

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-66 Financial Audit

USAID's Afghanistan Engineering Support Program (AESP): Audit of Costs Incurred by Tetra Tech EM Inc.

**In accordance with legal requirements, SIGAR has redacted certain information deemed
proprietary or otherwise sensitive from this report.**



**AUGUST
2018**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On November 9, 2009, the U.S. Agency for International Development (USAID) awarded a cost-plus-fixed-fee, 5-year task order for \$62,984,016 to Tetra Tech EM Inc. (Tetra Tech) to implement the Afghanistan Engineering Support Program (AESP). The program provides the USAID Mission for Afghanistan's Office of Infrastructure, Engineering, and Energy with engineering support to help build safe, long-lasting, and energy-efficient facilities in Afghanistan. The agency modified the task order 25 times, increasing the total cost to \$97 million and extending the period of performance to November 8, 2016.

SIGAR's financial audit, performed by Castro & Company LLC (Castro), reviewed \$25,079,922 in expenditures and fixed fees charged to the task order from November 9, 2015, through November 8, 2016. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Tetra Tech's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Tetra Tech has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Tetra Tech's Special Purpose Financial Statement (SPFS). See Castro's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Castro did not comply, in all material respects, with U.S. generally accepted government auditing standards.

August 2018

USAID's Afghanistan Engineering Support Program (AESP): Audit of Costs Incurred by Tetra Tech EM Inc.

SIGAR 18-66-FA

WHAT THE AUDIT FOUND

Castro found three deficiencies in Tetra Tech's internal controls and four instances of noncompliance with the terms and conditions of the task order. For example, Tetra Tech could not provide supporting documentation that USAID approved paying subcontractors a higher general and administrative rate than the rate agreed upon in the task order. As a result, Castro questioned \$83,984 in subcontractor costs. In addition, Tetra Tech could not provide supporting documentation that it complied with the Fly America Act, which governs travel paid for with U.S. government funds. Therefore, Castro questioned \$3,528 in travel costs. Castro also noted instances where Tetra Tech could not provide timesheets or supporting documentation for salary increases that amounted to \$4,621 in labor costs.

As a result of these internal control deficiencies and instances of noncompliance, Castro identified \$92,133 in questioned costs. Of that amount, \$83,984 were ineligible costs—costs prohibited by the agreement, applicable laws, or regulations—and the remaining \$8,149 were unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Subcontractor	\$83,984	\$0	\$83,984
Travel	\$0	\$3,528	\$3,528
Labor	\$0	\$4,621	\$4,621
Totals	\$83,984	\$8,149	\$92,133

Castro reviewed two prior audit reports of costs Tetra Tech incurred related to the AESP project. The reports identified two findings that required corrective actions and remain unresolved. The first finding was regarding Tetra Tech's inability to provide supporting documentation. Castro noted similar findings in this audit and concluded that the actions Tetra Tech had taken were not adequate. The second previous finding was for ineligible costs. Although Tetra Tech has been communicating with USAID and providing additional documentation, as of June 12, 2018, the USAID contracting officer has not made a determination on the allowability of these costs.

Castro issued an unmodified opinion on Tetra Tech's SPFS, noting that it presents fairly, in all material respects, revenues received, and costs incurred and reimbursed for period indicated.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at USAID:

1. Determine the allowability of and recover, as appropriate, \$92,133 in questioned costs identified in the report.
2. Advise Tetra Tech to address the report's three internal control findings.
3. Advise Tetra Tech to address the report's four noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

August 20, 2018

The Honorable Mark Green
USAID Administrator

Mr. Herbert B. Smith
USAID Mission Director Afghanistan

We contracted with Castro & Company LLC (Castro) to audit the costs incurred by Tetra Tech EM Inc. (Tetra Tech) under a U.S. Agency for International Development (USAID) cost-plus-fixed-fee task order to implement the Afghanistan Engineering Support Program (AESP).¹ The program provides USAID's Office of Infrastructure, Engineering, and Energy with engineering support to help build safe, long-lasting, energy-efficient facilities in Afghanistan. Castro's audit reviewed \$25,079,922 in expenses that Tetra Tech charged to the task order from November 9, 2015, through November 8, 2016. Our contract with Castro required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$92,133 in questioned costs identified in the report.**
- 2. Advise Tetra Tech to address the report's three internal control findings.**
- 3. Advise Tetra Tech to address the report's four noncompliance findings.**

The results of Castro's audit are discussed in detail in the attached report. We reviewed Castro's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Tetra Tech's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Tetra Tech's internal control or compliance with the task order, laws, and regulations. Castro is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Castro did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-114)

¹ USAID awarded task order 1 under contract number EDH-I-00-08-00027-00 to Tetra Tech.



Tetra Tech EM, Inc.
Afghanistan Engineering Support Program (AESP)
Contract No. EDH-I-00-08-00027-00, Task Order 1
For the Period from November 9, 2015 through November 8, 2016

AUDIT REPORT

August 7, 2018

Tetra Tech EM, Inc.
Financial Audit of Costs Incurred
Contract No. EDH-I-00-08-00027-00, Task Order 1
Afghanistan Engineering Support Program (AESP)
For the Period from November 9, 2015 through November 8, 2016

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ACRONYMS USED IN THIS REPORT

Acronyms

AIDAR	Agency for International Development Acquisition Regulation
CIG	Commercial/International Services Group
CO	Contracting Officer
CPFF	Cost-Plus Fixed Fee
AESP	Afghanistan Engineering Support Program
FAR	Federal Acquisition Regulation
G&A	General and Administrative
GAGAS	Generally Accepted Government Auditing Standards
GIRoA	Government of the Islamic Republic of Afghanistan
GSG	Government Services Group
NICRA	Negotiated Indirect Cost Rate Agreement
OIEE	Office of Infrastructure, Engineering and Energy
PSC	Personal Services Contracts
SER	Standard Exchange Rate
SIGAR	Special Inspector General for Afghanistan Reconstruction
USAID	United States Agency for International Development

Tetra Tech EM, Inc.
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Afghanistan Engineering Support Program (AESP)
For the Period from November 9, 2015 through November 8, 2016

Transmittal Letter

August 7, 2018

To: Board of Directors
Tetra Tech EM, Inc.
100 Nickerson Road
Marlborough, MA 01752

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

From: Castro & Company, LLC
Alexandria, VA

Subject: Financial Audit of Costs Incurred by Tetra Tech EM, Inc. (Tetra Tech) under the United States Agency for International Development (USAID) funded Afghanistan Engineering Support Program (AESP) under Contract No. EDH-I-00-08-0027-00, Task Order 1, for the period from November 9, 2015 through November 8, 2016.

We hereby provide to you our final report, which reflects results from the procedures we completed during our Financial Audit of Cost Incurred by Tetra Tech under the USAID funded Afghanistan Engineering Support Program, Contract No. EDH-I-00-08-00027-00, Task Order 1, for the period from November 9, 2015 through November 8, 2016.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement, Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary or any information following our reports.

On April 24, 2018, we provided SIGAR with a draft report reflecting our audit procedures and results. We also sent a copy of the draft report to Tetra Tech on June 13, 2018.

Thank you for providing us the opportunity to work with you and to conduct the audit of Tetra Tech's task order.

