

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

SIGAR 23-20 Financial Audit

## USAID's Engineering Support Program in Afghanistan: Audit of Costs Incurred by Tetra Tech Inc.

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



APRIL  
2023

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On July 14, 2016, the U.S. Agency for International Development (USAID) awarded a \$125,000,000 time-and-materials contract to Tetra Tech Inc. (Tetra Tech) in support of the Engineering Support Program in Afghanistan. The contract consisted of a 3-year base period of performance and 2 option years. The program's objective was to provide professional architectural and engineering services in the transportation, vertical structures, energy, water, and sanitation sectors. USAID modified the contract 13 times and exercised two option periods, extending the period of performance through January 22, 2023. The total award amount did not change.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$34,197,566 in costs charged to the agreement from January 23, 2020, through January 22, 2022. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Tetra Tech's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms and conditions of the agreement as well as applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Tetra Tech has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Tetra Tech's Special Purpose Financial Statement (SPFS). See Conrad'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. SIGAR's review disclosed no instances where Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

April 2023

USAID's Engineering Support Program in Afghanistan: Audit of Costs Incurred by Tetra Tech Inc.

SIGAR 23-20-FA

### WHAT SIGAR FOUND

Conrad identified four deficiencies in Tetra Tech's internal controls, three of which were considered significant, and four instances of noncompliance with the terms of the contract. For example, the auditors found that Tetra Tech could not provide sufficient evidence to show that a cost/price analysis was conducted prior to awarding a subcontract in 9 of 45 transactions tested. In another example, the auditors found that Tetra Tech was unable to provide evidence that 3 of 27 tested transactions for employees receiving an Involuntary Separate Maintenance Allowance had certified their continued qualification to receive the payment. SIGAR notified Tetra Tech of all deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and instances of noncompliance, Conrad identified \$324,218 in total questioned costs, consisting of \$630 in ineligible costs—costs prohibited by the agreements and applicable laws and regulations—and \$323,588 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Other Direct Costs	\$476	\$1,727	\$2,203
Subcontractors	\$0	\$292,808	\$292,808
Indirect Costs	\$113	\$7,883	\$7,996
Fixed Fee	\$41	\$21,170	\$21,211
<b>Total Costs</b>	<b>\$630</b>	<b>\$323,588</b>	<b>\$324,218</b>

Conrad identified four prior audit reports that were relevant to Tetra Tech's contract. These reports contained nine findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. Conrad conducted follow-up procedures and concluded that Tetra Tech had taken adequate corrective action on five of the nine findings.

Conrad issued an unmodified opinion on Tetra Tech's SPFS, noting 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 responsible agreement officer at USAID:

1. Determine the allowability of and recover, as appropriate, \$324,218 in questioned costs identified in the report.
2. Advise Tetra Tech to address the report's four internal control findings.
3. Advise Tetra Tech to address the report's four noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

April 18, 2023

The Honorable Samantha Power  
Administrator, U.S. Agency for International Development

Mr. Sean Callahan  
Mission Director, U.S. Agency for International Development

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Tetra Tech, Inc. (Tetra Tech) under a U.S. Agency for International Development (USAID) time-and-materials contract to support the Engineering Support Program in Afghanistan.<sup>1</sup> The program's objective was to provide professional architectural and engineering services in the transportation, vertical structures, energy, water, and sanitation sectors. Conrad reviewed \$34,197,566 in costs charged to the contract from January 23, 2020, through January 22, 2022. Our contract with Conrad 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 agreement officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$324,218 in questioned costs identified in the report.**
- 2. Advise Tetra Tech to address the report's four internal control findings.**
- 3. Advise Tetra Tech to address the report's four noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. 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 Tetra Tech's Special Purpose Financial Statement, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report dated February 28, 2023, and the conclusions expressed therein. However, our review disclosed no instances where Conrad did not comply, in all material respects, with U.S. 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 planned completion for the recommendations to [sigar.pentagon.audits.mbx.recommendation-followup@mail.mil](mailto:sigar.pentagon.audits.mbx.recommendation-followup@mail.mil), within 60 days from the issue date of this report.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-245)

<sup>1</sup> The agreement number is AID-306-C-16-00010.

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010

Awarded by the United States Agency for International Development's Mission in  
Afghanistan, for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

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March 3, 2023

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA

Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
Arlington, VA 22202

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Tetra Tech, Inc.'s Special Purpose Financial Statement under Contract No. AID-306-C-16-00010 awarded by the United States Agency for International Development's Mission in Afghanistan for the period January 23, 2020 through January 22, 2022, in support of the Engineering Support Program.

On October 6, 2022, we provided SIGAR with a draft report reflecting our audit procedures and results. Tetra Tech, Inc. received a copy of the report on December 28, 2022 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and Tetra Tech, Inc. Additionally, Tetra Tech, Inc.'s responses and Conrad's corresponding rebuttals are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you, and to conduct the audit of this Contract.

Sincerely,

A handwritten signature in blue ink, appearing to read "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

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**Background**

On July 14, 2016, the United States Agency for International Development’s Mission in Afghanistan (“USAID”) awarded a Time-and-Materials Contract No. AID-306-C-16-00010 (“Contract”) to Tetra Tech, Inc. (“Tetra Tech”) in support of the Engineering Support Program (“ESP” or “Program”).

The purpose of the Contract was to provide professional architectural and engineering services in the transportation, vertical structures, energy, water, and sanitation sectors. According to the Contract, the Program supports USAID’s Engineering, Quality Assurance, and Logistical Support (“EQUALS”) and Architectural and Engineering Support Program (“AESP”) by providing engineering support and technical expertise to implement infrastructure and construction activities.

The original contract was for five years. The period of performance was from July 23, 2016 through July 22, 2021, with a ceiling of \$125 million. The base years are from July 23, 2016 through July 22, 2019, with an obligated amount of \$82 million. There are two option years from July 23, 2019 through July 22, 2021. There have been 13 subsequent modifications to the Contract, which extended the period of performance to January 22, 2023, and Modification 7 changed the structure of the Contract from Time-and-Materials to Cost Plus Fixed Fee with an effective date of June 29, 2019. See the *Summary of Contract* below.

**Summary of Contract**

Contract Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
AID-306-C-16-00010	\$125,000,000	7/23/16	7/22/21	13	No change	1/22/23

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## **Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
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for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

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### **Work Performed**

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of the Contract, as mentioned above, of Tetra Tech’s Special Purpose Financial Statement (“SPFS”) for revenue received and costs incurred plus fixed fee under the Program totaling \$34,197,566 for the period January 23, 2020 through January 22, 2022.

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

#### **Audit Objectives**

The objectives of the audit of the aforementioned Contract include the following:

- *Special Purpose Financial Statement (“SPFS”)* – Express an opinion on whether Tetra Tech’s SPFS for the Contract presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited is in conformity with the terms of the Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of Tetra Tech’s internal controls related to the Contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Tetra Tech complied, in all material respects, with the Contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with the terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Tetra Tech has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

#### **Scope**

The scope of this audit included all costs incurred during the period of January 23, 2020 through January 22, 2022, totaling \$34,197,566 under the Contract. Our testing of the indirect cost charged to the Contract was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in the Negotiated Indirect Cost Rate Agreement (“NICRA”) and subsequent applicable amendments.

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## **Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

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### **Audit 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 on April 20, 2022, with representatives of Tetra Tech, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of the audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

#### **Planning**

During our planning phase, we performed the following:

- Obtained an understanding of Tetra Tech’s internal controls surrounding the program operations, which included interviews with Tetra Tech’s management and employees, identifying internal and external factors that affect operations, and reviewing accounting policies and procedures. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
  - Contract and modifications;
  - Any regulations that are specific to the Contract’s requirements, such as USAID Acquisition Regulation (“AIDAR”), Federal Acquisition Regulation, Part 31 (“FAR 31”), Federal Acquisition Regulation, Part 52 (“FAR 52”);
  - Audited financial statements; and
  - Previous SIGAR and USAID financial audit reports.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

#### **Special Purpose Financial Statement**

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;

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## **Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
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for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

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- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, reasonable, and allocable to the Contract;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional and final negotiated indirect cost rates to ensure that they were accurately applied.

### Internal Controls Related to the Contract

We reviewed Tetra Tech's internal controls related to the Contract to gain an understanding of the implemented system of internal control to obtain reasonable assurance of Tetra Tech's financial reporting function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

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

We performed tests to determine whether Tetra Tech complied, in all material respects, with the Contract requirements, AIDAR, FAR 52, and FAR 31 and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

### Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from Tetra Tech and reviewed these reports to determine if there were any findings or recommendations that could have a potential impact on this audit. We also conducted a search online of various governmental websites including SIGAR ([www.sigar.mil](http://www.sigar.mil)), USAID ([www.usaid.gov](http://www.usaid.gov)), and other federal agencies, to identify previous engagements that could have a material effect on Tetra Tech's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. Our review procedures included holding discussions with management regarding corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of items similar to those found in the prior findings. See the *Status of Prior Audit Findings* section on page 30.

