

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR Financial Audit 13-09**

## USAID's Alternative Development Project South/West: Audit of Costs Incurred by Tetra Tech ARD



SIGAR Financial Audit 13-09

JULY  
2013



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 18, 2013

Dr. Rajiv Shah  
Administrator  
U.S. Agency for International Development

Ms. Sarah W. Wines  
Acting Mission Director for Afghanistan  
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by Tetra Tech ARD (ARD) under a USAID contract, "Alternative Development Project South/West (ADP/SW)."<sup>1</sup> The audit covered the period March 5, 2008, through March 4, 2011, and was performed by Mayer Hoffman McCann P.C. It covered \$75,133,550 in expenditures.

The purpose of the ADP/SW program was to reduce dependence on opium production in the south and west of Afghanistan by identifying and implementing alternative opportunities for economic development. The program sought to increase agriculture productivity, build relationships between farmers and the market, strengthen the capabilities of the Ministry of Agriculture, Irrigation and Livestock, and rebuild agriculture infrastructure.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of ARD's Fund Accountability Statement;<sup>2</sup>
- determine and report on whether ARD has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in ARD's internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

In contracting with an independent audit firm and drawing from the results of its audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Mayer Hoffman McCann's audit results and found them to be in accordance with generally accepted government auditing standards.

Mayer Hoffman McCann issued a qualified opinion on the fairness of the presentation of the Fund Accountability Statement based upon the identification of \$3,041,819 of questioned costs, which represents a material misstatement of the Fund Accountability Statement. Mayer Hoffman McCann identified two findings from prior audits or assessments where adequate corrective action had not been taken; however, they were not included in this report because the specific conditions of the findings were not present during the audit. In addition, Mayer Hoffman McCann reported four internal control deficiencies and three instances of

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<sup>1</sup> USAID contract number 306-C-00-08-00515-00 was designed to provide Afghan communities with economic options other than the illicit drug trade.

<sup>2</sup> The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

noncompliance, which prompted the auditors to question the \$3,041,819 in costs. These questioned costs included \$2,080,806 in ineligible costs<sup>3</sup> and \$961,013 in unsupported costs.<sup>4</sup> See table 1 below.

**Table 1 - Summary of Questioned Costs**

Category	Questioned Costs Total	Ineligible	Unsupported
Salaries and wages	\$27,067		\$27,067
Fringe benefits	\$53,105	\$53,105	
Subcontracts	\$79,325		\$79,325
Grants	\$745,615		\$745,615
Travel and transportation	\$16,606		\$16,606
Other direct costs	\$58,714		\$58,714
Indirect costs	\$293,031	\$259,345	\$33,686
Costs in excess of the CLIN	\$1,768,356	\$1,768,356	
<b>Totals</b>	<b>\$3,041,819</b>	<b>\$2,080,806</b>	<b>\$961,013</b>

Given the results of the audit, SIGAR recommends that the Contracting Officer:

1. Determine the allowability of and recover, as appropriate, \$3,041,819 in questioned costs (\$2,080,806 ineligible and \$961,013 unsupported) identified in the report.
2. Advise ARD to address the four internal control findings identified in the report.
3. Advise ARD to address the three compliance findings identified in the report.

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

(F007)

<sup>3</sup> Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and review by USAID to make a final determination regarding allowability.

<sup>4</sup> Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.

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For the Period March 5, 2008 through March 4, 2011

# **TETRA TECH ARD**

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# **TETRA TECH ARD**

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## **SUMMARY**

### **Background**

The Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred of Contract No. 306-C-00-08-00515-00 (Contract) between Tetra Tech ARD (ARD) and the United States Agency for International Development (USAID) for the period March 5, 2008 through March 4, 2011.

In March 2008, USAID/Afghanistan awarded a contract to Tetra Tech ARD to execute the Alternative Development Project South/West (ADP/SW). The purpose of the ADP/SW Program was to reduce the economic dependence of Farah, Nimroz, Uruzgan, and Helmand provinces on opium production, processing and trade by helping communities to identify and seize meaningful opportunities to reduce vulnerabilities, improve incomes and create lasting jobs through the licit economy while reinforcing the economic and institutional infrastructure on which these opportunities depend.

The ADP/SW was a three year, \$75 million program funded by USAID that eventually operated in three provinces of southern and western Afghanistan: Farah (2008 through 2011), Helmand (2009 through 2011), and Uruzgan (2009 through 2011). Operations were also conducted in Balkh, Jawzjan, and Gohr provinces, but were cancelled by USAID within months after the program started in year one (2008), due to a change in USAID strategy. Operations in Nimroz province were authorized in year two, but subsequently suspended by USAID by the end of year two. The original Contract was for a 2-year period of performance, with a 1-year extension. The total amount of the original Contract was \$55,133,597. The Contract was amended 13 times, which extended the period of performance through March 4, 2011 and increased the total amount of the Contract to \$75,133,597.

The implementation of ADP/SW was tailored closely to support the broader goals of USAID Agricultural Strategy for Afghanistan, which is to increase agricultural sector jobs and incomes and to increase the confidence of Afghans in their government.

Within these goals, ADP/SW's activities were designed to address the following objectives. The review of the performance of these objectives, however, was not included in the scope of this audit.

- Increase agricultural productivity;
- Regenerate agribusiness by increasing linkages between farmers, markets and trade corridors;
- Rebuild and expand economic infrastructure to improve value chain linkages, such as urban market structures, feeder road repair, storage, irrigation, watersheds, and agribusiness facilities; and

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- Increase the capacity of the Ministry of Agriculture, Irrigation and Livestock to deliver services to farmers and herders and promote the private sector and farmer associations.

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

#### **Objectives**

The objectives of the audit include the following:

- *Internal Controls* – Evaluate and obtain a sufficient understanding of ARD's internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether ARD complied, in all material respects, with the award 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 Audit Recommendations* – Determine and report on whether ARD has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations.
- *The Fund Accountability Statement (FAS)* – Express an opinion on whether the FAS presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and fund balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

#### **Scope**

The scope of this audit included direct operating costs incurred during the period March 5, 2008 through March 4, 2011 under Contract No. 306-C-00-08-00515-00 between ARD and USAID. Our testing of indirect costs was limited to determining that the indirect costs were calculated using the correct provisional negotiated indirect cost rate for the given fiscal year, as approved by USAID.

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#### **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 December 17, 2012 with representatives of ARD, SIGAR and USAID in attendance.

##### **Planning**

During our planning phase, we performed the following:

- Obtained an understanding of ARD;
- Reviewed award to ARD for the ADP/SW;
- Reviewed regulations specific to USAID and the award;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques.

##### **Internal Control Related to the FAS**

We reviewed ARD's internal controls related to the FAS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

##### **Compliance with the Contract Requirements and Applicable Laws and Regulations**

We reviewed the Contract and modifications and documented all compliance requirements that could have a direct and material effect on the FAS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance. .

##### **Corrective Action on Prior Audit Recommendations**

We requested all prior audit reports and recommendations provided in order to evaluate the status of the prior audit recommendations by reviewing evidence of any corrective actions taken. See the Review of Prior Audit Recommendations subsection of this Summary and Appendix A for a status of applicable prior findings.

##### **Fund Accountability Statement**

In reviewing the FAS, we performed the following:



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

### **Exit Conference**

An exit conference was held on March 7, 2013. Attendees included ARD, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

### **Summary of Results**

Our audit of the costs incurred by ARD under the Contract with USAID identified the following matters:

### **Auditor's Opinion on FAS**

We issued a qualified opinion on the fairness of the presentation of the FAS based upon the identification of \$3,041,819 of questioned costs, which represents a material misstatement of the FAS. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

### **Questioned Costs**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Contract and applicable laws and regulations including Federal Acquisition Regulations (FAR) and USAID Acquisition Regulations (AIDAR). Unsupported costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs are as follows.

### **Ineligible Costs**

- ARD incurred costs for individual Contract Line Item Numbers (CLINs) in excess of the approved budget, which resulted in ineligible costs of \$1,768,356. See Finding 2013-1 in the Findings and Responses section of this report.

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- ARD claimed indirect costs based on the pre-determined amount from the original agreement. When a provisional indirect cost rate was approved by its Cognizant agency, ARD applied the new rates from that point on. However, ARD failed to retroactively adjust the indirect costs claimed in the previous period to align with the new approved provisional rates, which resulted in ineligible fringe benefits and material handling costs of \$53,105 and \$259,345, respectively. Total questioned indirect costs were \$312,450. See Finding 2013-4 in the Findings and Responses section of this report.

### **Unsupported Costs**

- Expenses incurred for subcontractors, travel and transportation, other direct costs, and Cooperating Country National/Third Country National CCN/TCN local wages were not adequately supported or were insufficiently supported, which resulted in questioned costs of \$181,712, plus the applicable overhead, material and handling fee, and general and administrative (G&A) expenses of \$26,155 (Total questioned cost is \$207,867. See Finding 2013-2 in the Findings and Responses section of this report.
- Cash-for-Work (CFW) payments from March 5, 2008 through December 31, 2008 disclosed irregularities for distributing payments to local Afghan workers through the use of identical fingerprints on timesheets. These costs have been questioned due to the inability to confirm that the fingerprints represent the various local workers' acknowledgement of payment for services rendered. Total CFW payments during this period were \$745,615, plus the applicable material handling fee of \$7,531. Total questioned cost is \$753,146. See Finding 2013-3 in the Findings and Responses section of this report.

Total questioned costs are as follows:

Ineligible costs	\$2,080,806
Unsupported costs	<u>961,013</u>
Total questioned costs	<u>\$3,041,819</u>

### **Internal Control Findings**

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. 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. A significant deficiency is a deficiency, or a combination of deficiencies, in an internal control that

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is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in an internal control, such that there is a reasonable possibility that a material misstatement of the FAS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

#### **Material Weaknesses**

No material weaknesses were reported.

#### **Significant Deficiencies**

The following significant deficiencies were reported:

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-1	Amounts reported in three of the four CLINs exceeded the approved budget and resulted in ineligible costs of \$1,768,356. Additionally, ARD was not able to provide a crosswalk from the Excel file to the individual (CLINs) in the Contract. The total of the individual costs and the total of all CLINs were in agreement. As such, the FAS was reported on a cost category basis instead of by CLIN.	Disagree
2013-2	Expenses incurred for salaries and wages, subcontractors, travel and transportation and other direct costs were not adequately supported or were insufficiently supported resulting in questioned costs of \$207,867, which includes associated overhead, material handling fee, and G&A expenses of \$26,155.	Disagree
2013-3	Lack of adequate support as proof-of-payment under Cash-for-Work Program resulted in questioned costs of \$753,146, which includes associated material handling fee of \$7,531.	Disagree
2013-4	ARD failed to retroactively adjust the indirect costs claimed in the previous period to align with the new approved provisional rates. The failure to perform retro adjustments resulted in ineligible costs for fringe benefits (full time) and material handling of \$53,105 and \$259,345, respectively. Total ineligible indirect costs claimed were \$312,450.	Disagree

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The complete management responses from ARD to these internal control findings can be found in the Findings and Responses section of this report.