Sincerely,



Millie Seijo, CPA
Partner

Tetra Tech EM, Inc.
Financial Audit of Costs Incurred
Contract No. EDH-I-00-08-00027-00, Task Order 1
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Summary

Background

On November 9, 2009, the U.S. Agency for International Development (USAID) awarded Tetra Tech EM, Inc. (Tetra Tech) Contract No. EDH-I-00-08-00027-00, Task Order 1, to implement the Afghanistan Engineering Support Program (AESP). The purpose of AESP was to provide engineering and technical support so that the Office of Infrastructure, Engineering and Energy (OIEE) can carry out their mission with needed engineering expertise to construct safe, long-life and energy efficient transportation, vertical structures, energy, and water and sanitation infrastructure, and other related facilities in Afghanistan. Additionally, AESP directly supports USAID's strategic objectives related to health, education, agriculture, economic growth, justice areas and infrastructure.

The Task Order was originally awarded for a total cost of [REDACTED] and a fixed fee of [REDACTED]. The total cost plus fixed fee amount was \$62,984,016 for the period from November 9, 2009 through November 8, 2014. This Task Order was modified 25 times during the period of performance, including several modifications resulting in a revision to the budget. The total original cost increased to [REDACTED] while the fixed fee increased to [REDACTED] for a total estimated cost of \$97,000,000.

Modification No.	Effective Date	Significance
Mod 1	12/09/2009	Increased the obligated amount by \$3,500,000
Mod 2	03/04/2010	Increased the obligated amount by \$496,636
Mod 3	03/30/2010	Increased the obligated amount by \$494,636
Mod 4	05/04/2010	Increased the obligated amount by \$8,000,000
Mod 5	05/12/2010	Increased the obligated amount by \$300,000
Mod 7	08/01/2010	Increased the obligated amount by \$200,000
Mod 9	09/22/2010	Increased the obligated amount by \$12,500,000
Mod 11	01/29/2011	Increased the obligated amount by \$445,468
Mod 13	10/18/2011	Increased the obligated amount by \$110,000
Mod 14	12/20/2011	Increased the obligated amount by \$10,500,000
Mod 17	07/08/2012	Increased the obligated amount by \$9,600,000
Mod 20	08/14/2013	Increased the obligated amount by \$12,837,189
Mod 22	04/14/2014	Budget and Ceiling Price Rescinded
Mod 23	09/24/2014	Increased the obligated amount by \$9,015,984
Mod 25	09/16/2015	Increased the obligated amount by \$25,000,000

For the period from November 9, 2015 through November 8, 2016, the total costs incurred for the AESP Project were [REDACTED] plus a fixed fee of [REDACTED], for a total costs plus fixed fee of \$25,079,922. Tetra Tech provides consulting and engineering services worldwide. Tetra Tech is a diverse company, including individuals with expertise in science, research, engineering, construction, and information technology. Tetra Tech is organized into two major groups (Government Services Group (GSG) and Commercial/International Services Group (CIG))

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aligning with their core markets and enhancing the development of high-end consulting and technical solutions.

Work Performed

Castro & Company, LLC (Castro & Co) was engaged by the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by Tetra Tech under AESP, Contract No. EDH-I-00-08-00027-00, Task Order 1, for the period from November 9, 2015 through November 8, 2016.

Audit Objectives as Defined by SIGAR

The following audit objectives were defined by SIGAR within the Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan:

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether Tetra Tech’s Special Purpose Financial Statement for the task order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the task order and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of Tetra Tech’s internal control related to the task order, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether Tetra Tech complied, in all material respects, with the task order requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the task order and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether Tetra Tech has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

Scope

The scope of our audit covers Tetra Tech’s incurred costs and fixed fee amounts under Contract No. EDH-I-00-08-00027-00, Task Order 1, for the period from November 9, 2015 through

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November 8, 2016. We examined the Special Purpose Financial Statement and the underlying financial records to ensure that the amounts reported in the Special Purpose Financial Statement were adequately supported, allowable, and in compliance with contract terms and conditions and applicable laws and regulations. In addition, the following areas were considered to have a direct and material effect on the audit objectives under review:

- Budget Management
- Cash Management
- Disbursements (payroll and non-payroll transactions)
- Financial Reporting
- Procurement and Inventory Management

The records were made available for our review at Tetra Tech's office in Marlborough, MA. Castro & Co did not become aware of any scope limitations as of the date of this report related to our audit of Contract No. EDH-I-00-08-00027-00, Task Order 1.

Methodology

To meet the audit objectives, Castro & Co identified the applicable criteria against which to test the Special Purpose Financial Statement and supporting financial records and documentation through a review of the task order. In addition, Castro & Co interviewed Tetra Tech's management and staff, and reviewed prior year reports, policies and procedures, and organizational charts to gain an understanding of the normal procedures and system of internal controls established by Tetra Tech to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

Castro & Co performed this audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards 2011 revision (Yellow Book). In addition, the following areas were determined as directly and materially related to the Special Purpose Financial Statement and other audit objectives, and therefore, were included within the audit program for detailed evaluation:

- Planning – During the planning phase, we obtained an understanding of the task order between USAID and Tetra Tech, reviewed regulations specific to USAID that are applicable to the task order, obtained an understanding of Tetra Tech's internal control environment, and performance reconciliation between the General Ledger and the Special Purpose Financial Statement provided by Tetra Tech. In addition, we prepared the sampling methodology, conducted an entrance conference, interviews, and walkthroughs with Tetra Tech, prepared a risk assessment for each assertion as it pertains to the Special Purpose Financial Statement, and selected a sample of transactions to test.
- Budgetary compliance - audit steps included, but were not limited to: interviews with Tetra Tech's personnel and review of policies and procedures to determine the existence and

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effectiveness of internal controls, and comparing budget versus actual to identify unexplained overruns or shortfalls.

- Disbursements, including payroll and travel costs - audit steps included, but were not limited to: interviews of Tetra Tech's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls, review of supporting documentation for sample selections to assess proper charges to the project and adequacy of supporting documentation. For payroll expenses, we reviewed personnel files for salary and fringe benefits information, timesheets for proper approval and accuracy of the hours charged, and payroll disbursements in relation to the sample selection. For travel expenses, the sample was tested for proper charges to the project, compliance with federal travel regulations and USAID regulations, the accuracy of expenses charged to the task order, and adequacy of supporting documentation (expense report and receipts).
- Financial reporting - audit steps included, but were not limited to: the review of monthly progress reports, quarterly reports, and annual summary reports for timeliness, approvals, and accuracy.
- Procurement and inventory management – audit steps included, but were not limited to: interviews of Tetra Tech's personnel and review of policies and procedures to determine the existence and effectiveness of internal controls. For non-travel, non-payroll transactions audit steps included, but were not limited to, the review of the expense for proper charges to the project and adequacy of supporting documentation. We reviewed sample items for compliance with vetting requirements and with tax withholding requirements. From a procurement standpoint, this included a review of sample selection to ensure competitive bidding techniques were used by Tetra Tech. For inventory management, we cross-referenced the USAID-approved disposition plan to the acknowledgements signed by the receiving parties for the inventory items, if applicable.
- Billing - audit steps included, but were not limited to: interviews of Tetra Tech's personnel and review of policies and procedures in relation to billing in order to determine existence and effectiveness of internal controls, and reviewing a sample of invoices to determine compliance with USAID's Agency for International Development Acquisition Regulation (AIDAR) 752.7003 as part of compliance testing.
- Compliance - Through a review of policies and procedures, interviews, walkthroughs and substantive testing for previously mentioned areas of testing and direct request of deliverables, we determined compliance with the deliverables, contract clauses and laws and regulations. Castro & Co reviewed the overhead charges under the indirect costs and fixed fees categories totaling [REDACTED] and [REDACTED], respectively. Castro & Co also reviewed the methodology and obtained a sufficient understanding of Tetra Tech's proposed method of allocation. Testing of indirect costs was limited to a) determining whether Tetra Tech calculated indirect costs using the provisional rates approved by the

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Agreement Officer during the award negotiation process; and b) determining whether Tetra Tech calculated and recorded adjustments between estimated indirect costs and final, actual indirect costs incurred as of the end of each fiscal year.

