



MEMORANDUM

DATE: June 10, 2020

TO: USAID/Pakistan Mission Director, Julie A. Koenen

FROM: USAID OIG Asia Regional Office Audit Director, James C. Charlifue /s/

SUBJECT: Financial Audit of the Sustainable Energy for Pakistan Program Managed by the Tetra Tech ES Inc., Contract No. AID-391-TO-16-00005, July 25, 2016 to March 31, 2019 (5-391-20-006-N)

This memorandum transmits the final audit report on the Sustainable Energy for Pakistan program managed by the Tetra Tech ES Inc. (Tetra Tech). USAID/Pakistan contracted with the independent certified public accounting firm of A.F. Ferguson & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. In addition, the audit firm disclosed that for the expenditures incurred by the Tetra Tech home office and international subcontractors, the audit firm (1) examined only the scanned copies of the supporting documents and did not observe the facilities, work processes, policies, and procedures; and (2) reviewed only the employee timesheets and did not review the subcontractors' recruitment process, employment contracts, and consultancy agreements since these documents were not available. The audit firm also indicated that its verification of the subcontractors' costs is limited to the information provided by the subcontractors to Tetra Tech. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on the contractor's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.¹

The audit objectives were to: (1) express an opinion on whether Tetra Tech's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate Tetra Tech's internal controls; (3) determine whether Tetra Tech complied with contract terms (including cost-sharing contributions, if applicable), and applicable laws and

¹ 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.

regulations; and (4) determine whether Tetra Tech has taken corrective actions on prior audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement and supporting documentation; evaluated the effectiveness of the design and operation of the internal control system; and conducted tests of the contractor's compliance with contract terms and applicable laws and regulations. There are no prior audit recommendations since this is the first audit of the contract. The audit firm also performed procedures to address the mission's specific concerns related to determining whether (1) the costs charged by a subcontractor to Tetra Tech were reasonable and in compliance with Tetra Tech's policies and procedures, and (2) Tetra Tech and its subcontractors complied with Tetra Tech's policies on conflict of interest, time and attendance, and leave. The mission confirmed that the contract did not require cost-sharing contributions. The audit covered program costs of \$11,218,000 from July 25, 2016 to March 31, 2019.

A.F. Ferguson & Co. concluded that the fund accountability statement presented fairly, in all material respects, program costs incurred under the contract for the period audited, except for the effects of the questioned costs totaling \$1,412,055 (\$1,063,305 ineligible and \$348,750 unsupported, which included \$298,150 in indirect costs associated with the questioned costs).

The audit firm also identified nine material weaknesses in internal control, eight of which are associated with the questioned costs related to (1) refundable security deposits improperly charged to USAID - \$9,189; (2) labor costs charged in excess of the approved rates - \$4,153; (3) theft of a laptop not reported to the contracting officer and contracting officer representative as required by the contract - \$962; (4) general and administration expenses charged in excess of the approved rate - \$121; (5) timesheets not approved by the supervisor - \$6,400; (6) noncompliance with USAID/Pakistan's tax guidance - \$234; (7) lack of documents to show evidence of a competitive hiring of the consultant and the director of operations - \$295,572; and (8) lack of documents to show evidence of a subcontractor's competitive selection of office rental and retrofit work - \$358,432. The remaining one material weakness in internal control pertained to a lack of documents to show evidence of a competitive recruitment procedure.

Further, the audit firm identified four material instances of noncompliance, three are associated with the identified questioned costs related to (1) debarment checks not performed in the selection of three subcontractors and one employee - \$100,572; (2) debarment checks performed after entering into agreements with two vendors and three employees - \$287,670; and (3) noncompliance with USAID travel regulations by a subcontractor - \$50,600. The remaining one material instance of noncompliance pertained to noncompliance with the guidelines related to the anti-fraud hotline. The audit firm also issued a management letter to Tetra Tech identifying two internal control matters and two nonmaterial instances of noncompliance.

During our desk review, we noted issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the mission's controller dated June 10, 2020.

To address the issues identified in the report, we recommend that USAID/Pakistan:

Recommendation 1. Determine the allowability of \$1,412,055 in questioned costs (\$1,063,305 ineligible and \$348,750 unsupported) on pages 4, 13, and 16 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Tetra Tech ES, Inc. corrects the nine material weaknesses in internal control detailed on pages 24 to 41 of the audit report.

Recommendation 3. Verify that Tetra Tech ES, Inc. corrects the four instances of material noncompliance detailed on pages 42 to 47 of the audit report.

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

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees 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").

Attachment: a/s