

SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 21-23 Financial Audit

USAID's Initiative to Strengthen Local Administrations in Afghanistan: Audit of Costs Incurred by Tetra Tech ARD Inc.

**In accordance with legal requirements, SIGAR has redacted certain information deemed
proprietary or otherwise sensitive from this report.**



MARCH
2021

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On February 1, 2015, the U.S. Agency for International Development (USAID) awarded a cost-plus-fixed-fee contract for \$62,364,687 to Tetra Tech ARD Inc. (ARD) to support the Initiative to Strengthen Local Administrations (ISLA) project. USAID initiated the project to improve provincial government planning, representation of the of citizens, and service delivery throughout Afghanistan.

The contract included a period of performance from February 1, 2015, through January 31, 2020. USAID modified the contract 13 times, which decreased the total estimated cost to \$48 million, and extended the period of performance to July 31, 2020.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$12,180,521 in costs charged to the contract from October 1, 2018, through January 31, 2020. The objectives were to (1) identify and report on material weaknesses or significant deficiencies in ARD's internal controls related to the contracts; (2) identify and report on instances of material noncompliance with the terms of the contracts, and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether ARD has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of ARD's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

March 2021

USAID's Initiative to Strengthen Local Administrations in Afghanistan:
Audit of Costs Incurred by Tetra Tech ARD Inc.

SIGAR 21-23-FA

WHAT SIGAR FOUND

Crowe did not find any material weaknesses or significant deficiencies in ARD's internal controls. However, the auditors found one instance of noncompliance with the terms of the contract. Specifically, ARD did not reimburse USAID for a laptop purchased for the project that it later reported as stolen. According to the agency's acquisition regulation, the laptop could not be charged to the contract because it was stolen and therefore no longer benefitting the ISLA program. As a result, the auditors questioned the laptop's cost of \$1,139.

| Category | Ineligible | Unsupported | Total Questioned Costs |
|-------------------------------|------------|----------------|------------------------|
| Costs Incurred | \$0 | \$1,139 | \$1,139 |
| Total Questioned Costs | \$0 | \$1,139 | \$1,139 |

Crowe reviewed three prior audit reports applicable to the contract and found three findings that had a material effect on the SPFS or other financial data significant to the audit objectives. The auditors performed follow-up audit procedures and determined that ARD had taken adequate corrective actions on all three findings.

Crowe issued an unmodified opinion on ARD's SPFS, noting that it presents fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the contracting officer at USAID:

1. **Determine the allowability of and recover, as appropriate, \$1,139 in questioned costs identified in the report.**
2. **Advise ARD to address the report's one noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 8, 2021

Ms. Gloria Steele
Acting Administrator, U.S. Agency for International Development

Dr. Tina Dooley-Jones
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by Tetra Tech ARD Inc. (ARD) under a contract to support the U.S. Agency for International Development's (USAID) the Initiative to Strengthen Local Administrations project in Afghanistan. USAID initiated the project to improve provincial government planning, representation of the of citizens, and service delivery throughout Afghanistan.¹ The auditors reviewed \$12,180,521 in costs charged to the contract from October 1, 2018, through January 31, 2020. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$1,139 in questioned costs identified in the report.**
- 2. Advise ARD to address the report's one noncompliance finding.**

The results of Crowe's audit are discussed in detail in the attached report. We reviewed the report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on ARD's Special Purpose Financial Statement. We also express no opinion on the effectiveness of ARD's internal control or compliance with the contract, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Crowe did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-follow-up@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-188)

¹ The contract number is AID-306-C-15-00005.



