



MEMORANDUM

DATE: May 7, 2020

TO: USAID/Management/Office of Acquisition and Assistance/Cost Audit and Support Division, Acting Supervisory Auditor, Eleanor C. Jefferson

FROM: Director of External Financial Audits Division (IG/A/EFA), David A McNeil /s/

SUBJECT: Examination of Costs Claimed for Tetra Tech ES, Inc. for Each of the Three Fiscal Years Ended October 2, 2011; September 30, 2012; and September 29, 2013 (3-000-20-029-1)

This memorandum transmits the final examination report on examination of costs claimed for Tetra Tech ES, Inc. (Tetra Tech ES) on in-scope awards and sub awards for each of the three fiscal years (FY) ended October 2, 2011; September 30, 2012; and September 29, 2013. The U.S. Agency for International Development (USAID) Office of Acquisition and Assistance, Cost Audit and Support Division contracted with the independent certified public accounting firm of Kearney & Company P.C. (Kearney & Company) to perform the examination in accordance with generally accepted government auditing standards and to determine whether costs claimed are allowable, allocable, and reasonable in accordance with award terms; Part 31 of the Federal Acquisition Regulation (FAR); Agency for International Development Acquisition Regulation (AIDAR); Department of State Standardized Regulation (DSSR); and 2 Code of Federal Regulations (CFR) 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as applicable. The audit firm states that it conducted 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. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion that costs claimed by Tetra Tech ES on in-scope awards and sub-awards for each the three fiscal years ended for each of the three fiscal years (FY) ended October 2, 2011; September 30, 2012; and September 29, 2013 are allowable, allocable, and reasonable in accordance with award 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.¹

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.

The objective of this examination was to express an opinion on whether the cost claimed by Tetra Tech ES on in-scope awards and subawards for each of the FYs are allowable, allocable and reasonable in accordance with contract terms; Part 31 of 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 Tetra Tech ES's subcontract management process and to determine whether Tetra Tech ES had adequate controls in place for monitoring subcontract costs. The audit firm also obtained an understanding of internal controls, assessed control risk, and determined the extent of testing needed based on the control risk assessment. Kearney & Company's examination also included evaluating the claimed costs reported in the incurred cost proposals (ICP) for compliance with the applicable requirements contained in the FAR, AIDAR, DSSR, and other specific contract provisions. The audit firm examined \$83,249,951 of Tetra Tech ES's incurred costs for each of the three fiscal years ended October 2, 2011; September 30, 2012; and September 29, 2013.

Kearney & Company expressed a qualified opinion because it did not examine one subcontractor's costs for FY 2011 through FY 2013. These unexamined costs are claimed as subcontractor costs in Tetra Tech ES's ICPs and are subject to change based on separate examination and are included in the allocation bases for Tetra Tech ES's Material Handling and Subcontractors rates. Kearney & Company was unable to quantify the effects of these unexamined costs on the subject matter as a whole but determined they could be material and thus could not quantify their potential impact. The audit firm did not question any direct costs or indirect pool costs.

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").