

# SIGAR

Special Inspector General  
for Afghanistan  
Reconstruction

SIGAR 20-07 Financial Audit

## USAID's Engineering Support Program in Afghanistan: Audit of Costs Incurred by Tetra Tech, Inc.

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



NOVEMBER  
2019

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On July 14, 2016, the U.S. Agency for International Development (USAID) awarded Tetra Tech Inc. (Tetra Tech) a 5-year time-and-materials contract (3 base years and two 1-year options) to provide architectural and engineering services for USAID's Engineering Support Program. The program's objective is to ensure that the quality of USAID-supported infrastructure construction in Afghanistan meets international standards and follows best practices. The period of performance began on July 23, 2016, and runs through July 22, 2021. The total contract value is \$125 million. USAID modified the contract six times to exercise the option years and add or modify clauses, with no changes to the period of performance or total value.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$22,080,466 charged to the time-and-materials job orders of the contract from July 23, 2016, through July 22, 2018. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Tetra Tech's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract 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 Conrad'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 Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards.

November 2019

### USAID's Engineering Support Program in Afghanistan: Audit of Costs Incurred by Tetra Tech, Inc.

SIGAR 20-07-FA

### WHAT THE AUDIT FOUND

Conrad discovered six internal control deficiencies, three of which were significant, and four instances of noncompliance with the terms of the contract. For example, Conrad found that Tetra Tech charged USAID for Separate Maintenance Allowances but did not provide documentation showing that the employees claiming them qualified for such allowances. Federal regulations state that an employee may be paid a monthly Separate Maintenance Allowance to cover the additional costs of maintaining a spouse and family members while working abroad. However, an employee who receives an allowance must certify that he or she meets eligibility requirements.

Conrad questioned a total of \$120,078 in costs related to the internal control deficiencies and instances of noncompliance. Total questioned costs consist of \$8,886 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$111,192 in ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
External Subcontractors	\$0	\$8,812	\$8,812
Travel, Material, Equipment, Other Direct Costs	\$89,706	\$60	\$89,766
Indirect Costs	\$21,486	\$14	\$21,500
<b>Totals</b>	<b>\$111,192</b>	<b>\$8,886</b>	<b>\$120,078</b>

Conrad identified one prior audit of Tetra Tech with four findings and recommendations that could have a direct and material effect on the SPFS. Conrad concluded that Tetra Tech took adequate corrective action for all four findings.

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

### 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, \$120,078 in questioned costs identified in the report.**
- 2. Advise Tetra Tech to address the report's six 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

November 6, 2019

The Honorable Mark Green  
Administrator, U.S. Agency for International Development

Mr. Peter Natiello  
USAID Mission Director for Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Tetra Tech Inc. (Tetra Tech) under a U.S. Agency for International Development (USAID) time-and-materials contract to provide architectural and engineering services for USAID's Engineering Support Program.<sup>1</sup> The program's objective is to ensure that the quality of USAID-supported infrastructure construction in Afghanistan meets international standards and follows best practices. Conrad's audit covered \$22,080,466 charged to the contract from July 23, 2016, through July 22, 2018. Our contract with Conrad 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, \$120,078 in total questioned costs identified in the report.**
- 2. Advise Tetra Tech to address the report's six internal control findings.**
- 3. Advise Tetra Tech to address the report's four noncompliance findings**

The results of Conrad's audit are in the attached report. We reviewed Conrad'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. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Conrad 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-150)

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<sup>1</sup> The contract number is AID-306-C-16-00010.

**TETRA TECH, INC.**

Financial Audit of Costs Billed Under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

For the Period July 23, 2016 to July 22, 2018

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September 12, 2019

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA 01752

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

Conrad LLP (referred to as “Conrad” or “we”) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Tetra Tech, Inc. (“Tetra Tech”) Special Purpose Financial Statement (“SPFS”) for costs billed under U.S. Agency for International Development (“USAID”) Contract No. AID-306-C-16-00010, for the period July 23, 2016 through July 22, 2018, for the Time and Material Job Orders, under the Engineering Support Program (“ESP”) to provide professional architectural and engineering services in the transportation, vertical structures, energy, water, and sanitation sectors.

On June 21, 2019, we provided SIGAR with a draft report reflecting our audit procedures and results. Tetra Tech received a copy of the report on August 20, 2019 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Tetra Tech. Tetra Tech’s responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this Tetra Tech contract.

Sincerely,

A handwritten signature in blue ink that reads "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

## **Background**

On July 14, 2016, the U.S. Agency for International Development Afghanistan (“USAID”) awarded a time-and-material Contract No. AID-306-C-16-00010 (“Contract”) to Tetra Tech, Inc. (“Tetra Tech” or the “Company”) under the Engineering Support Program (“ESP” or “Program”) to provide professional architectural and engineering services in the transportation, vertical structures, energy, water, and sanitation sectors. The Contract complements the activities and general engineering expertise of USAID’s staff with specialized engineering services such as: electrical, mechanical, structural, architectural, civil, and construction management. Tetra Tech provides a full range of long-term and quick response professional architectural and engineering services, quality assurance services, and other logistical and technical support across all aforementioned sectors for USAID/Afghanistan’s infrastructure programs. The Contract uses a job order system to respond to assigned activities which optimize response time, home office reach back, and provision of deliverables. As a support activity, the objective will not be to directly construct infrastructure, but is to support USAID and the Afghanistan’s Government of National Unity (“GNU”) in ensuring infrastructure integrity. The Contract was awarded for five years—three base years with two one-year options. The period of performance was from July 23, 2016, through July 22, 2021, with a ceiling of \$125 million. The base years are from July 23, 2016, through July 22, 2019, and are worth \$82 million. USAID modified this contract six times for reasons such as exercising the option years, and adding or modifying contract clauses, with no change to the contract’s period of performance or total value.

According to the Contract, the Program continues to support USAID’s Engineering, Quality Assurance, and Logistical Support (“EQUALS”) and Architectural and Engineering Support Program (“AESP”) by providing the mission with engineering support and technical expertise to implement its remaining infrastructure and construction activities.

Tetra Tech was founded in 1966 and its Corporate headquarters are located in Pasadena, California. Tetra Tech, Inc. (“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.

## **Work Performed**

Conrad LLP (“Conrad” and “we”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of Tetra Tech’s Special Purpose Financial Statement (“SPFS”) for costs billed under the Contract for the period July 23, 2016 through July 22, 2018, for the Time and Material Job Orders of the Contract. Total costs billed under the Time and Material Job Orders of the Contract for the period were \$22,080,466.

## **Objectives, Scope, and Methodology**

### **Audit Objectives**

The objectives of the audit include the following:

- *The Special Purpose Financial Statement* – Express an opinion on whether Tetra Tech’s SPFS for the Contract presents fairly, in all material respects, the revenues received, costs billed, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of Tetra Tech's internal controls related to the Contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Tetra Tech complied, in all material respects, with the Contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Tetra Tech has taken adequate corrective actions to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

### **Scope**

The scope of this audit included all costs billed during the period July 23, 2016 through July 22, 2018 for the Time and Material Job Orders under the Contract. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved by the Defense Contract Management Agency (“DCMA”).

### **Methodology**

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

#### **Entrance Conference**

An entrance conference was held via conference call on February 27, 2019. Participants included representatives of Conrad, Tetra Tech, SIGAR, and USAID.

