We agree that such costs were questioned in a previous audit report and were allowed by USAID. However, they have not been authorized in the contracts and are unallowable per FAR 31.205-6(m)(2), and FAR 31.205-46(f). These sections show that, whenever anything of value (e.g., equipment, money, etc.) is given to company employees for transportation to and from work, it is considered compensation for personal services and is unallowable.

B. FY 1991: *Questioned $43,182 amortization/organization expense represents the following:*

a. $34,888 represents the amortized portion of a $224,000 non-refundable loan facility fee which Chemonics Industries, Inc. paid to the bank on the initial borrowing date in FY 1990.

b. *$8,294 represents the amortized portion of contract services totalling $53,252 incurred by Chemonics in FY 1990 in financing a long term (4 year) NMB loan. (See Exhibit C, page 2, Note 1.)*

Questioned $3,115 bank charges represent a non-refundable facility fee paid up front to obtain a CIBC loan. (See Exhibit C, page 3, Note 3.)

FY 1992: *Questioned $52,475 amortization/organization expense represents the following:*

a. *$42,396 represents the amortization portion of $224,000 non-refundable loan facility fee paid to the bank in FY 1990.*

b. *$10,079 represents the amortized portion of contract services totalling $53,252 incurred in financing a long term (4 years) NMB loan and considered unallowable under FAR. (See Exhibit G, page 2 Note 1.)*

$1,569 represents legal services for preparation and revision of a 1991 loan amendment which is applicable to a 1989 loan agreement. (See Exhibit G, page 2, Note 2.)

Questioned $10,948 bank charges written off during year of bank/facility fees which were paid up front on CIBC loans. (See Exhibit G, page 2, Note 3.)

<u>Chemonics Response</u>: With regard to the issue raised regarding the non-refundable loan facility fee paid by Chemonics Industries, Inc., we do not agree with the analogy made nor do we accept the audit recommendation. Commercial loans to businesses carry facilities fees that are paid to cover administrative and other banking costs involved in securing a line of credit. These costs are not interest costs. Beyond this, the purpose of Chemonics' loan as is clearly stated in the loan agreement is that of financing working capital for Chemonics International secured by Chemonics International's receivables. This is not a loan to finance long-term investment. As such, it is allowable per FAR 31.205-27. This issue was raised previously with Chemonics through a prior audit and our practice was approved by USAID. Nothing new was identified in the draft report that was not addressed earlier.

<u>Auditor Comment</u>: We believe that these fees, which are amortized over a 4-year period, are subject to the provisions of FAR 31.205-20 which provides that interest on borrowings, however represented, are unallowable. The section cited by Chemonics, FAR 31.205-27, allows short-

term costs of borrowings for working capital but provides that raising capital (net worth plus long-term liabilities) are unallowable. The loan is considered a long-term loan since it is amortized over a 4-year period.

In a prior audit the facility fee was questioned on the basis of inadequate support. USAID reinstated the questioned costs of $9,520 because the contractor had provided supporting data and on the basis of FAR 31.205-27 which states that "Unallowable reorganization costs include the cost of any change in the contractor's financial structure, excluding administrative costs of short-term borrowing for working capital..." (memorandum to IG/A/FA from OP/PS/OCC dated March 30, 1993, re: Audit Report No. 92-091 dated May 11, 1992). We question whether these costs can be considered short-term borrowings.

* * * *

We discussed the matters in this report with Chemonics management throughout the audit. At the conclusion of the audit on August 3, 1993, we held a close-out with Chemonics officials in Washington, D.C., and a close-out on the additional audit work on subcontracts on February 10, 1994. We discussed the report with AID's Office of the Inspector General. Their comments on the draft report have been considered in finalizing the report while Chemonics' comments have been included in the report. We wish to thank the staff of Chemonics for the time and excellent cooperation given to us during the audit.

Very Truly Yours,

William H. Oliver, Partner
Clifton, Gunderson & Co.

Clifton,
Gunderson & Co.
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Statements of Federal Contract Expenditures of the Chemonics International Consulting Division for the two fiscal years April 1, 1990 to March 31, 1991 and April 1, 1991 to March 31, 1992. The statements are the responsibility of Chemonics' management. Our responsibility is to express an opinion on the statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the statements of expenditures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statements of expenditures. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Statements of Federal Contract Expenditures referred to above present fairly, in all material respects, the expenditures of Chemonics for the two-year period from April 1, 1990, to March 31, 1992, in accordance with the terms of its contracts with the United States Agency for International Development. These Statements of Federal Contract Expenditures are not intended to be a presentation of Chemonics' financial position, results of operations or changes in fund balances in accordance with generally accepted accounting principles. Rather, the statements present the expenditures during the period April 1, 1990 to March 31, 1992, in accordance with the financial reporting requirements of the contracts.

This report is intended solely for the use of the U.S. Agency for International Development and Chemonics. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Clifton, Gunderson & Co.

February 10, 1994
Baltimore, Maryland

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ARIZONA COLORADO ILLINOIS INDIANA IOWA MARYLAND MISSOURI NEW MEXICO OHIO WISCONSIN

CHEMONICS INTERNATIONAL CONSULTING DIVISION
STATEMENT OF FEDERAL CONTRACT EXPENDITURES

AID COST PLUS FIXED FEE CONTRACT COSTS FOR THE PERIOD APRIL 1, 1990 TO MARCH 31, 1991

CONTRACT NUMBER	DESCRIPTION	DIRECT COSTS	INDIRECT COSTS	TOTAL
263-91-005	Egypt-Agricultural Policy Analysis	$343,964	$168,999	$512,963
386-0484-C-00-5028	India-Irrigation Management and Training	71,088	44,358	115,446
CABEI-BCIE-FE-1034	Central America-Regional Economic Recovery	78,452	18,385	96,837
517-0159-C-00-5005	Dominican Republic-On-Farm Water Management	45,714	28,560	74,274
538-0163-C-00-1013	West Indies Tropical Produce Support	93,187	24,428	117,615
391-0492-C-00-0831	Pakistan-Economic and Policy Analysis	305,304	120,616	425,920
SENEGAL-APS-1	Senegal-Agriculture Production Support	350,884	280,944	631,828
645-0229-C-00-9019	Swaziland-Agricultural Production and Marketing	1,020,870	320,720	1,341,590
623-0251-C-00-0033	Botswana-Natural Resources Management	124,805	40,687	165,492
660-0119-C-00-8001	Zaire-Agricultural Policy and Planning	761,540	373,929	1,135,469
367-0158-C-00-0299	Nepal-Forestry Development	24,127	9,642	33,769
650-0047-C-00-8017	Sudan-Agricultural Planning and Statistics	39,755	12,347	52,102
APCP-263-0202	Egypt-Agricultural Production and Credit	2,899,118	1,105,250	4,004,368
596-0108-C-00-6060	Central America-Nontraditional Agriculture Exports	1,333,122	430,741	1,763,863
263-0182-C-00-8041	Egypt-Local Development, Provincial	4,751,286	1,949,568	6,700,854
391-0491-C-00-5034	Pakistan-Economic Analysis Network	172,956	71,370	244,326
688-0218-C-00-0022	Mali-Livestock Support Services	8,600	7,009	15,609
505-0008-C-00-6030	Belize-Commercialization of Alternative Crops	36,389	5,770	42,159
398-0249-C-00-9140	The Philippines-Agribusiness System Assistance	36,532	18,902	55,434
517-0186-C-00-0297	Dominican Republic-Agribusiness Promotion	137,910	10,511	148,421
675-0463-C-00-9007	Guinea-Human Resources Development	27,096	6,925	34,021
LAC-0022-C-00-9041	Mali-Livestock Development	365,709	276,239	641,948
688-0218-C-00-5057	Latin America-Agriculture and Rural Development	703	20	723
632-0218-C-00-6001	Lesotho-Agricultural Planning	(415)	(75,425)	($75,840)
SENEGAL-APS-2	Senegal-Agriculture Production Support	145,526	4,065	149,591
TOTAL		$13,174,222	$5,254,560	$18,428,782