Castro & Co used sampling techniques to select expenditures and payroll samples to test for the allowability of incurred costs. Castro & Co reviewed procurement records to determine reasonableness of the costs incurred and compliance with laws and regulations and the terms of the task order, especially the vetting process. For the samples selected, we requested and received supporting documentation for compliance evaluation of incurred costs. We also reviewed submitted financial status reports for accuracy and compliance with reporting requirements.

Summary of Audit Results

Upon completion of Castro & Co's procedures, an unmodified opinion was issued on Tetra Tech's Special Purpose Financial Statement. As a result of our tests, Castro & Co did not identify any internal control findings that were classified as significant deficiencies or material weaknesses, see Independent Auditor's Report on Internal Control on page 14. Our audit identified three deficiencies in internal controls. They are described in Findings 2018-01, 2018-03, and 2018-04 (see pages 18, 21, and 22, respectively). Castro & Co also reported on both Tetra Tech's compliance with the terms and conditions of the task order and applicable laws and regulations, see Independent Auditor's Report on Compliance on page 16. We identified four instances of noncompliance (see Findings 2018-01, 2018-02, 2018-03, and 2018-04). Our audit disclosed questioned costs in the amount of \$92,133.

This summary is intended to present an overview of the results of the procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Total Questioned Costs
2018-01	Ineligible Questioned Costs (Deficiency and Non-Compliance)	\$ 83,984
2018-02	Contract Flow-Down Clauses (Non-Compliance)	\$ -
2018-03	Unsupported Questioned Costs (Deficiency and Non-Compliance)	\$ 3,528
2018-04	Unsupported Questioned Costs(Deficiency and Non-Compliance)	\$ 4,621
Total Questioned Costs		\$ 92,133

Tetra Tech EM, Inc.
Financial Audit of Costs Incurred
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Afghanistan Engineering Support Program (AESP)
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Status of Prior Audit Reports

Castro & Co inquired of Tetra Tech, SIGAR, and USAID to determine if there have been prior audits, reviews, or assessments relevant to the Special Purpose Financial Statement and AESP under Contract No. EDH-I-00-08-00027, Task Order 1. Castro & Co also performed a search on the internet to see if there was publicly available audits or reviews related to the project under audit. As a result of our procedures, we obtained and reviewed two Incurred Cost Audit Reports of Tetra Tech related to AESP, covering the period from May 20, 2012 through December 31, 2013 and January 1, 2014 through November 8, 2015. Both audits were performed by Davis and Associates CPAs, PLLC (Audit reports No. F-306-15-023-N and F-306-17-011-N). The audit reports identified three findings, for which only two required corrective action. Based on Castro & Co's procedures, we concluded that Tetra Tech has not taken adequate corrective action to address the recommendations, because similar issues were identified in this audit. See Schedule II within this report for further information related to the findings and corrective action taken, as well as the status of those corrective actions.

Summary of Management Comments

Tetra Tech management was provided an opportunity to review and provide written comments on the audit report. Tetra Tech management agreed with findings 2018-02 and 2018-04, and partially agreed with finding 2018-03. Additionally, Tetra Tech management disagreed with finding 2018-01, and provided additional support for our consideration. Tetra Tech's full response to the findings are incorporated in Appendix A of this report. Our responses to Tetra Tech's comments are provided in Appendix B.

**Independent Auditor's Report
On the Special Purpose Financial Statement**

Board of Directors
Tetra Tech EM, Inc.
100 Nickerson Road
Marlborough, MA 01752

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement (the Statement) of Tetra Tech EM, Inc. (Tetra Tech) under the Afghanistan Engineering Support Program (AESP), Contract No. EDH-I-00-08-00027-00, Task Order 1, for the period from November 9, 2015 through November 8, 2016, and the related notes to the Statement.

Management's Responsibility for the Statement

Tetra Tech's management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* 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 Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of

significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our unmodified opinion.

The accompanying Statement was prepared to present the revenues earned and cost incurred by Tetra Tech pursuant to Contract No. EDH-I-00-08-00027-00, Task Order 1, described in Note 2, and is not intended to be a complete presentation of Tetra Tech's assets, liabilities, revenues, and expenses.

Opinion

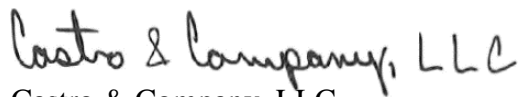
In our opinion, the Statement referred to above presents fairly, in all material respects, project revenues, costs incurred and reimbursed, items directly procured by USAID, and the balance for the indicated period, in accordance with the requirements established by SIGAR and in conformity with the basis of accounting described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *U.S. Government Auditing Standards*, we have also issued our reports dated June 12, 2018, of Tetra Tech's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations, contracts, and other matters as it relates to the Statement. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tetra Tech's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Tetra Tech EM, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Castro & Company, LLC

June 12, 2018

Alexandria, VA

Special Purpose Financial Statement
Tetra Tech EM, Inc.
Contract No. EDH-00-08-00027-00, Task Order 1
For the period from November 9, 2015 through November 8, 2016

	<u>Actual¹</u>	<u>Questioned Costs</u>		
		<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<u>Revenues</u>				
Reimbursement	\$ [REDACTED]			4
Award Fee	[REDACTED]			
Total Revenue	<u>\$ 25,079,922</u>			
<u>Costs Incurred</u>				
Labor	\$ [REDACTED]	\$ -	\$ 3,533	5, C
Fringe	[REDACTED]	-	-	5
Overhead	[REDACTED]	-	-	5
Travel	-	-	2,698	5, B
Other Direct Costs	[REDACTED]	-	-	5
Subcontractor	[REDACTED]	[REDACTED]	-	5, A
Total Direct Costs	<u>\$ 23,435,970</u>			
<u>Indirect Costs</u>				
General and Administrative	[REDACTED]	-	1,385	6, B, C
Total Costs Incurred	[REDACTED]			
Total Question Costs		[REDACTED]	\$ 7,616	A, B, C
Total Fixed Fees Charged	[REDACTED]	\$ [REDACTED]	\$ 533	A, B, C
Total Costs Plus Fixed Fee	<u>\$ 25,079,922</u>	\$ 83,984	\$ 8,149	
Outstanding Fund Balance	<u><u>-</u></u>			7

The Notes to the Special Purpose Financial Statement are an integral part of this Statement.

¹ The presentation of the budget by Tetra Tech, as included on section B.3 of Task Order No. EDH-I-01-08-00027-00 under the Global Architect-Engineer Infrastructure Services, was rescinded on April 14, 2014 under Modification No. 22. For that end, a presentation of the budget was not included in the Special Purpose Financial Statement.