#### **Planning**

During our planning phase, we performed the following:

- Obtained an understanding of Tetra Tech;

- Reviewed the Contract and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Contract;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appeared to contain unallowable and restricted items according to the terms of the Contract, 48 Code of Federal Regulations (“CFR”) Chapters 1 and 7 and any other applicable regulations, we tested 100% of the transactions.
  - For related party transactions, we tested 100% of the transactions.
  - For high risk cost categories, we sampled transactions greater than \$110,400 not to exceed 30% of the total amount expended for each cost category.
  - For medium risk cost categories, we sampled transactions greater than \$220,800 not to exceed 20% of the total amount expended for each cost category.
  - For low risk cost categories, we sampled transactions that are greater than \$220,800 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

### Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs billed to ensure the costs were allowable, allocable to the Contract, and reasonable.

### Internal Controls Related to the Contract

We reviewed Tetra Tech’s internal controls related to the Contract. This review was accomplished through interviews with management and key personnel, reviewing of policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

## Compliance with Contract Requirements and Applicable Laws and Regulations

We performed tests to determine whether Tetra Tech complied, in all material respects, with the Contract requirements and applicable laws and regulations; and identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

## Corrective Action on Prior Findings and Recommendations

We requested previous audit reports from Tetra Tech. In addition, we did an online search of various governmental websites including SIGAR, USAID and other federal agencies for reports from previous engagements to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

## Exit Conference

An exit conference was held on June 19, 2019 via conference call. Participants included representatives from Conrad, Tetra Tech, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

## **Summary of Results**

Our audit of the costs billed by Tetra Tech for Time and Material Job Orders under the Contract with USAID identified the following matters. Findings are classified as either internal control or compliance, or a combination of internal control and compliance.

## **Auditor's Opinion on the SPFS**

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS.

We identified \$120,078 in total questioned costs because they were either ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited task order or applicable laws and regulations; or not award related. Unsupported costs are not supported with inadequate documentation or did not have required prior approvals or authorizations.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

## Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Costs
2019-01	Non-Compliance; Internal Control – Significant Deficiency	Lack of evidence for Separate Maintenance Allowance qualification	\$78,157	\$0	\$78,157
2019-02	Non-Compliance; Internal Control – Significant Deficiency	Costs unallowable under the Contract claimed	\$29,732	\$0	\$107,889
2019-03	Non-Compliance; Internal Control – Deficiency	Lack of evidence or insufficient evidence to support costs billed	\$0	\$8,886	\$116,775
2019-04	Internal Control – Deficiency	Insufficient evidence to show adherence to Tetra Tech's Procurement Policy	\$3,303	\$0	\$120,078
2019-05	Non-Compliance; Internal Control – Significant Deficiency	Lack of evidence for exclusion and anti-terrorist check	\$0	\$0	\$120,078
2019-06	Internal Control - Deficiency	Lack of surprise petty cash count in June 2018	\$0	\$0	\$120,078
<b>Total Questioned Costs</b>			<b>\$111,192</b>	<b>\$8,886</b>	<b>\$120,078</b>

### Internal Control Findings

Our audit discovered six internal control findings, consisting of three significant deficiencies and three deficiencies. See Independent Auditor's Report on Internal Control on page 16.

### Compliance Findings

The results of our tests disclosed four instances of noncompliance related to this audit. See the Independent Auditor's Report on Compliance on page 19.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

## **Review of Prior Findings and Recommendations**

Based on our request and search of prior engagements pertinent to Tetra Tech's activities under the Contract, we identified one prior engagement that contained four findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Our review procedures include a follow-up discussion with management of the corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. Based on our review, Tetra Tech has taken adequate corrective actions on the recommendations pertaining to all four findings. See Status of Prior Audit Findings on page 39 for a detailed description of the prior findings and recommendations.

## **Summary of Tetra Tech, Inc.'s Responses to Findings**

The following represents a summary of the responses provided by Tetra Tech to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

- 2019-01: Tetra Tech disagrees that they did not comply with USAID's Separate Maintenance Allowance (SMA) compliance requirements on the premise that ex-patriates automatically qualify for involuntary SMA in Afghanistan. But Tetra Tech acknowledged that it did not maintain documentation of the monthly review of SMA by the Project Accountant prior to January 2018.
- 2019-02: Tetra Tech disagrees that the medical allowance was erroneously claimed and states that the language regarding the Medical Allowance in the contract is incorrect.
- 2019-03: Tetra Tech partially disagrees with the finding. Tetra Tech agrees that there was no pre-approval for the \$74 meal costs claimed. However, Tetra Tech disagrees with the disallowance of SMA on the premise that ex-patriates automatically qualify for involuntary SMA in Afghanistan. Additionally, Tetra Tech claims that it has complied with the recommendation to implement stronger supervisor and subcontractor monitoring controls.
- 2019-04: Tetra Tech disagrees with the finding stating that the procurement in question was made by the Home Office that is covered under FAR and not under the ESP Procurement Manual.
- 2019-05: Tetra Tech acknowledges that no documentation of exclusion and anti-terrorist checks were retained for checks performed, prior to execution of vendor procurement agreements. Tetra Tech did not acknowledge nor agree or disagree if the checks were performed prior to purchase.
- 2019-06: Tetra Tech agrees that there was no surprise petty cash count performed in June 2018.



## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA 01752

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

### Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Tetra Tech, Inc. ("Tetra Tech") and the related notes to the Special Purpose Financial Statement, with respect to the U.S. Agency for International Development / Afghanistan ("USAID") Contract No. AID-306-C-16-00010 ("Contract"), Engineering Support Program ("ESP"), for the period July 23, 2016 through July 22, 2018, for the Time and Material Job Orders of the Contract.

### Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial 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 Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Tetra Tech's preparation and fair presentation of the Special Purpose Financial 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 Tetra Tech'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 Special Purpose Financial Statement.

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

## **Opinion**

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs billed by Tetra Tech for Time and Material Job Orders under the Contract, for the period July 23, 2016 through July 22, 2018, in accordance with the basis of accounting described in Note 2.

## **Basis of Presentation**

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by Tetra Tech in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Contract No. AID-306-C-16-00010, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

## **Restriction on Use**

This report is intended for the information of Tetra Tech, Inc., the U.S. Agency for International Development / Afghanistan, and the Office of the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 12, 2019 on our consideration of Tetra Tech's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California  
September 12, 2019

**TETRA TECH, INC.**

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

Special Purpose Financial Statement

For the Period July 23, 2016 through July 22, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u>		<u>Notes</u>
				<u>Unsupported</u>	<u>Total</u>	
Revenues:						
AID-306-C-16-00010	\$ 35,532,094	\$ 22,080,466	\$ -	\$ -	\$ -	(5)
Total Revenues	<u>35,532,094</u>	<u>22,080,466</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs Billed:						(6)
Labor	██████████	██████████	-	-	-	
Subcontractors – External	██████████	██████████	-	8,812	8,812	(A)
Subcontractors – Internal	██████	██████	-	-	-	
Travel, Material, Equipment, ODC's	██████████	██████████	██████	60	89,766	(B)
Total Indirect Costs	<u>██████████</u>	<u>██████████</u>	<u>██████</u>	<u>████</u>	<u>21,500</u>	(C)
Total Costs Billed	<u>35,532,094</u>	<u>22,080,466</u>	<u>\$ 111,192</u>	<u>\$ 8,886</u>	<u>\$ 120,078</u>	
Outstanding Fund Balance	<u>\$ -</u>	<u>\$ -</u>				

See Notes to the Special Purpose Financial Statement  
And Notes to Questioned Costs Presented on the Special Purpose Financial Statement

# TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period July 23, 2016 through July 22, 2018

## **(1) The Company**

Tetra Tech, Inc. (“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**

### a. Basis of Presentation

The accompanying Special Purpose Financial Statement (“SPFS”) includes revenues for the Time and Material Job Orders Only under USAID Contract No. AID-306-C-16-00010 (“Contract”), for the period from July 23, 2016 through July 22, 2018. The information in the SPFS is presented in accordance with requirements specified by the Office of the Special Inspector General of Afghanistan Reconstruction (“SIGAR”) and is specific to the aforementioned Contract Time and Material Job Orders. Therefore, some amounts presented in this SPFS may differ from amounts presented in, or used in the presentation of Tetra Tech’s basic financial statements.