15

CHEMONICS INTERNATIONAL CONSULTING DIVISION
STATEMENT OF FEDERAL CONTRACT EXPENDITURES

AID COST PLUS FIXED FEE CONTRACT COSTS FOR THE PERIOD APRIL 1, 1991 TO MARCH 31, 1992

CONTRACT NUMBER	DESCRIPTION	DIRECT COSTS	INDIRECT COSTS	TOTAL
263-91-005	Egypt-Agricultural Policy Analysis	$636,403	$267,220	$903,623
586-0165-C-00-1296	Central America-Export Industry Technology	584,744	207,240	791,984
674-0303-C-00-1064	South Africa-Black Integrated Commercial Support	184,895	106,362	291,257
538-0163-C-00-1013	West Indies Tropical Products Support	853,534	158,174	1,011,708
391-0492-C-00-0831	Pakistan-Economic and Policy Analysis	446,639	238,302	684,941
623-0214-C-00-1016	Burundi-Enterprise Support and Training	350,906	141,103	492,009
SENEGAL-APS-1	Senegal-Agriculture Production Support	49,214	8,390	57,604
645-0229-C-00-9019	Swaziland-Agricultural Production and Marketing	772,862	337,930	1,110,792
623-0251-C-00-0033	Botswana-Natural Resources Management	593,379	230,476	823,855
660-0119-C-00-8001	Zaire-Agricultural Policy and Planning	272,795	103,323	376,118
367-0158-C-00-0299	Nepal-Forestry Development	550,090	195,712	745,802
367-0160-C-00-200	Nepal-Agroenterprise and Technology System	293,044	98,330	391,374
272-0106-C-00-1001	Oman-Fisheries Develpment and Management	1,753,185	469,576	2,222,761
APCP-263-0202	Egypt-Agricultural Production and Credit	2,542,117	954,194	3,496,311
596-0108-C-00-6060	Central America-Nontraditional Agriculture Exports	383,444	168,986	552,430
263-0182-C-00-8041	Egypt-Local Development, Provincial	6,442,714	2,008,094	8,450,808
LAC-0022-C-00-9041	Mali-Livestock Development	544,366	452,379	996,745
517-0186-C-00-0297	Dominican Republic-Agribusiness Promotion	371,773	70,375	442,148
DHR-5438-C-00-1090	Development Strategies for Fragile Lands	179,792	77,087	256,879
396-0249-C-00-9140	The Philippines-Agribusiness System Assistance	454	13	467
505-0008-C-00-6030	Belize-Commercialization of Alternative Crops	0	4,482	4,482
391-0491-C-00-5034	Pakistan-Economic Analysis Network	0	20,070	20,070
TOTAL		$17,806,350	$6,317,818	$24,124,168

Clifton,
Gunderson & Co.
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE TERMS OF THE CONTRACTS AND APPLICABLE LAWS AND REGULATIONS

We have audited the Statements of Federal Contract Expenditures of the Chemonics International Consulting Division for the period April 1, 1990, to March 31, 1992, and have issued our report thereon dated February 10, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to Chemonics is the responsibility of Chemonics management. As part of obtaining reasonable assurance about whether the Statements of Federal Contract Expenditures are free of material misstatement, we performed tests of Chemonics' compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, Chemonics complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that Chemonics had not complied, in all material respects, with those provisions. We noted certain immaterial instances of noncompliance which are reported in the Exhibits to this report.

This report is intended for the information of the U.S. Agency for International Development and Chemonics. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Clifton, Gunderson & Co.

February 10, 1994
Baltimore, Maryland

Members Of
NEXIA INTERNATIONAL
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ARIZONA COLORADO ILLINOIS INDIANA IOWA MARYLAND MISSOURI NEW MEXICO OHIO WISCONSIN

Clifton,
Gunderson & Co.
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE

We have audited the Statements of Federal Contract Expenditures of the Chemonics International Consulting Division for the period from April 1, 1990, to March 31, 1992, and have issued our report thereon dated February 10, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statements of expenditures are free of material misstatement.

In planning and performing our audit of Chemonics, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statements of expenditures and not to provide assurance on the internal control structure.

The management of Chemonics is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the terms of contracts between Chemonics and the U.S. Agency for International Development. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures of Chemonics applicable to the expenditures for the period April 1, 1990 to March 31, 1992, in the following categories:

- Accounting processes
- Payroll procedures
- Property and equipment
- Allowance and fringe benefit procedures
- Travel and transportation
- Financial reporting

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For all the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the use of Chemonics and the U.S. Agency for International Development. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Office of the Inspector General, is a matter of public record.

Clifton, Gunderson & Co.

February 10, 1994
Baltimore, Maryland

Chemonics International
Washington, D.C.

SUMMARY OF PROPOSED INDIRECT RATES
AND RESULTS OF AUDIT
For the Period from 1 April 1990 through 31 March 1991

	CLAIMED BY CONTRACTOR		QUESTIONED BY AUDITOR		
Indirect Category	Expense Pool	Indirect Cost Rate	Expense Pool	Cost Rate	Reference
Overhead:					
Field & Home Office (a+b)	$4,551,270	82.93%	$52,763	.96%	EXHIBIT B
Home Office (b)	64,693	11.75%			EXHIBIT B
Fringe Benefits:					
Field & Home Office (c)	903,998	29.82%			
Host Country (d)	4,601	.62%			
G&A (e)	546,353	2.79%	49,931	.26%	EXHIBIT C
Total Expenses	$6,070,915		$102,694		

Allocation Base:
(a) Field Direct Labor dollars plus Fringe Benefits costs
(b) Home Office Direct Labor dollars plus Fringe Benefits costs
(c) Field plus Home Office Direct Labor dollars
(d) Host Country Field Direct Labor dollars
(e) Total Cost Input

GOVERNMENT PARTICIPATION IN ALLOCATION BASES

	Indirect Cost Category	
Contract-Type in Allocation Base	Overhead	G&A
Government cost-type contracts	97%	99%
Government firm fixed-price contracts and commercial	3%	1%
Total	100%	100%

Chemonics International
Washington, D.C.

STATEMENT OF CONTRACTOR'S CLAIMED FIELD AND HOME OFFICE OVERHEAD COSTS AND RESULTS OF AUDIT
For the Period from 1 April 1990 through 31 March 1991

	Contractor Expenses for Field and Home Office				Results of Audit Questioned Costs			
	Total	Unclaimed	Claimed		Total	Concurred	Non-concurred	Reference
Indirect Salaries	$2,897,033	$139,579	$2,757,454		$ -			
Professional Services	436,326	7,918	428,408		23,543			Note 1
Dues	21,016	835	20,181		6,380			Note 2
Depreciation	101,717	-	101,717		-			
Travel	320,571	37,314	283,257		20,360			Note 3
Rent	506,604	72,311	434,293		-			
Telephone	126,145	6,076	120,069		(1,824)			Note 4
Office Supplies	120,114	1,262	118,852		-			
Miscellaneous	19,112	5	19,107		5,891			Note 5
Other Expenses	316,287	48,355	267,932		(1,587)			Note 6
Total Overhead	$4,864,925	$313,655	$4,551,270	(A)	$52,763			
Contractor Expenses for Home Office								
Rent	$ -0-	($64,693)	$64,693	(B)				Note 7
Allocation Base								
Total Direct Labor (Field and Home Office) and Fringe			$5,487,997	(C)				
Allocation Base (For Home Office Rent Expense) Home Office Direct Labor and Fringe			$550,554	(D)				Note 7
Field Overhead Rates								
Prposed (A÷C)			82.93%					
Quest. due to base								
Quest. due to costs					.96%			
Unresolved								
Total Exceptions					.96%			
Home Office Overhead Rates								
Proposed (A÷C) + (B÷D)			94.68%					
Quest. due to cost					.96%			
Total Exceptions					.96%			

Explanatory Notes

1. Questioned $23,543 of professional services represent the following:

   a. $2,312 represents out-of-period costs of $2,160 paid to a consultant for services provided in March 1990, and $152 for the installation of a water filter on 3/6/90. These costs are unallocable per FAR 31.203(e) which requires that a base period for allocating indirect costs is the cost accounting period during which such costs are incurred.

   b. $24,000 represent retainer fees, of $2,000 per month, paid to a consultant for services which were not supported in accordance with requirements in FAR 31.205-33(e)(2) & (3). These sections require evidence to determine that work performed is proper and shall include invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of actual services provided. Consultant work products and related documents are also required. The contract required that the consultant will devote 25% of his time on average, to Chemonics work each month. No invoices, billings or time sheets were ever submitted by the consultant detailing time expended and nature of actual services provided.