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## Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
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For the Period of January 23, 2020 through January 22, 2022

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### Exit Conference

An exit conference was held on September 28, 2022 via conference call. Participants included representatives from Conrad, Tetra Tech, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

### **Summary of Results**

We have summarized the details of these results in the *Findings and Questioned Costs* subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit results in their entirety.

### Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS.

We identified \$324,218 in total questioned costs, which comprised of \$630 in ineligible costs and \$323,588 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Contract's provisions or applicable laws and regulations, or not related to the Contract. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on Tetra Tech's SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

### Internal Controls

Our audit identified four internal control findings. Three internal control findings are considered to be significant deficiencies and one internal control finding is considered to be a deficiency. See *Independent Auditor's Report on Internal Control* on page 17.

### Compliance

The results of our testing identified four instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 19.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under

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**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

*Government Auditing Standards.* Tetra Tech self-disclosed three instances of alleged fraud that could have a potential impact on the Program and the SPFS. Based on further discussions with Tetra Tech and review of the alleged incidences of fraud, an internal investigation into these allegations was conducted and the results found that there was no monetary or material effect to the Program or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Matter</b>	<b>Ineligible Costs</b>	<b>Unsupported Costs</b>	<b>Cumulative Questioned Cost</b>
2022-01	Non-compliance and Internal Control – Significant Deficiency	Lack of sufficient internal control policies and procedures to determine price reasonableness for subcontracting arrangement with internal operating units under Tetra Tech	\$ -	\$ 321,307	\$ 321,307
2022-02	Non-compliance and Internal Control – Significant Deficiency	Lack of sufficient evidence for Separate Maintenance Allowance continuing qualification	-	1,946	323,253
2022-03	Non-compliance and Internal Control – Deficiency	Lack of sufficient evidence to support Danger Pay charged to the program	-	335	323,588
2022-04	Non-compliance and Internal Control – Significant Deficiency	Fines and penalties related to visas and work permits were charged to the program	630	-	324,218
<b>Total Questioned Costs</b>			<b>\$ 630</b>	<b>\$ 323,588</b>	<b>\$ 324,218</b>

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## Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

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### Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to Tetra Tech's activities under the Contract, we identified four (4) prior engagements with nine (9) findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with the management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. Based on our review, Tetra Tech had taken adequate corrective actions on five out of the nine findings and recommendations and did not take adequate corrective action on four findings and recommendations. See *Status of Prior Audit Findings* on page 30 for a detailed description of the prior findings and recommendations.

### Summary of Tetra Tech's Responses to Findings

The following represents a summary of the responses provided by Tetra Tech to the findings identified in this report. The complete responses received can be found at *Appendix A* starting at page 34 of this report.

- (1) **Finding 2022-01:** Tetra Tech provided price reasonableness justification for the four internal units in questioned and agreed with the recommendation to develop and implement internal control policy and procedures to ensure a cost/price reasonableness analysis is conducted during the procurement process for subcontracting agreements with Tetra Tech's internal operating units. Tetra Tech indicated that they expect to develop this internal control policy and procedure by June 30, 2023.
- (2) **Finding 2022-02:** Tetra Tech disagreed that they owe a credit to USAID for the unsupported SMA costs in question but will work to remediate their processes to ensure future recertification of SMA aligns with Tetra Tech's internal policies.
- (3) **Finding 2022-03:** Tetra Tech agreed with the finding and credited the unsupported costs amount in a subsequent billing invoice submitted to USAID.
- (4) **Finding 2022-04:** Tetra Tech disagreed with the finding and maintained that the fines and penalties related to visas and work permits are legitimate project expenses resulting from unannounced decisions of the Government of Afghanistan, rather than a lack of compliance by Tetra Tech. As such, it is their stance that there were no ineligible costs charged to the program.

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## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA

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 accompanying Special Purpose Financial Statement of Tetra Tech, Inc. ("Tetra Tech") and the related notes to the Special Purpose Financial Statement, with respect to Contract No. AID-306-C-16-00010 ("Contract") awarded by the U.S. Agency for International Development ("USAID") in support of the Engineering Support Program, for the period of January 23, 2020 through January 22, 2022.

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of January 23, 2020 through January 22, 2022, in accordance with the terms of the Contract and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction.

### Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of Tetra Tech, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Basis of Presentation and Accounting

We draw attention to Note 2 (a) and (b) to the Special Purpose Financial Statement, which describes the basis of presentation and the basis of accounting. As described in Note 2 (a) to the Special Purpose Financial Statement, the statement is prepared by Tetra Tech on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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## **Responsibilities of Management for the Special Purpose Financial Statement**

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that it is free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement**

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Tetra Tech's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 28, 2023 on our consideration of Tetra Tech's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Contract, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not

(Continued)

to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tetra Tech's internal control over financial reporting and compliance.

### **Restriction on Use**

This report is intended for the information of Tetra Tech, Inc., the United States Agency for International Development Mission in Afghanistan, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California  
February 28, 2023



### Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

### Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
<b>Contract No.</b>						
<b>AID-306-C-16-00010</b>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	\$ -	\$ -	\$ -	(2f)
Fixed Fee	<u>[REDACTED]</u>	<u>[REDACTED]</u>				
Total revenues and fixed fee	<u>57,177,987</u>	<u>34,197,566</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred and Fixed Fee:						
Labor	[REDACTED]	[REDACTED]				
Materials & Equipment	[REDACTED]	[REDACTED]				
Other Direct Costs	[REDACTED]	[REDACTED]				(A)
Subcontractors	[REDACTED]	[REDACTED]				(B)
Travel	[REDACTED]	[REDACTED]				
Indirect Costs	[REDACTED]	[REDACTED]				(C)
Fixed Fee	[REDACTED]	[REDACTED]				(D)
Total costs incurred and fixed fee	<u>\$57,177,987</u>	<u>\$34,197,566</u>	<u>\$ 630</u>	<u>\$ 323,588</u>	<u>\$ 324,218</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

See Notes to the Special Purpose Financial Statement and Notes to Questioned Costs Presented on the Special Purpose Financial Statement  
(Continued)

## Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

### Notes to Special Purpose Financial Statement<sup>1</sup>

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#### (1) The Company

Tetra Tech provides consulting and engineering services worldwide. Tetra Tech's expertise is in science, research, engineering, construction, and information technology. Tetra Tech is organized into two major business groups. The Government Services Group provides consulting and engineering services worldwide for U.S. government clients, and the Commercial/International Services Group provides consulting and engineering services worldwide for commercial and international clients.

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

##### a. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes revenues and costs for Cost Plus Fixed Fee activities under Contract No. AID-306-C-16-00010, for the period from January 23, 2020 through January 22, 2022. The information in the Statement is presented in accordance with requirements specified by SIGAR and is specific to the aforementioned Contract Cost Plus Fixed Fee activities under the Contract. Therefore, some amounts presented in this Statement may differ from amounts presented in or used in the presentation of Tetra Tech's basic financial statements.

##### b. Basis of Accounting

The Statement reflects the revenues earned and cost expenses incurred for Cost Plus Fixed Fee activities under the Contract by Tetra Tech. The Statement has been prepared following an accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred.

##### c. Accounting System Dates

The Statement reflects all revenues earned and other cost expenses, incurred for Cost Plus Fixed Fee activities under Contract No. AID-306-C-16-00010, for the period from January 23, 2020 through January 22, 2022. Only transactions and/or adjustments incurred in accounting periods during the audit period have been included in the Statement.

##### d. Currency

The Statement is presented in U.S. dollars. Other cost expenditures incurred in currencies other than U.S. dollars have been translated into U.S. dollars. Tetra Tech used the prevailing exchange rates published in the Da Afghanistan Bank to translate local currency

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of Tetra Tech.

## Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

### Notes to Special Purpose Financial Statement<sup>1</sup>

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into U.S. dollars using market data to establish a Standard Exchange Rate ("SER") to translate local currency into U.S. dollars.

e. Cost Plus Fixed Fee Activities Budget

Total Budget Ceiling \$57,177,987

f. Revenues

Revenues represent the amount of the funds to which Tetra Tech is entitled to receive for allowable labor, subcontractors, other direct costs (including materials/equipment, travel), and indirect costs plus fixed fee defined in Contract No. AID-306-C-16-00010. Revenues are recognized as earned when costs are incurred.

g. Revenue Categories

The following are the revenue categories shown in the Statement by billing category as reported in client billings and accumulated in Tetra Tech's general ledger.

