



MEMORANDUM

DATE: October 22, 2021

TO: USAID/Afghanistan Mission Director, Peter Duffy

FROM: USAID OIG Asia Regional Office USDH NFA Coordinator, James C. Charlifue /s/

SUBJECT: Financial Audit of Costs Incurred by Tetra Tech, Inc. Under the Engineering Support Program in Afghanistan, Contract AID-306-C-16-00010, October 1, 2019, to January 22, 2020 (5-306-22-002-N)

This memorandum transmits the final audit report on costs incurred under the Engineering Support Program in Afghanistan managed by Tetra Tech, Inc. (Tetra Tech). USAID/Afghanistan contracted with the independent certified public accounting firm of CliftonLarsonAllen LLP to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and the USAID Financial Audit Guide for Foreign Organizations. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on Tetra Tech's schedule of expenditures of USAID awards;¹ the effectiveness of its internal control; or its compliance with the contract terms and applicable laws and regulations.²

The audit objectives were to (1) express an opinion on whether Tetra Tech's schedule of expenditures of USAID awards 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 and applicable laws and regulations (including cost-sharing contributions); (4) perform an audit of the indirect cost rate; and (5) assess whether Tetra Tech had taken adequate corrective actions on prior year audit recommendations. To answer

¹ On August 6, 2021, USAID updated its USAID Guide. This audit followed the previous USAID Guide version (March 4, 2019) because this was applicable at the time of the audit. Under the updated USAID Guide, the "fund accountability statement" is now called "schedule of expenditures of USAID awards."

² 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 audit objectives, the audit firm examined the schedule of expenditures of USAID awards and supporting documentation; obtained an understanding of the internal control system and assessed its effectiveness; tested compliance with contract terms and applicable laws and regulations; and assessed the status of prior year audit recommendations. The Tetra Tech contract did not require cost-sharing contributions. Also, because Tetra Tech is a U.S. organization, the audit of the indirect cost rate was not part of the scope of this audit. Instead, the audit firm recalculated the indirect costs by applying the provisional rates to the appropriate bases and reconciled the recalculated indirect costs with the indirect costs reported in the schedule of expenditures of USAID awards. The audit covered program revenues and costs each amounting to \$5,206,948 from October 1, 2019, to January 22, 2020.

The audit firm concluded that the schedule of expenditures of USAID awards presented fairly, in all material respects, program revenues and costs incurred under the contract for the period audited. The audit firm did not identify any questioned costs or material weaknesses in internal control. However, the audit firm identified one material instance of noncompliance related to Tetra Tech selecting a vendor using a sole source procurement without proof that a cost/price analysis was conducted as required by its procurement manual and applicable Federal Acquisition Regulation. This noncompliance finding involved monetary effects of \$32,000 that should have been identified by the audit firm as questioned costs in the schedule of expenditures of USAID awards but were not. OIG questions these costs based on 2 CFR 200.1³ and 2 CFR 200.404⁴, and classifies them as ineligible.⁵ Accordingly, we are making a recommendation for the mission to determine the allowability and recovery, as appropriate, of these questioned costs. Finally, the audit firm indicated that all prior audit findings had been closed.

There are several issues that the mission and the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the mission controller dated October 22, 2021.

To address the issues identified in the report and discussed in this memorandum, we recommend that USAID/Afghanistan:

Recommendation 1. Determine the allowability of \$32,000 in questioned costs (ineligible) identified on page 2 of this memorandum and detailed on pages 16 through 18 of the audit report and recover any amount that is unallowable.

³ 2 CFR 200.1, "Questioned Cost," defines "questioned costs" as a cost that is questioned by an auditor because of an audit finding: (a) which resulted from a violation or possible violation of statute, regulation, or the terms and conditions of a Federal award, including funds used to match Federal funds; ...or (c) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

⁴ 2 CFR 200.404, "Reasonable Costs," states that in determining reasonableness of a given cost, consideration must be given to whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

⁵ OIG's classification for ineligible questioned cost is consistent with the Agency's definition per the Automated Directives System (ADS) Chapter 595.6, "Audit Management Program."

Recommendation 2. Verify that Tetra Tech, Inc. corrects the instance of material noncompliance detailed on pages 16 through 18 of the audit report.

We ask that you provide written notification of actions planned or taken to reach management decisions.

The 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