### b. Basis of Accounting

The SPFS reflects the revenues earned and other direct cost (“ODC”) expenses (including travel) incurred for Time and Material Job Orders by Tetra Tech under the aforementioned Contract. The SPFS has been prepared following an accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

### c. Accounting System Dates

The SPFS reflects all revenues earned and ODC expenses (including travel), incurred for Time and Material Job Orders under Contract No. AID-306-C-16-00010, for the period from July 23, 2016 through July 22, 2018. Only transactions and/or adjustments incurred in accounting periods during the audit period have been included in the SPFS.

## **(3) Currency**

The SPFS is presented in U.S. dollars. ODC expenditures (including travel) incurred in currencies other than U.S. dollars have been translated into U.S. dollars. Tetra Tech uses the prevailing exchange rates published in the Da Afghanistan Bank to translate local currency into U.S. dollars

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of Tetra Tech

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period July 23, 2016 through July 22, 2018

(Continued)

using market data to establish a Standard Exchange Rate (“SER”) to translate local currency into U.S. dollars.

### **(4) Time and Materials Job Orders Revenue Budget**

Total Budget Ceiling \$35,532,094

### **(5) Revenues**

Revenues represent the amount of the funds to which Tetra Tech is entitled to receive for allowable labor, subcontractors, ODC expenses (including travel), and indirect costs at time and materials rates defined in Contract. Revenues are recognized when earned.

### **(6) Costs Billed**

The following are the revenue categories shown in the SPFS by billing category as reported in client billings and accumulated in Tetra Tech’s general ledger.

- (1) Labor: This revenue is related to direct labor for personnel working at the Home Office and Field Offices.
- (2) Subcontractor - External: This revenue is related to consultants or subcontractors that provide professional services in Afghanistan.
- (3) Subcontractor - Internal: This revenue is related to consultants from US-based Tetra Tech offices.
- (4) Travel, ODC’s:
  - Travel: This revenue/expense is related to travel including airfare, lodging, meals, and transportation.
  - ODC’s (incl. Mat/Equip): This revenue/expense is related to leases, bank fees, communications, insurance, repairs, and other miscellaneous categories.
- (5) Indirect cost: Indirect costs are costs that are associated with the general administration, general operations, and management of the project.

## **TETRA TECH, INC.**

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period July 23, 2016 through July 22, 2018

(Continued)

### **(7) Indirect Cost Rate**

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

The only billable indirect cost for the Time and Material Job Orders under Contract is G&A applied to the ODC expenses (including travel).

### **(8) Outstanding Fund Balance**

The fund balance presented on the SPFS represents the difference between the Time and Material Job Order actual billing and USAID’s payments of said billings when earned. The outstanding fund balance is \$0 for the Time and Material Job Orders under Contract as of July 22, 2018.

### **(9) Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the July 23, 2016 through July 22, 2018 period covered by the SPFS. Management has performed their analysis through September 12, 2019.

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the Period July 23, 2016 through July 22, 2018

### **(A) Subcontractors – External**

Tetra Tech, Inc. (“Tetra Tech”) reported Subcontractors – External in the amount of [REDACTED] for the period from July 23, 2016 through July 22, 2018.

For two subcontractors ODC samples, Tetra Tech did not provide support for the cost base used to apply the post differential pay rate and danger pay rate for one sample and also did not provide adequate support that a subcontractor met eligibility requirements to receive involuntary Separate Maintenance Allowance (“SMA”), which resulted in total unsupported costs of \$8,812 being questioned, (**See Finding 2019-03**).

### **(B) Travel/Material – Equipment/ODC’s**

Tetra Tech reported Travel/Material - Equipment/ODC’s in the amount of [REDACTED] for the period from July 23, 2016 through July 22, 2018.

During our audit of these costs, we noted:

(1) Tetra Tech was unable to provide evidence that employees qualified for Involuntary Separate Maintenance Allowance (“SMA”) for seven samples tested as the employees did not state and certify circumstances of special need/hardship to qualify. Additionally, in 11 SMA samples, no supporting documentation was provided to verify that employees recertified their qualifications to receive involuntary SMA, which resulted in total ineligible costs of [REDACTED] being questioned, (**See Finding 2019-01**);

(2) Tetra Tech did not provide supporting documentation for three other direct cost (“ODC”) samples to validate that the loaded standard daily as per the Contract did not include the benefit of the Medical Allowance, which resulted in total ineligible costs of [REDACTED] being questioned, (**See Finding 2019-02**);

(3) Tetra Tech did not provide supporting documentation that approved a unit cost rate of \$10 per meal that was charged for non-resident Tetra Tech staff at the Expat DFAC for one ODC sample, which resulted in total unsupported costs of \$60 being questioned, (**See Finding 2019-03**); and

(4) Tetra Tech did not provide sufficient evidence for one ODC sample, of competitive bidding to show adherence to their procurement policy for transactions greater than \$2,499, which resulted in total ineligible costs of [REDACTED] being questioned, (**See Finding 2019-04**).

<sup>2</sup> The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

**TETRA TECH, INC.**

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the Period July 23, 2016 through July 22, 2018

(Continued)

**(C) Indirect Costs**

Tetra Tech reported Indirect Costs in the amount of ██████████ for the period from July 23, 2016 through July 22, 2018.

The indirect costs associated with the questioned costs is ██████████ from Finding 2019-01, ██████████ from Finding 2019-02, ██████ from Finding 2019-03, and ██████ from Finding 2019-04 totaling \$21,500 in questioned indirect costs.



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA 01752

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

We have audited, in accordance with the 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, the Special Purpose Financial Statement ("SPFS" or the "Statement") of Tetra Tech, Inc. ("Tetra Tech") representing revenues received and costs billed for Time and Material Job Orders under Contract No. AID-306-C-16-00010 ("Contract") with the U.S. Agency for International Development / Afghanistan ("USAID") for the period July 23, 2016 through July 22, 2018, and the related Notes to the SPFS, and have issued our report thereon dated September 12, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SPFS is free from material misstatement.

### Internal Control over Financial Reporting

Tetra Tech's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the Contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 2 to the Statement. Because of inherent limitations in internal control, errors or fraud 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.

In planning and performing our audit of the SPFS of Tetra Tech for the period July 23, 2016 through July 22, 2018, we obtained an understanding of internal control. With respect to internal control, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the SPFS and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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. We identified three findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-03, 2019-04, and 2019-06 which are considered to be deficiencies.

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 entity's financial statements 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. We identified three findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-01, 2019-02, and 2019-05 which are considered to be significant deficiencies.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified.

### **Tetra Tech's Response to Findings**

Tetra Tech's response to the findings identified in our audit is included verbatim in Appendix A. Tetra Tech's response was not subjected to the auditing procedures applied in the audit of the SPFS, and accordingly, we express no opinion on it.