Tetra Tech EM, Inc.
Notes to the Special Purpose Financial Statement
For the period from November 9, 2015 through November 8, 2016²

1. The Company

Tetra Tech provides consulting and engineering services worldwide. Tetra Tech's expertise is in science, research, engineering, construction, and information technology. Tetra Tech is organized into two major business groups. The Government Services Group provides consulting and engineering services worldwide for U.S government clients, and the Commercial/International Services Group provides consulting and engineering services worldwide for commercial and international clients.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under Contract No. EDH-I-00-08-00027-00, Task Order 1, for the period from November 9, 2015 through November 8, 2016. The information in the Statement is presented in accordance with requirements specified by USAID and is specific to the aforementioned task order. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the presentation of Tetra Tech's basic financial statements.

Basis of Accounting

The Statement reflects the revenues earned and expenses incurred by Tetra Tech under the aforementioned task order. The Statement has been prepared following an accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

Accounting System Dates

The Statement reflects all billable costs incurred under Contract No. EDH-I-00-08-00027-00, Task order 1, for the period from November 9, 2015 through November 8, 2016. Only transactions and/or adjustments incurred in accounting periods during the audit period have been included in the Statement (indirect rate adjustments from provisional to actual rates for a fiscal year are posted in the same fiscal year before closing the books).

Currency

The Statement is presented in U.S. dollars. Expenditures incurred in currencies other than U.S. dollars have been translated into U.S. dollars. Tetra Tech uses the prevailing exchange rates

² Notes to the Special Purpose Financial Statement were developed by and are the responsibility of Tetra Tech EM, Inc. management.

published in the Da Afghanistan Bank to translate local currency into U.S dollars using market data to establish a Standard Exchange Rate (SER) to translate local currency into U.S. dollars. The process of how Finance determines the exchange rate for the deduction or other contracted payment and/or taxes is as follows:

- a) Finance will check the Da Afghanistan Bank website to obtain the exchange rate for changing U.S. dollars to Government of the Islamic Republic of Afghanistan (GIROA) Afghani to determine the rate.
- b) Salary proceeds are paid in U.S dollars. The net salary proceeds are electronically deposited to the employee's bank account and made available for withdrawal on paydays.

3. Estimated Cost

Task Order	Description	CLIN Type	Estimated Cost Price	Fixed Fee on CPFF	Total
1	Task Order Ceiling	CPFF			\$ 97,000,000

* Summary of the Budget as per Modification No. 25

4. Revenues

Revenues represent the amount of the funds to which Tetra Tech is entitled to receive for allowable, reimbursable costs incurred. Since the Tetra Tech award is a Cost-Plus Fixed Fee (CPFF), revenues are recognized as earned.

5. Cost Categories

The following are the cost categories shown on the Statement by billing category as reported in client billings and accumulated in Tetra Tech's general ledger.

- Labor and Fringe Benefits - These expenses are related to direct labor for personnel working at the Home and Field Offices.
- Travel - All expenses related to travel including, airfare, lodging, per diem, and transportation.
- Subcontractor – These expenses are related to consultants or subcontractors that provide professional services in Afghanistan.
- Other Direct Costs – All expenses related to leases, bank fees, communications, insurance legal fees, repairs, and other miscellaneous categories.
- Indirect Cost – Indirect costs are costs that are associated with the general administration, general operations, and management of the project.
- Fixed Fee - The fixed fee was established in the task order between Tetra Tech and USAID.

6. Indirect Cost Rate

The allowable indirect costs shall be reimbursed based on the negotiated provisional or predetermined rates and the appropriate bases.

The base of application for the indirect cost rates are as follows:

- a) Direct Labor is burdened with Fringe, Overhead, and G&A. Direct labor includes home office and expatriate labor but excludes local contract labor.
- b) Non-Labor Direct Costs (Material, Equipment, and ODCs) are burdened only with G&A.
- c) Subcontracts are not burdened at all.

7. Outstanding Fund Balance

The fund balance presented on the Statement represents the difference between revenues recognized and costs incurred during the implementation of the task order. During the period ending November 8, 2016 the outstanding fund balance amounted to \$0.

8. Subsequent Event

Tetra Tech evaluated subsequent events through June 12, 2018 through which the date the Statement was available to be issued. Tetra Tech concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

**Notes to the Questioned Costs Presented on the Special Purpose Financial Statement
For the period from November 9, 2015 through November 8, 2016**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable; prohibited by the contract or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Note A – Questioned Costs – Ineligible G&A Rate for Subcontractor Costs (Tetra Tech CIG):

Finding 2018-01: Tetra Tech could not provide supporting documentation from USAID approving the General and Administrative rate (G&A). Tetra Tech CIG (Affiliate) was using a non-approved average G&A rate by the subcontractor of [REDACTED] instead of Tetra Tech's approved rate of [REDACTED]. The application of a higher G&A rate resulted in an overbilling to USAID. As a result, we questioned [REDACTED] in direct costs and [REDACTED] in indirect costs which amounted to \$83,984 in subcontract costs.

Note B – Questioned Costs – Travel Disbursement

Finding 2018-03: Tetra Tech could not provide supporting documentation to comply with the Fly America Act. As a result, we questioned [REDACTED] in direct costs and [REDACTED] in indirect costs which amounted to \$3,528.

Note C – Questioned Costs -Labor

Finding 2018-04: There were nine (9) instances where Tetra Tech could not provide timesheets. We also noted two (2) instances where Tetra Tech could not provide supporting documentation for salary increases. As a result, we questioned [REDACTED] in direct costs and [REDACTED] in indirect costs which amounted to \$4,621.

Independent Auditor's Report on Internal Control

Board of Directors
Tetra Tech EM, Inc.
100 Nickerson Road
Marlborough, MA 01752

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement (the Statement) of Tetra Tech EM, Inc. (Tetra Tech) under the Afghanistan Engineering Support Program (AESP), Contract No. EDH-I-00-08-00027-00, Task Order 1, for the period from November 9, 2015 through November 8, 2016, and the related notes to the Statement in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. We have issued our report thereon dated June 12, 2018.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Tetra Tech's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Tetra Tech's internal control. Accordingly, we do not express an opinion on the effectiveness of Tetra Tech's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

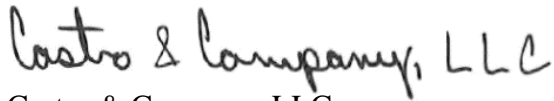
Our audit identified three deficiencies in internal controls. They are described in Findings 2018-01, 2018-03 and 2018-04 (see pages 18, 21 and 22).

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of Tetra Tech's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tetra Tech's internal control over the Statement. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Tetra Tech EM, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

A handwritten signature in dark ink that reads "Castro & Company, LLC". The script is cursive and somewhat stylized, with the letters "C" and "L" being particularly prominent.

Castro & Company, LLC

June 12, 2018

Alexandria, VA

Independent Auditor's Report on Compliance

Board of Directors
Tetra Tech EM, Inc.
100 Nickerson Road
Marlborough, MA 01752

Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement (the Statement) of Tetra Tech EM, Inc. (Tetra Tech) under the Afghanistan Engineering Support Program (AESP), Contract No. EDH-I-00-08-00027-00, Task Order 1, for the period from November 9, 2015 through November 9, 2016, and the related notes to the Statement in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and have issued our report thereon dated June 12, 2018.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and terms and conditions applicable to the contract task order requirements referred to above is the responsibility of Tetra Tech's management.