#### **Deficiencies**

No deficiencies were reported.

### **Compliance Findings**

As part of obtaining reasonable assurance about whether the FAS is free from material misstatement, we performed tests of its compliance with certain provisions of the Contract and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of FAS. The results of our tests disclosed the following instance of non-compliance.

Finding Number	Compliance Finding	Auditee's Concurrence
2013-1	Amounts reported in three of the four CLINs exceeded the approved budget and resulted in ineligible costs of \$1,768,356.	Disagree
2013-2	Expenses incurred for salaries and wages, subcontractors, travel and transportation and other direct costs were not adequately supported or were insufficiently supported resulting in questioned costs of \$207,867, which includes associated overhead, material handling fee, and G&A expenses of \$26,155.	Disagree
2013-3	Lack of adequate support as proof-of-payment under Cash-for-Work Program resulted in questioned costs of \$753,146, which includes associated material handling fee of \$7,531.	Disagree

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

We reviewed the corrective action taken to address findings and recommendations from previous engagements that could have a material effect on the FAS. ARD has not taken adequate corrective action on all prior external audit report recommendations or other external assessment recommendations.

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#### **USAID Review**

Of the 78 findings identified in this review, ARD implemented adequate corrective actions to resolve 76 of the findings. The remaining 2 findings have not had adequate corrective actions taken in order for the findings to be considered resolved. The nature of these findings, however, were such that they were related to specific instances that were not noted during our audit and thus were not repeated as findings in this report.

USAID/Afghanistan staff from the Office of Financial Management and the Office of Acquisition and Assistance conducted this review of ADP/SW's financial, procurement and other systems in April 2009. The following represents a summary of the conditions noted. The details related to each finding and the adequacy of the corrective actions implemented can be found in Appendix A to this report.

#### **Financial Review**

- The review contained 8 findings related to cashiering operations/fund management.
- The review contained 3 findings related to payments.
- The review contained 1 finding related to inventory.
- The review contained 3 findings related to allowances and benefits.
- The review contained 4 findings related to accounting and financial reporting.
- The review contained 2 findings related to procurement.
- The review contained 4 findings related to leases.
- The review contained 8 findings related to grants management.
- The review contained 4 findings related to internal control. Of the 4 findings, adequate corrective action had not been implemented for 1 of the findings and thus that finding has not been resolved. See Appendix A for details of the finding not implemented.

#### **Procurement Review**

- The review contained 3 general observations.
- The review contained 2 findings related to Subcontract No. ADP-NHB-001 with Noor Heravi Brothers Company, Ltd.

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- The review contained 3 findings related to the Request for Application for Market Driven Veterinary Services. Of the 3 findings, adequate corrective action had not been implemented for 1 of the findings and thus that finding has not been resolved. See Appendix A for details of the finding not implemented.
- The review contained 3 findings related to the 1<sup>st</sup> subcontract with Sheer Peer for Farah Compound renovation contract SP-001:
- The review contained 3 findings related to subcontracts contract SP-002.
- The review contained 3 findings related to Rift Valley Agriculture Subcontract No. ADP-RVA-001 for agricultural trainings, extension and contract farming projects in Farah:
- The review contained 4 findings related to the Afghan Bena Subcontract.
- The review contained 3 findings related to the Flag International Subcontract.
- The review contained 8 findings related to the Tribal Liaison Office Subcontract.
- The review contained 4 findings related to the HDCAW Grant.
- The review contained 5 findings related to the Relief International Subcontract.



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### **INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT**

We have audited the Fund Accountability Statement of Tetra Tech ARD (ARD) for Contract No. 306-C-00-08-00515-00 (Contract) with the United States Agency for International Development (USAID) for the period March 5, 2008 through March 4, 2011. The Fund Accountability Statement is the responsibility of ARD's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

We conducted our audit of the Fund Accountability Statement in accordance with *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 Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Fund Accountability Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We identified several transactions totaling \$3,041,819 that were questionable based upon our review of the underlying support for the specified transactions. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with the USAID.

In our opinion, except for the possible effects of the matters described in the preceding paragraphs and the ultimate determination and resolution of the identified questioned costs, the Fund Accountability Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed, and items and technical assistance directly procured by the United States Agency for International Development for the indicated period in accordance with the terms of the contract and in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 21, 2013 on our consideration of ARD's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and

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should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

This report is intended for the information of Tetra Tech ARD, United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Mayer Hoffman McCann P.C.

Irvine, California  
June 21, 2013



**TETRA TECH ARD**

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**Fund Accountability Statement**

For the Period March 5, 2008 through March 4, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Revenues:					
306-C-00-08-00515-00	<u>\$ 75,133,597</u>	<u>\$ 75,133,154</u>	<u>\$ -</u>	<u>\$ -</u>	(3)
Total revenues	<u>75,133,597</u>	<u>75,133,154</u>	<u>-</u>	<u>-</u>	
Costs incurred:					
Salaries and wages	6,900,950	3,906,131	-	27,067	(4)
Fringe benefits	994,410	994,410	53,105	-	(5)
Consultants	634,216	634,216	-	-	
Subcontracts	34,845,480	38,390,948	-	79,325	(6)
Grants	1,641,344	8,320,718	-	745,615	(7)
Travel and transportation	845,061	1,114,997	-	16,606	(8)
Equipment	3,413,427	5,941,857	-	-	
Allowances	2,093,487	1,563,340	-	-	
Other direct costs	15,585,621	6,730,892	-	58,714	(9)
Indirect costs	5,018,629	4,375,069	259,345	33,686	(10)
Fixed fee	<u>3,160,972</u>	<u>3,160,972</u>	<u>-</u>	<u>-</u>	
Total costs incurred	75,133,597	75,133,550	312,450	961,013	
Costs in excess of budget by CLIN	<u>-</u>	<u>-</u>	<u>1,768,356</u>	<u>-</u>	(11)
Outstanding fund balance (deficit)	<u>\$ -</u>	<u>\$ (396)</u>	<u>\$ (2,080,806)</u>	<u>\$ (961,013)</u>	(12)

See Notes to Fund Accountability Statement

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Notes to Fund Accountability Statement

For the Period March 5, 2008 through March 4, 2011

### **(1) Status and Operation**

Tetra Tech ARD (ARD) is a wholly owned subsidiary of Tetra Tech Inc., a provider of consulting, engineering and technical services worldwide. Tetra Tech Inc. was established in 1977 and provides services in the areas of agriculture and economic growth, democracy and governance, energy, environment and natural resources, land tenure and property rights, water supply and sanitation, architectural/engineering services and construction, and global security. ARD has U.S. offices in Burlington, Vermont, Washington D.C, and San Francisco, California, and field offices in approximately 30 countries.

On March 5, 2008, the United States Agency for International Development (USAID) awarded Contract No. 306-C-00-08-00515-00 to ARD to develop and execute the Alternative Development Project South/West (ADP/SW). The original Contract was for a 2-year period of performance, with a 1-year extension. The total amount of the original Contract was \$55,133,597. The Contract was amended 13 times, which extended the period of performance through March 4, 2011 and increased the total amount of the Contract to \$75,133,597.

ARD provided the expense portion of the Fund Accountability Statement (FAS) in accordance with the Contract Line Item Numbers (CLINs) per the Contract. When ARD submitted its billings, each CLIN was broken down into different cost categories such as salaries and wages, fringe benefits, consultants, etc. Budget modifications were submitted to USAID whenever needed to realign budget to match actual costs incurred. ARD submitted a budget request to USAID to realign the budget to actual costs on March 11, 2011. However, this budget request was never approved by the USAID Contracting Officer.

The purpose of the ADP/SW Program was to reduce the economic dependence of Farah, Nimroz, Uruzgan, and Helmand provinces on opium production, processing and trade by helping communities to identify and seize meaningful opportunities to reduce vulnerabilities, improve incomes and create lasting jobs through the licit economy while reinforcing the economic and institutional infrastructure on which these opportunities depend.

The goals of the ADP/SW project were to increase agricultural sector jobs and incomes and to increase the confidence of Afghans in their government. Along those lines, ADP/SW activities were designed to address the following activities:

1. Increase agricultural productivity;

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Notes to Fund Accountability Statement

(Continued)

### **(1) Status and Operation (Continued)**

2. Regenerate agribusiness by increasing linkages between farmers, markets, and trade corridors; and
3. Rehabilitate watersheds and improve irrigation infrastructure through labor-intensive erosion control and reforestation activities, infrastructure repair and training. ADP/SW also works with provincial level Ministry of Agriculture, Irrigation and Livestock staff to help build their capacity to deliver services to farmers and herders and promote the private sector and farmer associations.

### **(2) Summary of Significant Accounting Policies**

#### **(a) Basis of Accounting**

The Fund Accountability Statement reflects the revenues received and expenses incurred under the Contract. It has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

#### **(b) Foreign Currency Conversion Method**

ARD converts its expenses that were paid in local currency (Afghanis) into reporting currency (U.S. Dollar) by applying a weighted average of conversion rates which eliminates exchange gains and losses. The conversion rates used for the weighted average were comprised of the rates the bank used for transfers of money from ARD.

#### **(c) Questioned Costs**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Contract and applicable laws and regulations, including Federal Acquisition Regulations (FAR) and USAID Acquisition Regulations (AIDAR). Unsupported costs are those costs for which no or inadequate supporting documentation was provided.

## TETRA TECH ARD

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Notes to Fund Accountability Statement

(Continued)

### (3) Revenues

As of March 4, 2011, ARD has received \$75,133,154 in payments from USAID under the Contract. This amount is \$396 less than what was billed under the Contract.

### (4) Salaries and Wages

ARD reported salaries and wages in the amount of \$3,906,131 for the period of March 5, 2008 through March 4, 2011. Salaries and wages consisted of the following:

Home office	\$2,721,962
Cooperating County National/Third Country National (CCN/TCN)	<u>1,184,169</u>
Total salaries and wages	<u>\$3,906,131</u>

Unsupported CCN/TCN local wages consisted of the following. See Finding 2013-2 in the Findings and Responses section of this report.

<u>Condition</u>	<u>Number of Errors</u>	<u>Questioned Cost</u>
Missing pay slips	18	\$20,827
Medical benefit paid did not agree to pay slip	4	712
Hours per pay slip did not agree to payroll register	<u>23</u>	<u>5,528</u>
Total questioned costs related to salaries and wages	<u>45</u>	<u>\$27,067</u>

### (5) Fringe Benefits

ARD reported fringe benefits in the amount of \$994,410 for the period March 5, 2008 through March 4, 2011. ARD failed to retroactively adjust the indirect costs claimed in the previous period to align with the approved provisional rates. The failure to perform retroactive adjustments to the final approved rates had resulted fringe benefits to be overclaimed by \$53,105. See Finding 2013-4 in the Findings and Responses section of this report.

## TETRA TECH ARD

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

Notes to Fund Accountability Statement

(Continued)

### (6) Subcontracts

ARD reported subcontract expenses in the amount of \$38,390,948 for the period March 5, 2008 through March 4, 2011. Unsupported subcontract costs consisted of the following. See Finding 2013-2 in the Findings and Responses section of this report.