- (1) Labor: This revenue is related to direct labor for personnel working at the Home Office and Field Offices
- (2) Subcontractor: This revenue is related to consultants or subcontractors that provide professional services in Afghanistan, professional specialty services, or professional services from other Tetra Tech companies
- (3) Materials & Equip, ODC's, Travel:
  - Travel: This revenue/expense is related to travel including airfare, lodging, travel meals, and transportation.
  - ODC's (incl. Mat/Equip): This revenue/expense is related to leases, bank fees, communications, insurance, repairs, and other miscellaneous categories.
- (4) Indirect cost: Indirect costs are costs that are associated with the general administration, general operations, and management of the project.
- (5) Fee: Markup of billed costs as defined by the contract

h. Indirect Cost Rate

The allowable indirect costs shall be reimbursed based on the provisional rates and the appropriate bases.

The billable indirect cost for the Cost Plus Fixed Fee activities under Contract No. AID-306-C-16-00010 is Overhead for both United States National ("USN") and Third Country

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of Tetra Tech.

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Notes to Special Purpose Financial Statement<sup>1</sup>**

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Nationals (“TCN”) labor, and General and Administrative (“G&A”) applied to all cost categories except subcontractors.

i. Outstanding Fund Balance

The fund balance presented on the Statement represents the difference between the Cost Plus Fixed Fee activities actual billings and USAID’s payments of said billings. The outstanding fund balance is \$0 for the Cost Plus Fixed Fee activities under Contract No. AID-306-C-16- 00010 as of January 22, 2022.

j. Subsequent Event

Tetra Tech evaluated subsequent events through February 28, 2023 through which the date the Statement was available to be issued. Tetra Tech concluded that no subsequent events have occurred that would require recognition or disclosure in the Statement.

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<sup>1</sup> The Notes to the Special Purpose Financial Statement are the responsibility of Tetra Tech.

## Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
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For the Period of January 23, 2020 through January 22, 2022

### Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

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#### **(A) Other Direct Costs**

Tetra Tech reported a total of [REDACTED] for Other Direct Costs for the period of January 23, 2020 through January 22, 2022.

During our audit of these costs, we noted the following:

- Three (3) instances where Tetra Tech did not maintain documented evidence to ensure that the employees receiving Separate Maintenance Allowance (“SMA”) were re-certified every six months, resulting in unsupported costs of [REDACTED]. See **Finding No. 2022-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- One (1) instance where danger pay allowance charged to the Program was not properly supported, resulting in unsupported costs of [REDACTED]. See **Finding No. 2022-03** in the *Schedule of Findings and Questioned Costs* section of this report.
- Four (4) instances where fines related to visas and work permits were charged to the Program, resulting in ineligible costs of [REDACTED]. See **Finding No. 2022-04** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total questioned Other Direct Costs of [REDACTED], consisting of [REDACTED] in unsupported costs and [REDACTED] in ineligible costs.

#### **(B) Subcontractors**

Tetra Tech reported a total of [REDACTED] for Subcontractor costs for the period of January 23, 2020 through January 22, 2022.

During our audit of these costs, we noted nine (9) instances where Tetra Tech did not provide sufficient documentation that a price reasonableness check was conducted prior to entering into an agreement with four (4) operating units that fell under Tetra Tech. This resulted in unsupported costs of \$292,808. See **Finding No. 2022-01** in the *Schedule of Findings and Questioned Costs* section of this report.

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<sup>2</sup> The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
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For the Period of January 23, 2020 through January 22, 2022

**Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>**

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**(C) Indirect Costs**

Tetra Tech reported a total of [REDACTED] for Indirect Costs for the period of January 23, 2020 through January 22, 2022.

The indirect costs associated with questioned costs identified in **Notes A and B** above resulted in total unsupported indirect costs of [REDACTED] and total ineligible indirect costs of [REDACTED]. This resulted in total questioned indirect costs of [REDACTED].

**(D) Fixed Fee**

Tetra Tech reported a total of [REDACTED] for Fixed Fee for the period of January 23, 2020 through January 22, 2022.

The fixed fee associated with questioned costs identified in **Notes A and B** above resulted in total unsupported fixed fee of [REDACTED] and total ineligible fixed fee of [REDACTED]. This resulted in a total questioned fixed fee of [REDACTED].

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<sup>2</sup> The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.

(Continued)



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA

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

We have audited, the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Tetra Tech, Inc. ("Tetra Tech") under Contract No. AID-306-C-16-00010 ("Contract") in support of the Engineering Support Program for the period of January 23, 2020 through January 22, 2022. We have issued our report thereon dated February 28, 2023 with an unmodified opinion.

### Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of January 23, 2020 through January 22, 2022, we considered Tetra Tech's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Tetra Tech's internal control. Accordingly, we do not express an opinion on the effectiveness of Tetra Tech's internal control.

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. 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

(Continued)

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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. We did identify four deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Findings 2022-01, 2022-02, and 2022-04 are considered to be significant deficiencies and Finding 2022-03 is considered to be deficiency.

### **Tetra Tech's Response to Findings**

Tetra Tech's response to the findings identified in our audit is included verbatim at *Appendix A*. Tetra Tech's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial 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 internal control, and the result of that testing, and not to provide an opinion on the effectiveness of Tetra Tech'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 Tetra Tech, the United States Agency for International Development Mission in Afghanistan, and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California  
February 28, 2023

(Continued)





## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors  
Tetra Tech, Inc.  
Marlborough, MA

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

We have audited, the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Tetra Tech, Inc. ("Tetra Tech") under Contract No. AID-306-C-16-00010 ("Contract") in support of the Engineering Support Program, for the period of January 23, 2020 through January 22, 2022. We have issued our report thereon dated February 28, 2023 with an unmodified opinion.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tetra Tech's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, 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 four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2022-01, 2022-02, 2022-03, and 2022-04.

### Tetra Tech's Response to Findings

Tetra Tech's response to the findings identified in our audit is included verbatim at *Appendix A*. Tetra Tech's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial 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)

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## **Restriction on Use**

This report is intended for the information of Tetra Tech, the United States Agency for International Development Mission in Afghanistan, and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. 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. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Conrad LLP*

Lake Forest, California  
February 28, 2023

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
 Contract No. AID-306-C-16-00010  
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 for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

**Schedule of Findings and Questioned Costs**

**Finding 2022-01: Lack of sufficient Internal Control Policies and Procedures to determine price reasonableness for subcontracting arrangement with internal operating units under Tetra Tech**

**Nature of Finding:** Non-Compliance and Internal Control – Significant Deficiency

**Condition:** Conrad tested 45 transactions out of 2,357 transactions in the Subcontractors cost category, representing \$2,639,520 out of a total \$12,331,608 for these transactions, to determine if costs incurred under the Contract were reasonable, adequately supported, and properly approved. For nine out of 45 samples, covering four subcontractors, Tetra Tech could not provide sufficient evidence to show that a cost/price analysis was conducted prior to entering into a subcontracting arrangement. These four subcontractors are internal operating units under Tetra Tech.

Internal Operating Units	Amount Incurred during the Audit Period	Associated Indirect Costs	Associated Fixed Fee	Total Questioned Costs
Tetra Tech United States Infrastructure Division				
Tetra Tech Environment /Geotech Division				
Tetra Tech Glumac				
Tetra Tech Federal Information Technology Division				
<b>Total</b>				

**Criteria:**

**Tetra Tech ESP Procurement Manual, Section 3.9, Applicable Laws,** states:

*“It is Tt ESP’s practice to comply with applicable requirements of the Federal Acquisition Regulations (FAR), USAID Acquisition Regulations (AIDAR), and other applicable local laws and regulations in the procurement of goods/commodities or services under federally funded contracts.”*

**Tetra Tech ESP Procurement Manual, Section 2.0 Procurement Procedures,** states the following:

*“2.7 Competition Requirements  
 To be considered a competitive procurement, procurement of goods, commodities, or services exceeding the threshold of \$2,499 shall be conducted through a full and open competition*

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Schedule of Findings and Questioned Costs (Continued)**

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*process by advertising the RFQ/RFP document publicly. Tt ESP shall ensure that it satisfies competition requirements by initiating procurement actions early and by soliciting from as many responsible sources as possible...*

*2.9 Non-Competitive or Limited Competition Procurement*

*For non-competitive procurements, valued over the micro-purchase threshold, the rationalization shall be documented in a Justification Memorandum and submitted as part of the Procurement Request package for approval. The Justification Memorandum shall include, at a minimum, the reason(s) for not competing or limiting competition for the procurement of the sought goods or services. The Justification Memorandum must address the reasonableness of the price to ensure that Tt ESP is obtaining value-for-money for all goods and services procured..."*

**FAR 52.244-5 Competition in Subcontracting**, states in part:

**"COMPETITION IN SUBCONTRACTING (DEC 1996)**

**(a)** The Contractor shall select subcontractors (including suppliers) on a competitive basis to the maximum practical extent consistent with the objectives and requirements of the contract..."