      We reviewed about 30 memorandums, facsimile transmissions and miscellaneous reports provided by Chemonics in support of the consultant's FY 1991 efforts. Only 10 were directly identified (signed by) to the consultant. This data provided no basis to support the effort required by the contract.

   c. The ($2,769) upward adjustment represents professional services which were questioned as out-of-period costs in FY 1992 and which are applicable to FY 1991 overhead. (See Note 3.b., Exhibit E for details).

2. Questioned $6,380 membership fee to Professional Services Council which is applicable to period 4/1/91 - 3/31/92. These out-of-period costs are unallocable per FAR 31.203(e).

3. Questioned $20,360 of transportation costs paid by Chemonics to its employees to offset some of their commuting expense, to and from work, each day. Such costs are unallowable per FAR 31.205-6(m)(2), and FAR 31.205-46(f). These sections show that, whenever anything of value (e.g., equipment, money, etc.) is given to company employees for transportation to and from work, it is considered compensation for personal services and is unallowable.

4. The ($1,824) upward adjustment represents telephone costs which were questioned as out-of-period costs in FY 1992 and which are applicable to FY 1991 overhead. (See Note 7, Exhibit E for details).

5. Questioned $5,891 of miscellaneous expenses represent the following:

   a. $1,975 represents out-of-period costs incurred in FY 1990 for unknown telephone calls at the Egypt Field Office. These costs are unallocable per FAR 31.203(e).

   b. $3,916 represents costs in excess of contract allowances (rent-$3,074; broker fee-$446; and make ready costs-$396) at the Egypt Field Office. These costs are unallowable per FAR 31.202 and FAR 31.203. Since these type costs have already been charged directly to a contract, the same type of charges cannot be charged indirectly to a contract.

6. The ($1,587) upward adjustment represents $409 of bank service charges and $1,178 of legal costs which were questioned as out-of-period costs in FY 1992 and which are applicable to FY 1991 overhead. (See Notes 1 & 2, Exhibit E for details).

7. The contractor's submission includes separate overhead rates for Field and Home Office operations. This was done to show a fairer presentation of indirect participation in the overhead expenses and was accomplished by identifying total Home Office rent expense between space applicable to field effort and that of administrative effort. Accordingly, that portion applicable to field operations is recovered through the Field and Home expense pool via total direct labor and fringe and the remaining portion recovered through Home Office direct labor and fringe. The auditor takes no exception to this method of rate development.

Chemonics International
Washington, D.C.

STATEMENT OF CONTRACTOR'S CLAIMED GENERAL AND ADMINISTRATIVE COSTS AND RESULTS OF AUDIT
For the Period from 1 April 1990 through 31 March 1991

	Contractor Expenses for Field and Home Office			Results of Audit Questioned Costs			
Chemonics Industries Allocation	Total	Unclaimed	Claimed	Total	Concurred	Non-concurred	Reference
Amort/Organization	$43,182	$ -	$43,182	$43,182			Note 1
Direct Insurance	28,218	-	28,218	9,284			Note 2
Bank Charges	9,530	-	9,530	3,115			Note 3
Salaries & Wages	173,885	-	173,885	-			
Acctng/Legal Fees	42,787	30,670	12,117	(5,650)			Note 4
Bad Debts	34,199	34,199	-	-			
Other Expense	194,669	93,093	101,576	-			
Other Credits	(31,483)	-	(31,483)	-			
Total (A)	$494,987	$157,962	$337,025	$49,931			
ERLY Industries Allocation							
Total (B)	$209,328	$ -0-	$209,328	$ -0-			
Total Corporate Allocation (A+B)	$704,315	$157,962	$546,353	$49,931			
Allocation Base							
Total Cost Input			$19,578,065				
G&A Rates							
Proposed			2.79%				
Quest. due to Costs				.26%			
Total Exceptions				.26%			

Explanatory Notes

1. Questioned $43,182 amortization/organization expense represents the following:

   a. $34,888 represents the amortized portion of a $224,000 non-refundable loan facility fee which Chemonics Industries, Inc. paid to the bank on the initial borrowing date in FY 1990. This up front fee represented two percent of the total loan commitment of $11.2 million. Also, the bank provided no explanation or reason for this fee. We consider the fee paid to be interest which is similar to a mortgagor paying points in order to secure a mortgage loan. Banks and other financial institutions use this type fee mechanism to obtain the real interest rate/amount it desires. FAR 31.205-20 states that interest on borrowings, however represented, are unallowable. Further, these amortized fees are unallowable per FAR 31.205-27 (a)(3) which states that expenditures for raising capital (net worth plus long term liabilities) is unallowable. The referenced NMB loan is a long term loan because it extends over a number of accounting periods and as evidenced by Chemonics amortizing loan expense over a 4 year period.

   b. $8,294 represents the amortized portion of contract services totalling $53,252 incurred by Chemonics in FY 1990 in financing a long term (4 year) NMB loan. These costs are as detailed in Note 1.a. above. Chemonics borrowed the money to refinance capital and these expenses are also being amortized over a 4-year period.

2. Questioned $9,284 direct insurance cost represents the following:

   a. $4,975 represent insurance costs resulting from an inequitable allocation of costs to the final cost objectives. Insurance costs are generally allocated on a monthly basis by ERLY Industries, Inc. to Chemonics Industries, Inc. via inter-company invoice. This invoice shows separate insurance allocations for Chemonics Industries, Inc. and Chemonics International. The total allocated to Chemonics International for FY 1991 is shown as direct insurance in the contractor's submission. Although ERLY Industries, Inc. did not provide the details showing how allocations were computed, our review of insurance policies applicable to FY 1991 showed that Chemonics Industries was able to get separate rates and to identify certain costs directly to Chemonics International. However, Chemonics Industries failed to do this and an amount was allocated that exceeded the amount supported through application of policy rates. Accordingly, costs were distributed in excess of the benefits received. FAR 31.201-4 states that costs are allocable if they are assignable to one or more cost objectives on the basis of benefits received. Therefore, we questioned the excess insurance cost that was allocated to Chemonics International. Questioned costs of $4,975 are based on several insurance components as follows:

Total claimed general liability and umbrella liability (A)	$21,831
Chemonics International allocable costs (Rate per $1,000 of sales)	
General liability policy rate (B)	$ .4720
Umbrella liability policy rate (C)	$ .3537
Chemonics International FY 91 Sales (D)	$20,413,684
Chemonics International allocable share (<D/$1,000> x <B+C> = (E)	$16,856
Questioned Costs (A-E)	$4,975

b. $4,309 represents out-of-period costs for excess liability insurance applicable to FY's 1988 and 1989. An insurer's audit showed that additional premiums were due in prior FY's. These costs are unallocable per FAR 31.203(e). (See Note 1.a., Exhibit B for FAR details).