<u>Condition</u>	<u>Number of Errors</u>	<u>Questioned Cost</u>
No documentation provided	1	\$ 825
No authorization for payment and lack of Chief of Party (COP) approval	1	<u>78,500</u>
Total questioned costs related to subcontracts	<u>2</u>	<u>\$79,325</u>

### (7) Grants

ARD reported grants expenses in the amount of \$8,320,718 for the period March 5, 2008 through March 4, 2011 as follows:

Cash-for-work	\$4,979,306
Grants	<u>3,341,412</u>
Total grants	<u>\$8,320,718</u>

The cash-for-work (CFW) program is included within the grants expenses. Total expenses applicable to the CFW program for the period March 5, 2008 through March 4, 2011 were \$4,979,306. During our testing of this program from inception through December, we noted that identical fingerprints were found on the timesheets certified by the local Afghan workers for performing the CFW activities. ARD believes this was due to the Community Elders in Afghanistan taking responsibility for distributing payments to the workers and completing timesheets by affixing their own fingerprints. Total CFW expenses for the period March 5, 2008 through December 31, 2008 were \$745,615. This amount has been questioned. See Finding 2013-3 in the Findings and Responses section of this report.

## TETRA TECH ARD

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

Notes to Fund Accountability Statement

(Continued)

### (8) Travel and Transportation

ARD reported travel and transportation expenses in the amount of \$1,114,997 for the period March 5, 2008 through March 4, 2011. Unsupported travel and transportation costs consisted of the following. See Finding 2013-2 in the Findings and Responses section of this report.

<u>Condition</u>	<u>Number of Errors</u>	<u>Questioned Cost</u>
Missing payment voucher	3	\$16,112
Insufficient documentation provided to support cost	<u>2</u>	<u>494</u>
Total questioned costs related to travel	<u>5</u>	<u>\$16,606</u>

### (9) Other Direct Costs

ARD reported other direct costs in the amount of \$6,730,892 for the period March 5, 2008 through March 4, 2011. Unsupported other direct costs consisted of the following. See Finding 2013-2 in the Findings and Responses section of this report.

<u>Condition</u>	<u>Number of Errors</u>	<u>Questioned Cost</u>
Missing documentation	19	\$56,714
Insufficient documentation provided	<u>1</u>	<u>2,000</u>
Total questioned costs related to other direct costs	<u>20</u>	<u>\$58,714</u>

### (10) Indirect Costs

ARD reported indirect costs in the amount of \$4,375,069 for the period March 5, 2008 through March 4, 2011. The negotiated indirect cost rates were as follows:

		Indirect Cost Rates						
<u>Effective Period</u>			<u>Fringe Benefits</u>		<u>Overhead</u>			
<u>Type</u>	<u>From</u>	<u>Through</u>	<u>Full Time (a)</u>	<u>Part Time (b)</u>	<u>ARD (c)</u>	<u>GFG (d)</u>	<u>Material Handling (e)</u>	<u>G&amp;A (f)</u>
Provisional	10/1/07	9/30/08	34.99%	7.72%	32.89%	90.99%	1.08%	12.13%
Provisional	10/1/08	9/30/09	33.23%	9.42%	39.42%	n/a	1.01%	13.50%
Provisional	10/1/09	9/30/10	35.45%	8.46%	44.07%	n/a	1.13%	14.22%
Provisional	10/1/10	Present	36.93%	8.76%	40.85%	n/a	1.50%	13.82%

## TETRA TECH ARD

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

Notes to Fund Accountability Statement

(Continued)

### (10) Indirect Costs (Continued)

The basis of allocation for the indirect costs is as follows:

- (a) Total full time direct and indirect labor dollars
- (b) Total part time direct and indirect dollars
- (c) ARD Division direct labor dollars, including CCN/TCN technical labor dollars
- (d) GFG Division direct labor dollars
- (e) Direct subcontract, grants, equipment, pass-through commodities and supplies
- (f) Total costs, excluding general and administrative (G&A), subcontracts, grants, equipment, pass-through commodities and supplies

Since costs were questioned in other cost categories, an adjustment for associated indirect costs is required. We used the negotiated provisional indirect cost rates in calculating the allowable indirect costs. The appropriate rate for each year was applied to the individual costs questioned. As described in the previous paragraph, each type of indirect costs, i.e., overhead, material handling, G&A, etc. has a different basis of allocation. As a result, each type of indirect cost might not be applicable to all cost categories. A summary of associated questioned indirect costs by cost category is as follows. See Finding 2013-2 and 2013-3 in the Findings and Responses section of this report.

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Overhead</u>	<u>Material Handling</u>	<u>G&amp;A</u>	<u>Total Associated Questioned Indirect Costs</u>
Salaries and wages	\$ 27,067	\$9,882	\$ -	\$ 4,737	\$14,619
Subcontracts	79,325	-	1,187	-	1,187
Grants	745,615	-	7,531	-	7,531
Travel and transportation	16,606	-	-	2,295	2,295
Other direct costs	<u>58,714</u>	<u>-</u>	<u>-</u>	<u>8,054</u>	<u>8,054</u>
Total	<u>\$927,327</u>	<u>\$9,882</u>	<u>\$8,718</u>	<u>\$15,086</u>	<u>\$33,686</u>

In addition, ARD claimed indirect costs based upon a predetermined amount from the original Contract. When a provisional rate was approved by USAID, ARD applied the new rates on go forward basis only and did not retroactively adjust the indirect costs claimed in the previous period to align with the approved provisional rates. This resulted in overclaimed material handling indirect costs in the amount of \$53,105. See Finding 2013-4 in the Findings and Responses section of this report.

## TETRA TECH ARD

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

Notes to Fund Accountability Statement

(Continued)

### (10) Indirect Costs (Continued)

Total questioned indirect costs were as follows.

<u>Condition</u>	<u>Questioned Cost</u>
Total associated questioned indirect costs	\$ 33,686
Total ineligible material handling indirect costs	<u>259,345</u>
Total questioned indirect costs	<u>\$293,031</u>

### (11) Costs in Excess of Contract Line Item Numbers

ARD provided the expense portion of the FAS in accordance with the CLINs per the Contract as follows. When ARD submit its billings, each CLIN was broken down into different cost categories such as salaries and wages, fringe benefits, consultants, etc. Budget modifications were submitted to USAID whenever needed to realign the budget to match actual costs incurred. ARD submitted a budget request to USAID to realign the budget to actual costs on March 11, 2011. However, this budget request was never approved by the USAID Contracting Officer. In addition, there was a lack of a crosswalk between the general ledger to the individual CLINs reported. As such, the FAS was presented by cost categories based on the latest budget realignment submitted that was not approved by USAID.

<u>CLIN</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance – Under (Over) Budget</u>
CLIN 1 – High Value Agricultural Development	\$29,116,473	\$29,311,844	\$(195,371)
CLIN 2 – Economic Growth Opportunities	18,353,867	16,585,465	1,768,402
CLIN 3 – Infrastructure Improvement	11,008,513	11,749,642	(741,129)
CLIN 4 – Cash-for-Work	<u>16,654,744</u>	<u>17,486,600</u>	<u>(831,856)</u>
Totals	<u>\$75,133,597</u>	<u>\$75,133,551</u>	<u>\$ 46</u>

The actual costs incurred for CLINs 1, 3 and 4 exceeded the budget by \$1,768,356. According to the Contract, costs are limited to the budget amount per CLIN. The excess costs per CLIN are deemed ineligible. See Finding Number 2013-1 in the Findings and Responses section of this report.



## **TETRA TECH ARD**

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

Notes to Fund Accountability Statement

(Continued)

### **(12) Reconciliations**

As of March 4, 2011, ARD reported a fund deficit of \$396. ARD received no advances during the period March 5, 2008 through March 4, 2011. The outstanding fund deficit occurred due to an unreconciled difference between total reimbursements received from USAID and the total billed by ARD under the Contract.



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Board of Directors  
Tetra Tech ARD  
159 Bank Street, Suite 300  
Burlington, Vermont 05402

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

We have audited the Fund Accountability Statement of Tetra Tech ARD (ARD) for the period March 5, 2008 through March 4, 2011, and have issued our report thereon dated June 21, 2013. 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.

Management of ARD is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ARD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of ARD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ARD's internal control over financial reporting.

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Findings and Responses as findings 2013-1, 2013-2, 2013-3, and 2013-4, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Board of Directors  
Tetra Tech ARD  
159 Bank Street, Suite 300  
Burlington, Vermont 05402

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ARD's responses to the findings identified in our audit are described in the accompanying Findings and Responses. We did not audit ARD's responses and, accordingly, we express no opinion on it.

This report is intended for the information of Tetra Tech ARD, United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink, reading "Morgan Hottel M. Com P.C.".

Irvine, California  
June 21, 2013



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### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

We have audited the Fund Accountability Statement of Tetra Tech (ARD) for the period March 5, 2008 through March 4, 2011, and have issued our report thereon dated June 21, 2013. 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.

As part of obtaining reasonable assurance about whether ARD's Fund Accountability Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of Fund Accountability 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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Responses as Findings 2013-1, 2013-2, and 2013-3.

ARD's responses to the findings identified in our audit are described in the accompanying Findings and Responses. We did not audit ARD's responses and, accordingly, we express no opinion on it.

This report is intended for the information of Tetra Tech ARD, United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink that reads 'Mayer Hoffman McCann P.C.'.

Irvine, California  
June 21, 2013

## TETRA TECH ARD

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

### Findings and Responses

For the Period March 5, 2008 through March 4, 2011

#### **2013-1: Costs Incurred Exceed Individual CLINs**

##### **Condition:**

ARD provided the expense portion of the Fund Accountability Statement in accordance with the Contract Line Item Numbers (CLINs) per Contract No. 306-C-00-08-00515-00 (Contract) as follows. When ARD submit its billings, each CLIN was broken down to different cost categories such as salaries and wages, fringe benefits, consultants, etc. Budget modifications were submitted to USAID whenever needed to realign budget to match actual costs incurred. ARD submitted a budget request to USAID to realign the budget to actual costs on March 11, 2011. However, this budget request was never approved by the USAID Contracting Officer. In addition, there was a lack of a crosswalk between the expenditure general ledgers provided to the individual CLINs reported. As such, the FAS was presented by cost categories based on the latest budget realignment submitted that was not approved by USAID.

<u>CLIN</u>	<u>Budget</u>	<u>Actual</u>	Variance – Under (Over) <u>Budget</u>
CLIN 1 – High Value Agricultural Development	\$29,116,473	\$29,311,844	\$(195,371)
CLIN 2 – Economic Growth Opportunities	18,353,867	16,585,465	1,768,402
CLIN 3 – Infrastructure Improvement	11,008,513	11,749,642	(741,129)
CLIN 4 – Cash-for-Work	<u>16,654,744</u>	<u>17,486,600</u>	<u>(831,856)</u>
Totals	<u>\$75,133,597</u>	<u>\$75,133,551</u>	<u>\$ 46</u>

The actual costs incurred for CLINs 1, 3 and 4 exceeded the budget by \$1,768,356. The total cost of the Contract for all CLINs combined was \$46 under budget.