### **Purpose of this Report**

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

## **Restriction on Use**

This report is intended for the information of Tetra Tech, Inc., the U.S. Agency for International Development / Afghanistan, and the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Conrad LLP*

Lake Forest, California  
September 12, 2019



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA 01752

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

We have audited, in accordance with the 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, the Special Purpose Financial Statement of Tetra Tech, Inc. ("Tetra Tech"), representing revenues received and costs billed for Time and Material Job Orders under Contract No. AID-306-C-16-00010 ("Contract") with the U.S. Agency for International Development / Afghanistan ("USAID") for the period July 23, 2016 through July 22, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated September 12, 2019. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the Contract and corresponding modifications are the responsibility of the management of Tetra Tech.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tetra Tech's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed four instances of noncompliance 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 2019-01, 2019-02, 2019-03, and 2019-05.

## **Tetra Tech's Response to Findings**

Tetra Tech's response to the findings identified in our audit is included verbatim in Appendix A. Tetra Tech's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

## **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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information of Tetra Tech, Inc., the U.S. Agency for International Development / Afghanistan, and the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Conrad LLP*

Lake Forest, California  
September 12, 2019

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

For the Period July 23, 2016 through July 22, 2018

Schedule of Findings and Questioned Costs

### **Finding 2019-01: Lack of evidence for Separate Maintenance Allowance qualification**

**Nature of Finding:** Non-Compliance and Internal Control – Significant Deficiency

**Condition:** We selected 19 out of the total 63 Separate Maintenance Allowance (“SMA”) transactions to test. For seven out of 19 SMA samples tested, covering three separate employees, there was no evidence provided that the employees qualified for Involuntary SMA as employees did not state and certify circumstances of special need/hardship to qualify. All SMA charged for those employees, including associated indirect costs, in the amount of \$40,374 are being questioned.

For 11 out 19 SMA samples, covering five separate employees, no supporting documentation was provided that employees certified their continued qualification to receive involuntary SMA. We question \$37,783 in SMA charged for months where employees did not certify their continued qualification to receive involuntary SMA due to lack of documentation and therefore could not determine if circumstances persisted to qualify employees for monthly SMA.

**Criteria:** Tetra Tech employment agreement states in part:

“6. Separate Maintenance Allowance

The employee may be paid an Involuntary Separate Maintenance Allowance per Department of State Standardized Regulations (“DSSR”) 260 based upon the additional costs of maintaining a spouse and family members while the employee is at post abroad and those costs which may be incurred by the employee at the post. SMA allowance varies by the number of dependents and is paid as a monthly allowance. The employee will be required to complete a certification if requesting SMA (Attachment 2). ...”

The USAID Guide to Authorizing Separate Maintenance Allowance (SMA), Section 11. *Payment of SMA Requires Certification of Continuing Eligibility* states:

“Employees who are receiving SMA will be required, as part of the payment process, to certify that they continue to meet requirements for eligibility to receive SMA and that there has been no change in their family status during this period that would require them to terminate receipt of the allowance. Employee certifications may be provided in written or electronic formats. Failure to comply with this requirement may result in employees’ SMA payments being delayed until certification of continuing eligibility is provided.”

## TETRA TECH, INC.

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### Schedule of Findings and Questioned Costs

(Continued)

48 CFR § 31.205-6(a)(3) (Compensation for personal services), states in part:

“The compensation must be 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.”

The Tetra Tech Engineering Support Program (“ESP”) Procurement Manual for Contract No. AID-306-C-16-00010, Section 3.13, *Record Retention*, states:

“The Tt ESP prime contract with USAID requires documentation, records, and other informational materials to be maintained for examination, audit, or reproduction in accordance with FAR clause 52.215-2. In general, all records should be maintained until three years after final payment under this contract.”

**Cause:** Tetra Tech lacked a formal review process to ensure SMA certification requests continued to meet eligibility requirements. Tetra Tech also did not follow its documentation and filing procedures and could not provide evidence that it reviewed 3 SMA certifications. Also, subsequent to its initial review prior to January 2018, Tetra Tech lacked an assessment process to ensure employees continued to qualify for involuntary SMA. Tetra Tech implemented a monthly review of SMA recertifications in January 2018.

**Effect:** Lack of employee certification and continued certification for the circumstances of special need or hardship in order to qualify for SMA may result in issuing unauthorized SMA payments to employees. Unsupported SMA payments may divert federal funds from other programmatic purposes and cast doubt on Tetra Tech's oversight processes.

**Questioned Costs:** The SMA costs questioned include Travel/Material - Equipment/ODC of [REDACTED] and associated indirect costs of [REDACTED], resulting in total ineligible costs of \$78,157.

#### **Recommendation:**

- (1) We recommend that Tetra Tech provide evidence to USAID showing that these employees have certified or re-certified their qualifications to receive involuntary SMA or return \$78,157 of ineligible costs.

**TETRA TECH, INC.**

Financial Audit of Costs Billed under  
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Engineering Support Program (“ESP”)

For the Period July 23, 2016 through July 22, 2018

Schedule of Findings and Questioned Costs

(Continued)

- (2) We recommend that Tetra Tech update its internal control procedures to ensure adequate oversight over employee eligibility to receive SMA benefits in accordance with USAID requirements for SMA qualification in accordance with USAID requirements.

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

For the Period July 23, 2016 through July 22, 2018

Schedule of Findings and Questioned Costs

(Continued)

### Finding 2019-02: Medical Allowances Unallowable Under the Contract Claimed

**Nature of Finding:** Non-Compliance; Internal Control – Significant Deficiency

**Condition:** We selected 24 out of the total 616 direct costs (“ODC”) transactions to test. Three out of 24 ODC samples related to Medical Allowance for Cooperating Country National (“CCN”) personnel. However, Tetra Tech also claimed personnel cost based on a fully loaded CCN standard daily rate, which should be inclusive of fringe benefits, including Medical Allowance, as approved in the Contract. Tetra Tech did not provide evidence that the fully loaded rate for these three samples excluded the Medical Allowance. Thereby, Tetra Tech paid the Medical Allowance to its employees, which appears to be also included in the fully loaded standard rate as agreed to in the contract, resulting in double claiming the Medical Allowance.

**Criteria:** The Tetra Tech Human Resource Policy Manual, *17.0 Benefits*, states in part:

*“17.1 Medical Benefits “\$55 is included in each employee’s monthly pay for a medical allowance. This equates to \$660 per year.”*

The Engineering Support Program Contract #AID-306-C-16-00010, *B.4 Labor, (c) Cooperating Country Nationals (CCN Fixed Daily Rates*, states in part:

*“Each time and material (“T&M”) job orders (“JO”) must cite the applicable labor category fixed daily rates specified in the Tables of Fixed Daily Rates below. Each fixed daily rate listed below is “loaded” and includes the following:*

- Wages or consulting fee of the individual providing the services;*
- Fringe Benefits;*
- ....”*

The Tetra Tech Engineering Support Program (“ESP”) Procurement Manual for Contract No. AID-306-C-16-00010, Section 3.13, *Record Retention*, states:

*“The Tt ESP prime contract with USAID requires documentation, records, and other informational materials to be maintained for examination, audit, or reproduction in accordance with FAR clause 52.215-2. In general, all records should be maintained until three years after final payment under this contract.”*

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

For the Period July 23, 2016 through July 22, 2018

### Schedule of Findings and Questioned Costs

(Continued)

48 CFR § 52.215-2 (Audit and Records--Negotiation), incorporated into Contract No. AID-306-C-16-00010 by reference, paragraphs (a) (d) and (f) state the following, copied here in part:

“(a) As used in this clause, “records” includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form...

(d) Comptroller General.- (1) The Comptroller General of the United States, or an authorized representative, shall have access to and the right to examine any of the Contractor’s directly pertinent records involving transactions related to this contract or a subcontract hereunder and to interview any current employee regarding such transactions...