**FAR 31.201-2 Determining allowability**, states in part:

*"(a) A cost is allowable only when the cost complies with all of the following requirements:*

*(1) Reasonableness...*

*(4) Terms of the contract...*

*(d) 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. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."*

**FAR 31.201-3 Determining reasonableness**, states in part:

*"(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable."*

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
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For the Period of January 23, 2020 through January 22, 2022

**Schedule of Findings and Questioned Costs (Continued)**

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- (b) What is reasonable depends upon a variety of considerations and circumstances, including*
- (1) Whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance;*
  - (2) Generally accepted sound business practices, arm's-length bargaining, and Federal and State laws and regulations..."*

**Cause:** Tetra Tech did not have adequate policies and controls in place to ensure price reasonableness was established prior to entering into a subcontracting arrangement with its subsidiaries' operating units.

**Effect:** Tetra Tech may not have achieved the most advantageous price for the U.S. Government.

**Questioned Costs:** We identified [REDACTED] in unsupported costs, [REDACTED] in associated indirect costs, and [REDACTED] in associated fixed fees, which resulted in \$321,307 in total questioned costs.

**Recommendation:**

- (1) We recommend that Tetra Tech provide support showing the cost/price reasonableness of the costs in question or return \$321,307 of unsupported costs.
- (2) We recommend that Tetra Tech develop and implement an internal control policy and procedure to ensure a cost/price reasonableness analysis is conducted during the procurement process for subcontracting arrangements with internal operating units under Tetra Tech's subsidiary.

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Schedule of Findings and Questioned Costs (Continued)**

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**Finding 2022-02: Lack of sufficient evidence for Separate Maintenance Allowance continuing qualification**

**Nature of Finding:** Non-Compliance and Internal Control – Significant Deficiency

**Condition:** Conrad tested 2,386 transactions out of 12,762 transactions in the Other Direct Costs (“ODC”) category, representing \$925,992 out of a total \$2,856,166 for these transactions. Of the 2,386 ODC transactions, 27 were related to Separate Maintenance Allowance (“SMA”). During our testing to determine if costs incurred under the Contract were adequately supported and allowable, we noted three transactions for three separate employees who received an Involuntary SMA. However, Tetra Tech was unable to provide evidence that the employees certified their continued qualification to receive involuntary SMA on a bi-annual basis as required in its policy.

- One employee received involuntary SMA in the amount of [REDACTED] for two days in December 2020, but the SMA recertification was completed by the employee on February 17, 2020.
- One employee received involuntary SMA in the amount of [REDACTED] for 16 days in December 2020, but the SMA recertification was completed by the employee on February 8, 2020.
- One employee received involuntary SMA in the amount of [REDACTED] for 13 days in July 2021, but the SMA recertification was completed by the employee on December 20, 2020.

**Criteria:**

**Tetra Tech ESP Separate Maintenance Allowance Procedures** states in part:

*"3.0 Re-Enrollment*

*USN-TCN Expatriate employee's qualifying information is re-certified by HR every six (6) months. The employee provides a statement and any necessary backup documents to HR. Once HR and the Project Manager are satisfied the documentation is complete, the employee signs an updated attachment 2 of their assignment agreement."*

**Tetra Tech Employment Agreement** states in part:

*"6. Separate Maintenance Allowance*

*The employee may be paid an Involuntary Separate Maintenance Allowance per Department of State Standardized Regulations (“DSSR”) 260 based upon the additional costs of maintaining a spouse and family members while the employee is at post abroad and those costs which may be incurred by the employee at the post. SMA allowance varies by the number of dependents and is paid as a monthly allowance. The employee will be required to complete a certification on a bi-annual basis if requesting SMA (Attachment 2)..."*

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Schedule of Findings and Questioned Costs (Continued)**

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**FAR 31.201-2(d) Determining allowability**, states in part:

*"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. The contracting officer may disallow all or part of a claimed cost that is inadequately supported."*

**FAR 31.201-3 Determining reasonableness**, states in part:

*"(a) A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. Reasonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints. No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer's representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.*

*(b) What is reasonable depends upon a variety of considerations and circumstances, including...  
(4) Any significant deviations from the contractor's established practices."*

**Cause:** Due to lack of management oversight, Tetra Tech did not follow its policy for recertifying employee's qualifying information for involuntary SMA on a bi-annual basis.

**Effect:** Lack of employee continued certification for the circumstances of special need or hardship in order to qualify for SMA may result in issuing unauthorized SMA payments to employees and unallowable costs charged to the U.S. Government.

**Questioned Costs:** We identified [REDACTED] in unsupported costs, [REDACTED] in associated indirect costs, and [REDACTED] in associated fixed fees, which resulted in \$1,946 in total questioned costs.

**Recommendation:**

(1) We recommend that Tetra Tech provide evidence showing that the three employees have recertified their qualifications to receive involuntary SMA or return \$1,946 of unsupported costs.

(2) We recommend that Tetra Tech develop an internal control monitoring policy and procedure to ensure management oversight of the process to verify employee qualifications for SMA allowance.

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
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for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

**Schedule of Findings and Questioned Costs (Continued)**

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**Finding 2022-03: Lack of sufficient documentation to support Danger Pay charged to the program**

**Nature of Finding:** Non-Compliance and Internal Control – Deficiency

**Condition:** Conrad tested 2,386 transactions out of 12,762 transactions in the Other Direct Costs (“ODC”) category, representing \$925,992 out of a total \$2,856,166 for these transactions. Of the 2,386 ODC transactions, 1,047 were related to the allowance for Danger Pay. During our testing to determine if costs incurred under the Contract were adequately supported and allowable, we noted one instance where Tetra Tech was not able to provide proof of payment for a Danger Pay allowance in the amount of [REDACTED].

**Criteria:**

**Tetra Tech ESP Procurement Manual, Section 3.14, Records Retention,** states:

*“The Tt ESP prime contract with USAID requires documentation, records, and other informational materials to be maintained for examination, audit, or reproduction in accordance with FAR clause 52.215-2. In general, all records should be maintained until three years after final payment under this contract.”*

**FAR 31.201-2(d) Determining allowability,** states in part:

*“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. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”*

**Cause:** Due to inadequate administrative oversight, Tetra Tech was unable to locate the proof of payment.

**Effect:** Lack of sufficient documentation for expense paid and incurred may have resulted in the U.S. Government overpaying for goods and services.

**Questioned Costs:** We identified [REDACTED] in unsupported costs, [REDACTED] in associated indirect costs, and [REDACTED] in associated fixed fees, which resulted in \$335 in total questioned costs.

**Recommendation:**

(1) We recommend that Tetra Tech provide documentation for the danger pay allowance or return the questioned costs of \$335.

(Continued)



**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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**Schedule of Findings and Questioned Costs (Continued)**

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(2) We recommend that Tetra Tech develop and implement additional policies and procedures to improve management oversight of record retention and to ensure that records are maintained of relevant payroll documentation, including proof of payment to the employee.

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

**Schedule of Findings and Questioned Costs (Continued)**

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**Finding 2022-04: Fines and penalties related to visas and work permits were charged to the program**

**Nature of Finding:** Non-compliance; Internal Control – Significant Deficiency

**Condition:** Conrad tested 2,386 transactions out of 12,762 transactions in the Other Direct Costs (“ODC”) category, representing \$925,992 out of a total \$2,856,166 for these transactions, to determine if costs incurred under the Contract were adequately supported and allowable.

- In one transaction tested, penalty/extra payment for cancellation of expired work permits was charged to the Program for four consultants totaling [REDACTED]
- In three transactions tested, fines related to expired employee visas and overstays in Afghanistan totaling [REDACTED] were charged to the Program.

**Criteria:**

**Tetra Tech Unallowable Cost Policy**, states in part:

*“...Tetra Tech complies with Federal Acquisition Regulations, Part 31.*

*It is the policy of Tetra Tech to identify and account for unallowable direct and indirect costs at the point of entry into the accounting system, in accordance with the FAR Part 31, specific contract limitations, and our Cost Accounting Standards Disclosure Statement...”*

**FAR 31.205-15(a) Fines, penalties, and mischarging costs**, states in part:

*"Costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer."*

**Cause:** Tetra Tech lacked effective supervisory review to ensure that the process for renewing work permits and visas was initiated in a timely manner to avoid fines and penalties.

**Effect:** The U.S. Government paid for unallowable costs.

**Questioned Costs:** We identified [REDACTED] in ineligible costs, [REDACTED] in associated indirect costs and [REDACTED] in associated fixed fees, which resulted in \$630 in total questioned costs.