Additionally, ARD was not able to provide a crosswalk from the Excel file that included its costs to the individual CLINs in the contract. Without such crosswalk, it cannot be determined which individual costs were aggregated to each CLIN. The total of the individual costs and the total of all CLINs were in agreement.

##### **Cause:**

ARD submitted a budget request to USAID to realign the budget for individual cost categories that comprise a CLIN to its actual costs for the cost categories on March 11, 2011. ARD submitted this budget realignment request as its actual costs on a CLIN basis exceeded the budget. However, this budget request was never approved by the USAID Contracting Officer. Additionally, due to the acquisition of ARD by Tetra Tech, Inc., the old accounting system was not compatible with the new accounting system. With the change to the new accounting system, historical information was lost and ARD was not able to prepare a crosswalk from the accounting records to each CLIN.

## **TETRA TECH ARD**

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

### **Findings and Responses**

(Continued)

#### **2013-1: Costs Incurred Exceed Individual CLINs (Continued)**

##### **Criteria:**

Contract No. 306-C-00-08-00515-00, Section B, *Supplies or Services and Prices/Costs*, Paragraph B.4, *Price Schedule*, states, in part:

“...The ceiling costs and the fixed fee specified for each CLIN cannot be exceeded without a formal, written contract modification signed by the Contracting Officer...”

##### **Effect:**

Failure to obtain approval for a budget adjustment prior to incurring costs in excess of the budget for individual CLINs resulted in USAID’s imposed controls being compromised, and thus ineligible costs of \$1,768,356.

##### **Recommendation:**

- (1) We recommend that ARD return \$1,768,356 to USAID for costs incurred in excess of budget amounts for individual CLINs.
- (2) We recommend that ARD maintain a full and complete general ledger system to ensure that all project costs are properly recorded and reported. If ARD’s books are kept on a basis that is different from how costs are accumulated per the Contract, then we recommend that ARD prepare a crosswalk documenting how costs are grouped into the specific cost categories or CLINs per the Contract.

##### **Management Response:**

ARD disagrees with the audit finding recommendation that \$1,768,356 should be returned to USAID for costs incurred in excess of budget amounts for individual CLINs. They indicated that the totals were overrun for CLINs 1, 3, and 4, but the total cost to the contract for all CLINs was under budget. ARD states that the imbalances occurred due to its efforts to meet project objectives in a changing environment and USAID was aware of the imbalances. ARD stated that it conveyed to USAID on multiple occasions during the final six months of the project as to the budget status. It submitted a request to realign the budgeted CLIN totals to USAID, and acknowledges that USAID never acted upon the request. ARD’s verbatim management response is included in Appendix B to this report.

## **TETRA TECH ARD**

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

Findings and Responses

(Continued)

### **2013-1: Costs Incurred Exceed Individual CLINs (Continued)**

#### **Rebuttal to Management Response:**

ARD submitted a budget request to USAID to realign the budget to actual costs on March 11, 2011. However, this budget request was never approved by the USAID Contracting Officer. Additionally, there was a lack of a crosswalk between the expenditure general ledgers provided in Excel format to the individual CLINs reported. As such, the FAS was presented by cost categories based on the latest budget realignment submitted that was not approved by USAID. Our recommendation remains unchanged.

## TETRA TECH ARD

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

### Findings and Responses

(Continued)

#### **2013-2: Missing or Insufficient Source Documentation to Support Expense**

**Condition:**

ARD could not provided records, or provided insufficient records in the following four cost categories:

Observation	Number of Errors	Questioned Cost
Salaries and wages:		
Missing pay slips for payments of salaries and wages	18	\$20,827
Medical benefit paid exceeded pay slip	4	712
Hours per pay slip did not agree to payroll register	<u>23</u>	<u>5,528</u>
Total questioned costs related to salaries and wages	<u>45</u>	<u>27,067</u>
Subcontracts:		
All requested supporting documentation, such as invoices, payment vouchers, purchase orders, subcontractor's agreement, etc. was not provided	1	825
No authorization for payment and lack of Chief of Party (COP) approval	<u>1</u>	<u>78,500</u>
Total questioned costs related to subcontracts	<u>2</u>	<u>79,325</u>
Travel and transportation:		
Missing payment voucher	3	16,112
Insufficient documentation provided to support cost	<u>2</u>	<u>494</u>
Total questioned costs related to travel and transportation	<u>5</u>	<u>16,606</u>
Other direct costs:		
Missing documentation	19	56,714
Insufficient documentation provided	<u>1</u>	<u>2,000</u>
Total questioned costs related to other direct costs	<u>20</u>	<u>58,714</u>
Total questioned costs due to missing or insufficient supporting documentation	<u>72</u>	<u>\$181,712</u>



## TETRA TECH ARD

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

### Findings and Responses

(Continued)

#### **2013-2: Missing or Insufficient Source Documentation to Support Expense (Continued)**

There are associated indirect costs consisting of overhead, material handling and general and administrative (G&A) expenses that are applicable to the questioned costs as follows. The overhead, material handling and G&A costs are based upon the negotiated indirect cost rates as detailed in Note 10 of the Notes to Fund Accountability Statement.

<u>Cost Category</u>	<u>Questioned Cost</u>	<u>Overhead</u>	<u>Material Handling</u>	<u>G&amp;A</u>	<u>Total Associated Questioned Indirect Costs</u>
Salaries and wages	\$ 27,067	\$9,882	\$ -	\$ 4,737	\$14,619
Subcontracts	79,325	-	1,187	-	1,187
Travel and transportation	16,606	-	-	2,295	2,295
Other direct costs	<u>58,714</u>	<u>-</u>	<u>-</u>	<u>8,054</u>	<u>8,054</u>
Total	<u>\$181,712</u>	<u>\$9,882</u>	<u>\$1,187</u>	<u>\$15,086</u>	<u>\$26,155</u>

#### **Cause:**

ARD was unable to locate the relevant documentation or could not provide sufficient documentation due to its poor filing system and maintenance of records. Many of its records had been transferred to offsite storage.

#### **Criteria:**

48 CFR 31.201-2, *Determining Allowability*, states, in part:

“(d) 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...”

Additionally, 48 CFR 52.215-2, *Audit and Records – Negotiation*, states, in part:

“...(b) *Examination of costs.* If this is a cost-reimbursement, incentive, time-and-materials, labor-hour, or price redeterminable contract, or any combination of these, the Contractor shall maintain...all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract...”

## **TETRA TECH ARD**

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

### **Findings and Responses**

(Continued)

#### **2013-2: Missing or Insufficient Source Documentation to Support Expense (Continued)**

##### **Effect:**

Failure to retain supporting documentation for costs incurred could result in the questioning of otherwise allowable costs. Total questioned costs are \$207,867, consisting of missing or insufficient source documentation in the amount of \$181,712, plus the applicable overhead, material and handling fee, and G&A expenses of \$26,155.

##### **Recommendation:**

- (1) We recommend that ARD either provide USAID the missing or insufficient documentation for further review or return \$207,867 to USAID for unsupported program costs.
- (2) We recommend that ARD improve its record retention policies to ensure that all documentation supporting costs incurred is properly maintained.

##### **Management Response:**

ARD disagrees with the total questioned direct costs of \$181,712, plus \$26,155 in associated indirect costs. They state that 99.9% of the audited costs were located and properly supported with adequate supporting documentation. ARD indicates that approximately 89% of the questioned costs occurred during the final two months of outlying office operations, and documentation was misplaced or otherwise not provided. The project financial documentation and filing systems were adequate for the life of the project, but did experience interruptions for some local costs during the close-out period and shipping the files back to the Kabul office and ultimately back to Burlington, Vermont. ARD does agree that some documentation was lost or misplaced in the field. However, rather than \$181,712 in questioned direct costs, the figure should be reduced to \$91,550 to reflect the payroll items that were cleared by the auditors and the \$78,500 ARDA subcontract payment which is adequately supported. ARD's verbatim management response is included in Appendix B to this report.

##### **Rebuttal to Management Response:**

As outlined in the condition, there were numerous instances of missing or insufficient source documentation to support expenses that were sampled and tested. ARD has acknowledged that some documentation was lost or misplaced in the field. With respect to testing of salaries and wages, we cleared all exceptions where adequate support was provided. With respect to testing of subcontracts, the support for the \$78,500 payment to ARDA was not provided for our review by the date of the exit conference, which was the last date to receive documentation, and as such, has not been evaluated. Our recommendation remains unchanged.

## **TETRA TECH ARD**

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

### **Findings and Responses**

(Continued)

#### **2013-3: Lack of Adequate Proof of Payment in Cash-for-Work Program**

##### **Condition:**

During our review of the Cash-for-Work (CWF) Program, which began in October 2008, ARD obtained fingerprints and/or signatures from the workers as proof of support that the individual receiving the payment actually performed the work for which they were paid. However, for the period of October 1, 2008 through December 31, 2008, fingerprints and/or signatures for most of the workers appeared to be identical. Total CFW payments during this period were \$745,615. Applicable indirect costs were \$7,531, which resulted in total questioned costs of \$753,146.

##### **Cause:**

ARD stated that for initial CFW Programs, payments were made directly through Shura (community) elders who had the responsibility to gather workers and pay them. ARD also indicated that the Shura members took it upon themselves to fill out the timesheets when requested prior to payment as they were distributing the payments to the workers themselves. The practice of having a Shura member handle the payments and affix his own fingerprints to the timesheets was discontinued in January 1, 2009, and instead a staff member went to each project site to document and account for each local worker. This procedure change required that an individual worker be available to affix his own fingerprint when the timesheets were filled out.

##### **Criteria:**

48 CFR 31.201-2, *Determining Allowability*, states, in part:

“(d) 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...”

Additionally, 48 CFR 52.215-2, *Audit and Records – Negotiation*, states, in part:

“...(b) *Examination of costs.* If this is a cost-reimbursement, incentive, time-and-materials, labor-hour, or price redeterminable contract, or any combination of these, the Contractor shall maintain...all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract...”

## **TETRA TECH ARD**

Financial Audit of Costs Incurred under  
Contract No. 306-C-00-08-00515-00

### **Findings and Responses**

(Continued)

#### **2013-3: Lack of Adequate Proof of Payment in Cash-for-Work Program (Continued)**

##### **Effect:**

Not having each individual worker verify that payment was received for work performed through the imprint of a fingerprint increases the risk that payments under the CWF Program were not made for their intended purpose. Total questioned costs were \$753,146, which includes \$7,531 of associated indirect costs.

##### **Recommendation:**

We recommend that ARD return \$753,146 to USAID for insufficiently supported CFW payments.

##### **Management Response:**

ARD disagrees with finding. It indicates that the procedure to verify CFW payments at the beginning of the project was an accepted practice. Its procedure was refined in October 2008 in an effort to strengthen implementation and indicates that the change did not imply that the original practice was either inherently suspect or faulty. For the initial CFW programs, ARD stated that payments were made directly through Shura (community) elders whose responsibility was to gather workers and pay them. It was also practice that an ADP staff member was present when payments were made. It was a common practice for elders to fill out project timesheets based on the number of laborers who worked on each project. ARD acknowledges that it is possible that Shura members took it upon themselves to fill out timesheets as they were distributing the payments directly to the workers themselves. ARD believes the \$753,146 in payments were sufficiently supported with timely records, especially when the elders' and ARD staff members' presence is taken into consideration. ARD's verbatim management response is included in Appendix B to this report.