(f) *Availability.* The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs(a), (b), (c), (d), and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in subpart 4.7, Contractor Records Retention, of the Federal Acquisition Regulation (“FAR”), or for any longer period required by statute or by other clauses of this contract...”

**Cause:** Tetra Tech lacked effective supervisory controls to ensure that it was claiming the CCN standard daily rate in accordance with the terms of the Contract.

**Effect:** Tetra Tech did not provide supporting documentation to validate that the loaded standard fixed daily rate excluded the benefit of the Medical Allowance, which resulted in Tetra Tech claiming costs that are unallowable under the Contract. Ineligible cost items claimed caused excessive costs being charged to the Government and a potential misuse of funds.

**Questioned Costs:** The Travel/Material - Equipment/ODC’s questioned costs include direct costs of [REDACTED] and associated indirect costs of [REDACTED], resulting in total ineligible costs of \$29,732.

#### **Recommendation:**

- (1) We recommend that Tetra Tech provide the appropriate source documentation to substantiate that the costs claimed were eligible or return \$29,732 to USAID.

**TETRA TECH, INC.**

Financial Audit of Costs Billed under  
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Schedule of Findings and Questioned Costs

(Continued)

- (2) We recommend that Tetra Tech implement supervisory controls to ensure that it claims daily rates in accordance with Contract terms.

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

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Schedule of Findings and Questioned Costs

(Continued)

### **Finding 2019-03: Lack of Sufficient Evidence to Support Costs Claimed**

**Nature of Finding:** Non-Compliance and Internal Control – Deficiency

**Condition:** During our testing of other direct costs (“ODC”) and Subcontractor’s ODC expenses, Tetra Tech did not provide the source documentation or sufficient support to substantiate the allowability of costs claimed.

ODC:

We selected 24 out of the total 616 ODC transactions to test. For one out of 24 ODC samples, Tetra Tech did not provide an agreement that supported the unit cost rate of \$10 per meal that was charged for non-resident Tetra Tech staff at the Expat DFAC, resulting in questioned costs of \$74.

Subcontractors ODC:

We selected 14 out of the total 136 subcontractor ODC transactions to test. For two out of 14 subcontractor ODC samples, Tetra Tech did not provide sufficient evidence to support the costs billed, resulting in questioned costs of \$8,812. In one sample, Tetra Tech did not provide support for the cost base used to apply the post differential pay rate and danger pay rate. For the other sample, Tetra Tech did not provide adequate support that a subcontractor met eligibility requirements to receive involuntary SMA.

**Criteria:** 48 CFR § 31.201-2(d), *Determining allowability*, states:

“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.”

Subcontractor Expatriate, Project Assignment Agreement, Section 7, Separate Maintenance Allowance, states:

“As applicable, the employee will be paid a SMA in accordance with US Department of State regulations. The SMA allowance is based upon the additional costs of maintaining a spouse and family members in the US while the employee is at post abroad and those costs which may be incurred by the employee at the post. SMA allowance varies by the number of

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
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### Schedule of Findings and Questioned Costs

(Continued)

dependents and is paid as a monthly allowance. The employee may be required to complete a certification for use in requesting USAID approval. The SMA is subject to taxation as income. For the purposes of this assignment, the SMA allowance is expected to be as indicated on Attachment 1.”

The USAID Guide to Authorizing Separate Maintenance Allowance (“SMA”), Section 11. *Payment of SMA Requires Certification of Continuing Eligibility* states:

“Employees who are receiving SMA will be required, as part of the payment process, to certify that they continue to meet requirements for eligibility to receive SMA and that there has been no change in their family status during this period that would require them to terminate receipt of the allowance. Employee certifications may be provided in written or electronic formats. Failure to comply with this requirement may result in employees’ SMA payments being delayed until certification of continuing eligibility is provided.”

The Tetra Tech Engineering Support Program Accounting Policies for Contract No. AID-306-C-16-00010, Section 3.0, *Payment Process*, 3.1 *Payment Principle*, states:

“The three-way match principle is applied in the payment process. Before a valid payment can be made, (1) a match of the details of the contract, purchase order (“PO”), purchase request (“PR”), with (2) the invoice and (3) receipt of goods or services is established. ...”

The Tetra Tech Engineering Support Program (“ESP”) Procurement Manual for Contract No. AID-306-C-16-00010, Section 3.13, *Record Retention*, states:

“The Tt ESP prime contract with USAID requires documentation, records, and other informational materials to be maintained for examination, audit, or reproduction in accordance with FAR clause 52.215-2. In general, all records should be maintained until three years after final payment under this contract.”

48 CFR § 52.215-2 (Audit and Records--Negotiation), incorporated into Contract No. AID-306-C-16-00010 by reference, paragraphs (a) (d) and (f) state the following, copied here in part:

“(a) As used in this clause, “records” includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form...

(d) Comptroller General.- (1) The Comptroller General of the United States, or an authorized representative, shall have access to and the right to examine any of the

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
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### Schedule of Findings and Questioned Costs

(Continued)

Contractor’s directly pertinent records involving transactions related to this contract or a subcontract hereunder and to interview any current employee regarding such transactions...

(f) *Availability.* The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs(a), (b), (c), (d), and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in subpart 4.7, Contractor Records Retention, of the Federal Acquisition Regulation (“FAR”), or for any longer period required by statute or by other clauses of this contract....”

**Cause:** Tetra Tech lacked effective supervisory review and subcontractor monitoring controls to ensure costs claimed under the Contract were adequately supported. Specifically, Tetra Tech review and monitoring process failed to ensure the following:

- (1) ODC costs claimed were supported by a valid agreement;
- (2) Subcontractor danger pay, and post differential pay calculations were supported with a base rate; and
- (3) SMA claims were certified for eligibility.

**Effect:** The lack of sufficient evidence for costs claimed resulted in the Government overpaying for goods and services as well as increasing the risk of subcontractors abusing Federal funds by charging costs that might not have been incurred.

**Questioned Costs:** Unsupported costs for Subcontractors - Tetra Tech charged the government for: Subcontractors in the amount of ██████; Travel/Material- Equipment/ ODC in the amount of \$60; and associated indirect costs related to ODC in the amount of ██████. This resulted in total unsupported costs of \$8,886.

#### **Recommendation:**

- (1) We recommend that Tetra Tech provide the appropriate source documentation to properly substantiate that the costs claimed were supported or return \$8,886 to USAID.

**TETRA TECH, INC.**

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

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Schedule of Findings and Questioned Costs

(Continued)

- (2) We recommend that Tetra Tech implement stronger supervisory and subcontractor’s monitoring controls to ensure costs billed and claimed by Tetra Tech and its subcontractors are not paid unless they are properly supported.

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
Contract No. AID-306-C-16-00010 – Time and Material Job Orders  
Engineering Support Program (“ESP”)

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Schedule of Findings and Questioned Costs

(Continued)

### **Finding 2019-04: Insufficient Evidence to Show Adherence to Tetra Tech’s Procurement Policy**

**Nature of Finding:** Internal Control – Deficiency

**Condition:** During our testing of other direct costs (“ODC”) expenses, Tetra Tech did not provide the source documentation to substantiate the reasonableness of costs claimed.

For one out of 24 ODC samples, Tetra Tech did not provide sufficient evidence of competitive bidding to show adherence to their Engineering Support Program Procurement Manual for transactions greater than \$2,499. Three Global Positioning System (“GPS”) devices purchased for [REDACTED] were placed in the Kabul Office in January 2018, and Tetra Tech provided a sole source justification that they prepared in April 2019, after we made the request for the supporting documentation.