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

**Schedule of Findings and Questioned Costs (Continued)**

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**Recommendation:**

- (1) We recommend that Tetra Tech provide support to demonstrate the costs incurred were allowed or return \$630 in ineligible costs.
- (2) We recommend that Tetra Tech implement supervisory controls to ensure that work permits and visas are renewed in a timely manner to avoid fines and penalties.

(Continued)

## **Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

### **Status of Prior Audit Findings**

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We requested prior audit reports, evaluations, and reviews from Tetra Tech, SIGAR, and USAID pertaining to Contract activities under this audit. We identified four prior audit reports which contained nine findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures, including discussion with Tetra Tech's management, and performed testing of similar activities during our audit. We have summarized the results of our procedures below:

1. Tetra Tech – SIGAR 20-07 (USAID's Engineering Support Program in Afghanistan: Audit of Costs Incurred by Tetra Tech, Inc.) – An audit of costs for the period of July 23, 2016 through July 22, 2018.

#### **Finding 2019-01: Lack of evidence for Separate Maintenance Allowance qualification**

**Issue:** The audit firm noted that for seven out of 19 Separate Maintenance Allowance ("SMA") samples tested, covering three separate employees, there was no evidence that the employees qualified for Involuntary SMA since employees did not state and certify circumstances of special need or hardship. Additionally, for 11 out of 19 SMA samples, covering five separate employees, supporting documentation was not provided for if employees had certified their continued qualification to receive Involuntary SMA.

**Status:** For the current engagement, we identified three instances where Tetra Tech could not provide evidence that the employees certified their continued qualification to receive involuntary SMA on a bi-annual basis in accordance with Tetra Tech's ESP SMA policy. See **Finding 2022-02** of this audit report.

#### **Finding 2019-02: Medical Allowances Unallowable Under the Contract Claimed**

**Issue:** The audit firm noted that Tetra Tech claimed personnel cost based on a fully loaded Cooperating Country National ("CCN") standard daily rate, which should be inclusive of fringe benefits, including Medical Allowance, as approved in the Contract. However, Tetra Tech also paid the Medical Allowance to its CCN personnel, which resulted in double claiming the Medical Allowance.

**Status:** For the current engagement, we noted that Contract Modification 7 changed the structure of the Contract from Time-and-Materials to Cost Plus Fixed Fee effective June 29, 2019. As such, Tetra Tech did not claim personnel cost based on a fully loaded CCN standard daily rate during the audit period. Tetra Tech claimed actual salaries paid to CCN personnel under Labor and CCN allowances including medical allowance under ODC, as approved in the budget for the period under audit. Based on our testing, there were no instances noted where Tetra Tech double claimed the medical allowance for CCN personnel. As such, Conrad concluded that Tetra Tech has taken adequate corrective action on this finding.

(Continued)

## **Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
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for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

### **Status of Prior Audit Findings (Continued)**

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#### **Finding 2019-03: Lack of Sufficient Evidence to Support Costs Claimed**

**Issue:** The audit firm noted that for one out of 24 ODC samples, Tetra Tech did not provide an agreement that supported the unit cost rate of \$10 per meal that was charged for non-resident Tetra Tech staff at the Expat Dining Facility (DFAC). Additionally, for two out of 14 subcontractor ODC samples, Tetra Tech did not provide sufficient documentation to support the costs billed. In one sample, Tetra Tech did not provide support for the cost base used to apply the post differential pay rate and danger pay rate. For the other sample, Tetra Tech did not provide adequate support that a subcontractor met eligibility requirements to receive involuntary SMA.

**Status:** For the current engagement, we identified one instance where a danger pay allowance charged under ODC was not adequately supported. See **Finding 2022-03** of this audit report.

#### **Finding 2019-04: Insufficient Evidence to Show Adherence to Tetra Tech's Procurement Policy.**

**Issue:** The audit firm noted that Tetra Tech did not provide sufficient evidence of competitive bidding for one out of 24 ODC samples to show adherence to their Engineering Support Program Procurement Manual for transactions greater than \$2,499. Tetra Tech provided a sole source justification that they prepared after the audit firm made the request for the supporting documentation.

**Status:** For the current engagement, we noted that Tetra Tech did not provide sufficient evidence that a cost/price analysis was conducted prior to entering into subcontracting arrangements with four internal units under Tetra Tech. See **Finding 2022-01** of this audit report.

#### **Finding 2019-05: Lack of Evidence for Exclusion and Anti-Terrorist Check.**

**Issue:** The audit firm noted that evidence of an exclusion and/or anti-terrorist check was not provided for: seven out of 28 sampled invoices in Travel testing, two out of 19 sampled invoices in Material/Equipment testing, and for one out of 24 ODC samples. Tetra Tech did not conduct exclusion screening prior to the execution of a subcontract agreement.

**Status:** For the current engagement, there were no instances noted where Tetra Tech did not conduct or maintain documentation of performing an exclusion and/or anti-terrorist check on its vendors, suppliers, or subcontractors. Additionally, we reviewed Tetra Tech' policies and procedures related to exclusion and anti-terrorist check and it appears that adequate controls have been put into place. As such, we concluded that Tetra Tech has taken adequate corrective action on this finding.

(Continued)

## Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
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For the Period of January 23, 2020 through January 22, 2022

### **Status of Prior Audit Findings (Continued)**

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#### **Finding 2019-06: Surprise Petty Cash Count Not Performed in June 2018.**

**Issue:** The audit firm noted that Tetra Tech was unable to provide support for a surprise count that was performed on its petty cash account for the month of June 2018.

**Status:** For the current engagement, there were no instances noted where Tetra Tech repeated issues related to surprise cash count. It appears that adequate controls have been put into place. As such, we concluded that Tetra Tech has taken adequate corrective action on this finding.

2. Tetra Tech – SIGAR 21-19 (USAID's Women's Leadership Development Program in Afghanistan: Audit of Costs Incurred by Tetra Tech ARD, Inc.) – An audit of costs for the period of October 1, 2018 through October 22, 2019.

#### **Finding 2020-01: Costs Incurred Outside of SPFS Period.**

**Issue:** The audit firm noted that Tetra Tech ARD, Inc (ARD) prepared its SPFS on the accrual basis of accounting, which requires that expenses be reported when they are incurred. However, ARD recorded 11 transactions on the cash basis of accounting, which requires that expenses be reported when they are paid. This overstated costs for the period audited.

**Status:** For the current engagement, there were no instances noted where costs incurred outside of the SPFS period were charged. As such, we concluded that Tetra Tech has taken adequate corrective action on this finding.

3. Tetra Tech – (USAID's Financial Audit of Costs incurred in Afghanistan by Tetra Tech, Inc.) – An audit of costs for the period of July 23, 2018 through September 30, 2019.

#### **Finding 2020-01: Lack of Evidence for Exclusion and Anti-Terrorist Check**

**Issue:** The audit firm noted that during the testing of 16 procurement files greater than \$25,000, evidence of an exclusion and/or anti-terrorist check was not provided for one of the subcontractors. Tetra Tech did not conduct or maintain evidence of performing an exclusion screening prior to the execution of one subcontract agreement.

**Status:** For the current engagement, there were no instances noted where Tetra Tech did not conduct or maintain evidence of performing an exclusion screening for its subcontractors. Additionally, we reviewed Tetra Tech's policies and procedures related to exclusion and anti-terrorist check. It appears that adequate controls have been put into place. As such, we concluded that Tetra Tech has taken adequate corrective action on this finding.

(Continued)

## **Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
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for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

### **Status of Prior Audit Findings (Continued)**

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4. Tetra Tech – (USAID’s Financial Audit of Costs incurred in Afghanistan by Tetra Tech, Inc.) – An audit of costs for the period of October 1, 2019 through January 22, 2020.

#### **Noncompliance with Provisions of Contract Terms and Applicable Laws and Regulations**

**Issue:** The audit firm noted that Tetra Tech selected a contractor via sole source procurement basis without any written or documented procurement competition. Specifically, Tetra Tech did not provide proof of conducting a cost/price analysis determination as required per section 2.8 and 2.9 of the Tetra Tech-ESP Procurement Manual and in accordance with “FAR 6.303-2, Content” and/or “FAR 13.106-3” to demonstrate that cost to the Government will be fair and reasonable.

**Status:** For the current engagement, we noted that Tetra Tech did not provide sufficient evidence that a cost/price analysis was conducted prior to entering into subcontracting arrangements with four internal units under Tetra Tech. See **Finding 2022-01** of this audit report.

(Continued)

**Tetra Tech, Inc.**

Financial Audit of the Special Purpose Financial Statement for  
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For the Period of January 23, 2020 through January 22, 2022

**Tetra Tech's Responses to Audit Findings**

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Included on the following pages are Tetra Tech's responses received to the findings identified in this report.