##### **Rebuttal to Management Response:**

ARD states that the \$753,146 was sufficiently supported with timely records and especially when the tribal elders' and ARD staff members' presence is taken into consideration for the disbursements of cash payments to local workers. However, ARD acknowledges that the practice of having the tribal elder handle the payments and affix his own fingerprints was discontinued in October 2008 and going forward an ADP staff member visited each project site to document and account for each local worker being paid. Additionally, our review of the local workers' timecards for the period October 2008 through December 2008 found numerous instances of identical fingerprints. Beginning in January 2009, the appearance of identical fingerprints on timesheets appeared to cease. Once ARD implemented its new procedure, it was a requirement that the individual local worker had to be available to affix his own fingerprint when timesheets were filled out. Our recommendation remains unchanged.

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### Findings and Responses

(Continued)

#### **2013-4: Indirect Costs were Overclaimed**

##### **Condition:**

ARD claimed indirect costs based on a predetermined amount from the original Contract. When a provisional rate was approved by USAID, ARD applied the new rates on a go forward basis only. ARD failed to retroactively adjust the indirect costs claimed in the previous periods to align with the new approved provisional rates. Indirect costs were overclaimed as follows:

<u>Indirect Cost</u>	<u>Cost Category per FAS</u>	<u>Amount claimed</u>	<u>Audited Amount</u>	<u>Overclaimed amount</u>
Fringe benefit – full time	Fringe benefits	\$ 994,410	\$ 941,305	\$ 53,105
Material Handling	Indirect Costs	<u>789,803</u>	<u>530,458</u>	<u>259,345</u>
Total questioned indirect costs		<u>\$1,784,213</u>	<u>\$1,471,763</u>	<u>\$312,450</u>

##### **Cause:**

ARD only performs retroactive adjustments based upon final rates, and not modified provisional rates.

##### **Criteria:**

Contract No.. 306-C-00-08-00515-00, Section B, states in part:

“...B.5 Indirect Costs

Pending establishment of revised provisional or final indirect cost rates, allowable indirect costs shall be reimbursed on the basis of the following provisional or predetermined rates...

...B.6 Indirect Costs

Reimbursement for indirect costs shall be at the lower of the negotiated, final, or predetermined rate or the following ceiling rates:”

##### **Effect:**

Failure to perform retroactive adjustments to approved provisional rates resulted in \$312,450 of indirect costs being overclaimed.

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Findings and Responses

(Continued)

### **2013-4: Indirect Costs were Overclaimed (Continued)**

#### **Recommendation:**

- (1) We recommend that ARD return \$312,450 to USAID for overclaimed indirect costs.
- (2) We recommend that ARD develop and implement adequate procedures to perform retroactive adjustments to indirect costs claimed when new provisional rates are approved by USAID.

#### **Management Response:**

ARD disagrees with this finding and indicates that it did not overclaim indirect costs as noted in the auditor's report. ARD states that it routinely adjusts its indirect cost rates whenever the rates have been updated on the negotiated indirect cost rate agreement. ARD contends that while its actual indirect rates for fringe benefits and material handling ran under the billed rates, the actual indirect rates for overhead and general and administration ran over the billed rates and should also be taken into consideration. ARD's verbatim management response is included in Appendix B to this report.

#### **Rebuttal to Management Response:**

Although the aggregated indirect cost was not exceeded, our testing of each indirect cost rate is performed individually, not in the aggregate. As such, the two indirect cost rates that were overclaimed are questioned. Our recommendation remains unchanged.

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For the Period March 5, 2008 through March 4, 2011

**Review of Prior Findings and Recommendations**

The following prior audit recommendations were reviewed as part of the scope of this audit. We have included the current status of each recommendation.

**USAID Review**

USAID/Afghanistan staff from the Office of Financial Management and the Office of Acquisition and Assistance conducted a review of ADP/SW's financial, procurement and other systems in April 2009. The following findings and our review of the adequacy of the corrective action taken by ARD are noted below.

**Financial Review**

**A. Cashiering Operations/Funds Management**

1. Condition: ARD paid 2.5% commission for funds transfer and distribution services to the Farah Office through a local money dealer. The transfers should be made through Azizi Bank, which is available in Farah province. The distribution of Cash-for-Work project could be negotiated at lower rates with a local money dealer.

Current Status: ARD has documentation on file which shows this currency dealer is the lowest on the market. We reviewed the supporting documents and determined them to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: ARD's Finance Manager was responsible for maintaining cash and processing the vouchers at the same time.

Current Status: Effective April 24, 2009, ARD has separated the cash duties from the voucher preparation. An additional Finance employee was hired and began employment on May 5, 2009. We tested the controls for cash duties and determined that adequate segregation of duties existed. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: ARD maintained cash in two safes, one with the Finance Manager as cashier, and one with the Accountant sub-cashier. During the cash count, excess cash in the amount of \$300 was found in the second safe. The first safe had two keys and two individuals could access the safe at the same time.

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**Review of Prior Findings and Recommendations**

Current Status: Effective April 24, 2009, the daily petty cash box was locked in the large safe at night and brought out at the beginning of the day by the same cashier. This allowed all cash to be in one location. Monthly, the ADP accountant collects food costs (\$4/day/person) from expats. On the day of the cash count, an amount of \$300 was collected from the expats. Documentation was on file which has the auditor's signature confirming the cash was in balance. We reviewed supporting documentation and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: A surprise cash count conducted by the financial review team found that copies of paid invoices were not available at the time of the cash count in the amount of \$12,487, plus Afghani (Afs) 691,423 equivalent to \$13,746.

Current Status: At the time the auditors performed the cash count, the paid invoices/vouchers were awaiting the Deputy Chief of Party – Admin/Finance review and signature. ARD provided documentation showing the cash balanced, taking into account the vouchers with the auditor's signature. We reviewed supporting documentation and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

5. Condition: No evidence was made available to prove that ARD was performing surprise cash counts.

Current Status: As of April 24, 2009, ARD began conducting and documenting random cash count in Kabul and Farah. We reviewed supporting documentation relative to cash counts subsequent to April 24, 2009 and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

6. Condition: According to ARD, the cashier normally holds cash up to \$30,000 in the safe. However, it was noted that at one time cash was transferred to the safe in the amount of \$16,559 during the month of April 2009, and AFA 2.7 million, equivalent to \$52,513.

Current Status: Expenses on Cash-for-Work projects in Farah are transferred through a contracted currency dealer for direct payment to the project location for labor and supplies. Cash was paid to the currency dealer for the specific activity and not kept in the safe for extended periods of time. The month of April 2009 Proof of Funds Worksheet reflects the entire month of cash moving through the safe, not at one time. We examined the supporting documentation, which



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provides the detail of when cash was in and out of the safe and found it to be adequate for the entire month of April 2009. Adequate corrective action has been implemented by ARD and this finding has been resolved.

7. Condition: A large number of transactions were paid in cash, including staff salaries, which could be done through a bank.

Current Status: Per our interview with ARD personnel, Farah local employees are unwilling to make the trip to the bank due to security in a high risk environment. The Kabul local staff (with the exception of support staff) began having salary transferred directly to their bank accounts beginning July 1, 2009. We confirmed that effective July 1, 2009, the Kabul local staff began to have their salary transferred directly to their bank accounts. Adequate corrective action has been implemented by ARD and this finding has been resolved.

8. Condition: The majority of supporting documents are not stamped "Paid".

Current Status: Beginning April 24, 2009, ARD implemented a procedure to stamp "paid" on supporting documents reflecting the exact date of payment. We examined supporting documentation evidencing the use of a paid stamp. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**B. Payments**

1. Condition: There was inconsistency in the supporting documentation of vouchers. Some vouchers had the original supporting documents while others had copies.

Current Status: The original vouchers are now maintained in the files. We reviewed supporting documentation and confirmed that original vouchers are being retained. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: Accommodation charges were paid to a local hotel in the amount of AFA 63,750 equivalent to \$1,238 without a travel authorization and supporting documents for home/field office staff.

Current Status: Travel authorizations were not filed correctly but existed. The documents were located and are now filed in the appropriate financial file. The

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trips in question were delayed due to weather and emails are on file to reflect the appropriate approvals. We inspected supporting documentation for travel authorization and found them to be complete and properly filed. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: Improper documents for procurement of fuel for AFA 270,000 equivalent to \$5,367. There was no purchase order (PO). Only an approval through email was provided. The approved rate was AFA 48 and the procurement as made at AFA 45.

Current Status: ARD had an open contract for fuel but it was not attached to the payment voucher. The vendor had quoted an estimate of AFA 48. After negotiation, it was agreed to a more favorable price of AFA 45. We examined supporting documentation for procurement and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

C. Inventory

1. Condition: 20 inventory items were physically tested. One of the software items in the IT Department was not available.

Current Status: The software was in the IT Office but not on the shelf at the time of the audit since it was in use by an IT specialist. We confirmed that the software was temporarily in use by ARD personnel at the time of the previous audit. Adequate corrective action has been implemented by ARD and this finding has been resolved.

D. Allowances and Benefits

1. Condition: Medical expenses of CCN employees were paid to immediate family members, including the father, mother, brother and sister and other dependents in the amount of \$421.

Current Status: ARD lacked a specific definition for "immediate family". A definition has been published and amended to the employee manual. We examined the employee manual and found the amendment to be adequate.

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Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: There were instances where medical expenses were paid in excess of the threshold amount of \$1,000 to individuals.

Current Status: ARD identified that one employee had exceeded their health benefit allowance. ARD has credited the appropriate account. A monthly review was conducted by the Deputy Chief of Party/Admin-Finance to ensure no overages are issued in the future. We examined evidence of the review. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: A few unreasonable medical claims were reviewed in the amount of AFA 32,000, equivalent to \$636. It was also noted that there was no amount mentioned on the medical invoice.

Current Status: ARD agreed that the documentation was inadequate and the charge has been credited to the project. We examined the supporting documentation and noted that ARD has properly credited the project for the questioned charges. Adequate corrective action has been implemented by ARD and this finding has been resolved.

E. Accounting and Financial Reporting

1. Condition: ARD's accounting system was maintained in an Excel file which was not password protected.

Current Status: The computers are password protected. ARD has instituted passwords on the Excel spreadsheets themselves. ARD has purchased Quickbooks accounting software and has converted the local accounting system to Quickbooks. We observed that the computers are password protected and that the subject Excel file also is password protected. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: There were no systems in place to account for exchange gains and losses. Different rates are used for financial reporting.

Current Status: ARD uses a weighted average exchange rate which eliminates exchange gains and losses. We reviewed ARD's methodology for applying a

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weighted average exchange rate and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: Cost allocation was charged to the CLINs based upon the percentage of the total amount in the budget. However, this percentage differed from the detailed budget initially submitted to USAID.