**Criteria:** 48 CFR § 31.201-2, *Determining allowability*, states:

“(a) A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the Cost Accounting Standards (“CAS”) Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract...

(d) A contractor is responsible for accounting for costs appropriately and maintaining records...adequate to demonstrate that costs claimed have been incurred...”

48 CFR § 31.201-3, *Determining reasonableness*, states:

“(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting

## TETRA TECH, INC.

Financial Audit of Costs Billed under  
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(Continued)

officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.”

The Engineering Support Program Procurement (“ESP”) Manual for Contract No. AID-306-C-16-00010, Section 2.0, *Procurement Procedures*, 2.7 *Competition Requirements*, states:

*“To be considered a competitive procurement, procurement of goods, commodities, or services exceeding the threshold of \$2,500 shall be conducted through a full and open competition process by advertising the request for quote/request for proposal document publicly. Tt ESP shall ensure that it satisfies competition requirements by initiating procurement actions early any by soliciting from as many responsible sources as possible.”*

Tetra Tech Engineering Support Program Procurement Manual for Contract No. AID-306-C-16-00010, Section 3.13, *Record Retention*, states:

“The Tt ESP prime contract with USAID requires documentation, records, and other informational materials to be maintained for examination, audit, or reproduction in accordance with Federal Acquisition Regulation clause 52.215-2. In general, all records should be maintained until three years after final payment under this contract.”

48 CFR § 52.215-2 (Audit and Records--Negotiation), incorporated into Contract No. AID-306-C-16-00010 by reference, paragraphs (a) (d) and (f) state the following, copied here in part:

“(a) As used in this clause, “records” includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form...

(d) Comptroller General.- (1) The Comptroller General of the United States, or an authorized representative, shall have access to and the right to examine any of the Contractor's directly pertinent records involving transactions related to this contract or a subcontract hereunder and to interview any current employee regarding such transactions...

...

(f) *Availability*. The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs(a), (b), (c), (d), and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in subpart 4.7, Contractor Records Retention,

## TETRA TECH, INC.

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(Continued)

of the Federal Acquisition Regulation (“FAR”), or for any longer period required by statute or by other clauses of this contract....”

**Cause:** Tetra Tech lacked adequate controls to ensure purchases made under the Contract adhered to its Engineering Support Program Procurement Manual that was specifically implemented for the program. Tetra Tech did not maintain documentation to support sole source selection.

**Effect:** Failure to perform competitive bidding to support the reasonableness of purchases may have resulted in Government overpaying for goods as well as increasing the risk of abusing Federal funds by overpaying for goods.

**Questioned Costs:** The questioned costs for Travel/Material - Equipment/ODC’s include direct costs of [REDACTED] and associated indirect costs of [REDACTED], resulting in total ineligible costs of \$3,303.

### Recommendation:

- (1) We recommend that Tetra Tech provide evidence of competitive bidding to determine the costs were reasonable or return \$3,303 of ineligible costs to USAID.
- (2) We recommend that Tetra Tech develop and implement an internal control process that ensures that documentation to support sole source selection is maintained for purchases made under the Contract in compliance with its Engineering Support Program Procurement Manual that was specifically implemented for the program.

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### **Finding 2019-05: Lack of Evidence for Exclusion and Anti-Terrorist Check**

**Nature of Finding:** Non-Compliance and Internal Control – Significant Deficiency

**Condition:** During the testing of 28 out of 594 Travel transactions, 19 out of 373 Material & Equipment transactions, and 24 out of 136 other direct costs (“ODC”) expenses transactions, evidence of an exclusion and/or anti-terrorist check was not provided for: seven out of 28 sampled invoices in Travel testing, two out of 19 sampled invoices in Material/Equipment testing, and for one out of 24 ODC samples. Tetra Tech did not conduct exclusion screening prior to the execution of a subcontract agreement.

**Criteria:** The Tetra Tech’s Engineering Support Program (“ESP”) Procurement Manual for the, *Section 3.4 Debarred, Suspended, Ineligible Suppliers Under Government Contracts*, states in part:

“In accordance with FAR 9.405, it is Tt ESP’s practice that, prior to the execution of a purchase order (“PO”) or subcontract (“SC”), other than a subcontract for a commercially available off-the-shelf item, the Procurement representative shall verify that the vendor or subcontractor is not currently listed in”:

1. System for Award Management (SAM)  
Citation: [www.sam.gov](http://www.sam.gov)
2. Office of Foreign Assets Control (OFAC) – Sanctions List Search  
Citation: [www.sanctionssearch.ofac.treas.gov](http://www.sanctionssearch.ofac.treas.gov)

“The Procurement representative shall not award any procurement to a supplier that has been debarred, suspended, or proposed for debarment, unless there are compelling reasons to do so. If there is a compelling reason to contract with such a company, the USAID Contracting Officer (“CO”) shall be notified prior to entering into a PO or SC in accordance with FAR 52.209-6.”

“The results of these searches must be documented in the procurement files.”

48 CFR § 31.201-2(d), *Determining allowability*, states:

“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

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in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

2 CFR 200, Appendix II, *Contract Provisions for Non-Federal Entity Contracts Under Federal Awards*, states, in part:

(H) Debarment and Suspension – “A contract award (see 2 CFR 180.220) must not be made to parties listed on the government-wide Excluded Parties List System in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR Part 1986 Comp., p. 189) and 12689 (3 CFR Part 1989 Comp., p.235), “Debarment and Suspension.” The Excluded Parties List System in SAM contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549.”

Attachment J.1 (Mission Order on Vetting) Contract No. AID-306-C-16-00010, Executive Order 13224, states:

“Executive Order 13224 designated certain individuals and entities that commit or pose a significant risk of committing terrorist acts and authorized the Secretary of state to designate additional individuals and entities.

The Order also authorized the Secretary of the Treasury to designate additional individuals and entities that provide support or services to, are owned or controlled by, act for or on behalf of, or are “otherwise associated with,” an individual or entity who has been designated in or under the order. All property and interests in property of the individual or entity in the United States or in the possession or control of United States persons are blocked. The order prohibits all transactions and dealings in blocked property or interests in the United States or by United States persons, and also prohibits transactions with, and provision of support for, individuals or entities listed in or subject to the Order...

Non-Federal entities should be aware of Executive Order 13224 and the names of the individuals and entities designated thereunder. A list of these names can be found in the exclusions section of the SAM.gov. The web site is: <http://www.sam.gov>.

Non-Federal entities are reminded that U.S. Executive Order and U.S. laws prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the non-Federal entity/contractor to ensure compliance with these Executive Orders and laws. ...”

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Tetra Tech Engineering Support Program (“ESP”) Procurement Manual for Contract No. AID-306-C-16-00010, Section 3.13, *Record Retention*, states:

“The Tt ESP prime contract with USAID requires documentation, records, and other informational materials to be maintained for examination, audit, or reproduction in accordance with FAR clause 52.215-2. In general, all records should be maintained until three years after final payment under this contract.”

48 CFR § 52.215-2 (Audit and Records--Negotiation), incorporated into Contract No. AID-306-C-16-00010 by reference, paragraphs (a) (d) and (f) state the following, copied here in part:

“(a) As used in this clause, “records” includes books, documents, accounting procedures and practices, and other data, regardless of type and regardless of whether such items are in written form, in the form of computer data, or in any other form...

(d) Comptroller General - (1) The Comptroller General of the United States, or an authorized representative, shall have access to and the right to examine any of the Contractor’s directly pertinent records involving transactions related to this contract or a subcontract hereunder and to interview any current employee regarding such transactions...