Tetra Tech ARD

Special Purpose Financial Statement

For Contract Number AID-306-C-15-00005

For the Period October 1, 2018 through January 31, 2020

(With Independent Auditor's Report Thereon)

Table of Contents

| | |
|--|-----------|
| TRANSMITTAL LETTER..... | 1 |
| SUMMARY..... | 2 |
| INDEPENDENT AUDITOR’S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT..... | 7 |
| SPECIAL PURPOSE FINANCIAL STATEMENT | 9 |
| NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT..... | 10 |
| NOTES TO THE QUESTIONED COSTS | 12 |
| INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL..... | 13 |
| INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE..... | 15 |
| SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... | 17 |
| SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS .. | 18 |
| APPENDIX A – VIEWS OF RESPONSIBLE OFFICIALS | 20 |
| APPENDIX B – AUDITOR’S REBUTTAL..... | 21 |

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TRANSMITTAL LETTER

January 6, 2021

To the Chairperson and Management of Tetra Tech ARD
159 Bank Street, Suite 300
Burlington, VT 05401-4410

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during our audit of Tetra Tech ARD's ("ARD") contract funded by the United States Agency for International Development ("USAID").

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered the comments, feedback, and interpretations of ARD, the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID, provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated into this report as an appendix.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of ARD's contract.

Sincerely,

A handwritten signature in black ink that reads "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe LLP

Summary

Background

On February 1, 2015, the U.S. Agency for International development (USAID) awarded a cost-plus-fixed-fee completion contract no. AID-306-C-15-00005 to Tetra Tech ARD (ARD) to support the Initiative to Strengthen Local Administrations (ISLA) project. The contract's original period of performance was from February 1, 2015, through January 31, 2020, with a total estimated cost and fixed fee of \$62,364,687. The total estimated cost was [REDACTED], and the fixed fee was [REDACTED].

ISLA aims to improve provincial governance in the areas of fiscal and development planning, representation of citizens, and enhanced delivery of public services. ISLA strengthens subnational systems of planning, operations, communication, representation, and citizen engagement. Improvements in these areas, along with the passage of clear, legal subnational governance frameworks by the Government of Afghanistan, will improve service delivery and develop central plans and budgets that represent provincial interests. These activities are expected to lead to services that more closely respond to all citizens' needs in health, education, security, justice, and urban services.

There were thirteen subsequent modifications to the award that extended the period of performance end date to a July 31, 2020, and decreased the total estimated cost to \$48,000,000.

The modifications are summarized below:

| Modification No. | Highlights |
|------------------|--|
| 01 | <ul style="list-style-type: none"> Change the contractors name from "Tetra Tech ARD" to "ARD Inc." Revise report and deliverables section |
| 02 | <ul style="list-style-type: none"> COR Name Change |
| 03 | <ul style="list-style-type: none"> Per memo from Tetra Tech ARD, Modification 3 was skipped due to a numbering error |
| 04 | <ul style="list-style-type: none"> Increase obligated funding by \$13,580,000 to total of \$31,580,000 |
| 05 | <ul style="list-style-type: none"> Decrease total estimated cost-plus fixed fee by \$14,364,687 to total of \$48,000,000 Revision of budget, fee schedule, statement of deliverables, key personnel, and section H Change the contractor's name from "ARD Inc." to "Tetra Tech ARD" |
| 06 | <ul style="list-style-type: none"> Increase obligated funding by \$6,000,000 to total of \$37,580,000 |
| 07 | <ul style="list-style-type: none"> Deletion and addition of various contract clauses |
| 08 | <ul style="list-style-type: none"> Increase obligated funding by \$3,320,000 to total of \$40,900,000 |
| 09 | <ul style="list-style-type: none"> COR Name Change |
| 10 | <ul style="list-style-type: none"> Increase obligated funding by \$4,000,000 to total of \$44,900,000 |
| 11 | <ul style="list-style-type: none"> Extend period of performance from January 30, 2020 to July 30, 2020 |
| 12 | <ul style="list-style-type: none"> Modify project budget with no increase in obligated funds |
| 13 | <ul style="list-style-type: none"> Increase obligated funding by \$3,100,000 to total of \$48,000,000 |

The audit's scope included activity within the period October 1, 2018 through January 31, 2020. Within the period under audit, ARD reported \$12,180,521 in total revenue, which consisted of [REDACTED] in reimbursable costs and [REDACTED] in fixed fee earned under the contract.

