



## MEMORANDUM

**DATE:** October 29, 2018

**TO:** USAID/Management/Office of Acquisition and Assistance/Cost Audit and Support Division, Branch Chief, David A. McNeil

**FROM:** Director of External Financial Audits, Abdoulaye Gueye /s/

**SUBJECT:** Examination of Costs Claimed for Tetra Tech ES, Inc. for the Fiscal Years Ended December 31, 2008, December 31, 2009, and September 30, 2010 (3-000-19-003-1)

This memorandum transmits the final examination report on the examination of costs claimed for Tetra Tech ES, Inc. (TT) on in-scope contracts and subcontracts for the fiscal years (FY) ended December 31, 2008, December 31, 2009, and September 30, 2010 and determines whether costs claimed are allowable, allocable and reasonable in accordance with contract terms; Part 31 of the Federal Acquisition Regulation (FAR); Agency for International Development Acquisition Regulations (AIDAR); Department of State Standardized Regulations (DSSR); and 2 Code of Federal Regulations (CFR) *Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost, Audit, and Support Division contracted with Kearney & Company to conduct the examination. The contract required Kearney & Company to perform the examination in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Kearney & Company states that it performed its examination in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards issued by the Comptroller General of the United States. Kearney & Company is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on whether costs claimed on in-scope contracts and subcontracts for each FY is allowable, allocable and reasonable in accordance with contract terms; Part 31 for the FAR; AIDAR; DSSR; and 2 CFR 200 *Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.<sup>1</sup>

The objective of this examination was to express an opinion on whether the costs claimed by TT on in-scope contracts and subcontracts for the FYs ended December 31, 2008, December 31, 2009, and September 30, 2010 are allowable, allocable, and reasonable in accordance with contract terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. To answer the objective, Kearney & Company designed its testing procedures to evaluate the internal control environment surrounding TT's subcontract management process and to verify that TT had adequate controls in place for monitoring subcontractor costs. Its examination also included evaluating the claimed costs reported in the Incurred Cost Proposals (ICP) for compliance with the applicable

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<sup>1</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

requirements contained in the FAR, AIDAR, DSSR and other specific contract provisions. Providing an opinion on compliance with specific provisions was not an objective of its examination; accordingly, Kearney & Company did not express such an opinion. Kearney & Company audited \$53,594,980 of TT's incurred costs of which USAID audited costs total \$44,748,620 for the fiscal years ended December 31, 2008, December 31, 2009, and September 30, 2010.

Kearney & Company identified a scope limitation applicable to TT's FYs 2008-2010 claimed subcontractor costs. In FY 2010, TT claimed material subcontractor costs for a specific subcontractor under Contract No. EPP-I-00-03-00008-04. A full assist audit was scheduled to be performed over this material subcontractor by a separate party concurrent with Kearney & Company's examination, so it was excluded from the scope of the examination at the start. However, to Kearney & Company's knowledge, the assist audit was not completed prior to the end of Kearney & Company's examination's fieldwork. The material subcontractor's costs have not, to Kearney & Company's knowledge, been audited in accordance with the Allowable Cost and Payment clause of the FAR and are therefore, unsubstantiated for FY 2010. Kearney & Company, where applicable, incorporated the results of previous audits of subcontractor costs into this report. The total amount of subcontractor costs claimed as other direct costs in TT's FYs 2008-2010 ICPs for the remaining subcontractors is material, and the auditor could not determine, with reasonable certainty, the composition of the subcontractor costs claimed as being direct or indirect, based on the structure of the information presented in TT's ICPs and general ledger. The remaining subcontractors have not, to Kearney & Company's knowledge been subjected to a previous audit. Kearney & Company determined that the potential effect on TT's ICP's claimed costs could be material.

Kearney & Company expressed a qualified opinion. In Kearney & Company's opinion except for the effects of the matters described in the preceding paragraph, costs claimed by TT on in-scope contracts and subcontracts for the FYs ended December 31, 2008, December 31, 2009, and September 30, 2010 are allowable, allocable, and reasonable in accordance with contract terms; Part 31 of the FAR; AIDAR; DSSR; and 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable, in all material respects. Kearney & Company did not render an opinion on the effectiveness of the contractor's accounting systems and related internal controls. The auditor's examination disclosed one any finding that is required to be reported under *Government Auditing Standards*. The auditors questioned \$3,168 in unsupported direct costs, and indirect G&A pool costs of \$16,732 applicable to USAID.

To address the issues identified in the audit report, we recommend that USAID's Office of Acquisition and Assistance Cost, Audit and Support Division:

### **Recommendation 1**

Determine the allowability of \$3,168 in unsupported direct costs from Tetra Teck ES, Inc. detailed on page 2 of the audit report and recover any amount that is unallowable.

### **Recommendation 2**

Verify that Tetra Teck ES, Inc. corrects Finding #1 detailed on pages 13 and 14 of the audit report.

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

OIG does not routinely distribute independent public accounting reports beyond the immediate addresses because a high percentage of these reports contain information restricted from release under the Trade

Secrets Act, 18 U.S.C 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential.”)

If you have any questions related to this report, please contact Steve Shea, Assistant Director, at (202) 712-1386 or [sshea@usaid.gov](mailto:sshea@usaid.gov).

Attachment: As stated

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