3. Questioned $3,115 bank charges represent a non-refundable facility fee paid up front to obtain a CIBC loan. These fees are considered interest payments which are unallowable per FAR 31.205-20. (See Note 1.a. above for details).

4. The ($5,650) upward adjustment of accounting fees represents out-of-period costs questioned in FY 1992 and which are applicable to FY 1991 G&A. (See Note 2.b. Exhibit G for details). The difference between the amount adjusted and the amount questioned in FY 1992; or $ 1,197, is due to a lower G&A participation by Chemonics International in FY 1991.

Chemonics International
Washington, D.C.

SUMMARY OF PROPOSED INDIRECT RATES
AND RESULTS OF AUDIT
For the Period from 1 April 1991 through 31 March 1992

	CLAIMED BY CONTRACTOR		QUESTIONED BY AUDITOR		
Indirect Category	Expense Pool	Indirect Cost Rate	Expense Pool	Cost Rate	Reference
Overhead:					
Field & Home Office (a+b)	$5,974,257	71.24%	$87,472	1.04%	EXHIBIT E
Home Office (b)	126,535	10.57%			EXHIBIT E
Fringe Benefits:					
Field & Home Office (c)	1,593,275	37.25%	59,662	1.39%	EXHIBIT F
Host Country (d)	23,497	2.58%			
G&A (e)	1,062,985	3.73%	71,839	.25%	EXHIBIT G
Total Expenses	$8,780,549		$218,973		

Allocation Base:
(a) Field Direct Labor dollars plus Fringe Benefits costs
(b) Home Office Direct Labor dollars plus Fringe Benefits costs
(c) Field plus Home Office Direct Labor dollars
(d) Host Country Field Direct Labor dollars
(e) Total Cost Input

GOVERNMENT PARTICIPATION IN ALLOCATION BASES

	Indirect Cost Category	
Contract-Type in Allocation Base	Overhead	G&A
Government cost-type contracts	94%	96%
Government firm fixed-price contracts and commercial	6%	4%
Total	100%	100%

Chemonics International
Washington, D.C.

STATEMENT OF CONTRACTOR'S CLAIMED FIELD AND HOME OFFICE OVERHEAD EXPENSES AND RESULTS OF AUDIT
For the Period from 1 April 1991 through 31 March 1992

	Contractor Expenses for Field and Home Office				Results of Audit Questioned Costs			
	Total	Unclaimed	Claimed		Total	Concurred	Non-concurred	Reference
Indirect Salaries	$3,615,336	$83,244	$3,532,092		$ -			
Legal Fees	8,337	-	8,337		1,178			Note 1
Bank Service Fees	5,456	-	5,456		409			Note 2
Professional Services	655,673	20,239	635,434		42,317			Note 3
Dues/Subscriptions	30,122	166	29,956		(180)			Note 4
Depreciation	113,911	-	113,911		-			
Travel	451,343	22,000	429,343		27,940			Note 5
Rent	650,902	134,153	516,749		-			
Tuition/Training	31,680	-	31,680		4,350			Note 6
Telephone/Telex	185,243	2,908	182,335		1,824			Note 7
Office Supplies	214,751	1,428	213,323		9,634			Note 8
Other Expenses	334,723	59,082	275,641		-			
Total Overhead	$6,297,477	$323,220	$5,974,257	(A)	$87,472			
Contractor Expenses for Home Office								
Rent	$ -0-	($126,535)	$126,535	(B)				Note 9
Allocation Base								
Total Direct Labor (Field and Home Office) and Fringe			$8,385,558	(C)				
Allocation Base (For Home Office Rent Expense) Home Office Direct Labor and Fringe			$1,197,119	(D)				Note 9
Field Overhead Rates								
Proposed (A÷C)			71.24%					
Quest. due to base								
Quest. due to costs					1.04%			
Unresolved								
Total Exceptions					1.04%			
Home Office Overhead Rates								
Proposed (A÷C) + (B÷D)			81.81%					
Quest. due to cost					1.04%			
Total Exceptions					1.04%			

Explanatory Notes

1. Questioned $1,178 for legal services rendered in March 1991 by Seyfarth, Shaw, Fairweather & Geraldson. These out-of-period charges are unallocable per FAR 31.203(e). (See Note 1.a., Exhibit B for FAR details).

2. Questioned $409 for bank service charges incurred in January 1991. These out-of-period charges are unallocable per FAR 31.203(e). (See Note 1.a., Exhibit B for FAR details).

3. Questioned $42,317 professional services represent the following:

   a. $19,000 represent retainer fees paid to a consultant for services which were not supported in accordance with the requirements of FAR 31.205-33 (e)(2) & (3). Although the contract required a certain level of effort from the consultant, he never provided invoices, billings, or time sheets detailing his time expended and nature of actual services provided. We reviewed 14 memorandums/facsimile transmissions provided by Chemonics in support of the consultant efforts. Only 5 were directly identified (signed by) to the consultant. This data provided no basis to support the effort required by the contract. (See Note 1.b., Exhibit B for details).

   b. $2,769 represents out-of-period costs incurred in March 1991. The Washington Post received $1,572 for advertising and IPD, Inc. $1,197 for design services. These costs are unallocable per FAR 31.203(e). (See Note 1.a., Exhibit B for FAR details).

   c. $20,548 represents an improper payment of overhead to Coopers Lybrand for work in Hungary. This amount was not supported by an executed contract and was in excess of the amount already paid for work done by Coopers Lybrand staff. These charges are unallowable per FAR 31.205-33(d)(8), which requires an adequate contractual agreement.

4. The upward adjustment of membership costs in the amount of ($180) is due to the following offsetting out-of-period costs.

   a. Questioned $6,200 for membership fee in the Professional Services Council for the period 4/1/92 - 3/31/93. These out-of-period charges are unallocable per FAR 31.203(e). (See Note 1.a., Exhibit B for FAR details).

   b. Upward adjustment of ($6,380) for membership dues applicable to period 4/1/91 - 3/31/92 and improperly charged to FY 1991. (See Note 2, Exhibit B for details).

5. Questioned $27,940 travel expense represent the following:

   a. $24,500 represents transportation costs paid by Chemonics to its employees to offset some of their commuting expense, to and from work, each day. Such costs are unallowable per FAR 31.205-6 (m)(2) and FAR 31.205-46(f). (See Note 3, Exhibit B for FAR details).

b. $3,440 represents overseas travel cost (roundtrip airfare) of an employee's wife for a three-week stay in Johannesburg, South Africa. This is unallowable per FAR 31.205-46 (a)(1) which only allows cost of transportation, lodging, meals, and incidentals incurred by contractor personnel on official company business. Since spouses are not contractor personnel traveling on official business, these costs are unallowable and cannot be claimed under government contracts.

6. Questioned $4,350 tuition/training represents out-of-period costs which are applicable to FY 1993. Coverdale International was paid $600 for a course taken by a Chemonics employee during the period 4/1/92 - 4/10/92. Also, AT&T Professional Development Center was paid $3,750 on 3/26/92 for three training books whose usage expired December 1992. These charges are unallocable per FAR 31.203(e). (See Note 1.a., Exhibit B for FAR details).

7. Questioned $1,824 telephone charges incurred during the month of March 1991. These out-of-period costs are unallocable per FAR 31.203(e). (See Note 1, Exhibit B for FAR details).

8. Questioned $9,634 office furniture which should have been capitalized instead of being written off as expense in the current fiscal year. Cost recovery for these items should be through depreciation over a number of years. Items requiring capitalization include 14 desks ($6,402) and 10 chairs ($2,434) purchased on 11/21/91 and 2 desks ($798) purchased on 10/7/91. Chemonics staff could provide no written capitalization policies/procedures applicable to FY 1992 operations. However, we noted that office furniture (21 desks, 14 chairs and 2 credenza's) purchased on 3/12/92 for $13,261 was capitalized. The unit prices for these items ranged from $240 to $475. Accordingly, we consider the costs in question unreasonable and unallowable for inclusion in the overhead pool.