(Continued)





# Memo

**To:** Joe Chen, Conrad Senior Manager, jchen@conradllp.com

**From:** Susan DeMarre, Tetra Tech Controller, susan.demarre@tetratech.com

**Date:** January 13, 2023

**Subject:** Response to Audit Findings

Conrad LLP was contracted by Special Inspector General for Afghanistan Reconstruction (SIGAR) to audit the USAID/ Afghanistan Engineering Support Program (ESP) contract, which was held by Tetra Tech, Inc. from January 23, 2020 to January 22, 2022. Tetra Tech received The following findings from Conrad LLP on December 28, 2022 as part of the Draft *Financial Audit of the Special Purpose Financial Statement for Contract No. AID-306-C-16-00010 Awarded by the United States Agency for International Development’s Mission in Afghanistan, for the Engineering Support Program For the Period of January 23, 2020 through January 22, 2022.* The following outlines Tetra Tech’s response to the findings.

### FINDING 2022-01 INTERCOMPANY SUBCONTRACTOR COSTS

**Finding:** Lack of Sufficient Internal Control Policies and Procedures to determine price reasonableness for subcontracting arrangement with internal operating units under Tetra Tech.

**Recommendation:**

- 1) We recommend that Tetra Tech provide support showing the cost/price reasonableness of the costs in question, or return \$321,307 of unsupported costs.
- 2) We recommend that Tetra Tech develop and implement an internal control policy and procedures to ensure a cost/price reasonableness analysis is conducted during the procurement process for subcontracting arrangements and internal operating units under Tetra Tech’s subsidiary.

**Total Questioned Costs:** \$321,307

**Tetra Tech Response to Finding:**

[Redacted] Questioned Costs [Redacted]

No separate agreement was issued for these costs; costs for this Technical Services’ Employee are part of the Intercompany Services Agreement with Tetra Tech INE for Activities A-012 and A-023. Tetra Tech INE is another operating unit that falls under the Tetra Tech EAS Cost Center (CAGE Code 1BKS5 – Prime Contract).

Tetra Tech’s Technical Service (Tech Services) is a direct subsidiary of Tetra Tech, Inc. [Redacted]  
[Redacted]. Employees

within Tech Services are neither considered part-time nor full-time but rather “On-Call” staff to provide short-term technical assistance, support bid and proposal efforts, and provide Consultancy Services on an as-needed basis. Employees are generally highly specialized and experienced professionals. They receive minimal benefits to include basic health and life insurance. Incurred Cost Submissions for the Tech Services

unit are submitted to the Government (DCAA) on an annual basis. The FY21 Provisional Indirect Burden was [REDACTED]. Below is a table demonstrating the cost savings provided by utilizing this Tech Services resource.

Tt INE Position	Direct Labor Rate	Indirect Burden (Tech Services)	Burdened Hourly Rate	
[REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	
Approved Tt Staff Comparison Positions	Direct Labor Rate	Indirect Burden (EAS)	Burdened Hourly Rate	Delta %
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

[REDACTED] is a member of the Tech Services unit and was leveraged by Tt INE to provide surge support to both Activities A-012 and A-023 based on his experience with airport designs (architectural services) for work at Griffiss International Airport and Ithaca Tompkins International Airport (customs facility). Leveraging the technical expertise of this Tech Services Employee provided highly qualified technical expertise to USAID while also affording USAID a cost-savings as the Tech Services unit has a much lower Indirect Burden than [REDACTED]. As shown in the table above, the Tt INE Direct Labor Rate as well as Burdened Labor Rate is either within reasonable range or well below comparable approved resources on this contract. This Tech Services Employee’s labor rate / salary information (USAID 1420-70 form) was on file in the ESP project file like all other approved personnel, their rate does not exceed the Contract Daily Rate nor are they treated differently than any other Tetra Tech employee supporting this Contract. As described above, a separate (and lower) indirect burden is applied to labor supplied by Tech Services employees as their benefits package is different than Tetra Tech’s full-time personnel.

Furthermore, this Intercompany Services Agreement was issued in accordance with Section 9 of Tetra Tech’s [REDACTED] (excerpt attached). Section 1.2 Purpose and Applicability of Tetra Tech ESP’s Procurement Manual (PBC 10.f) indicates: “Tt ESP’s procurement of goods and services by the Home Office shall adhere to Tetra Tech’s Corporate Policies” (i.e., [REDACTED]) and applicable government regulations. The issuance of this Intercompany Service Agreement was not subject to Tetra Tech ESP’s Procurement Manual as procurement of these services was not accomplished by our procurement team in Kabul, Afghanistan for in-country services. Tetra Tech asserts these costs are reasonable, allowable, and allocable charges to the ESP contract for which services were required and satisfactorily performed in accordance with Tt ESP’s contract and Implementation Plans.

[REDACTED]; Questioned Costs [REDACTED]

The purpose of this Response is to conduct a comparison of the proposed labor prices from Tetra Tech IAE, a Tetra Tech Inc., Operating Unit, under the Engineering Support Program (ESP), with other similar work incurred by Tetra Tech in the past. Tetra Tech issued this Intercompany Services Agreement to Tt IAE for specialized technical engineering services to finish a contract deliverable for Activity 011 which could not be completed by [REDACTED]. As an Independent Consultant, [REDACTED] was recommended by USAID to provide short-term technical assistance to accomplish environmental assessments for Activity 011. Tetra Tech, in response to USAID’s recommendation, obtained approval of [REDACTED] on 26 August 2019 (T-0211) from USAID. Unfortunately, [REDACTED] was unable to complete the environmental assessments and Tetra Tech quickly issued this ISA to [REDACTED] and perform the work in-house in an effort to maintain the project schedule. [REDACTED] successfully accomplished this scope for USAID.

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As part of our price analysis, Tetra Tech conducted a price reasonableness comparison of the hourly rates used in the development of [REDACTED] price proposal. As shown in the Table below, Tetra Tech compared the fully burdened hourly rates from [REDACTED], with the fully burdened hourly rates of comparable specialized subcontractor's and approved Tetra Tech resources, who have performed similar services in line with those provided by [REDACTED].

Position	Employee	Direct Labor Rate	Indirect Burden	Burdened Hourly Rate	Comp. Approved Tt Position	Tt Employee	Direct Labor Rate	Indirect Burden	Burdened Hourly Rate	Delta %
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The table above compares the proposed positions included in [REDACTED] Price Proposal with similar specialty engineering services rates (FAR 15.404-1(c)(2)(iii)) for approved Tetra Tech staff to draw close comparisons that match in skills and seniority. [REDACTED] hourly rates are below the comparison examples for similar specialty engineering services. Tetra Tech asserts these costs are reasonable, allowable, and allocable charges to the ESP contract for which services were required.

Furthermore, this Intercompany Services Agreement was issued in accordance with Section 9 of Tetra Tech's [REDACTED] (excerpt attached). Section 1.2 Purpose and Applicability of Tetra Tech ESP's Procurement Manual (PBC 10.f) indicates: "Tt ESP's procurement of goods and services by the Home Office shall adhere to Tetra Tech's Corporate Policies" (i.e., [REDACTED]) and applicable government regulations. The issuance of this Intercompany Service Agreement was not subject to Tetra Tech ESP's Procurement Manual as procurement of these services was not accomplished by our procurement team in Kabul, Afghanistan for in-country services. Tetra Tech asserts these costs are reasonable, allowable, and allocable charges to the ESP contract for which services were required and satisfactorily performed in accordance with Tt ESP's contract and Implementation Plans.

[REDACTED]; Questioned Costs [REDACTED]

The purpose of this Response is to conduct a comparison of the proposed labor prices from Tetra Tech [REDACTED], a Tetra Tech Inc., Operating Unit, under the Engineering Support Program (ESP), with other similar work incurred by Tetra Tech in the past. Tetra Tech issued this Intercompany Services Agreement to Tt [REDACTED] for specialized technical engineering services to support Activity 012. When USAID requested we support the design and renovation of a space at HKIA for a data center, Tt ESP looked at resources internally in order to allow for a true partner in the design of this space. GLS did not have the experience designing data centers or specifying equipment, so identifying a partner was critical rather than identifying a subcontractor. Our experience with the ACAA and USAID in the past indicated changing scope and needs, and Tt ESP did not have sufficient detail to issue a concise scope. We wanted a design partner with experience working on data centers around the world to help sort out how best to serve the ACAA and USAID and review datacenter related requirements documents from the ACAA. Two separate Tetra Tech Operating Units were contacted – [REDACTED] and the potential scope of work was discussed. [REDACTED] was not readily available to support due to their workload, however Tt Glumac had capacity and interest to support this task. Tt ESP initially contracted with Tt Glumac to perform data collection and scoping activities,

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as the location of the data center, as well as other critical design-critical information was unknown (like power, room size, ceiling height, communications connectivity, etc.) After working alongside Tt Glumac during initial data collection, vetting of equipment lists from the ACAA, and the finalization of a design basis, we had developed good rapport and were impressed by Tt Glumac’s rapid response, engagement and understanding of the tasks. We de-obligated remaining funding associated with the initial work in February (Mod 1) and in May (Mod 3) extended the contract for the actual design work and for assistance with equipment procurement.