(f) *Availability*. The Contractor shall make available at its office at all reasonable times the records, materials, and other evidence described in paragraphs(a), (b), (c), (d), and (e) of this clause, for examination, audit, or reproduction, until 3 years after final payment under this contract or for any shorter period specified in subpart 4.7, Contractor Records Retention, of the Federal Acquisition Regulation (“FAR”), or for any longer period required by statute or by other clauses of this contract....”

**Cause:** Tetra Tech lacked adequate controls to ensure that it performed the exclusion checks prior to the hire employees and contractors/vendors.

**Effect:** Tetra Tech did not perform exclusion or anti-terrorist checks prior to hire, which could raise the risk that Federal Funds are used in support of terrorist activities.

**Questioned Costs:** None. All checks performed in Office of Foreign Assets Control (“OFAC”) by auditor resulted in no exclusions.

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**Recommendation:** We recommend that Tetra Tech develop and implement an internal control process that ensures that exclusion and anti-terrorist checks are performed prior to the hire employees and contractors/vendors and that evidence of the exclusion checks performed are maintained.

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**Finding 2019-06: Surprise Petty Cash Count not Performed in June 2018**

**Nature of Finding:** Internal Control – Deficiency

**Condition:** Tetra Tech was unable to provide support that a surprise count was performed on its petty cash account for the month of June 2018.

**Criteria:** The Tetra Tech policy document titled Cash Management Process Description, states in part:

“2. Description of the Process for Maintaining Petty Cash Funds (imprest fund) for the Project. ...

2e) ... Surprise petty cash counts are performed by the expatriate Operations Manager approximately two to three times per month, sometimes more, depending on the level of activity.”

**Cause:** Tetra Tech lacked adequate controls and oversight to ensure that surprise cash counts are performed.

**Effect:** Failure to perform the monthly surprise petty cash count in the Afghanistan project office could result in the mismanagement and abuse of Federal funds.

**Questioned Costs:** None

**Recommendation:** We recommend that Tetra Tech provide training to its staff to strictly adhere to its Cash Management Process to ensure that the Surprise Petty Cash counts are performed monthly in accordance with Tetra Tech’s policy for its Cash Management Process.

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### Status of Prior Audit Findings

#### Status of Prior Audit Findings

We requested from Tetra Tech, Inc. (“Tetra Tech”), as well as conducted a search online on various governmental websites, including the Office of Inspector General for Afghanistan Reconstruction (“SIGAR”), U.S. Agency for International Development / Afghanistan (“USAID”), and other applicable Federal agencies, for any prior engagements including audits, reviews, and evaluations pertinent to Tetra Tech’s activities. We identified one prior engagement below that had four findings that could have a material effect on the Special Purpose Financial Statement (“SPFS”).

We reviewed the corrective actions taken to address these four findings and recommendations. Our review procedures included a follow-up discussion with management of the corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. The findings and status of corrective actions are listed below:

#### **Report: SIGAR Financial Audit 18-66 “USAID’s Afghanistan Engineering Support Program (“AESP”): Audit of Costs Incurred by Tetra Tech EM Inc.”**

The report identified four findings and recommendations that can have a material effect on the SPFS as follows:

##### **2018-01: Application of Indirect Cost Rates (Deficiency and Non-Compliance)**

**Status:** During our onsite visit, we reviewed the policies and procedures pertaining to these issues to ensure adequate procedures were in place, and we also interviewed management to obtain an understanding of corrective action measures that were implemented. Tetra Tech disagreed with the Auditor’s finding that 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. Tetra Tech stated that they submitted Indirect Rates for FY16 and FY17 to USAID’s Cognizant Auditor in a timely manner, and that Tetra Tech should not be held financially responsible for USAID’s lack of responsiveness. In addition, during our testing under this audit, Tetra Tech used the correct indirect cost rate for billing, except for the last bill where Tetra Tech claimed less than the approved rate per agreement, as the actual rate was less. Tetra Tech had submitted the rate to USAID for approval and is pending approval.

##### **2018-02: Contract Flow-Down Clauses and Vetting Documentation (Non-Compliance)**

**Status:** During our onsite visit, we reviewed the policies and procedures pertaining to these issues to ensure adequate procedures were in place, and we also interviewed management to obtain an understanding of corrective action measures that were implemented. We noted that when it has been determined that an organization is Non-U.S., contracts/procurement staff now document the

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### Status of Prior Audit Findings

(Continued)

subcontractor files accordingly with subcontractor correspondence, SAM Entity Registration, proposal certification, etc., and then submit USAID Information Form to the Kabul Vetting Support Unit. In addition, during our testing under this audit, we noted that Tetra Tech did not perform SAM checks and/or retain documentation in support of those checks.

#### **2018-03:** Fly America Act - Questioned Costs (Deficiency and Non-Compliance)

**Status:** During our onsite visit, we reviewed the policies and procedures pertaining to these issues to ensure adequate procedures were in place, and we also interviewed management to obtain an understanding of corrective action measures that were implemented. In addition, during our testing under this audit, we did not note similar issues regarding the requirements of the Fly America Act. These issues were not repeated.

#### **2018-04:** Unsupported Payroll – Questioned Costs (Deficiency and Non-Compliance)

**Status:** During our onsite visit, we reviewed the policies and procedures pertaining to these issues to ensure adequate procedures were in place, and we also interviewed management to obtain an understanding of corrective action measures that were implemented. Tetra Tech has since eliminated paper timesheets for local nationals and now operates an on-line timekeeping system known as “T-Sheets” for ESP, the AESP successor program. Each week local nationals submit their timecard electronically and their supervisor electronically approves the timesheet. Tetra Tech has also strengthened its Home Office oversight of local national pay rates, including increases, through the maintenance of a rate database and the data within is validated monthly. In addition, during our testing under this audit, we did not identify any issues regarding time sheets. These issues were not repeated.

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**Tetra Tech, Inc.’s Response to Findings**

Included on the following pages is Tetra Tech Inc.’s response received to the findings identified in this report.

September 4, 2019

Conrad LLP  
23161 Lake Center Drive, Suite 200  
Lake Forest, CA 92630  
Attn.: [REDACTED]  
Partner  
[REDACTED]

Dear [REDACTED]

This letter is written in response to the August 20, 2019 draft audit report emailed from you in regards to SIGAR Audit F-150 Tetra Tech, Inc. (Tt) Special Purpose Financial Statement for costs billed under U.S. Agency for International Development (USAID) Contract No. AID 306-C-16-00010, for the period from July 23, 2016 through July 22, 2018, for Time and Materials Job Orders, under the Engineering Support Program (ESP). Responses to each of the six Findings follow in this letter and attachments where referenced.

Finding 2019-01 Lack of evidence for Separate Maintenance Allowance qualification.

Tt vigorously challenges Conrad's underlying assertion that Tt did not comply with USAID's Separate Maintenance (SMA) compliance requirements. All of the eligible Tt employee ESP ex-patriates completed the Involuntary (ISMA) Certification with their initial ESP Assignment Agreement and at each extension. ISMA was processed based on these certifications. ESP employees qualify for ISMA, not Voluntary SMA (VMSA). Per the Department of State, Office of Allowances: Separate Maintenance Allowance regulations, Employees must certify special need or hardship to qualify for VMSA. However, Tt employees qualify for ISMA per Section 262.1 Involuntary SMA: "An agency may authorize ISMA when adverse, dangerous, or notably unhealthful conditions warrant the exclusion of members of family from the area or when the agency determines a need to exclude members of family from accompanying an employee to the area." Afghanistan is a hardship post, by definition an ISMA country. ESP ex-patriate employees are not permitted to have dependents live with them in Afghanistan.