9. The contractors submission has separate overhead rates for Field and Home Office operations. This was accomplished by identifying total Home Office rent expense between those portions applicable to field support and administrative operations. Accordingly, total rent expense is apportioned over two separate indirect cost pools and rates. (See Note 7, Exhibit B for details).

Chemonics International
Washington, D.C.

STATEMENT OF CONTRACTOR'S CLAIMED FIELD AND HOME OFFICE FRINGE BENEFITS COSTS AND RESULTS OF AUDIT
For the Period from 1 April 1991 through 31 March 1992

	Contractor Expenses for Field and Home Office			Results of Audit Questioned Costs			
	Total	Unclaimed	Claimed	Total	Concurred	Non-concurred	Reference
Payroll Benefits	$99,979	$58,028	$41,951	$1,073			Note 1
Bonus	439,381	-	439,381	58,589			Note 2
Profit Sharing	111,057	482	110,575	-			
Payroll Taxes	577,959	2,170	575,789	-			
Life/Med. Insurance	337,601	10,997	326,604	-			
Other Expense	98,975	-	98,975	-			
Total Fringe	$1,664,952	$71,677	$1,593,275	$59,662			
Allocation Base Field Direct Labor and Home Direct Labor			$4,277,357				
Fringe Benefits Rates Proposed			37.25%				
Quest. due to cost				1.39%			
Total Exceptions				1.39%			

Explanatory Notes

1. Questioned $1,073 payroll benefits represent salary costs, costs of two direct employees for $830 and $243, which exceed the FS-1 limit or contract allowances.

2. Questioned $58,589 for a bonus to the Director in addition to his bonus under the regular employee bonus plan. The $58,589 represents a three percent compensation bonus paid to the Director on all pretax earnings made above $1 million, giving him a total of $150,689 in bonuses. We saw no indication that this bonus arrangement had been approved by A.I.D., as required by FAR 31.205-6(a)(4). Also, the reasonableness of the amount is questionable since he received over one-third of total bonuses paid and the amount was more than 100 percent of his salary. (See FAR 31.205-6(b)).

Chemonics International
Washington, D.C.

STATEMENT OF CONTRACTOR'S CLAIMED GENERAL AND ADMINISTRATIVE COSTS AND RESULTS OF AUDIT
For the Period from 1 April 1991 through 31 March 1992

	Contractor Expenses for Field and Home Office			Results of Audit Questioned Costs			
	Total	Unclaimed	Claimed	Total	Concurred	Non-concurred	Reference
Chemonics Industries Allocation							
Amort/Organization	$52,475	$ -	$52,475	$52,475			Note 1
Direct Insurance	26,753	-	26,753	-			
Acctng/Legal Fees	57,018	22,674	34,344	8,416			Note 2
Bank Charges	18,170	-	18,170	10,948			Note 3
Salaries & Wages	273,803	-	273,803	-			
Bad Debts	205,911	205,911	-	-			
Bonus	35,863	35,863	-	-			
Other Expenses	363,876	66,253	297,623	-			
Other Credits	(75,818)	-	(75,818)	-			
Total (A)	$958,051	$330,701	$627,350	$71,839			
Erly Industries Allocation							
Salaries	$216,643	$ -	$216,643				
Bonuses	31,990	31,990	-				
Bad Debts	67,277	67,277	-				
Audit	56,941	19,835	37,106				
General Insurance	70,548	58,167	12,381				
Other	198,064	28,559	169,505				
Total (B)	$641,463	$205,828	$435,635	$ -0-			
Total Corporate Allocation (A+B)	$1,599,514	$536,529	$1,062,985	$71,839			
Allocation Base							
Total Cost Input			$28,514,629				
G&R Rates							
Proposed			3.73%				
Quest. due to Costs				.25%			
Total Exceptions				.25%			

Explanatory Notes

1. Questioned $52,475 amortization/organization expense represents the following:

   a. $42,396 represents the amortization portion of $224,000 non-refundable loan facility fee paid to the bank in FY 1990. This fee is considered to be interest, which is unallowable per FAR 31.205-20. Furthermore, since this is a long term loan, all financing expenses are unallowable per FAR 31.205-27(a)(3). (See Note 1.a., Exhibit C for details).

   b. $10,079 represents the amortized portion of contract services totalling $53,252 incurred in financing a long term (4 years) NMB loan and considered unallowable per FAR 31.205-27.(a)(3) (See Notes 1.a. and 1.b., Exhibit C for details).

2. Questioned $8,416 accounting/legal costs represent the following:

   a. $1,569 represents legal services for preparation and revision of a 1991 loan amendment which is applicable to a 1989 loan agreement. These financial expenditures are applicable to a long term loan and are unallowable per FAR 31.205-27 (a)(3). (See Note 1.a., Exhibit C for details).

   b. $6,847 represents tax services rendered by Deloitte & Touche in the months prior to FY 1992 and paid on voucher numbers 23687, 23689, 23690, and 23691. These are out-of-period costs, which are unallocable per FAR 31.203(e). (See Note 1.a., Exhibit B for FAR details).

3. Questioned $10,948 bank charges written off during year of bank/facility fees which were paid up front on CIBC loans. These are considered interest payments and are unallowable per FAR 31.205-20. (See Note 1.a., Exhibit C for details).

October 18, 1993

Mr. Leon Snead
Director of Audit Operations
Irving Burton Associates, Inc.
5201 Leesburg Pike, Suite 700
Falls Church, VA 22041

Subject: Draft Report on Audit of Statement of Federal Contract Expenditures for the period from April 1, 1990 to March 31, 1992

Reference: Your letter of September 23, 1993

Dear Mr. Snead:

Thank you for your letter dated September 23, 1993 transmitting the draft audit report on the financial-related audit of direct and indirect costs under cost plus fixed fee contracts between Chemonics and the United States Agency for International Development (AID) for the two-year period April 1, 1990 through March 31, 1992.

In response to the draft audit report, Chemonics is providing the following statements of its position. Upon receipt of a final report, Chemonics also expects to prepare a formal response to the audit.

Before addressing the specific questioned costs in your report, I would like to thank you and your audit team for the professional standards exhibited during the audit field work and the quality of the draft report. Chemonics fully agrees with the auditors' opinions as presented in the three audit reports presented: the Independent Auditor's Report, the Independent Auditor's Report on Compliance with the Terms of the Contract and Applicable Laws and Regulations, and your audit report on Internal Control Structure.

To facilitate your review, we will present our comments in the order in which issues appear in the draft exhibits. Our responses fall into three general categories: the first are in response to those questioned costs where Chemonics accepts the audit recommendations; the second consists of questioned costs of which Chemonics has previously presented its position (as a result of prior audits) and our practice(s) have been approved by USAID; and, third, our response to new items raised in your draft report.

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Mr. Leon Snead
October 18, 1993
Page 2

EXHIBIT B:

1. *Questioned $23,543 of professional services represent the following:*

   a. $2,312 represents out-of-period costs of $2,160 paid to a consultant for services provided in March 1990 and $152 for the installation of a water filter on 3/6/90.

1a. Chemonics accepts the audit recommendation.

   b. $24,000 represent retainer fees, of $2,000 per month, paid to a consultant for services which were not supported in accordance with FAR.

1b. Chemonics does not accept the report's findings regarding the payments of retainer fees. We believe that the referenced FAR (FAR 31.205-33) has been confused in the discussion provided and that on the contrary, Chemonics has complied with all of the conditions mentioned.