As part of our price analysis, Tetra Tech conducted a price reasonableness comparison of the fully burdened hourly rates used in the development of Tt Glumac’s price proposal. As shown in the Table below, Tetra Tech compared the fully burdened hourly rates from Tt Glumac, with the fully burdened hourly rates of comparable specialized subcontractor’s and Tetra Tech resources, who have performed uniquely specialized services in line with those provided by Tt Glumac.

Position	Burdened Hourly Rate	Comparison Position (source)	Burdened Hourly Rate	Delta %
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

\* [REDACTED] Rates from Tetra Tech Contract No. [REDACTED] with U.S. Army Corps of Engineers

\*\*Tt Rates are from approved 1420s for Direct Salaries plus approved NICRA Indirect Burden

The table above compares the proposed positions included in Tt Glumac’s Price Proposal, with similar specialty engineering services performed by them for the USACE – Far East District (FAR 15.404-1(c)(2)(iii)). The specialty engineering services Tt Glumac provides are comparable in nature to the services provided by Tt Glumac on our USACE Far East District contract. These rates have been used for comparison where possible. Burdened Technical discipline rates for approved Tetra Tech staff have been used to draw close comparisons that match in skills and seniority. These are very specialized individuals providing niche engineering support services. Tt Glumac’s fully burdened hourly rates are below the comparison examples for similar specialty engineering services. Tetra Tech asserts these costs are reasonable, allowable, and allocable charges to the ESP contract for which services were required.

Furthermore, this Intercompany Services Agreement was issued in accordance with Section 9 of Tetra Tech’s [REDACTED] (excerpt attached). Section 1.2 Purpose and Applicability of Tetra Tech ESP’s Procurement Manual (PBC 10.f) indicates: “Tt ESP’s procurement of goods and services by the Home Office shall adhere to Tetra Tech’s Corporate Policies” (i.e. [REDACTED]) and applicable government regulations. The issuance of this Intercompany Service Agreement was not subject to Tetra Tech ESP’s Procurement Manual as procurement of these services was not accomplished by our procurement team in Kabul, Afghanistan for in-country services. Tetra Tech asserts these costs are reasonable, allowable, and allocable charges to the ESP contract for which services were required and satisfactorily performed in accordance with Tt ESP’s contract and Implementation Plans.

[REDACTED] *Questioned Costs* [REDACTED]:

The purpose of this Response is to conduct a comparison of the proposed labor prices from [REDACTED], a Tetra Tech Inc., Operating Unit, under the Engineering Support Program (ESP), with other work subcontracted by Tetra Tech in the past. Tetra Tech engaged with internal subcontractor: [REDACTED] for specialized Subject Matter Expert (SME) services. As part of our price analysis, Tetra Tech conducted a price reasonableness comparison of the fully burdened hourly rates used in the development of [REDACTED] price proposal. As shown in the Table below, Tetra Tech compared the fully burdened hourly rates from [REDACTED], with the fully burdened hourly rates of comparable specialized subcontractor's, specifically [REDACTED] who have performed uniquely specialized services on projects in Saudi Arabia, for the US Army Corps of Engineers (USACE) – Middle East (Contract No. [REDACTED]).

[REDACTED]	Burdened Hourly Rate	[REDACTED] Position	Burdened Hourly Rate	Delta %
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The table above compares the proposed positions included in Tt FIT's Price Proposal, with similar SME specialty engineering services performed by approved and negotiated subcontractors for the USACE – Middle East (FAR 15.404-1(c)(2)(iii)). The specialty engineering services Tt FIT provides are comparable in nature to the services provided by Argus Consulting. These are very specialized individuals providing niche engineering support services. Tt FIT's fully burdened hourly rates are below the contracted Argus Consulting rates for similarly niche specialty engineering services. Tetra Tech asserts these costs are reasonable, allowable, and allocable charges to the ESP contract for which services were required.

Furthermore, this Intercompany Services Agreement was issued in accordance with Section 9 of Tetra Tech's [REDACTED] (excerpt attached). Section 1.2 Purpose and Applicability of Tetra Tech ESP's Procurement Manual (PBC 10.f) indicates: "Tt ESP's procurement of goods and services by the Home Office shall adhere to Tetra Tech's Corporate Policies" (i.e., [REDACTED]) and applicable government regulations. The issuance of this Intercompany Service Agreement was not subject to Tetra Tech ESP's Procurement Manual as procurement of these services was not accomplished by our procurement team in Kabul, Afghanistan for in-country services. Tetra Tech asserts these costs are reasonable, allowable, and allocable charges to the ESP contract for which services were required and satisfactorily performed in accordance with Tt ESP's contract and Implementation Plans.

*Tetra Tech's Response to Recommendation:*

Tetra Tech agrees to develop and implement internal control policy and procedures to ensure a cost/price reasonableness analysis is conducted during the procurement process for subcontracting arrangements with Tetra Tech internal operating units. Tetra Tech expects to develop this internal control policy and procedure by June 30, 2023.

## FINDING 2022-02 SEPARATE MAINTENANCE ALLOWANCE

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**Finding:** Lack of sufficient evidence for Separate Maintenance Allowance continuing qualification

**Recommendation:**

- 3) We recommend that Tetra Tech provide evidence showing that the three employees have recertified their qualifications to receive involuntary SMA or return \$1,946 of unsupported costs.
- 4) We recommend that Tetra Tech develop an internal control monitoring policy and procedure to ensure management oversight of the process to verify employee qualifications for SMA allowance.

**Total Questioned Costs:** \$1,946

**Tetra Tech Response to Finding:** Tetra Tech disagrees with the finding of 2022-02. The eligibility and rates applied with these costs were compliant with DSSR 260 and DSSR 267, and thus allowable costs to the program. Tetra Tech concedes that in some instances during the period, the cycle for recertification of an employee's SMA was not entirely compliant with Tetra Tech's internal policies. However, the 6-month recertification cycle is a Tetra Tech policy and not required by the DSSR. Additionally, Tetra Tech did recertify two out of the three employees after the period mentioned in the finding and did not note any changes in status which would make the cost unallowable. Please see attached (Document Tt\_2022-02-Attch01) one SMA recertification that was inadvertently missed in previous uploads to the Auditors showing that [REDACTED] recertified his SMA in January 2021. For the employee that was not recertified, Tetra Tech acknowledges that the certification period was missed by one month; however it was at this time that all expatriate staff were relocated from Afghanistan with the country falling into Taliban control one month later. The auditor's findings did not demonstrate that the employees were ineligible for SMA or applied at the rate that was inappropriate, thus these \$1,946 in questioned costs were due to the employee and allowable to the program. Tetra Tech disagrees that we owe a credit to USAID for these costs but will work to remediate our processes to ensure future recertification of SMA aligns with Tetra Tech's internal policies.

## FINDING 2022-03 DANGER PAY

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**Finding:** Lack of sufficient documentation to support Danger Pay charged to the program

**Recommendation:**

- 1) We recommend that Tetra Tech provide documentation? for the danger pay allowance or return the questioned costs of \$335.
- 2) We recommend that Tetra Tech develop and implement additional policies and procedures to improve management oversight of record retention and to ensure that records are maintained of relevant payroll documentation, including proof of payment to the employee.

**Total Questioned Costs:** \$335

**Tetra Tech Response to Finding:** Tetra Tech maintains strict control and documentation of how allowances are charged to the program and has demonstrated this control during this audit time period. During the course of this audit, one instance of 12 hours was identified, in which the proper documentation was not

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maintained out of hundreds of hours of allowances. Upon identification of this unique oversight, Tetra Tech worked to give a credit to USAID. USAID was credited in invoice number 51974079 dated October 25, 2022, for costs billed through September 30, 2022 for this cost.

## **FINDING 2022-04 VISA FINES**

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**Findings:** Fines and penalties related to visas and work permits were charged to the program

**Recommendation:**

- 1) We recommend that Tetra Tech provide support to demonstrate the costs incurred were allowed, or return \$630 in ineligible costs.
- 2) We recommend that Tetra Tech implement supervisory controls to ensure work permits and visas are renewed in a timely manner to avoid fines and penalties.