Auditor's Responsibility

As part of obtaining reasonable assurance about whether Tetra Tech's Statement is free of material misstatement, including non-compliance due to fraud and errors, we performed tests of Tetra Tech's compliance with certain provisions of contract terms and laws and regulations. However, our objective 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 disclosed four instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2018-01, 2018-02, 2018-03 and 2018-04.

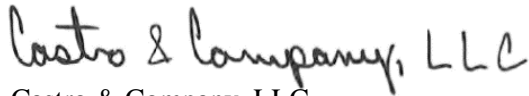
In performing our testing, we considered whether the information obtained and tested during our audit may indicate the possibility of material fraud or abuse. During our testing, we did not identify instances of material fraud or abuse.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on Tetra Tech's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tetra Tech's compliance over the Statement. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Tetra Tech EM, Inc., the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

A handwritten signature in dark ink that reads "Castro & Company, LLC". The signature is written in a cursive, slightly slanted style.

Castro & Company, LLC

June 12, 2018

Alexandria, VA

Schedule I - Schedule of Findings and Questioned Costs

Finding Number 2018-01: Application of Indirect Cost Rates (Deficiency and Non-Compliance)

Condition: During our testing of the application of approved indirect cost rates by Tetra Tech, Inc., for the period from November 9, 2015 through November 8, 2016, we found that Tetra Tech CIG (Affiliate) used a non-approved average General and Administrative (G&A) rate, overbilling USAID in the amount of \$83,984.

The table below detail the calculation of the questioned amount of \$83,984.

Description	Calculation*
Direct/Indirect Total Costs	\$ 7,444,660
Approved Rate	
G&A Total Amount Based on Approved Rate	\$
G&A Total Amount Charged to USAID	\$
G&A Amount in Excess Based on the Approved Rate	\$
Add: Fixed Fee Rate	
Total Questioned Amount, including the Corresponding Fixed Fee Amount of	\$ 83,984

*Rounded to the nearest whole dollar.

Criteria:

Contract No. EDH-I-00-08-00027-00, B.8 indirect Cost and Advanced understanding on Ceilings states:

Pending establishment of revised provisional or final indirect cost rates, allowable indirect costs shall be reimbursed on the basis of the following negotiated provisional or predetermined rates and the appropriate bases for prime contractors and their major subcontractors ("major subcontractors" are those subcontractors expected to perform at least 20% of the technical effort or to provide professional expertise for the following sectors, even if the sector is expected to be less than 20% of the effort under the contract: water resources, environmental/sanitary engineering, civil and industrial engineering, structural engineering, value engineering, industrial/chemical engineering, and power and telecommunications):

Affiliate	Fringe Rate %	Fringe Ceiling Rate %	Overhead Rate %	Overhead Ceiling Rate %	G&A Rate %	G&A Ceiling Rate
Tetra Tech Inc. (CIG)	n/a	n/a				

Note: (*) Represents the maximum rate that Tetra Tech CIG (Affiliate) can charge Tetra Tech EM for Overhead and General and Administrative (G&A) costs.

Federal Acquisition Regulation (FAR) 52.216-7, Allowable Cost and Payment states:

(e) *Billing rates.* Until final annual indirect cost rates are established for any period, the Government shall reimburse the Contractor at billing rates established by the Contracting Officer or by an authorized representative (the cognizant auditor), subject to adjustment when the final rates are established. These billing rates—

(1) Shall be the anticipated final rates; and

(2) May be prospectively or retroactively revised by mutual agreement, at either party's request, to prevent substantial overpayment or underpayment.

Questioned Costs: \$83,984

Cause: Tetra Tech did not implement a comprehensive review process to ensure the correct indirect cost rate was used to prevent the overbilling of unapproved indirect costs to USAID.

Effect: Tetra Tech used the prior year's indirect rate which was higher and no longer being used causing them to overbill USAID by \$83,984.

Recommendation(s): We recommend that Tetra Tech:

1. Develop and implement controls to ensure that the correct indirect rate is used to prevent that unapproved indirect rates are billed to USAID.
2. Reimburse the overbilled amount of \$83,984 to USAID related to the misapplication of indirect cost rates or provide support that the amount billed was correctly calculated.

Finding Number 2018-02: Contract Flow-down Clauses and Vetting Documentation (Non-Compliance)

Condition: During our review of subcontracts over \$25,000, we noted three (3) instances of non-compliance with contract flow-down clauses. We noted two (2) instances where Tetra Tech did not include the Clauses Incorporated by Reference as required under Contract EDH-I-00-08-00027-00 Section H.32 and Section I.6, and one (1) instance where Tetra Tech did not include the clause related to "vetting procedures" in its contract and did not provide supporting documentation for vetting efforts conducted prior to awarding to a subcontract over \$25,000. See below for a summary of subcontracts not in compliance with contract flow-down clauses:

Subcontractor	Proof of Vetting	Missing Contract Flow-Down Clauses
Hemay At Etmenan Construction Company		✓
Hatch	✓	✓

Criteria:

Contract EDH-I-00-08-00027-00 Section H.32 and Section I.6

- Section H.32 752.7101 Voluntary Population Planning Activities (c) states: The Contractor shall insert this provision in all contracts.

- Section I.6 Relocation of U.S Businesses, Assistance to Export Processing Zones, Internationally Recognized Worker's Rights (JAN 1994) (d) states: This provision must be included in all sub agreements.

Mission Order #21 USAID Anti-Terrorism Procedures – Vetting Procedures;

- A. Applicability: Vetting is conducted by USAID in connection with its review and approval of proposed awards and subawards to non-US awardees. Vetting applies to the following organizations and individuals:
 - (1) Contractors and subcontractors: Any non-US organization or individual proposed for award of a contract or subcontract in excess of \$25,000. This includes contracts to be awarded by USAID, subcontracts to be awarded by prime contractors, and contracts to be awarded by grantees and recipients of cooperative agreements. It does not include personal services contracts (PSCs) to be awarded by USAID, which have separate security clearance procedures. A contract includes any instrument that acts as a contract regardless of its form or the name given to it.

Additionally, under FAR Part 52.209-6, Protecting the Government's Interest when Subcontracting with Contractors Debarred, Suspended, or Proposed for Debarment:

- (b) The Government suspends or debar Contractors to protect the Government's interests. Other than a subcontract for a commercially available off-the-shelf item, the Contractor shall not enter into any subcontract, in excess of \$25,000 with a Contractor that is debarred, suspended, or proposed for debarment by any executive agency unless there is a compelling reason to do so.
- (c) The Contractor shall require each proposed subcontractor whose subcontract will exceed \$25,000, other than a subcontractor providing a commercially available off-the-shelf item, to disclose to the Contractor, in writing, whether as of the time of award of the subcontract, the subcontractor, or its principals, is or is not debarred, suspended, or proposed for debarment by the Federal Government.
- (d) A corporate officer or a designee of the Contractor shall notify the Contracting Officer, in writing, before entering into a subcontract with a party (other than a subcontractor providing a commercially available off-the-shelf item) that is debarred, suspended, or proposed for debarment. The notice must include the following:
 - (1) The name of the subcontractor.
 - (2) The Contractor's knowledge of the reasons for the subcontractor being listed with an exclusion in SAM.
 - (3) The compelling reason(s) for doing business with the subcontractor notwithstanding its being listed with an exclusion in SAM.
 - (4) The systems and procedures the Contractor has established to ensure that it is fully protecting the Government's interests when dealing with such subcontractor in view of the specific basis for the party's debarment, suspension, or proposed debarment.
- (e) *Subcontracts*. Unless this is a contract for the acquisition of commercial items, the Contractor shall include the requirements of this clause, including this paragraph, in each subcontract that—
 - (1) Exceeds \$25,000 in value; and
 - (2) Is not a subcontract for commercially available off the-shelf items.