The costs should be considered allowable because the "services required under the retainer agreement are necessary and customary...the level of past performance justifies the amount of retainer fees...the retainer fee is reasonable in comparison with retaining in-house capability to perform the covered services and the actual services performed are documented" as per the contract scope of work. It should be noted that the allocation of time to the work was a cost estimating procedure for establishing consideration levels for the agreement and thus was never intended as a time and material arrangement. We firmly believe that the memoranda and other documents clearly and adequately demonstrate performance as expected under the terms of the agreement.

   c. The ($2,769) upward adjustment represents professional services which were questioned as out-of-period cost in FY 1992 and which are applicable to FY 1991 overhead.

1c. Chemonics accepts the audit recommendation.

2. *Questioned $6,380 for membership fee to Professional Services Council as out-of-period cost in FY 91 and which are applicable to FY 92.*

2. Chemonics accepts the audit recommendation.

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3. *Questioned $20,360 of transportation costs paid by Chemonics to its employees to offset some of their commuting expense.*

3. With regard to the issue raised regarding our practice of paying a "commuter" allowance to Chemonics personnel, we still stand behind our earlier position (which was agreed to by USAID) that this subsidy is reasonable and widely practiced even within the U.S. government without it being taxable income. We ask that you reconsider questioning this item and our related policies and procedures as they currently exist.

4. *The ($1,824) upward adjustment represents telephone costs which were questioned as out-of period costs in FY 1992.*

4. Chemonics accepts the audit recommendation.

5. *Questioned $5,891 of miscellaneous expenses represent the following:*

   a. *$1,975 represents out-of-period costs incurred in FY 1990 for unknown telephone calls at the Egypt Field Office.*

5a. Chemonics accepts the audit recommendation.

   b. *$3,916 represents costs in excess of contract allowances (rent-$3,074; broker fee-$446; and make ready costs-$396) at the Egypt Field Office.*

5b. Chemonics accepts the audit recommendation.

6. *The ($1,587) upward adjustment represents $409 of bank service charges and $1,178 of legal costs which were questioned as out-of-period costs in 1992.*

6. Chemonics accepts the audit recommendation.

EXHIBIT C:

1. *Questioned $43,182 amortization/organization expense represents the following:*

   a. *$34,888 represents the amortized portion of a $224,000 non-refundable loan facility fee which Chemonics Industries, Inc. paid to the bank on the initial borrowing date in FY 1990.*

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b. $8,294 represents the authorized portion of contract services totalling $53,252 incurred by Chemonics in FY 1990 in financing a long term (4 year) NMB loan.

1a&b. With regard to the issue raised regarding the non-refundable loan facility fee paid by Chemonics Industries, Inc., we do not agree with the analogy made nor do we accept the audit recommendation. Commercial loans to businesses carry facilities fees that are paid to cover administrative and other banking costs involved in securing a line of credit. These costs are not interest costs. Beyond this, the purpose of Chemonics' loan as is clearly stated in the loan agreement is that of financing working capitol for Chemonics International secured by Chemonics International's receivables. This is not a loan to finance long-term investment. As such, it is allowable per FAR 31.205-27. This issue was raised previously with Chemonics through a prior audit and our practice was approved by USAID. Nothing new was identified in the draft report that was not addressed earlier.

2. *Questioned $9,284 direct insurance cost represents the following:*

a. $4,975 represent insurance costs resulting from an inequitable allocation of costs to the final cost objectives.

2a. Chemonics accepts the audit recommendation.

b. $4,309 represents out-of-period costs for excess liability insurance applicable to FY's 1988 and 1989.

2b. Chemonics accepts the audit recommendation.

3. *Questioned $3,115 bank charges represent a non-refundable facility fee paid up front to obtain a CIBC loan.*

3. Please refer to discussion above under item 1a&b of this exhibit.

4. *The ($5,650) upward adjustment of accounting fees represents out-of period costs questioned in 1992 and which are applicable to FY 1991 G&A.*

4. Chemonics accepts the audit recommendation.

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EXHIBIT E:

1. *Questioned out-of-period costs of $1,178 for legal services rendered in March 1991 by Seyfarth, Shaw, Fairweather & Geraldson.*

1. Chemonics accepts the audit recommendation.

2. *Questioned out-of-period costs of $409 for bank service charges incurred in January 1991.*

2. Chemonics accepts the audit recommendation.

3. *Questioned $42,317 professional services represent the following:*

   a. *$19,000 represent retainer fees paid to a consultant for services which were not suppported in accordance with FAR.*

3a. Regarding the issue raised with Chemonics' retainer fees, please refer to discussion above in Exhibit B, item 1b.

   b. *$2,769 represents out-of-period costs incurred in March 1991.*

3b. Chemonics accepts the audit recommendation.

   c. *$20,548 represents an improper payment of overhead to Coopers Lybrand for work in Hungary.*

3c. Chemonics accepts the audit recommendation.

4. *The upward adjustment of membership costs in the amount of ($180) is due to the following offsetting out-of-period costs.*

   a. *Questioned out-of-period costs of $6,200 for membership fee in the Professional Services Council for the period 4/1/92-3/31/93.*

4a. Chemonics accepts the audit recommendation.

   b. *Upward adjustment of ($6,380) for membership dues applicable to period 4/1/91-3/31/92 and improperly charged to FY 1991.*

4b. Chemonics accepts the audit recommendation.

5. *Questioned $27,940 travel expense represent the following:*

a. $24,500 represents transportation costs paid by Chemonics to its employees to offset some of their commuting expense.

5a. See our discussion in response to Exhibit B, item 3.

b. $3,440 represents overseas travel cost (roundtrip airfare) of an employee's wife.

5b. Chemonics accepts the audit recommendation.

6. *Questioned $4,350 tuition/training represents out-of-period costs which are applicable to FY 1993.*

6. Chemonics accepts the audit recommendation.

7. *Questioned out-of-period costs of $1,824 for telephone charges incurred during the month of March 1991.*

7. Chemonics accepts the audit recommendation.

8. *Questioned $9,634 office furniture which should have been capitalized instead of being written off as expense in the current fiscal year.*

8. Chemonics accepts the audit recommendation.

EXHIBIT F:

1. *Questioned $1,073 payroll benefits represent salary costs, costs of two direct employees for $830 and $243, which exceed the FS-1 limit or contract allowances.*

1. Chemonics accepts the audit recommendation.

2. *Questioned $58,589 for a bonus to the Director in addition to his bonus under the regular employee bonus plan.*

2. With regard to the issue raised about bonuses paid to the Director of Chemonics, we do not accept the audit recommendation. Chemonics is well aware of the reporting requirement referenced in the audit report. The bonus plan was adjusted three years ago in

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1990 but we believed that the changes did in no way constitute "major revisions of existing compensation plans" as the monies involved are a small portion of our overall compensation plan. Thus, we did not consider reporting to USAID on this issue. We believe that the FAR citation referenced in the audit report supports our position in this regard.

Further we believe that the citation referenced clearly supports the reasonableness "test" in this matter. The reference states that a market survey within an industry, among organizations of equal size, and/or within the same geographical area can be used in determining the reasonableness of compensation. Such a market survey was independently commissioned by Chemonics and provided strong support for the payment amounts in question. The survey report commended Chemonics for employing "a prudent business practice of paying for results as reflected by the mix of variable compensation to the total compensation for the CEO." A major factor in determining Chemonics' bonus payments to the director is the increase or decrease in the amount of business within a fiscal year as compared with the amount of business in the previous fiscal year. As such, Chemonics' Director received no compensation during the first year of the revised application (1990) process for determining bonus payments and approximately half the cited amount the year following. This can only be considered reasonable to have a Director's bonus tied to the performance of his/her company.

For the above reasons, Chemonics remains strongly convinced of the appropriateness of our compensation plans and specifically with regard to the payments made to our Director. As discussed, the bonus amounts cannot be looked at as a percentage of salary as this is irrelevant.