Current Status: ARD allocated costs not charged to a specific CLIN by using the total cost of the budgeted CLIN amount vs. the total contract cost. ARD changed its allocation methodology beginning with the April 2009 voucher and now bases it on the detailed budget contained in modification number 2. We reviewed ARD's allocation methodology and examined modification number 2 to the Contract and noted that effective with the April 2009 invoice, the allocation is properly aligned with the detailed budget. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: The Finance Manager and Accountants were not aware of the budget.

Current Status: ARD prepared a local budget when the contract was initially awarded. ARD has since prepared a new local budget based upon modification number 2 to the contract and has distributed it to the local accounting staff. MHM inquired of accounting personnel as to their awareness of the budget. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**F. Procurement**

1. Condition: The quotations for the Kabul fuel procurement were obtained after the PO was signed. USAID questioned all the costs paid under the PO in the amount of AFA 284,981, equivalent to \$5,534.

Current Status: ARD disputed the results indicating that the PO was signed on October 5, 2008, and the quote dates were September 2, 2008, September 3, 2008 and September 4, 2008. We inspected the supporting documentation and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

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2. Condition: The Farah fuel contract had missing information. No quotations were available.

Current Status: ARD has implemented a new procedure whereby copies of original purchase orders are filed in Procurement, and copies also are attached to the invoice. We inspected documentation related to the original purchase order documentation and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: Procurement of some computers did not follow the procurement rules to provide specifications of the computers to vendors. Quotations provided were for different types of computers. Therefore, the rates differed. USAID questioned \$7,425.

Current Status: ARD acknowledged that during project start-up and pressure to mobilize quickly, it utilized existing quotations as the basis for purchasing computers. We reviewed the quotations obtained and found that while they were not exactly the same specifications, the documentation demonstrated that the price was reasonable. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**G. Leases**

1. Condition: The lease agreement for the Farah office building stated that monthly advances were to be paid to the landlord after the first 6 months advance, which was paid at the beginning of the lease agreement. It was noted that this clause was not followed. The second installment was paid for 5 months and the third installment was paid for 3.5 months.

Current Status: ARD has implemented monthly rental payments. We inspected evidence of monthly rental payments. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: The lease agreement for the Kabul office expired on April 4, 2009. According to article 12 of the lease agreement, a notice of 60 days should have been given by either party to terminate the agreement. ARD did give the advanced notice of 60 days. However, based upon ARD's needs, the lease agreement was extended for one month until May 4, 2009 with an email approval from the Deputy Chief of Party, but payment to the landlord was made through

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May 30, 2009. Since there was no formal modification to extend the agreement until May 30, 2009, the payment from April 4, 2009 to May 30, 2009 has no legal basis.

Current Status: The amount was questioned in the following finding. Per review of documentation provided for our review, the landlord and ARD agreed with a 60-day notice. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: Based upon the lease agreement, either Mohammad Ali or his representative Mohammad Zahir was authorized to receive payments from ARD for the lease, but the rent for the Kabul Office building was paid in the amount of \$45,266 to Mirwais who is not an authorized person to receive the payment. Therefore, USAID questioned this amount.

Current Status: ARD provided an acknowledgment by the landlord, Mr. Zahair, who lives in Pakistan, that he has received rental payments in full even though the money was paid to his brother, who lives in Kabul. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: The rental services tax amount had been withheld from the rent amount paid for the Kabul Office building from October 2008 to April 2009, but had not been paid to the Government of the Islamic Republic of Afghanistan.

Current Status: ARD has provided the receipt for the tax payment through April 2009 as evidence that the tax has been paid. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**H. Grants Management**

1. Condition: There was no evidence available to prove that bids were opened in the presence of all evaluation committee members. It was also not clear that on which date the bids were opened.

Current Status: As of October 2008, the ARD procedure for bid openings is outlined in the Grants Management Manual. It includes logging the incoming bids including noting the dates received and identifies the applicant. The set committee, as a group, opens and logs the name of the applicant and the bid budget and signs the log. We reviewed the log maintained by ARD to verify the

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**Review of Prior Findings and Recommendations**

existence of a review of the bid opening process. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: Only three proposals submitted by the Health and Development Center for Afghan Women HDCAW had stamps and signatures of the Non-Governmental Organization NGOs. There was no letterhead of the NGOs. No envelopes were available to evidence that the bids were sent by the NGOs.

Current Status: ARD has provided the originals on three of the eight grant proposals, which brings the original sample to six of the eight. Two are still missing. ARD has also provided the original three envelopes associated with these proposals as additional evidence. Although there are still two proposals missing, testing the current year audit did not reveal the same condition. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: The scoring sheet for the evaluation of the May 31, 2008 bidding has missing scores from some members, which effected the total points scored by the bidders, which was also not discussed in the minutes of the evaluation committee meeting. For the evaluation of July 21, 2008 bidding, there was no scoring sheet available in the files.

Current Status: ARD has agreed with this finding regarding missing information noted in the review of the scoring sheets. We interviewed ARD personnel and observed that the scoring sheets are now maintained in the grant files. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: The minutes of the evaluation committee meeting for July 21, 2008 bidding were available. However, there was no evidence that the committee members agreed with the decision made by the committee.

Current Status: ARD revised its grant manual to require meeting minutes on all awards. Adequate corrective action has been implemented by ARD and this finding has been resolved.

5. Condition: There were no negotiation memos available for any of the grants.

Current Status: ARD provided all negotiation memos for our review. We reviewed for completeness and for relevancy to the subject grants. Adequate

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**Review of Prior Findings and Recommendations**

corrective action has been implemented by ARD and this finding has been resolved.

6. Condition: Grant agreements with the Afghan Development Association (ADA) cluster 1 and 4, Health and Development Center for Afghan Women/Southwest (HDCAW/SWP) and Coordination of Humanitarian Assistance (CHA) cluster 1 had no agreement end dates.

Current Status: Each grantee Request for Application (RFA) outlines the time period of the grant. Subsequent to the audit, ARD has reviewed and notated the end dates. We inspected the RFAs without exception. Adequate corrective action has been implemented by ARD and this finding has been resolved.

7. Condition: No documents were provided to evidence the approval of poultry projects from the Contracting Officers Technical Representative (COTR).

Current Status: On April 16, 2008, the COTR provided technical concurrence via email. ARD provided the email correspondence for our review as evidence of the approval from the COTR. Adequate corrective action has been implemented by ARD and this finding has been resolved.

8. Condition: No approval of Statement of Work (SOW) is available from the COTR.

Current Status: Per discussion with ARD personnel, when ARD requested approval from the COTR for the grant award, the SOW was included. ARD provided the approval for our review. Adequate corrective action has been implemented by ARD and this finding has been resolved.

I. Internal Controls

1. Condition: No delegation of authority was in place.

Current Status: We interviewed key employees and noted that the delegation of authority is outlined and referenced in several sections of the local accounting handbook. Additionally, MHM performed a walk-through with key finance personnel and documented key controls for significant transaction cycles, noting proper segregation of duties and delegation of authority. Adequate corrective action has been implemented by ARD and this finding has been resolved.



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2. Condition: ARD was missing Goods Received Notes and Confirmation of Services Rendered.

Current Status: ARD was unable to locate the subject material. However, it was not known to which vendors this exception applied. As such, this finding has not yet been resolved.

3. Condition: No travel authorization existed for local travel.

Current Status: Per our discussion with ARD personnel, ARD has used emails as a form of authorizing travel within the country. However, it has changed its practice to a signed form. International travel is authorized by the COTR and is attached to all payments. We inspected payments and noted proper approval. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: Purchase requisitions and purchase orders were prepared at the same time.

Current Status: Per discussion with ARD personnel, the purchase requisition and purchase order may be prepared the same day since many purchases are made the same day as the item is requested. We reviewed supporting documentation and found it to be adequate. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**Procurement Review**

**General Observations:**

1. Condition: There was clear and recent evidence of an apparent effort by ARD to compile the procurement files for USAID review, indicating that the contractor did not build these files during the ordinary course of business but has been making last minute efforts to compile the documentation for USAID review.

Current Status: We reviewed policies and procedures and noted an improved filing system was put in place, and personnel had been instructed to review and ensure that files conformed to this system prior to the USAID review. Files are placed in a consolidated file prior to the review. Adequate corrective action has been implemented by ARD and this finding has been resolved.

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2. Condition: On several occasions, no executed subcontracts were in place while the request for Contracting Officer consent had been submitted to USAID and the consent had been granted several months prior (Rift Valley Agriculture (RVA) and Relief International (RI) subcontracts). ARD explained that the final details, such as SOW, were still being negotiated.

Current Status: We interviewed key personnel and noted that consent to subcontract to RVA and RI was given in ADP contract (No. 306-C-00-08-00515-00) modification 2, which authorized an expansion of the ADP/SW activity. Upon receiving the prime contract modification, ARD issued each subcontractor a letter contract to allow them to begin work while a subcontract was negotiated and finalized, and a detailed SOW for each was worked out. A specific consent package was not submitted for these subcontractors. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: All Excluded Parties List System screenshots were dated April 13, 2009, which was after the dates of all subcontracts' awards.

Current Status: We interviewed key personnel and confirmed through our testwork that in the past the Excluded Parties List was checked, but screen shots were not printed. However as part of ARD's strengthened filing system, the staff is now printing the screen shots and placing them in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**Subcontract No. ADP-NHB-001 with Noor Heravi Brothers Company, Ltd.:**

1. Condition: The screenshot of the Excluded Parties List System was dated April 13, 2009, which was after the subcontract was executed.

Current Status: We interviewed key personnel and confirmed through our testwork that in the past the Excluded Parties List was checked, but screen shots were not printed. However as part of ARD's strengthened filing system, the staff is now printing the screen shots and placing them in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: The negotiation memorandum did not indicate that the evaluation committee was reduced from 4 members to 3 during the final evaluation.

Current Status: We interviewed key personnel, reviewed the subject file and noted that the first paragraph of page 3 stated "Please note that three reviewers reviewed the

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bid...“ The final review was performed on a Saturday, which was Dr. Abdullah’s day off. Given time constraints, he was not called in to participate in the final review. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**RFA for Market Driven Veterinary Services:**

1. Condition: It was not apparent from the file where the RFA was posted or advertised.

Current Status: We interviewed key personnel, reviewed the subject file and noted that ARD advertised on “Akbar” (<http://www.acbar.org>). ARD has implemented a new procedure to note advertising in the files for future RFAs. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: The opening and closing dates of the solicitation were not apparent from the RFA.

Current Status: We reviewed the subject file and noted documentation existed to show ARD opened the bid on March 1, 2009, and the RFA stated the closing date was March 20, 2009. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: The majority of evaluation committee members’ numerical ratings were not backed by comments.

Current Status: We interviewed key personnel and noted that the ARD Grants Management Manual does not require written comments to justify the ratings unless committee members feel the need to do so. ARD believes comments are optional and has not updated the evaluation. This finding has not yet been resolved.

**1st subcontract with Sheer Peer for Farah Compound renovation contract SP-001:**

1. Condition: The subcontract total was unclear. The first page of the subcontract states \$90,976 as the total price, while Section 3.2, Payment Schedule, stated the total price was \$135,830.