Cause: Tetra Tech did not implement internal controls to ensure that required contract clauses were flowed down to its subcontractors and that contracting/procurement staff did not receive adequate training to ensure that documentation was maintained to support the vetting process of subcontractors prior to award.

Effect: Not ensuring that prime contract clauses are incorporated in the subcontractors' contracts may affect how the subcontractor works in Afghanistan and may hinder USAID in enforcing those requirements. Also, not having developed and implemented proper vetting procedures increases the risk that Tetra Tech could enter into contracts with parties excluded from doing business with the U.S. Government that may have ties to terrorist organizations.

Recommendation(s): We recommend that Tetra Tech:

1. Develop a policy or procedure to ensure all required clauses are incorporated within its subcontracts.
2. Devise a policy or procedure that requires contract/procurement staff to maintain in the subcontractor files documentation to demonstrate that Tetra Tech verified all subcontractors under the contract to provide assurance to USAID that Tetra Tech complied with USAID Mission Order 21.
3. Conduct periodic provisions to refresher trainings given to contract/procurement staff on the flow-down of clauses and Mission Order 21 and implement supervisory review procedures to ensure the procurement staff is implementing the lesson learned.

Finding Number 2018-03: Fly America Act Questioned Costs (Deficiency and Non-Compliance)

Condition: We selected a total of 44 travel transactions totaling \$6,168 of incurred costs from a total population of \$226,295 (3%) for the period from November 9, 2015 through November 8, 2016. During our disbursement testing, we noted seven (7) instances where Tetra Tech did not provide documentation to support its compliance with the Fly American Act. The total unsupported costs amounted to \$3,528.

Criteria:

FAR Part 47.403-3, Disallowances of Expenditures, states:

(a) Agencies shall disallow expenditures for U.S. Government-financed commercial international air transportation on foreign-flag air carriers unless there is attached to the appropriate voucher a memorandum adequately explaining why service by U.S.-flag air carriers was not available, or why it was necessary to use foreign-flag air carriers.

Questioned Costs: \$3,528

Cause: Tetra Tech did not have written policies or controls in place to determine whether employees flying out of the country are required to comply with the Fly America Act.

Effect: The absence of written policies may hamper the effective implementation of control procedures to ensure that related supporting documentation is properly maintained; and therefore,

it may hinder the ability of the organization to support costs that were billed to the awarding agency. Additionally, not ensuring the Fly America Act is being followed could potentially affect the US as funds could be going to Terrorist Organizations.

Recommendation(s): We recommend that Tetra Tech:

1. Create policies and procedures to ensure that all flights comply with the Fly America Act and that supporting documentation is retained and properly reviewed before purchasing the airfares.
2. Refund the amount of \$3,528 to USAID or provide documentation to USAID to support that the costs charged were consistent with requirements of the Fly America Act at the time the air fare cost was incurred.

Finding Number 2018-04: Unsupported Payroll - Questioned Costs (Deficiency and Non-Compliance)

Condition: We selected a sample of two payroll months for a total of \$784,137 of incurred costs from a total population of \$5,084,870 (15%) for the period from November 9, 2015 through November 8, 2016. During our testing of the samples, we noted nine (9) exceptions in our recalculation of salaries paid, which were related to Tetra Tech not being able to provide a timesheet for the related employees totaling \$4,551, including [REDACTED] in direct labor and [REDACTED] in indirect costs. In addition, we were unable to locate personnel file amendments to support salary increases in two instances for a total of \$70, including [REDACTED] in direct labor and [REDACTED] in indirect costs. Further, we noted fifteen (15) instances in which timesheets provided were not signed by a supervisor, contrary to Tetra Tech's policy.

Criteria:

FAR Part 31.201-2 (d) Determining Allowability, states:

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

Additionally, FAR Part 31.205-6, Compensation for Personal Services, states:

(a)(3) Compensation for personal services is allowable when the compensation is based upon and conform to the terms and conditions of the contractor's established compensation plan or practice followed so consistently as to imply, in effect, an agreement to make the payment.

Per Tetra Tech's Enterprise Risk Management Policy, any individual that approves time sheets for other employees certifies by their signature that they approve of the work being done by the individual. Additionally, all salary changes must have at least two levels of management approval.

Questioned Costs: \$4,621

Cause: Tetra Tech lacked monitoring procedures to ensure that payroll documentation, such as timesheets, were retained to support that the hours worked by the employees have been properly tracked, reviewed and approved by the designated supervisor. Additionally, Tetra Tech lacked monitoring procedures to ensure that salary increase documentation was retained to support such salary increases. In addition, procedures were not in place to ensure all timesheets are signed by a supervisor, to properly document review and approval.

Effect: Not effectively implementing control procedures to ensure that related supporting documentation is properly maintained may hinder the ability of the organization to support costs that were billed to the awarding agency. Therefore, we are questioning the amount of \$4,621 as we could not determine the eligibility and allowability of those costs. .

Recommendation(s): We recommend that Tetra Tech:

1. Implements a procedure that ensures that Tetra Tech maintains records of all applicable payroll documentation, including timesheets and salary increases for employees working within the project.
2. Implements monitoring controls to ensure that all timesheets are signed by both the employee and the supervisor, as stated in Tetra Tech's policies.
3. Refund the amount of \$4,621 to USAID or provide USAID with sufficient and appropriate documentation supporting the questioned cost in the amount of \$4,621.

Schedule II – Summary Schedule of Prior Audit, Review, and Assessment Findings

Castro & Co obtained and reviewed two Incurred Cost Audit Reports of Tetra Tech related to AESP, covering the period from May 20, 2012 through December 31, 2013 and January 1, 2014 through November 8, 2015. The audits were performed by Davis and Associates CPAs, PLLC. The audit reports identified three findings, for which only two required corrective action. Based on Castro & Co's procedures, we concluded that Tetra Tech has not taken corrective action to address the recommendations.

Audit report F-306-15-023-N, for the period from May 20, 2012 through December 31, 2013, disclosed total questioned costs in the amount of \$4,979 of unsupported costs. During our fieldwork, we confirmed that the USAID Contracting Officer (CO) determined that the total questioned costs of \$4,979 was supported and allowable and no further action needed to be taken. Tetra Tech provided Castro & Co with the Management Decision Letter for review and to provide assurance that the funds were supported and allowable by USAID.

In addition, audit report F-306-17-011-N, for the period of January 1, 2014 through November 8, 2015, disclosed total questioned costs in the amount of \$124,965, of which \$6,276 were ineligible and \$118,689 were unsupported. During our fieldwork, we inquired of management as to the status of the following:

- **Finding 1 – Significant Deficiency in Internal Control – Unsupported Costs**

Condition: While reviewing the selected transaction, the auditors asked Tetra Tech to provide supporting documentation for the sample. However, Tetra Tech was not able to provide adequate documentation to fully support the costs incurred and billed to USAID under the AESP Task Order that amounted to \$118,689.