EXHIBIT G:

1. Questioned $52,475 amortization/organization expense represents the following:

a. $42,396 represents the amortization portion of $224,000 non-refundable loan facility fee paid to the bank in FY 1990.

b. $10,079 represents the amortized portion of contract services totalling $53,252 incurred in financing a long term (4 years) NMB loan and considered unallowable under FAR.

1a&b. See explanation provided above in Exhibit C, item 1.

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2. *Questioned $8,416 accounting/legal costs represent the following:*

   a. $1,569 represents legal services for preparation and revision of a 1991 loan amendment which is applicable to a 1989 loan agreement.

2a. See explanation provided above in Exhibit C, item 1.

   b. $6,847 represents tax services rendered by Deloitte & Touche in the months prior to FY 1992.

2b. Chemonics accepts the audit recommendation.

3. *Questioned $10,948 bank charges written off during year of bank/facility fees which were paid up front on CIBC loans.*

3. See explanation provided above in Exhibit C, item 1.

This concludes Chemonics' comments on the draft report provided to us. We would welcome the opportunity to discuss those items remaining at issue. If we have not provided sufficient information or should our responses be unclear in any way, please do not hesitate call for further clarification. We look forward to the final report.

Sincerely,

Ashraf W. Rizk
Deputy Director

cc: Tony Teele, Chemonics International

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RESULTS OF AUDIT FOR PERIOD FROM APRIL 1, 1990 THROUGH MARCH 31, 1992

	Questioned Costs	Accepted	Not Accepted	Previously Approved by USAID
1 April 1990 through 31 March 1991				
Exhibit B				
Field and Home Office Overhead				
Indirect Salaries	--			
Professional Services	23,543	(457)	24,000	
Dues	8,380	8,380		
Depreciation	--			
Travel	20,360			20,360
Rent	--			
Telephone	(1,824)	(1,824)		
Office Supplies	--			
Miscellaneous	5,891	5,891		
Other Expenses	(1,587)	(1,587)		
Total Overhead	52,763	8,403	24,000	20,360
1 April 1990 through 31 March 1991				
Exhibit C				
General & Administrative Costs				
Amort/Organization	43,182			43,182
Direct Insurance	9,284	9,284		
Bank Charges	3,115			3,115
Salaries & Wages	--			
Acctng/Legal Fees	(5,650)	(5,650)		
Bad Debts	--			
Other Expense	--			
Other Credits	--			
Total G&A	49,931	3,634	0	46,297
1 April 1991 through 31 March 1992				
Exhibit E				
Field and Home Office Overhead				
Indirect Salaries	--			
Legal Fees	1,178	1,178		
Bank Service Fees	409	409		
Professional Services	42,317	23,317	19,000	
Dues/Subscriptions	(180)	(180)		
Depreciation	--			
Travel	27,940	3,440		24,500
Rent	--			
Tuition/Training	4,350	4,350		
Telephone/Telex	1,824	1,824		
Office Supplies	9,634	9,634		
Other Expenses	--			
Total Overhead	87,472	43,972	19,000	24,500
1 April 1991 through 31 March 1992				
Exhibit F				
Field and Home Office Fringe Benefits				
Payroll Benefits	1,073	1,073		
Bonus	58,589		58,589	
Profit Sharing	--			
Payroll Taxes	--			
Life/Med. Insurance	--			
Other Expense	--			
Total Fringe Benefits	59,662	1,073	58,589	0

RESULTS OF AUDIT FOR PERIOD FROM APRIL 1, 1990 THROUGH MARCH 31, 1992

	Questioned Costs	Accepted	Not Accepted	Previously Approved by USAID
1 April 1991 through 31 March 1992				
Exhibit G				
General & Administrative Costs				
Amort/Organization	52,475			52,475
Direct Insurance	--			
Acctng/Legal Fees	8,416	6,847		1,569
Bank Charges	10,948			10,948
Salaries & Wages	--			
Bad Debts	--			
Bonus	--			
Other Expenses	--			
Other Credits	--			
Total G&A	71,839	6,847	0	64,992
SUMMARY				
1 April 1990 through 31 March 1991				
Field and Home Office Overhead	52,763	8,403	24,000	20,360
General & Administrative Costs	49,931	3,634	0	46,297
Total FY 91	102,694	12,037	24,000	66,657
1 April 1991 through 31 March 1992				
Field and Home Office Overhead	87,472	43,972	19,000	24,500
Field and Home Office Fringe Benefits	59,662	1,073	58,589	0
General & Administrative Costs	71,839	6,847	0	64,992
Total FY 92	218,973	51,892	77,589	89,492
Grand Totals	321,667	63,929	101,589	156,149

Clifton, Gunderson & Co.
Certified Public Accountants & Consultants

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(410) 296-8068 Fax

March 3, 1994

Mr. Reginald Howard
Director of Financial Audits
IG/A/FA-SA-16 (RPE)
Room 14
Washington, D.C. 20523-1604

Dear Mr. Howard:

The financial audit of Chemonics International Consulting Division's Statements of Federal Contract Expenditures for the period from April 1, 1990 to March 31, 1992, was extended, as you requested, to conduct additional audit work in the area of subcontracts on the U.S. Agency for International Development (A.I.D.) funded projects.

Our subcontractors, Irving Burton Associates, Inc. examined additional costs for eight contracts awarded to Chemonics which were active during the audit period. These eight contracts had a total value of $104.5 million. We found that $14.8 million, or about 14.2 percent, was allocated to fund the services obtained from various subcontractors. Most of these costs were incurred either before or after the two year period that we audited. We examined 28 subcontracts which were awarded to 26 different subcontractors on the eight contracts.

All required approvals by A.I.D. of subcontractors were obtained. Chemonics' practice is to include the subcontractors in its bid proposal to A.I.D. Key personnel are generally listed in the prime contracts. Our tests showed that, with a few exceptions, the personnel identified were used, and replacements were approved as required by A.I.D.

We found that Chemonics was following applicable rules and regulations in its subcontracting practices and no deficiencies were identified. This additional work was conducted at Chemonics' office in Washington, D.C. from January 3, 1994 to February 10, 1994. The contracts and subcontracts examined are shown in the exhibits to this management letter. Our conclusions on your specified areas of interest are discussed in the following sections.

Extent of Subcontractor Utilization

We reviewed 8 contracts awarded to Chemonics with total value of $104.5 million and found that $14.8 million, or about 14.2 percent, was allocated to fund the services obtained from various subcontractors. Subcontract participation on individual prime contracts ranged from a low of 7.2 percent to a high of 31.3 percent. (See Exhibit A for details.) From 2 to 6 subcontracts were awarded under each prime contract. Subcontractors are relied on by Chemonics to provide technical expertise or level of effort it does not have to successfully complete A.I.D. projects in developing countries.

Our review also showed that there was no significant use by Chemonics of any individual subcontractor. The 28 subcontracts reviewed were awarded to 26 different subcontractors. There were only two instances where a subcontractor got 2 subcontracts, a host country firm (Arabic Software Engineering, Inc.) in Egypt on separate long term projects and an 8(a) firm (Amex International, Inc.) on projects in Swaziland and South Africa.

Although A.I.D. contracting officers were aware of specific subcontractor participation during pre-award prime contract negotiations with Chemonics, subcontracts awarded by Chemonics still required A.I.D. approval. We found that appropriate approvals had been obtained from A.I.D. contracting officers or other responsible officials for all subcontracts over $25,000 included in our review. In addition, through examination of file data and discussions with Chemonics staff, it appears that A.I.D. officials were also aware of most subcontracts under $25,000 prior to their execution.

Key personnel, such as the Chief of Party, are identified in the prime contracts or through modifications. Our tests showed that they were used as proposed, or their replacements were appropriately approved when required. For example, one proposed Chief of Party declined because the project term was reduced, and A.I.D. approved his replacement.