(Continued)

Work Performed

Crowe LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction to conduct an audit of ARD’s contract.

Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement (“SPFS”) for the contract presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the contract and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of ARD’s internal control related to the contract; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether ARD complied, in all material respects, with the contract and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether ARD has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

Scope

The Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) engaged Crowe LLP (“Crowe” or “we” or “our”) to conduct a financial audit of USAID contract no. AID-306-C-15-00005 for the period October 1, 2018 through January 31, 2020. The scope of the audit included the period October 1, 2018 through January 31, 2020. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the SPFS. The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Activities;
- Allowable Costs;
- Cash Management;
- Equipment and Real Property;
- Procurement; and
- Reporting.

(Continued)

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting and determined if adequate corrective action was taken in response to prior audit, assessment, and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded accurately and consistent with the terms and conditions of the award; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the contract if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested, and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by ARD during the period of performance. To the extent documented policies and procedures were unavailable, Crowe conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 required that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract issued by USAID to ARD – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including, but not limited to, audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected transactions, vouchers for payment submitted to USAID, procurements, government property, and reports for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess ARD's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the Negotiated Indirect Cost Rate Agreement issued by the Office of Acquisition and assistance within USAID.

Regarding Audit Objective 4, Crowe inquired of ARD, SIGAR, and USAID personnel participating in the audit entrance conference to understand whether there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified three prior audit reports that required review and follow-up. The reports follow:

- Audit Report No. 3-000-170032-R: Audit of schedule of costs incurred in Afghanistan by Tetra Tech ARD for contract no.306-C-15-00005 Initiative to Strengthen Local Administration (ISLA) for the period February 1, 2015 to September 30, 2015 and contract no. 306-I-TO-14-00031 Women's Leadership Development (WLD) for the period September 23, 2014 to September 30, 2015
- Audit Report No. 8-306-19-001-N FY16: Financial Audit of Costs Incurred for Afghanistan By Tetra Tech ARD, Inc. Under Initiative to Strengthen Local Administration (ISLA) No. AID-306-C-15-00005 for the period from October 1, 2015, to September 30, 2016
- SIGAR 18-75 Financial Audit, "USAID's Initiative to Strengthen Local Administrations Project: Audit of Costs Incurred by ARD, Inc." The audit pertained to contract number AID-306-C-15-00005 for the period October 1, 2016, through September 30, 2017.

(Continued)

Summary of Results

Upon completion of Crowe's procedures, Crowe identified 1 finding because it met one or more of the following criteria: (1) significant deficiencies in internal control; (2) material weaknesses in internal control; (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (4) questioned costs resulting from identified instances of noncompliance.

Crowe issued an unmodified opinion on the SPFS, noting the SPFS presents fairly, in all material respects, revenues earned, costs incurred, and balance for the period audited.

Crowe also reported on both ARD's internal controls over financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract. No material weaknesses or significant deficiencies in internal control were reported. One instance of noncompliance was identified and reported as finding 2020-01.

In response to the identified instance of noncompliance, Crowe reported \$1,139 in unsupported questioned costs. SIGAR requires questioned costs be classified as either "ineligible" or "unsupported." SIGAR defines ineligible costs as those that are explicitly questioned because they are unreasonable, prohibited by the audited contract or applicable laws and regulations, or that are unrelated to the award. Unsupported costs are those that are not supported with adequate documentation or did not have the required prior approvals or authorizations. The questioned costs Crowe identified were unsupported costs. The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety. The summary includes questioned costs reported by Crowe, which are classified as unsupported.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to ARD's financial performance under the contract. Based on Crowe's communications with ARD, SIGAR, and USAID, there were three such previous reports issued. Crowe reviewed the reports and identified three findings that were direct and material to the contract under audit. During our review of the reports, we noted that follow-up on the prior findings had been completed by previous auditors, including Crowe. Through our review, we noted the prior audit reports indicated that adequate corrective action had been taken, such that no additional follow-up was required. Additional details are provided in **Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings**.