Tt SMA payments have always been evaluated monthly by the Project Accountant responsible for initiating the monthly payment process. Tt acknowledges that we did not document Project Manager approval for the monthly SMA payments prior to January 2018.

Tt has complied with the two recommendations:

- (1) All current Tt ex-patriates recertified their qualifications to receive ISMA with their Assignment Agreements, all renewed effective June 29, 2019.
- (2) Tt updated its internal control procedure to ensure improved oversight over both employee eligibility and DSSR compliance; this includes the implementation of an updated ISMA Certification form (please see Attachment A).

Finding 2019-02 Costs unallowable under the Contract claimed.

Tt disagrees with the assertion that Tt erroneously claimed Medical Allowance. Medical Allowance is not included in the contract rates. Tt acknowledges the incorrect language stated in the contract and has

provided multiple files that prove the fact that no burden was applied to the Tt EAS Cooperating Country National (CCN) fixed daily rates.

Please see Attachment B, the complete CCN Rate development file:

- Pages 1-3: Total Rate Table Totals
- Pages 4-5: Tt EAS Rate Tables - No fringe is included
- Pages 6-16: Rate Tables for each of the Subcontractors

Finding 2019-03 Lack of evidence or insufficient evidence to support costs billed.

All but \$74 of the “unsupported” costs relate to Subcontractor ODC’s for the one Power Engineers ex-patriate for Involuntary Separate Maintenance Allowance (ISMA). The subcontractor ex-patriate qualified for ISMA, as his Assignment Agreement including ISMA Certification, and marriage certificate were produced. The Power Engineers ex-patriate qualifies for ISMA per Section 262.1 Involuntary SMA: “An agency may authorize ISMA when adverse, dangerous, or notably unhealthful conditions warrant the exclusion of members of family from the area or when the agency determines a need to exclude members of family from accompanying an employee to the area.” Afghanistan is a hardship post, by definition an ISMA country.

In regards to the \$74, Tt agrees that there was no pre-approval for the \$10 per meal unit cost charged by the subcontractor for non-resident Tt staff at the expatriate DFAC.

Tt has complied with the recommendation to implement stronger supervisory and subcontractor monitoring controls. Subcontractors are now required to provide detailed source documentation with all ODC’s included in any submitted invoice. Subcontractor ODC’s are rigorously reviewed and compared to the Subcontract agreement before being paid and included in any billing to USAID.

Finding 2019-04 Insufficient evidence to show adherence to Tt’s Procurement Policy.

Tt disagrees with Conrad’s assertion that Tt did not follow Tt’s Procurement Policy when procuring the three Global Positioning System Devices. The ESP Procurement Manual (Attachment C) was established to define procurement practices by Tt ESP personnel and is only applicable to purchases made in-country. Procurement Procedures similar to those found in FAR Part 13 are used for purchases made by the Home Office (Marlborough, MA); as such, these costs are below the Micro-Purchase Threshold defined in FAR Part 2 – Definitions of Words and Terms.

Tt already complies with the recommendation to implement internal control processes to ensure documentation is maintained to support sole source selection requirements.

Finding 2019-05 Lack of evidence for exclusion and anti-terrorist check.

Tt acknowledges that we did not document exclusion screening prior to execution of a small number of vendor procurements and employee hires.

Tt agrees with the recommendation to develop and implement an internal control process that ensures that exclusion and anti-terrorist checks are performed prior to the hire of employees and contractors/vendors and that evidence of the exclusion checks are maintained.

Finding 2019-06 Lack of surprise petty cash count in June 2018.

Tt acknowledges that no surprise petty cash count was performed in June 2018. This was an oversight.

Tt agrees with the recommendation to provide training to the relevant Kabul staff to adhere to its current documented Cash Management Processes.

Please let me know any additional questions you may have. Thanks.

Sincerely,



Susan S. DeMarre

Controller

Email: [REDACTED]

CC:

SIGAR: [REDACTED]

Conrad: [REDACTED]

Tetra Tech: [REDACTED]

Attachments: Attachment A - Finding 2019-01: Separate Maintenance Allowance Procedure  
Attachment B - Finding 2019-02: CCN Rate Tables  
Attachment C - Finding 2019-04: Tt ESP Procurement Manual

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Auditor’s Rebuttal to Tetra Tech’s Responses to the Audit Report

Tetra Tech disagreed or partially disagreed with four findings and recommendations. Tetra Tech did not acknowledge nor agree or disagree with part of the finding 2019-05 if exclusion or anti-terrorist check were actually performed prior to the purchases. We have reviewed management’s responses and provided the following rebuttals to which Tetra Tech disagreed with the findings.

- 2019-01: Tetra Tech disagrees that they did not comply with USAID’s Separate Maintenance Allowance (“SMA”) compliance requirements on the premise that ex-patriates automatically qualify for involuntary SMA in Afghanistan. But Tetra Tech acknowledged that it did not maintain documentation of the monthly review of SMA eligibility by the Project Accountant prior to January 2018.

Auditor Rebuttal: The Department of State Standardized Regulations (“DSSR”), Section 262.4 (b) and Tetra Tech’s employment agreement requires that these employees complete forms certifying that they qualify for SMA and states:

“...Involuntary SMA is effective the first day of separation, provided that Form SF-1190 has been submitted.”

Additionally, the amount of SMA paid is based on the number of dependents of the employee and the eligibility of the dependents is based on a multitude of factors, which can change over time. Therefore, employee certifications and approvals are mandatory for initial eligibility. Additionally, Tetra Tech acknowledged it did not maintain documentation of monthly reviews of continued eligibility for SMA. Accordingly, our finding, identified questioned costs, cause and recommendations remain unchanged.

- 2019-02: Tetra Tech disagrees that the medical allowance was erroneously claimed but states that the verbiage in the contract is incorrect.

Auditor Rebuttal: The audit was conducted based on the terms of the contract. However, if the terms of the contract were incorrect, Tetra Tech should have requested a modification to the contract. Additionally, as no payroll support was provided to sustain that the rate developed was based on the pay rate excluding fringe benefits, we are unable to substantiate the rate. Accordingly, our finding, identified questioned costs, cause and recommendations remain unchanged.

- 2019-03: Tetra Tech partially disagrees with the finding. Tetra Tech agrees that there was no pre-approval for the \$74 meal costs claimed. However, Tetra Tech disagrees with the disallowance of SMA on the premise that ex-patriates automatically qualify for involuntary SMA in Afghanistan per Section 262.

Auditor Rebuttal: The DSSR, Section 262.4 (b) requires that these employees complete forms certifying that they qualify for SMA. Additionally, the amount of SMA paid is based on the number of dependents of the employee and the eligibility of the dependents is based on a multitude of factors. Therefore, an employee certification and approval are mandatory and Tetra Tech did not provide a copy of the required form to certify involuntary SMA eligibility as required by government regulations. Also, since Tetra Tech acknowledged there were no pre-approval for the meal costs, accordingly, our finding, identified questioned costs, cause and recommendations remain unchanged.

- 2019-04: Tetra Tech disagrees with the finding stating that the procurement in question was made by the Home Office that is covered under FAR and not under the ESP Procurement Manual. Only in-country purchases are required to follow the Engineering Support Program (“ESP”) Procurement Manual.

Auditor Rebuttal: On June 21, 2019 the Project Manager confirmed that Global Positioning System (“GPS”) devices were purchased by the Kabul’s in-country office to which the ESP Procurement Manual applies. Accordingly, our finding, identified questioned costs, cause and recommendations remain unchanged.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

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To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

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- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
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## Public Affairs

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