Recommendation: The auditors recommended that Tetra Tech maintain adequate documentation for all costs billed under the federal awards and make the requested supporting documentation available for review of the auditor. They also recommended that Tetra Tech refund to USAID the amount disallowed by the USAID Contracting Officer.

Status: Tetra Tech has implemented procedures to prevent the reoccurrence of the internal control deficiencies that prompted costs to be questioned. Tetra Tech has been communicating and providing supporting documentation to USAID regarding the unsupported costs. However, we noted that Tetra Tech has not implemented adequate procedures, as stated, to prevent a reoccurrence. Specifically, Tetra Tech was not able to provide supporting documentation, when requested during our audit procedures, to fully support the payroll costs of \$4,551. See finding 2018-4.

Auditor's Rebuttal: Tetra Tech responded to our audit report and disagreed with our assessment of prior year findings related to unsupported subcontractor and travel disbursements. Tetra Tech noted that Finding 2018-04 in Castro & Co's current report questioned payroll expenses; therefore, is unrelated to the prior year finding. Although we agree that the cost elements under question are different, the underlying cause of record

retention remains the same. Additionally, USAID has not issued a determination on this status of this finding. Therefore, our assessment that the prior year findings is still open as of the date of this report remains the same.

■ **Finding 2 – Significant Deficiency in Internal Control – Ineligible Costs**

Condition: While reviewing the selected transactions of the labor costs, the auditors identified ineligible costs under the AESP Task Order that amounted to \$6,276.

Recommendation: The auditors recommended that Tetra Tech follow the terms of the contract to ensure that no ineligible costs are billed to the federal award. They also recommended that Tetra Tech refund to USAID \$6,276.11 in ineligible costs.

Status: Tetra Tech has been communicating and providing supporting documentation to USAID regarding the ineligible costs. As of June 12, 2018, the Contracting Officer has not made a determination regarding the ineligible costs. As with the previous finding, we noted that Tetra Tech has not implemented adequate procedures to prevent a reoccurrence. Specifically, Tetra Tech did not ensure that no ineligible costs were billed to this task order. See finding 2018-01.

Appendix A – Management Response to Audit Findings



July 12, 2018

Castro & Company, LLC
1737 King Street, Suite 250
Alexandria, VA 22314
Attn.: Millie Seijo, CPA, Partner
MSeijo@castroco.com

Dear Ms. Seijo:

This letter is written in response to the 6/13/18 Draft audit report emailed from Courtney Edson, Senior Auditor, in regards to the Financial Audit of Costs Incurred in Afghanistan by Tetra Tech EM Inc., under the Afghanistan Engineering Support Program (AESP), Contract Number EDH-I-00-08-00027, for the period from November 9, 2015 through November 8, 2016.

Schedule I – Schedule of Findings and Questioned Costs

Response to Finding Number 2018-01: Application of Indirect Cost Rates (G&A)

Tetra Tech (Tt) vigorously disagrees with the Auditor's finding that Tt did not implement a comprehensive review process to ensure the correct indirect cost rate was used to prevent the overbilling of unapproved indirect costs to USAID. Tt submitted Indirect Rates for FY16 and FY17 to USAID's Cognizant Auditor in a timely manner. USAID never responded to Tt's repeated requests for a NICRA. Tt should not be held financially responsible for USAID's lack of responsiveness. Please see Attachments A and B for Tt's Indirect Rate Submissions for FY16 (G&A [REDACTED]) and FY 17 (G&A [REDACTED]) respectively (emailed 4/8/16 and 2/2/17). In addition, please note that Tt used the FY15 G&A rate [REDACTED] when we submitted the AESP Year 7 Cost Proposal on 9/1/15; this demonstrates Tt's transparency with USAID (please see Attachment C, p.9). Note that USAID took no exception to the [REDACTED] G&A rate when they awarded Tt AESP's Year 7 obligation worth \$25M (Contract Modification 25).

Tt disputes the recommendation to reimburse the \$83,984 amount the Auditor claims Tt overbilled to USAID, as Tt did not misapply indirect cost rates. USAID did not fulfill its responsibility to respond to Tt's Indirect Rate submissions.

Please note that Tt calculations of the actual G&A charged to USAID during the audit period to be [REDACTED] versus the [REDACTED] as calculated by the Auditor, a reduction of ([REDACTED]) G&A plus ([REDACTED]) Fixed Fee, for a total difference worth (\$604). Please see Attachment D for the calculation.

Response to Finding 2018-02: Contract Flow-down Clauses and Vetting Documentation

Tt concurs with the findings and understands that failure to flow-down mandatory clauses from our prime contract with USAID to our subcontracts may hinder USAID in enforcing its requirements and may impact how our subcontractors perform work in Afghanistan. Tt has provided refresher training to contracts/procurement staff to ensure the requirement to flow-down mandatory clauses are understood and implemented in accordance with our prime contract.

Marlborough Technology Park
100 Nickerson Road, Marlborough, MA 01752
Tel 508.786.2200 Fax 508.786.2201 tetratech.com

Refresher training to contracts/procurement staff included a review of the vetting requirements of USAID Mission Order 21, emphasizing the need and methods to verify whether an entity is considered a "Non-US" organization as defined by the Mission Order:

- (1) organized in the U.S.;
- (2) more than 50% owned in equity stake (or equivalent thereof) by U.S. persons; and
- (3) has a place of business in the U.S.

When it has been determined that an organization is Non-US, contracts/procurement staff shall document the subcontractor files accordingly (email/correspondence from Subcontractor, SAM Entity Registration, proposal certification, etc.) and submit USAID Information Form (Appendix B of the Mission Order) to the Kabul Vetting Support Unit.

Response to Finding 2018-03: Fly America Act Questioned Costs

Sample 3: The flight in question was from Dubai to Kabul. There are no US or Open Skies Agreement Carriers that operate this route [REDACTED].

Sample 7: The flight in question was from Dubai to Kabul. There are no US or Open Skies Agreement Carriers that operate this route [REDACTED].

Sample 9: One flight on this itinerary was from Athens to Dubai and the other was from Dubai to Kabul. At the time, our travel agent was relied upon to provide an allowable flight. We have changed the process that we use today to carefully document each exception [REDACTED].

Sample 21: The flight in question was from Dubai to Frankfurt to Krakow. This was on Lufthansa, a European carrier, so therefore was on an Open Skies carrier [REDACTED].

Sample 22: The flight in question was from Kabul to Dubai. There are no US or Open Skies Agreement Carriers that operate this route [REDACTED].

Sample 40: The flight in question was from Dubai to Kabul. There are no US or Open Skies Agreement Carriers that operate this route [REDACTED].

Sample 41: The flight in question was from Kabul to Dubai. There are no US or Open Skies Agreement Carriers that operate this route [REDACTED].

It has implemented a new process to ensure compliance with the Fly America Act for ESP, the AESP successor program. A "Fly America Act Compliance/Exemption Checklist" document is maintained at the Home Office for every flight (please see Attachment E example). As an additional part of this process, travel agent documentation is also tracked and maintained (please see Attachment F example).

It acknowledges that documentation/memorandums were not maintained in our files to adequately explain why service by US-air carriers was not available, but has since implemented new procedures to ensure compliance with the Fly America Act. It concurs with the refunding amount -\$1,162.40 for Sample 9 to USAID. However, It disputes the refunding of the remaining amount recommended by the Auditor.