Schedule of Findings and Questioned Costs

| Finding No. | Finding Name | Classification | Questioned Costs (USD) |
|--------------------------------|--|----------------|------------------------|
| 2020-01 | Cost of Stolen Property Not Allocable to the ISLA Contract | Noncompliance | \$1,139 |
| Total Questioned Costs: | | | \$1,139 |

(Continued)

Summary of Management Comments

ARD's management disagreed with the audit finding based on its understanding that submission of a report to USAID indicating the property item noted in the finding was sufficient in the absence of a contract requirement to obtain relief of responsibility for the item.

References to Appendices

The auditor's reports are supplemented by two appendices: **Appendix A**, which contains management's responses to the audit findings; and **Appendix B**, which contains the auditor's rebuttal.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Chairperson and Management of Tetra Tech ARD
159 Bank Street, Suite 300
Burlington, VT 05401-4410

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (the "Statement") of Tetra Tech ARD ("ARD"), and related notes to the Statement, with respect to contract number AID-306-C-15-00005 issued by U.S. Agency for International Development ("USAID") for the period October 1, 2018, through January 31, 2020.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and the terms and conditions of contract number AID-306-C-15-00005. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the Statement referred to above pertaining to contract number AID-306-C-15-00005 presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period in accordance with the basis of presentation and accounting described in Notes 1, 2, 4, 5, and 6.

Basis of Presentation and Accounting

We draw attention to Notes 1, 2, 4, 5, and 6 to the Statement, which describe the basis of presentation and accounting. The Statement is prepared in a format required by SIGAR and presents those amounts as permitted under the terms of USAID contract number AID-306-C-15-00005, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the grant referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of ARD, USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 5, 2021, on our consideration of ARD's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ARD's internal control over financial reporting and compliance.


Crowe LLP

Washington, D.C.
January 5, 2021

Tetra Tech ARD
SPECIAL PURPOSE FINANCIAL STATEMENT
CONTRACT NO. AID-306-C-15-00005
For the Period October 1, 2018, through January 31, 2020

| | <u>Budget</u> | <u>Actuals for the Period Under Audit</u> | Questioned Costs | | |
|--|----------------------|---|-------------------|--------------------|--------------|
| | | | <u>Ineligible</u> | <u>Unsupported</u> | <u>Notes</u> |
| <i>Revenues</i> | | | | | |
| Contract AID-306-C-15-00005 | \$ 48,000,000 | \$ 12,180,521 | | | 4 |
| Total Revenue | <u>\$ 48,000,000</u> | <u>\$ 12,180,521</u> | | | |
| <i>Costs Incurred</i> | | | | | |
| CLIN 1 - Provincial Planning and Budgeting | \$ [REDACTED] | [REDACTED] | | | 6 |
| CLIN 2 - Sub-National Institution Building | [REDACTED] | [REDACTED] | | | |
| CLIN 3 - Inclusive Advocacy | [REDACTED] | [REDACTED] | | | |
| CLIN 4 - Public Engagement | [REDACTED] | [REDACTED] | | | |
| CLIN 5 - Grants Under Contract (GUC) | - | - | | | |
| <i>Total Costs Incurred</i> | <u>\$ [REDACTED]</u> | <u>[REDACTED]</u> | | \$ 1,139 | A |
| Fixed Fee | [REDACTED] | [REDACTED] | | | |
| Balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,139</u> | 7 |

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

Tetra Tech ARD
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
CONTRACT NO. AID-306-C-15-00005
For the Period October 1, 2018, through January 31, 2020