Current Status: We reviewed the subject file and noted the \$90,976 shown on the first page is incorrect and should read \$135,830. The file contains invoices totaling \$135,830. Adequate corrective action has been implemented by ARD and this finding has been resolved.

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2. Condition: No losing proposals were contained in the file although ARD received four bids in response to the solicitation according to the memorandum of negotiation.

Current Status: We reviewed the subject file and noted that copies of the losing proposals have been inserted into the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**Subcontracts Contract SP-002:**

1. Condition: A subcontract with Sheer Peer Construction Company (SPRCC) was signed in the amount of \$85,932 for the renovation of the Farah compound on September 7, 2008, while the renovation was completed before September 5, 2008 and ARD's technical representative certified the completion of the renovation on September 5, 2008. As per contract clause #2, the period of the contract was three months starting from May 27, 2008 to August 27, 2008. USAID questioned these costs.

Current Status: We reviewed the subject file and confirmed that although the contract was not dated by the COP, activities were performed during the contract period of May 27, 2008 through August 27, 2008. ARD indicated the dating of the subcontract was an isolated incident and it remained committed to following all contracting policies and procedures. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: No negotiation memorandum was included in the file to explain/justify the need for the work. The contract was apparently been awarded on a sole source basis. However, no documentation was evident from the file to justify other than a full and open competition and ARD's award decision.

Current Status: We reviewed the subject file and confirmed that the negotiation memorandum was completed and is documented in the file. It was noted that the document was originally missing during the time of the Office of Acquisition and Assistance review. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: The file contained documents unrelated to the procurement documentation (e.g. invoice approvals under first subcontract with SPRCC, several copies of the negotiation memorandum for the first subcontract with Sheer Peer, etc.).

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**Review of Prior Findings and Recommendations**

Current Status: We reviewed the subject file and noted that the invoice approval and negotiation memorandum have been refiled into the SPRCC file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**RVA Subcontract #ADP-RVA-001 for Agricultural Trainings, Extension and Contract Farming Projects in Farah:**

1. Condition: A subcontract was not fully executed as of April 15, 2009, although CO consent was requested in late February 2009 and was granted on March 5, 2009.

Current Status: We reviewed the subject file and noted that the RVA Farah subcontract was in negotiation from the time of receiving consent until April 15, 2009 when the contract was executed by both parties. A copy of the fully executed contract dated May 5, 2009 is now in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: Multiple copies of the Contracting Officer consent letter were present in the file.

Current Status: We reviewed the subject file and noted that copies of the draft versions of the contract were in the file prior to April 15, 2009. The copies had been included in the file to track comments back and forth between Kabul and Australia (RVA's Home Office). These draft versions were removed upon contract execution. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: Documents not related to the procurement action were included in the file (e.g. February 1-28, 2009 invoice under another subcontract with RVA).

Current Status: We reviewed the subject file and noted that a copy of RVA's first invoice against the Helmand Province contract was inadvertently filed in the Farah contract folder. As such, the improperly filed invoice has been refiled to the correct file. Originals of RVA's Helmand invoices are maintained in Burlington where this contract is administered. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**Afghan Bena Subcontract:**

1. Condition: The excluded parties check was completed on April 13, 2009 while the subcontract was signed on February 22, 2009.

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(Continued)

**Review of Prior Findings and Recommendations**

Current Status: We reviewed the subject file and noted that while in the past the Excluded Parties List was checked, the screen shots were not printed. ARD now is printing the screen shots and placing them in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: Modification #1 to the subcontract was not in the file.

Current Status: We reviewed the subject file and noted that at the time of the previous audit, Modification #1 had not yet been signed. However, the copy in the file at that time was a working copy and the original has since been signed. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: Initial bids from the other two unsuccessful bidders were not in the file.

Current Status: We reviewed the subject file and noted that ARD has not been able to locate the proposals from the unsuccessful bidders. As such, this file does not have the documentation for the two unsuccessful bidders. This issue did not occur as part of our audit. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: The tally sheet was not in compliance with tabs.

Current Status: We reviewed the subject file and noted that the tally sheet did not conform to the respective tabs in the file. ARD has updated its procedure manual so that the tally sheet labeling is now properly documented for ARD staff to follow in the future. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**Flag International Subcontract:**

1. Condition: The excluded parties check was completed on April 13, 2009 while the subcontract was signed on January 25, 2009.

Current Status: We reviewed the subject file and noted that while in the past the Excluded Parties List was checked, the screen shots were not printed. ARD now is printing the screen shots and placing them in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: Copies of the two unsuccessful bids were not in the file.

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**Review of Prior Findings and Recommendations**

Current Status: We reviewed the subject file and confirmed that the two unsuccessful bids were not documented in the file. Per interview of key ARD personnel, ARD has hired an internal control specialist who will be responsible for maintaining all copies of unsuccessful bids in the respective files. This issue did not occur as part of our audit. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: The tally sheet, which was a checklist for all required elements to be included in the subcontractors file, was not in compliance with tabs.

Current Status: We reviewed the subject file and noted that the tally sheet did not conform to the respective tabs in the file. ARD has updated its procedure manual so that the tally sheet labeling is now properly documented for ARD staff to follow in the future. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**Tribal Liaison Office Subcontract:**

1. Condition: The modification to the prime contract providing consent to the subcontract was executed on January 20, 2009, while the subcontract was effective January 26, 2009 with a contract letter. The subcontract was issued April 13, 2009, but the signed copy was not in the file.

Current Status: We reviewed the subject file and noted that the signed contract is now documented in the file. This contract was executed by both the Tribal Liaison Office (TLO) and ADP/SW on April 13, 2009. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: Unrelated modification #3 to the prime contract was included in the file.

Current Status: We reviewed the subject file and noted the document has been removed and correctly filed. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: Unrelated unsigned modifications #1 and #2 to the J. E. Austin Associates, Inc. subcontract were included in the file.

Current Status: We reviewed the subject file and noted the document has been removed and correctly filed. Adequate corrective action has been implemented by ARD and this finding has been resolved.

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(Continued)

**Review of Prior Findings and Recommendations**

4. Condition: The subcontract was unsigned.

Current Status: We reviewed the subject file and noted that the contract was executed by both TLO and ADP/SW on April 13, 2009. Adequate corrective action has been implemented by ARD and this finding has been resolved.

5. Condition: Initial bids for the TLO were not in the file.

Current Status: We reviewed the subject file and noted that the TLO's proposal in support of ARD's proposal was submitted to ARD Headquarters in Burlington, Vermont. A copy of this proposal is now in the Kabul files. Adequate corrective action has been implemented by ARD and this finding has been resolved.

6. Condition: The negotiation memorandum was not in the file.

Current Status: We reviewed the subject file and noted that ARD partnered with TLO in the expansion program. As such, the negotiation memorandum is not in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

7. Condition: The excluded parties check was completed on April 13, 2009.

Current Status: We reviewed the subject file and noted that while in the past the Excluded Parties List was checked, the screen shots were not printed. ARD now is printing the screen shots and placing them in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

8. Condition: The tally sheet was not in compliance with tabs.

Current Status: We reviewed the subject file and noted that the tally sheet did not conform to the respective tabs in the file. ARD has updated its procedure manual so that the tally sheet labeling is now properly documented for ARD staff to follow in the future. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**HDCAW Grant:**

1. Condition: An email attachment with score sheets for all applications was received, printed and filed on April 13, 2009, while the grant was awarded in late 2008.



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**Review of Prior Findings and Recommendations**

Current Status: The score sheet was dated in July 2008 and the grant was awarded in September 2008. The correct documents are now filed accurately. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: The score sheet shows ADA with 285, CHA with 303, HDCAW with 282. It is unclear way the grant was awarded to the lowest scoring applicant.

Current Status: According to ARD, the score sheet had some missing individual scores which skewed the total scores. The revised manual specifically outlines the process for scoring and ARD has hired a new grants administrator who will ensure these requirements are fully documented in the future. Adequate corrective action has been implemented by ARD and this finding has been resolved.

3. Condition: A negotiation memorandum was not in the file.

Current Status: ARD has a negotiation memorandum for HDCAW and it is now in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: A selection memorandum was not in the file.

Current Status: The revised grant manual requires each award to have a selection memorandum in the file on a go forward basis. Adequate corrective action has been implemented by ARD and this finding has been resolved.

**RI Subcontract:**

1. Condition: The modification to the prime contract providing consent to the subcontract was executed on January 20, 2009, while the subcontract was effective January 26, 2009 through a letter contract. A final subcontract was not issued to date.

Current Status: The subcontract is now signed by both parties. Adequate corrective action has been implemented by ARD and this finding has been resolved.

2. Condition: Unrelated and unsigned modifications #1 and #2 to the Justin Associates, Inc. subcontract were included in the file.

Current Status: The identified documents have been removed from the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

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**Review of Prior Findings and Recommendations**

3. Condition: Unrelated modification #3 to the prime contract was filed in the file.

Current Status: The identified documents have been removed from the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

4. Condition: The initial proposals were not in the file.

Current Status: A copy of RI's proposal is now in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

5. Condition: The excluded parties check was completed on April 13, 2009.

Current Status: We reviewed the subject file and noted that while in the past the Excluded Parties List was checked, the screen shots were not printed. ARD now is printing the screen shots and placing them in the file. Adequate corrective action has been implemented by ARD and this finding has been resolved.

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Tetra Tech ARD Response to Findings

For the Period March 5, 2008 through March 4, 2011

Included below is ARD's response received to the findings identified in this report. In addition to the narrative response, ARD provided documentation that, in its opinion, supports its position on various findings. Due to the voluminous and proprietary nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.

### **2013-1: Costs Incurred Exceed Individual CLINs**

#### **Management Response:**

ARD respectfully disagrees with the audit finding recommendation that \$1,768,356 should be returned to USAID for costs incurred in excess of budget amounts for individual CLINs.

The totals were overrun for CLINs 1, 3, and 4, but as the Finding notes, the total cost to the contract for all CLINs was under budget. The status of the CLIN totals was conveyed to USAID on multiple occasions during the final six months of the project, verbally and in various written communications. A request to realign the budgeted CLIN totals was submitted to USAID but was never acted upon.

- Contingency planning documentation in October and November 2010 contained actual CLIN totals;
- The final quarterly report submitted to USAID in December 2010 (which was preceded by a draft in November which was also reviewed by USAID) notified USAID that the project had expended nearly all funds in CLINS 1, 3, and 4, while at the same time describing the activities that were already underway and those that were still planned; that report noted that though CLINs 1, 3, and 4 would exceed their totals because of these final activities, the difference would be covered by the balance of funds from CLIN 2;
- A 22 December 2010 modification from USAID (Modification #12) realigned the CLIN budgets but only to revise the Price Schedule due to understated indirect costs that were in Modification #9;
- On 9 January 2011, a request for a one-month no-cost extension was submitted which would have provided time to make final CLIN budget adjustments;
- On 30 January 2011, representatives of ARD met with USAID staff at USAID/Afghanistan in Kabul and informed them that a realignment would be submitted;
- On 5 February 2011, ARD's Senior Vice President spoke by phone with the contract's USAID COR to confirm that a realignment would be submitted; and
- This phone call was followed by an email message on 9 February 2011, in which ARD informed USAID that a budget realignment request would be submitted as soon as possible but to assure final accuracy, it would have to be prepared and submitted after all final February invoices were submitted.