**Total Questioned Costs:** \$630

**Tetra Tech Response to Finding:** Tetra Tech disagrees with the auditor's findings as these are legitimate project expenses resulting from unannounced decisions of the Government of Afghanistan (GOA), rather than a lack of compliance by Tetra Tech. These are allowable and allocable costs as visas and work permits are necessary for Tetra Tech to perform the work required by USAID on the Engineering Support Program. As Tetra Tech employees are not diplomatic employees, Tetra Tech must adhere to the visa regulations of the host country. USAID or Tetra Tech does not have control over the regulations, process, and fees the GOA charges for issuing visas and work permits. The regulations and processes and required fees are at the discretion of the GOA and are subject to change without notice. United States National (USN) and Third Country National (TCN) employees who resided in Afghanistan were required to have a business visa and work permit to conduct work in country. Any fees must be paid for the employee to be issued a new visa. In our experience, the application for visas varied per the location of the consulate of issue and internal decisions of the GOA.

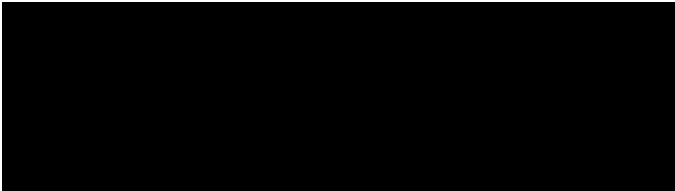
Tetra Tech temporarily relocated all USN-TCN employees in response to the COVID-19 pandemic. As a result of a prolonged absence from country, all USN-TCNs remobilizing to site had to obtain a new visa through a consulate either in their home country or in Dubai, prior to re-entry into Afghanistan. Each of these fees resulted from visa renewals where the initial visas were only valid for 30 days, giving Tetra Tech a very limited window for renewal.

Before a USN-TCN entry visa expires, Tetra Tech's in-country government liaison submits the employee's visa for renewal. While the GOA does not issue an exact timeline, prior to COVID-19, Tetra Tech could estimate the length of time it takes the GOA to issue a new/renewed visa. However, at the time of applying to renew these particular visas, the GOA's internal processes for visa renewal were lengthier than the timeframe previously required for processing. While these visas were with the GOA for renewal, the visas lapsed, and the government of Afghanistan included an overstay fee on the visa renewals.

Overall, these penalty payments were a result of GOA’s procedures and beyond the control of Tetra Tech but required for Tetra Tech to work on USAID’s behalf in the country. Thus, these should be considered allowable and allocable costs as the visas were required to conduct work in Afghanistan.

Please let me know any additional questions or additional information requests you may have. Thanks.

Sincerely,



Controller

Email: [Redacted]

CC:

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Tetra Tech: [Redacted]  
[Redacted]  
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Attachments: Finding 2022-01: [Redacted] (TOC, Section 9 Intercompany Subcontracting)  
Finding 2022-02: Tt\_2022-02-Attch01 (Jan21 [Redacted] SMA recertification)  
Subsequent Event: Contract Modification 16 (extends end date to 8/22/23)  
Management Representation Letter



## Tetra Tech, Inc.

Financial Audit of the Special Purpose Financial Statement for  
Contract No. AID-306-C-16-00010  
Awarded by the United States Agency for International Development/Afghanistan  
for the Engineering Support Program

For the Period of January 23, 2020 through January 22, 2022

### Auditor's Rebuttal to Tetra Tech's Responses to Audit Findings

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Auditor's rebuttals to Tetra Tech's responses received related to the audit findings identified in this report are presented below:

**(1) Finding 2022-01:**

- Tetra Tech provided a price reasonableness comparison along with justification as to why they entered into a subcontracting arrangement with each of the four internal operating units in question.
- Tetra Tech indicated that the issuance of the Intercompany Service Agreement was not subject to Tetra Tech ESP's Procurement Manual as procurement of these services was not accomplished by their procurement team in Kabul, Afghanistan for in-country services. Rather, the Intercompany Services Agreement was issued in accordance with Section 9 "Intercompany Subcontracting Agreements" of Tetra Tech's [REDACTED] and Client Contract Policy and Procedures.
- Tetra Tech agreed with the recommendation to develop and implement an internal control policy and procedure to ensure a cost/price reasonableness analysis is conducted during the procurement process for subcontracting agreements with internal operating units under Tetra Tech. Tetra Tech indicated that they expect to develop this internal control policy and procedure by June 30, 2023.

Auditor Rebuttal:

- Tetra Tech did not explicitly state whether they agreed or disagreed with the finding. Tetra Tech provided additional information to justify the reasonableness of the costs charged to the program for the four internal operating units in question. However, the additional information and justification was not supported by any source documentation and was prepared by Tetra Tech management in response to this audit report, which is after the fact rather than prior to procurement. We cannot verify the validity of this document or its source supporting the justification.
- Conrad reviewed Section 9 of [REDACTED] but did not identify any provisions that resolve this finding. However, this policy stated that "*Tetra Tech's intercompany policy follows the general principle that internal teaming must meet the best interests of the customer ...*" This is in alignment with the allowability of costs addressed in this finding as Tetra Tech was unable to prove that they conducted price reasonableness prior to entering into the subcontracting agreements with Tetra Tech's internal operating units to ensure that the most advantageous price for the U.S. Government was achieved.

(Continued)

**Tetra Tech, Inc.**

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**Auditor's Rebuttal to Tetra Tech's Responses to Audit Findings**

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- Tetra Tech agreed with the recommendation to develop and implement an internal control policy and procedure to ensure a cost/price reasonableness analysis is conducted during the procurement process for subcontracting agreements with Tetra Tech's internal operating units.

As such, our finding and recommendation remains unchanged.

- (2) **Finding 2022-02:** Tetra Tech disagreed that they owe credit to USAID for the unsupported SMA costs in question as the auditor's findings did not demonstrate that the employees were ineligible for SMA, or an inappropriate rate was applied. Tetra Tech indicated that they did recertify two out of the three employees after the period mentioned in the finding and did not note any changes in status. Tetra Tech provided one SMA recertification, completed after SMA payment, for one of these employees. However, Tetra Tech noted that the cycle for recertification of an employee's SMA was not compliant with Tetra Tech's internal policies in some instances during the audit period and they will work to remediate their processes to ensure future recertification of SMA aligns Tetra Tech's internal policies.

Auditor Rebuttal:

The fact that the employees were recertified after they received SMA payments does not alleviate the impact on this finding since the amount of SMA paid is based on the number of dependents of the employee and the eligibility of the dependents is based on a multitude of factors, which can change over time. As stated in the finding, without evidence demonstrating that the employee continued to prove their qualification, it leaves the possibility that the employee was receiving Involuntary SMA that the employee was not qualified to receive. Tetra Tech admitted that their internal policy for recertifying employee's qualifying information for SMA on a bi-annual basis was not followed. As such, our finding and recommendation remains unchanged.

- (3) **Finding 2022-03:** Tetra Tech agreed with the unsupported cost finding of \$335 and indicated that credit was included in Tetra Tech's billing invoice submitted to USAID for costs billed through September 30, 2022. Tetra Tech indicated that they maintain strict control and documentation of how allowances are charged to the program and the instance identified in this finding was an isolated oversight.

Auditor Rebuttal:

No rebuttal to the costs in question is deemed necessary as Tetra Tech concurred with the costs in question. Our recommendation to develop and implement additional policies and procedures

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**Tetra Tech, Inc.**

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**Auditor's Rebuttal to Tetra Tech's Responses to Audit Findings**

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to improve management oversight of record retention and to ensure that records are maintained of relevant payroll documentation remains unchanged.

- (4) **Finding 2022-04:** Tetra Tech disagreed with the finding and maintained that the fines and penalties related to visas and work permits are allowable costs as these penalty payments were a result of Government of Afghanistan's procedures and beyond the control of Tetra Tech. Tetra Tech indicated that the regulations and processes and required fees the Government of Afghanistan (GOA) charges for issuing visa and work permits are at the GOA's discretion and subject to change without notice. Tetra Tech claimed that they could estimate the length of time it takes the GOA to issue a new or renewed visa prior to COVID-19. However, the GOA's internal processes for visa renewal were lengthier at the time of applying to renew these visas.

Auditor Rebuttal:

As cited in the Criteria section of the finding, FAR 31.205-15(a) explicitly stated that "costs of fines and penalties resulting from violations of, or failure of the contractor to comply with, Federal, State, local, or foreign laws and regulations, are unallowable except when incurred as a result of compliance with specific terms and conditions of the contract or written instructions from the contracting officer." Our review of the contract shows no specific terms and conditions allowing these penalty payments or written instructions from the contracting officer. As such, our finding and recommendation remain the unchanged.

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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## SIGAR's Mission

### Public Affairs Officer

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