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under USAID Contract Number AID-306-C-15-00005 for the Initiative to Strengthen Local Administrations Project for the period October 1, 2018 through January 31, 2020. Because the Statement presents only a selected portion of the operations of ARD, it is not intended to and does not present the financial position, changes in net assets, or cash flows of ARD. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract number AID-306-C-15-00005. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on an accrual basis of accounting. Such expenditures are recognized following the cost principles contained in FAR 31, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States Dollars ("US\$") were required. Exchange rates are booked at actual when US\$ are transferred to local currency accounts. This can be direct from Burlington office accounts to a foreign currency account or from a local US\$ account in the case of US\$ being used in-country. These rates are reviewed for consistency during local account review but are not validated with any source other than the local financial institution. ARD uses the exchange rate obtained at the time foreign currency was obtained for month end valuation of site account

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which Tetra Tech ARD is entitled to receive from the USAID for allowable, eligible costs incurred under the contract during the period of performance.

Note 5. Revenue Recognition

The revenue recognized on the Statement represents the actual direct and indirect costs incurred during the period of performance plus the portion of the fixed fee that was earned. Revenue is recognized on the accrual basis of accounting.

Note 6. Costs Incurred by Budget Category

The budget categories presented, and associated amounts reflect the budget line items presented within the approved contract budget contained in modification number 12 dated September 26, 2019.

The indirect cost rates have been updated through FY2018 for the actual rates contained in our incurred cost submissions as well as reflected in our most current Negotiated Indirect Cost Rate Agreement ("NICRA"). None of the indirect rates are final. We anticipate a revised NICRA from USAID in October 2020 to revise FY2019 rates to those contained in our incurred cost submission. We do not anticipate any impact on the SPFS.

Tetra Tech ARD
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
CONTRACT NO. AID-306-C-15-00005
For the Period October 1, 2018, through January 31, 2020

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

Note 8. Currency

All amounts presented are shown in U.S. dollars.

Note 9. Program Status

The Initiative to Strengthen Local Administrations Project remains active. The period of performance for the contract is scheduled to conclude on July 31, 2020.

Note 10. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the October 1, 2018, through January 31, 2020 period covered by the Statement. Management has performed their analysis through January 5, 2021.

Tetra Tech ARD
NOTES TO THE QUESTIONED COSTS
CONTRACT NO. AID-306-C-15-00005
For the Period October 1, 2018, through January 31, 2020

- A. Finding 2020-01 questioned \$1,139 due to ARD's having charged the contract for the cost of an item that was stolen and is, therefore, no longer benefitting the contract.

Notes to the Questioned Costs are prepared by the auditor for purposes of this report. Management takes no responsibility for the notes to the questioned costs.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Chairperson and Management of Tetra Tech ARD
159 Bank Street, Suite 300
Burlington, VT 05401-4410

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the 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, the Special Purpose Financial Statement (the "Statement") of Tetra Tech ARD ("ARD"), and related notes to the Statement, with respect to contract number AID-306-C-15-00005 issued by the U.S. Agency for International Development ("USAID"), for the period October 1, 2018, through January 31, 2020. We have issued our report thereon dated January 5, 2021.

Internal Control over Financial Reporting

ARD's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of accounting and presentation described in Notes 1, 2, 4, 5, and 6 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period October 1, 2018, through January 31, 2020, we considered ARD's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of ARD's internal control. Accordingly, we do not express an opinion on the effectiveness of ARD's internal control.

(Continued)

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 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. 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.

Our consideration of internal control was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of ARD, SIGAR, and USAID. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe LLP
Crowe LLP

Washington, D.C.
January 5, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Chairperson and Management of Tetra Tech ARD
159 Bank Street, Suite 300
Burlington, VT 05401-4410

To the Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

We have audited, in accordance with the 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, the Special Purpose Financial Statement (the "Statement") of Tetra Tech ARD ("ARD"), and related notes to the Statement, with respect to contract number AID-306-C-15-00005 issued by the U.S. Agency for International Development ("USAID"), for the period October 1, 2018, through January 31, 2020. We have issued our report thereon dated January 5, 2021.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of ARD.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2020-01.