Response to Finding 2018-04: Unsupported Payroll – Questioned Costs

It has eliminated the paper timesheets for local nationals and now operates an online timekeeping system "T-Sheets" for ESP, the AESP successor program. Each week, local nationals submit their timecard electronically and their supervisor electronically approves the timesheet.

Tt has strengthened its Home Office oversight of local national pay rates, including increases, through the maintenance of a rate database, the data in which is validated monthly.

Note that for any missing audit sample timecards, Tt provided the Auditor the biometrics file, which showed that the employee reported to the Tetra Tech office on the days claimed.

Schedule II – Summary Schedule of Prior Audit, Review, and Assessment Findings

Response Prior Audit Finding 1 - Unsupported Costs (\$118,689)

Tt vigorously challenges the Auditor's statement "...that Tetra Tech has not appropriately implemented the procedures as stated to prevent reoccurrence as Tetra Tech was not able to provide supporting documentation when requested during our audit procedures to fully support the payroll costs of \$4,551 see finding 2018-04."

The Prior Audit Finding 1 had nothing to do with payroll costs, but with external subcontractor costs (\$111,283) and travel costs (\$7,406= [REDACTED] G&A). In regards to the travel costs, Tt acknowledged that we were unable to find evidence of USAID travel pre-authorization. Tt has implemented procedures to ensure that all travel is approved by the Task Order Contracting Officer in advance, and documentation of this fact is stored in an easily retrievable way. It must be noted that for this SIGAR audit, the Auditors were provided evidence of Task Order Contracting Officer approval in advance for all travel samples; this was evidenced by the fact that the Auditors had no Findings related to travel authorization.

In regards to the subcontractor costs the Prior Audit Finding questioned 111,283 USD of Tt's costs for external subcontractor Power Engineers since the total amount invoiced by Power Engineers exceeded the total amount of Tt-issued purchase orders by 111,283 USD. Tt strongly disagrees with the Prior Auditor's misinterpretation of its cited FAR clause FAR 31.201-2 Determining Allowability, paragraph (d). The cited paragraph states the following: "A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been *incurred, are allocable to the contract, and comply with applicable cost principles* in this subpart and agency supplements."

Tt provided the following supporting documentation for the Power Engineers invoices to the Prior Auditor:

1. Approved Power invoices
 - a. Invoices detailed hourly rates and number of hours by person for each work order included in the invoice.
 - b. Timesheets supporting each labor hour per person invoiced was supplied.
 - c. ODC vendor invoice backup for each item was provided.
 - d. Invoices were signed and approved as incurred and allocable to the project by at least two Tt senior project ex-patriate staff, one of which was the Chief of Party.
2. Tt payment ACH Remittances were provided and proved payment of each invoice.

Tt supplied sufficient documentation to substantiate that the costs incurred by Power Engineers met all of these criteria as specified in FAR 31.201-2(d).

This was an administrative, rather than a substantive issue. Tt has subsequently reviewed and improved internal procedures to prevent a reoccurrence. Tt agrees that this situation was not ideal. However, it does not make these Power Engineer costs unallowable.

Under the subject Task Order, Tt and its subcontractors were required to be responsive to immediate and constantly changing project requirements. In addition, the USAID Contracting Officer has provided official Consent to Subcontract to Power Engineers, and further directed that the work in question be performed. A discrepancy between the amount of a subcontractor purchase order and the amount of invoices services does not make otherwise allowable costs unallowable.

These documents fully supported the allowability and allocability of the questioned costs as incurred in support of the contract and demonstrate compliance with applicable cost principles.

In addition, Tt has improved our internal processes to prevent the noted discrepancy from occurring in the future.

It must be noted that for this SIGAR audit, there was no evidence that Tt subcontractor costs exceeded the Tt-issued subcontractor purchase orders; this was evidenced by the fact that the Auditors had no Findings related to subcontractor costs exceeding Tt-issued purchase orders.

Sincerely,



Susan S. DeMarre
Controller

ATTACHMENTS:

Attachment A:	FY16 Indirect Rate Submission – Email to USAID
Attachment B:	FY17 Indirect Rate Submission – Email to USAID
Attachment C:	AESP Year 7 Cost Proposal
Attachment D:	Calculation of G&A invoiced to USAID 11/9/15-11/8/16
Attachment E:	Fly America Act Compliance/Exemption Checklist Example
Attachment F:	Fly America Act Travel Agent Documentation Example

TETRA TECH

Appendix B – Auditor’s Response

Castro & Company (Castro & Co), in consideration of the views of Tetra Tech management, presents its rebuttal and clarification to certain matters. Castro & Co’s responses are provided with the intent to clarify factual errors and provide our analysis, where appropriate, to assist the users in their assessment of the findings and recommendations included in this report. In those instances where management’s responses, as per Appendix A, did not provide new information and support to modify the facts and circumstances that resulted in the initial findings, we did not provide a response.

Finding Number 2018-01: Application of Indirect Cost Rates (Deficiency and Non-Compliance)

Tetra Tech management provided us with additional documentation to include the Incurred Rate Submissions for Fiscal Years (FY) 2016 and 2017, to support the indirect cost rates. Tetra Tech management stated that Indirect Rates were submitted to USAID Cognizant Auditor for FYs 2016 and 2017; however, USAID never provided Tetra Tech with an approval of the requested Negotiated Indirect Cost Rate Agreements (NICRAs). In addition, Tetra Tech management claims that USAID was not responsive to their request; therefore, they should not be held financially responsible for USAID’s lack of responsiveness. After assessing the documentation provided by Tetra Tech management, we were still unable to confirm that the rates used in the Special Purpose Financial Statement were approved by USAID. Therefore, Tetra Tech should not have applied the requested indirect cost rate until they were approved by USAID. As a result, our finding and recommendation remains unchanged.

Additionally, Tetra Tech provided Castro & Co with support that reduced the G&A questioned costs to [REDACTED] rather than \$78,490 for a total reduction of [REDACTED]. In conclusion of our review of the recalculation provided and the invoices submitted for the period under audit, we still arrive at the questioned cost amount of [REDACTED] plus a fixed fee of [REDACTED] for a total questioned amount of \$83,984. Without additional evidence to support the amounts included on the recalculation, our questioned costs will remain the same.

Finding Number 2018-03: Fly America Act Questioned Costs (Non-Compliance)

Tetra Tech partially disagreed with this finding for the following reasons:

- For five (5) transactions totaling \$932.90 of questioned costs, Tetra Tech stated that there were no US or Open Skies Agreement Carriers that operated the specific route; however, they did not maintain documentation to support or provide explanation for why services by US-air carries were not available.

Castro & Co reviewed the disagreement above and our finding and recommendation remains unchanged as no additional evidence or documentation was provided to support why there were no US or Open Skies Agreement Carriers available for this route at the time the travel occurred. Although Tetra Tech provided documentation to show that in 2018 there are no US or Open Skies Agreement Carriers that operate the route

in question, there no evidence was maintained or provided to support that at the time of the transaction, there were no US or Open Skies Agreement Carriers available.

- For one (1) transaction totaling [REDACTED] of questioned costs, Tetra Tech stated that the flight was from Dubai to Frankfurt to Krakow. The air carrier was Lufthansa, a European carrier; therefore, this was an Open Skies carrier.

Castro & Co reviewed the disagreement above as well as the support provided and was unable to confirm the carrier used based on the original support provided. No additional support was provided to validate that Lufthansa was in fact the air carrier for this disbursement; therefore, our finding and recommendation remains unchanged.

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