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Tetra Tech ARD Response to Findings

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The budget realignment request was submitted on 11 March 2011 in order to assure its complete accuracy. That request was never acted on by USAID.

There were a variety of mitigating circumstances that explain not only why the CLIN totals were overrun, but also why it was in the government's interest that the CLIN totals should be treated as fungible.

- The CLIN totals had to be fungible so that the project could respond to USAID's needs and requests flexibly and responsively in an extremely fluid environment, and as the above demonstrates, that fungibility was conveyed to USAID;
- Programmatically, the CLINs supported one another – activities were not separable but rather achieved objectives comprehensively;
- This mutual programmatic support was illustrated in the project's performance monitoring plan which showed how results were achieved through the efforts of tasks from various CLINs;
- Because of this need to be mutually supporting, the assignment of task costs to CLINs was, to a degree, subjective; and
- The CLIN funds were never attributed to separate funding sources and thus could be adjusted.

The last several months of the project were especially fluid. The rapidly changing security environment and the possible institution of Presidential Directive #62 meant that there was constant consideration and reconsideration of activities in an effort to plan for what tasks could be implemented, and where and when they could be instituted, depending on what security protocols were ultimately instituted. One result of that uncertainty was an acceleration of project activities in order to achieve results prior to a threatened shut-down of all USAID activities because of the security conditions. Some CLIN 2 activities were delayed or even canceled. To compensate, activities in CLINS 1, 3, and 4 were enhanced to account for these unanticipated circumstances (e.g., construction of the Farah Wholesale Market, distribution of additional tractors and other farm implements, and distribution of pullets to women's groups in Farah). As a result, a high level of activity occurred up to the end of the project while a possible project extension was discussed. This necessitated finalization of the CLIN adjustment at the very end of the contract. Finally, and further complicating matters, the USAID Contracting Officer assigned to the project was changed three times in the final several months of the project.

ARD would like to clarify the audit Finding statement that says: "In addition, there was a lack of a crosswalk between the expenditure general ledgers provided to the individual CLINs reported. As such, the FAS was presented by cost categories based on the latest budget realignment submitted that was not approved by USAID." The FAS was prepared to reflect the actual total cost by CLIN against the last budget realignment that was reflected in Modification Number 12. The contract budget reflected in section B.4 of the contract specified only the total direct costs, indirect costs, and fixed fee by CLIN. The auditors requested an alternate FAS that

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indicated the cost by CLIN for each line item of cost (direct labor, travel, subcontracts, etc.). ARD provided this alternate FAS to the auditors as was requested.

ARD would also like to clarify the audit Finding statement that says: “Additionally, ARD was not able to provide a crosswalk from the Excel file that included its costs to the individual CLINs in the contract. Without such a crosswalk, it cannot be determined which individual costs were aggregated to each CLIN. The total of the individual costs and the total of all CLINs were in agreement.” The excel file that listed all of the expenditures charged to the contract contained the following information:

- Vendor
- Amount
- Accounting Period
- ADP job cost number – 1062
- Account Cost Category (travel, allowances, etc.)
- Account Transaction Code (travel - per diem, travel - airfare, etc.)
- Account Task (equivalent to the CLIN).

The expenditures that were sampled can be cross-walked back to a particular CLIN or to the allocation task. Some expenditures that benefited all four CLINs were allocated by formula.

Finally, ARD would like to clarify the audit Finding statement that says: “Additionally, due to the acquisition of ARD by Tetra Tech, Inc., the old accounting system was not compatible with the new accounting system. With the change to the new accounting system, historical information was lost and ARD was not able to prepare a crosswalk from the accounting records to each CLIN.” ARD was acquired by Tetra Tech on October 1, 2007. Tetra Tech requires that all acquired companies convert their accounting systems to Tetra Tech’s Oracle-based system. Compatibility of the accounting system was not an issue. ARD utilized the DELTEK accounting system prior to converting to Oracle on October 1, 2009. All general ledger account balances as of September 30, 2009 were transferred to the Oracle accounting system. This included all of the line item and transaction code balances by CLIN for the ADP contract. The ending balances as of September 30, 2009 became the opening balances as of October 1, 2009 in the Oracle system. This is how all accounting system conversions are handled. ARD demonstrated to the auditors that all of the ADP account balances carried over to Oracle, exactly. The historical information was not lost as is asserted in the audit report. The data from contract inception to September 30, 2009 was maintained in DELTEK while the data from October 1, 2009 to the end of the contract was maintained in Oracle. We merged the data from both systems into one excel spreadsheet so that the auditors could make their selections for audit.

We are attaching the final Contractor’s Performance Assessment Report (CPAR) that we received from USAID on the ADP contract. It should be noted that ARD received a very good

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evaluation in the area of Cost Control. The Cost Control section of the CPAR discusses the changes and additions to the scope of work that ARD encountered over the three year life of the contract. This had a direct impact on the costs incurred by CLIN.

In summary, ARD disagrees with the recommendation that \$1,768,356 should be returned to USAID for costs incurred in excess of budget amounts for individual CLINs because USAID was fully informed of the imbalance among CLINs; the imbalances occurred because of our efforts to meet project objectives in a rapidly changing environment right up to the end of the contract and with USAID's direction and knowledge; the CLIN totals had to be fungible in order to manage the project responsively; and the audit statements regarding the company's accounting procedures are inaccurate. It should also be noted that ARD's final invoice which indicated the CLIN overruns was thoroughly reviewed by USAID prior to payment.

**2013-2: Missing or Insufficient Source Documentation to Support Expense****Management Response:**

ARD respectfully does not agree with the total questioned direct costs of \$181,712 plus \$26,155 in associated indirect costs. It should be noted that 99.9% of the audited costs were located and properly supported with adequate supporting documentation.

**Salaries & Wages - \$27,067**

The majority of the questioned costs (\$13,933) are attributable to payroll period (12/16/09 – 1/15/2010) for the Farah office. It appears that there were recalculations made for payroll between the distribution in the Farah office and the recording of the expenditure in the Kabul office. The payroll distribution was made to the local staff but the payroll calculation does not quite tie to the accounts.

Additionally, \$11,662 of these costs were cleared by one of the auditors on the final exception report.

**Subcontracts - \$79,325**

The majority of this is due to a single voucher from ARDA Construction, Co. (\$78,500) for trellis bars in Helmond Province. While the DV was not fully executed and signed by the Chief of Party or the ADP Finance Specialist, the expenditure was made 13 November 2010 in payment for the receipt of 5,000 T-Bars. Helmond Provincial Manager (Dr. Fazel Elahi) signed the attached Authorization for Subcontract payment. The cash payment slip and delivery receipt are fully executed indicating that full payment of \$78,500 was made to ARDA Construction Company in

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payment of ARDA invoice number ARDA-7003. Copies of the DV, ARDA purchase order, cash payment slip, and delivery receipt are attached.

### Travel & Transportation - \$16,606

Almost all of this amount consists of two DVs (\$12,740 & \$3,259) that, again, were recorded in outlying offices during the close-out period and misplaced prior to being recorded and consolidated in the Kabul office.

### ODC's - \$58,714

\$52,715 of this balance was recorded in outlying offices during the final months of the project and, due to close-out activities, some documentation was misplaced.

In general, approximately 89% of questioned costs occurred during the final two months of outlying office operations, and documentation was misplaced or otherwise not provided. The project financial documentation and filing systems were adequate for the life of the project, but did experience interruptions for some local costs during the close-out period and shipping back of the files to the Kabul office and ultimately back to Burlington, VT.

We do agree that some documentation was lost or misplaced in the field. However, rather than \$181,712 in questioned direct costs, the figure should be reduced to \$91,550 to reflect the payroll items that were cleared by the auditors and the \$78,500 ARDA subcontract payment which is adequately supported.

### **2013-3: Lack of Adequate Proof of Payment in Cash-for-Work Program**

#### **Management Response:**

We respectfully disagree with the audit finding. The procedure ARD used to verify CfW payments in the beginning of the project was accepted practice for work of this kind. The \$753,146 in payments were sufficiently supported with timely records, especially when the elders' and ARD staff members' presence is taken into consideration. We further refined the procedure in October 2008 of our own volition in an effort to strengthen implementation; the change did not imply that the original practice was either inherently suspect or faulty.

During the initial phase of ADP, USAID put strong emphasis on the Cash for Work (CfW) program as a key instrument for both improving local infrastructure, security stabilization, and to demonstrate the U.S. commitment to improve local lives through distribution of cash to individual Afghan families. As a result, ARD was tasked with immediate implementation of CfW

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programs in Farah. In order to effectively work in any local community, ARD had to first obtain approval of local governing entities (Shura councils) that represented the interests of the local community. These councils consisted of local village elders and community leaders. Initial CfW agreements were made with the Shura to ensure operational safety and security, community commitment to the project, and community approval for the proposed infrastructure activity.

For initial CfW programs (like DV200/Project 421), payments were made directly through Shura (community) elders whose responsibility was to gather workers and pay them. It was also practice that an ADP staff member was present when payments were made. It was a common practice for elders to fill out project timesheets based on the number of laborers who worked on each project. The imprimatur of the Shura also ensured that any laborer hired to work on the project understood that they had a responsibility to the community to work on the project and to do a good job.

It is possible that Shura members took it upon themselves to fill out these timesheets as they were distributing the payments directly to the workers themselves. Where it would appear in this instance that one person's fingerprint was used, a Shura member likely took the liberty of filling out timesheets. However, the elders' involvement as well as the presence of an ADP staff member assured that any payments met the requirements of accurate recordkeeping.

The practice of having the Shura handle the payments was discontinued in October of 2008 (not January 2009), and starting in October 2008, one of the ADP staff members went to each project site to document and account for each local worker. Once the procedure changed, we required that an individual worker was available to affix his own fingerprint when timesheets were filled out.

**2013-4: Indirect Costs were Overclaimed****Management Response:**

ARD did not over-claim indirect costs as noted in the auditor's report.

ARD routinely applies retroactive indirect rate adjustments when the provisional rates for prior years have been updated on the NICRA. In the case of the ADP contract, a revised NICRA was issued on November 22, 2010 revising the provisional rates for FY2008, 2009, 2010, and for FY2011 until amended. An analysis for FY2008 to FY2010 indicated that the revised indirect rates generated an additional cost to the contract of \$59,950.94. The indirect rate analysis for FY2008 through FY2010 is attached. The auditors only looked at the two indirect rates that ran under the billed provisional rates: fringe benefits and material handling overhead. Two other indirect rates, overhead and G&A, ran significantly over the billed provisional rates. All four



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indirect rates need to be taken into consideration when doing an analysis of prior period indirect rates. The complete analysis generated an additional indirect cost to the contract of \$59,950.94. ARD would have billed these costs to the contract but since we wound up in an overrun situation, these additional costs were not billed.

The auditor's assertion that ARD over-billed \$312,450 in indirect costs is incorrect.

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