ARD's Response to the Finding

ARD's response to the finding identified in our audit is described in Appendix A to our report. ARD's response to the finding was not subjected to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

(Continued)

Restriction on Use

This report is intended for the information of ARD, SIGAR, and USAID. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe LLP
Crowe LLP

Washington, D.C.
January 5, 2021

Tetra Tech ARD
SECTION I – SCHEDULE OF FINDINGS AND QUESTIONED COSTS
CONTRACT NO. AID-306-C-15-00005
For the Period October 1, 2018, through January 31, 2020

FINDING 2020-01: Cost of Stolen Property Not Allocable to the ISLA Contract

Deficiency in Internal Control and Noncompliance

Condition: Crowe selected 27 of 269 government property items comprising \$812,635 of the \$1,093,635 population for testing. In one instance, an item with an acquisition cost of \$1,139 was identified as having been stolen and subsequently reported to USAID via the Annual Report of Government Property in Contractor's Custody. However, USAID did not relieve Tetra Tech ARD of responsibility for the item, and Tetra Tech did not reimburse USAID for the amount. Whereas the item is no longer benefiting the ISLA program, its cost is no longer considered allocable to the contract and is in question. The table below summarizes the lost item.

| ID # | Description | Serial Number | Unit \$ Price |
|-------|------------------------------|---------------|---------------|
| 00464 | Laptop Dell Inspiron 15 5558 | 2ZGQY52 | \$1,139 |

Criteria: AIDAR 752.245-71(a), *Title and care of property*, states: "Title to all non-expendable property purchased with contract funds under this contract and used in the Cooperating Country, shall at all times be in the name of the Cooperating Government, or such public or private agency as the Cooperating Government may designate, unless title to specified types or classes of non-expendable property is reserved to USAID under provisions set forth in the schedule of this contract; but all such property shall be under the custody and control of Contractor until the owner of title directs otherwise, or completion of work under this contract or its termination, at which time custody and control shall be turned over to the owner of title or disposed of in accordance with its instructions. All performance guaranties and warranties obtained from suppliers shall be taken in the name of the title owner. (Non-expendable property is property which is complete in itself, does not lose its identity or become a component part of another article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of \$500 or more.)"

Pursuant to FAR 31.201-4, *Determining allocability*, "A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it-

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown."

Questioned Costs: \$1,139

Effect: The Government reimbursed ARD for the cost of an item that was subsequently stolen and is therefore no longer benefiting the contract thus resulting in a \$1,139 overcharge to the contract.

Cause: The auditee considered reporting the item as stolen to USAID in the Annual Report to be adequate as USAID did not incorporate provisions into ARD's contract regarding relief of responsibility.

Recommendation: We recommend that ARD either obtain written direction from the appropriate Government official indicating ARD is relieved of responsibility for the item or otherwise reimburse the U.S. Government \$1,139.

(Continued)

Tetra Tech ARD
SECTION II – SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS
CONTRACT NO. AID-306-C-15-00005
For the Period October 1, 2018, through January 31, 2020

Crowe reviewed three prior audit, review, or assessment reports. The three reports contained findings and recommendations. We assessed the findings to ascertain whether the matters may be direct and material to the Special Purpose Financial Statement or other financial information significant to the audit objectives. In addition, we reviewed the auditors' comments regarding the status of prior audit findings.