Subcontractor Payments

We reviewed subcontract payments of $449,185 applicable to 8 Chemonics prime contracts having total subcontract payments of $5,083,891 for the two-year period April 1, 1990 to March 31, 1992 (fiscal years 1991 and 1992). (See Exhibit A for details.) We found that all payments were made in accordance with applicable contract provisions and no exceptions were taken.

It should be noted that the above review represents expanded audit coverage of an area which we previously reviewed at Chemonics during the past year. There were no exceptions taken on subcontract payments in that review.

Procurement Practices

Based on our review of procurement data provided by Chemonics in support of the prime contracts and subcontracts referred to in Exhibit A, discussions with Chemonics officials, and involvement of A.I.D. contracting officers in prime contract negotiations, we believe that Chemonics procurement system for awarding subcontracts follows sound commercial practices, follows federal rules for competition, and obtains reasonable prices for services rendered.

Discussion with project directors for projects in Swaziland, Oman and Egypt, together with supporting procurement data, showed that Chemonics has a system for selecting qualified subcontractors at reasonable prices. Their efforts are documented and this data is included in proposals to A.I.D. for new contracts.

During contract price negotiations, the A.I.D. contracting officer has access to all supporting data in a proposal including pricing relative to any subcontract included in the proposal. To assist in obtaining reasonable subcontract prices, contracting officers can take various courses of action, such as (1) comparing prices with other proposals for the same work, (2) requesting additional pricing data for questionable items, (3) approving provisional overhead rates, and (4) requesting pricing audits of subcontract cost elements. Therefore, even if a bidder did a poor job pricing subcontract effort in a proposal, the contracting officer would still have to justify reasonable prices prior to contract award. Further, since almost all subcontracts are the cost-plus-fixed-fee or cost-reimbursement type, they are subject to post audit review by federal auditors.

Our review also showed that Chemonics did not utilize any of its "sister" companies (other subsidiaries of Erly Industries, Inc.) to work on A.I.D. contracts.

Subcontracts with "8(a)" Firms

Chemonics has been a subcontractor to one "8(a)", or Gray Amendment firm, Tropical Research and Development, Inc. (TR & D). The subcontract was effective September 10, 1992, for a 24-month period on a project in Uganda and was for $685,959. Chemonics was to provide a financial advisor and related services. TR & D had served as a Gray Amendment subcontractor to Chemonics on one of the eight contracts we examined during this phase of the audit.

A Chemonics official said that they did not have a copy of A.I.D.'s approval of the subcontract since the prime contractor would have to obtain it. We were told that the proposal to A.I.D. by TR & D had included Chemonics as a subcontractor. The records indicated that A.I.D. had seen the subcontract and had required a change to it.

This subcontract was effective after the end of our audit period. During the audit for the period April 1, 1990 to March 31, 1992, we saw no indication that Chemonics had been a subcontractor. Chemonics' Director said that they preferred prime contracts and did not usually serve as a subcontractor.

Promissory Notes with Subcontractors

Chemonics officials stated that the company had promissory notes with two subcontractors in the event it made payments to the subcontractors in advance of the due dates provided in the subcontracts. Both notes provided for interest at an annual rate of 9 percent for each day between the date of payment and the date Chemonics was obliged to pay them.

The notes were with Sibley International and FINTRAC. As requested by your staff, we examined the details of the Sibley agreement. The note was dated June 26, 1992, and was after the end of the audit period. From May 1993 through December 1993, Chemonics recorded interest received from Sibley totaling $12,949.16. The interest due was deducted from Chemonics' payments to Sibley and recorded as interest income by Chemonics.

Chemonics officials said that these agreements were made to help the cash flow situation of small, minority firms who would have financial difficulties if they had to wait the regular 100 to 120 days for reimbursement by U.S.A.I.D. for their incurred expenses.

* * * *

We discussed these matters with Chemonics officials at a close-out meeting on February 10, 1994, in Washington, D.C. The Chemonics' staff provided excellent cooperation during the audit.

Very truly yours,

Leon Snead
for William H. Oliver, Partner
Clifton, Gunderson & Co.

EXAMINATION OF SUPPLEMENTAL INFORMATION PRESENTED BY THE REPRESENTATIVE, USAID/OMAN

The audit evaluated additional information brought to our attention by the USAID Representative in Oman. These matters concerned the following issues that the Representative, USAID/Oman, believed might impact on this financial audit of Chemonics:

- use of commercial courier service in lieu of the diplomatic pouch for employees' personal mail;
- overseas staff earning annual leave in excess of its domestic employees or U.S. Government employees;
- exceeding maximum salary limitations without approval;
- determining whether procurements comply with USAID source and origin requirements; and
- determining whether entertainment costs were funded by U.S. Government contracts.

The audit examined these issues and concluded that Chemonics' procedures in these six areas were generally in agreement with the regulations or contracts. Accordingly, the auditors did not question any costs incurred by Chemonics in these areas.

A description of the auditors' findings in these six areas follows:

Use of Commercial Courier Service The auditors concluded that Chemonics was complying with limitations concerning use of pouch mail. Some of Chemonics' contracts specifically authorized its employees to use diplomatic pouch for their private mail. The auditors tested 72 logs of mail sent through courier service and diplomatic pouch and found that Chemonics had listed the specific contents of each shipment, on an item-by-item basis, whether the individual items in the shipments were personal or business in nature. On the basis of this test, the auditors concluded that Chemonics was aware of the contents of what was shipped and therefore had adequate controls over use of the courier service and diplomatic pouch.

What was not clear, however, was whether Chemonics was justified in using courier service in lieu of diplomatic pouch for personal mail. Use of diplomatic pouch—not courier service—for personal mail was specifically authorized by terms of the contracts. Chemonics justified the use of courier service on the basis that the diplomatic pouch was too slow for routine business, so they had to use the courier service anyway and while they were using the courier service it was not unreasonable to use it for personal mail also.

The auditors agreed with this reasoning and did not question use of the courier service for the personal mail. The auditors also contended that nothing really precluded use of the courier mail for this purpose. Further, the commercial mail service is already being used, so the additional cost of sending personal mail is probably not that high and, in any case, would be difficult or impossible to account for.

Annual Leave The auditors concluded that Chemonics was justified in paying its overseas employees 26 days of annual leave each year. The USAID Acquisition Regulation states (AIDAR 752.7031) that a contractor may grant to its employees vacations of reasonable duration, in accordance with the contractor's practice, as long as the vacation leave was not earned at a rate in excess of 26 days each year. This provision was specifically included by reference in Chemonics' contract with USAID/Oman. Further, the auditors confirmed that Chemonics' personnel manual specifically established as policy a provision that its employees assigned abroad on long-term assignment would get 26 days of vacation leave annually. Based on this documentation, the auditors concluded that Chemonics was justified is paying its overseas employees at the rate of 26 days of vacation leave annually.

Exceeding Maximum Salary Limitations The auditors made extensive tests of salary levels to ensure that employees were not paid in excess of Foreign Service-1 salary levels. Twenty-four of 25 contracts were tested for 1991 and 18 of 22 contracts were tested for 1992. Based on the results of these tests, the auditors concluded that Chemonics was not paying its employees in excess of FS-1 salary levels.

Source and Origin Requirements On the basis of results of tests of 48 individual procurement actions, the auditors concluded that Chemonics was complying with source and origin requirements. The auditors found that most procurements were of supplies or services with a source in the U.S.

Entertainment Costs Chemonics' policy manual provides that entertainment expenses are not to be charged to USAID contracts. The manual distinguishes between business meetings and entertainment and states that entertainment expenses are not to be included. The auditors reviewed Chemonics policies with regard to entertainment costs and included extensive tests for entertainment costs in their audit sample. On the basis of such tests, the auditors did not identify any charges that appeared to be entertainment costs.

APPENDIX IV

REPORT DISTRIBUTION LIST

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