The reports reviewed by Crowe follow:

1. Audit Report No. 3-000-170032-R: Audit of schedule of costs incurred in Afghanistan by Tetra Tech ARD for contract no.306-C-15-00005 Initiative to Strengthen Local Administration (ISLA) for the period February 1, 2015 to September 30, 2015 and contract no. 306-I-TO-14-00031 Women's Leadership Development (WLD) for the period September 23, 2014 to September 30, 2015
2. Audit Report No. 8-306-19-001-N FY16: Financial Audit of Costs Incurred for Afghanistan By Tetra Tech ARD, Inc. Under Initiative to Strengthen Local Administration (ISLA) No. AID-306-C-15-00005 for the period from October 1, 2015, to September 30, 2016
3. SIGAR 18-75 Financial Audit, "USAID's Initiative to Strengthen Local Administrations Project: Audit of Costs Incurred by ARD, Inc." The audit pertained to contract number AID-306-C-15-00005 for the period October 1, 2016, through September 30, 2017.

Per our review of the reports, Crowe identified three findings which could be direct and material to the award under audit. The direct and material findings were included in report no. 3-000-170032-R. Based on our review of report numbers 8-306-19-001-N FY16 and SIGAR 18-75 Financial Audit, Crowe noted that follow-up on the prior findings had been completed by prior auditors. Prior auditors determined that adequate corrective action had been taken on each finding, as such Crowe determined that no additional follow-up was required. The findings are summarized below:

Finding Section 6.1: Armored Vehicle Rental Costs in Excess of Market and Not Reasonable

Issue: The cost of an armored vehicle rental was in excess of market costs and not deemed reasonable. \$125,302 was questioned as ineligible. SIGAR defines ineligible costs as those "that are explicitly questioned because they are unreasonable; prohibited by the audited contract or applicable laws and regulations; or are not award related."

Status of Corrective Action: Complete as denoted in audit report number SIGAR 18-75 Financial Audit.

Finding Section 6.2: Cost of Primary Risk Manager in Excess of Market and Not Reasonable

Issue: The cost of the Primary Risk Manager was in excess of the market rate and not deemed reasonable. \$139,481 was questioned as ineligible. This includes the related NICRA cost and Fixed fee as well.

Status of Corrective Action: Complete as denoted in audit report number SIGAR 18-75 Financial Audit.

(Continued)

Tetra Tech ARD
SECTION II – SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS
CONTRACT NO. AID-306-C-15-00005
For the Period October 1, 2018, through January 31, 2020

Finding Section 5.3: Competitive bidding process was not followed when contracting a consultant

Issue: A competitive solicitation was not performed when contracting for consulting services. No documentation supporting competitive solicitation as required by the project contract and the contractors' policies were provided. Neither was a sole procurement document prepared at the time of contracting the consultant. \$10,119 in questioned costs resulted from this finding.

Status of Corrective Action: Complete as denoted in audit report number 8-306-19-001-N.

(Continued)

APPENDIX A – VIEWS OF RESPONSIBLE OFFICIALS

We have included, on the following pages, the verbatim response provided by ARD on January 5, 2021.

January 5, 2021

Bert Nuehring
Partner
Crowe LLP

Reference: a) ERussell/BStanley, Draft Audit Report, dated December 17, 2020

Subject: Tetra Tech ARD Management Response pertaining to referenced draft audit report for the Initiative to Strengthen Local Administration (ISLA) Project, Contract No. 306-C-15-00005,

Dear Mr. Nuehring,

Thank you for the opportunity to provide the Management Response for the subject audit report.

With respect to the one audit finding (2020-01: Cost of Stolen Property Not Allocable to the ISLA Contract), the report notes that a stolen laptop - which was reported to USAID both contemporaneously and through the annual non-expendable property report, also should have received explicit relief of responsibility by USAID. The auditor recommends that Tetra Tech ARD either obtain a written direction from USAID that Tetra Tech ARD is relieved of responsibility for the laptop, or otherwise reimburse the U.S. Government for the cost of the laptop (\$1,139).

Tetra Tech respectfully disagrees with this audit finding for the following reasons:

1. Tetra Tech ARD properly notified USAID of the stolen item in accordance with the terms of the contract.

Section H.14 (Nonexpendable Property Purchases And Information Technology Resources) of the ISLA contract requires Tetra Tech ARD to promptly notify USAID in the event any IT resources are lost or stolen. Tetra Tech ARD met this requirement by submitting a written notification to USAID that contained details of the armed incident, the name and location of the police station where the armed assault was reported, and a summary of the attack. Additionally and in accordance with section I.20 (Annual Report of Government Property in Contractor's Custody) of the ISLA contract, Tetra Tech ARD listed – and highlighted - the item as 'stolen' in the annual property report submitted to USAID.

2. No requirement in the ISLA contract to obtain written relief:

The ISLA contract does not contain any clause or provision requiring either Tetra Tech ARD to obtain, or USAID to provide, written relief for stolen or missing property. In fact, the auditors state as much on page 19 of the audit report under 'cause' when they write: "*The auditee considered reporting the item*

as stolen to USAID in the Annual Report to be adequate as USAID did not incorporate provisions into ARD's contract regarding relief of responsibility." In addition to the auditors re-confirming that Tetra Tech ARD did notify USAID of the stolen item – as required by the ISLA contract and as summarized in section 1 above, the auditors also re-confirmed that the ISLA contract does not contain any requirement to obtain written relief from USAID for stolen items.

* * *

In summary, the auditor's rationale for questioning the cost is based on requirements that do not exist as the ISLA contract does not require either Tetra Tech ARD to obtain, or USAID to provide, written relief for stolen items. Tetra Tech ARD properly met its obligations under the ISLA contract by notifying USAID of the stolen item – both contemporaneously through a written report, and through the annual nonexpendable property report. USAID should reject Crowe's finding in its entirety.

Please do not hesitate to contact me at [REDACTED] or [REDACTED] should you have any questions.

Regards,

DocuSigned by:

[REDACTED]

Director, Contracts Grants and Procurement
Tetra Tech

APPENDIX B – AUDITOR’S REBUTTAL

Crowe LLP (“Crowe” or “we” or “us”) has reviewed the letter dated January 5, 2021, containing Tetra Tech ARD’s (“ARD” or “the auditee”) responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee.

Finding 2020-01

ARD disagreed with the finding for two reasons noted in its management response: 1) Tetra Tech ARD asserts it properly notified USAID of the stolen item in accordance with the terms of the contract; and 2) there is not a requirement within the ISLA contract for ARD to obtain written relief.

Crowe does not disagree with either of the two reasons noted by management. However, neither argument presented by Tetra Tech ARD adjusts the facts and circumstances presented within the finding or otherwise refutes the criteria from the contract that support the finding. The finding is predicated upon ARD’s having charged to the contract and obtained reimbursement for the cost associated with the stolen laptop. Whereas the laptop was stolen, it is not currently in management’s possession and is not currently providing benefit to the contract. Pursuant to the provisions of FAR 31.201-4, *Determining allocability*, a cost must benefit the contract for it to be allocable to the award. A cost that is not allocable to the contract is, therefore, also unallowable under FAR 31.2.

The ISLA contract also incorporates the requirements of AIDAR 752.245-71(a), *Title and care of property*, which states property purchased using contract monies shall remain under the custody and control of the contractor until the contract is terminated, work under the contract has been completed, disposition instructions are provided by the Cooperating Government, or the Cooperating Government otherwise indicates custody and control no longer vests with ARD. Whereas the situations that would remove responsibility for custody and control of the laptop from ARD have not been realized or otherwise documented, the requirement for ARD to maintain custody and control of the laptop remains unchanged.

Management’s response indicates concurrence and agreement with Crowe’s position that the item was stolen and, therefore, is not benefiting the ISLA project, is not in ARD’s custody, and is not under ARD’s control. Accordingly, no revisions to the finding are necessary.

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SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
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- prevent fraud, waste, and abuse; and
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Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
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2530 Crystal Drive
Arlington, VA 22202