

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 16-41 Financial Audit**

## Afghan National Police Construction Project: Audit of Costs Incurred by Gilbane Federal

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



JULY  
2016

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On January 10, 2011, the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC)—awarded a 19-month, \$20.4 million task order to Innovative Technical Solutions, Inc. (ITSI). In 2010, Gilbane Federal (Gilbane) acquired ITSI. The purpose of the task order was to design and construct headquarters facilities for two Afghan National Police units in Marjah and Lashkar Gah, Helmand province, Afghanistan. After 13 modifications, the total cost of the task order increased to \$44,070,650, and the period of performance was extended to May 9, 2014.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$43,370,891 in expenditures charged to the task order from January 10, 2011, through May 9, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Gilbane's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Gilbane has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Gilbane's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

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

July 2016

## Afghan National Police Construction Project: Audit of Costs Incurred by Gilbane Federal

SIGAR 16-41-FA

### WHAT THE AUDIT FOUND

Crowe identified one material weakness and seven significant deficiencies in Gilbane's internal controls, and seven instances of noncompliance with the terms and conditions of the task order. Crowe noted in its audit report that when internal control and compliance findings pertained to the same matter, the auditors consolidated them into a single finding. Specifically, Crowe found that Gilbane did not maintain adequate systems or records to provide expenses reported in the SPFS by contract line item number. Further, Gilbane could not provide adequate supporting documentation for purchased labor, equipment costs, and inventory. Crowe also noted that Gilbane charged AFCEC for costs incurred outside the task order's period of performance.

As a result of these internal control deficiencies and instances of noncompliance, Crowe identified \$6,658,399 in total questioned costs, consisting of \$6,344,938 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations—and \$313,461 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Sum of Multiple Contract Line Item Numbers	\$99,348	\$313,461	\$412,809
Construction of ANP Border Patrol HQ at Lashkar Gah	\$6,219,306	\$0	\$6,219,306
Embedded Training Team Compound at Lashkar Gah	\$26,284	\$0	\$26,284
<b>Totals</b>	<b>\$6,344,938</b>	<b>\$313,461</b>	<b>\$6,658,399</b>

Crowe reviewed a prior Defense Contract Audit Agency report applicable to the scope of this audit (see Defense Contract Audit Agency, *Independent Audit Report on Gilbane Federal's (formerly Innovative Technical Solutions, Inc.) Direct Costs Under Contract No. FA8903-06-D-8513, Task Orders 0030 and 0049*, Audit Report No. 04281-2014I10180001 (Revised), March 25, 2015). Crowe identified three prior audit findings and determined that Gilbane had properly addressed two of the findings. The third finding related to unreasonable subcontract and material costs. Crowe found similar matters in this audit.

Crowe issued a disclaimer of opinion on the SPFS due to Crowe being unable to obtain sufficient and appropriate audit evidence to determine if costs incurred under the award, as reported on the SPFS, were materially accurate. Further, Crowe noted that Gilbane management was unable to support the amounts presented on the SPFS.

### WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$6,658,399 in questioned costs identified in the report.
2. Advise Gilbane to address the report's eight internal control findings.
3. Advise Gilbane to address the report's seven noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 5, 2016

The Honorable Ashton B. Carter  
Secretary of Defense

General Joseph L. Votel  
Commander, U.S. Central Command

General John W. Nicholson  
Commander, U.S. Forces–Afghanistan and  
Commander, Resolute Support

General Ellen M. Pawlikowski  
Commander, U.S. Air Force Materiel Command

Mr. Randy E. Brown  
Director, Air Force Civil Engineer Center

We contracted with Crowe Horwath LLP (Crowe) to audit the costs incurred by Gilbane Federak (Gilbane) under a task order awarded by the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC).<sup>1</sup> The purpose of the task order was to design and construct headquarters facilities for two Afghan National Police units in Marjah and Lashkar Gah, Helmand province, Afghanistan. Crowe’s audit covered \$43,370,891 in expenditures charged to the task order from January 10, 2011, through May 9, 2014. Our contract 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 audit, SIGAR recommends that the responsible contracting officer at AFCEC:

- 1. Determine the allowability of and recover, as appropriate, \$6,658,399 in questioned costs identified in the report.**
- 2. Advise Gilbane to address the report’s eight internal control findings.**
- 3. Advise Gilbane to address the report’s seven noncompliance findings.**

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

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<sup>1</sup> The Air Force Center for Engineering and the Environment awarded contract no. FA8903-06-D-8513, task order 0044 to Gilbane.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-074)



**Gilbane Company**  
**Special Purpose Financial Statement**  
**For the Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar**  
**Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ)**  
**at Marjah, Afghanistan**  
**For the Period January 10, 2011 through May 9, 2014**  
**(With Independent Auditor's Report Thereon)**

**FOR OFFICIAL USE ONLY**  
**Financial information contained in this report may be privileged. The restrictions of 18 USC 1905**  
**should be considered before any information is released to the public.**

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## Transmittal Letter

May 5, 2016

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

To the Board of Directors of Gilbane Company  
1655 Grant Street, Floor 12  
Concord, CA 94520

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of Gilbane Company's (Gilbane's) contract with the Air Force 772 Enterprise Sourcing Squadron, in support of the, in support of the United States Air Force Civil Engineer Center (AFCEC), funding the Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ) at Marjah, Afghanistan.

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

When preparing our report, we considered comments, feedback, and interpretations of Gilbane, the Office of the Special Inspector General for Afghanistan Reconstruction, and AFCEC provided both in writing and orally throughout the audit planning and fieldwork phases. Management's written responses to the findings are incorporated into the final report and are followed by auditor's responses, which are intended to clarify factual or interpretive inconsistencies between the findings as written and management responses.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of Gilbane's Construction of ANP Border Patrol HQ at Lashkar Gah and Construction of ANCOP Brigade HQ at Marjah, Afghanistan.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner  
Crowe Horwath LLP

## Summary

### Background

Gilbane Company (Gilbane or the Auditee), previously known as Innovative Technical Solutions, Inc. (ITSI), entered into a cost plus fixed fee contract task order with the 772nd Enterprise Sourcing Squadron, in support of the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center (AFCEC), within Afghanistan on January 10, 2011. The contract task order's objectives were to construct the Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and to construct the Afghan National Civil Order Police (ANCOP) Brigade HQ at Marjah. Both construction projects were located within the Helmand Province of Afghanistan. The project was funded by contract task order number FA8903-06-D-8513-0044, which incorporated an initial ceiling price of \$20,374,284, comprised of \$18,522,076 cost reimbursement and \$1,852,208 fixed fee. Thirteen modifications were subsequently issued culminating in a period of performance of January 10, 2011 through May 9, 2014, and increased the ceiling amount to \$44,070,650 (\$40,740,959 cost reimbursement and \$3,329,691 fixed fee).

Throughout the program's period of performance, Gilbane collaborated with numerous vendors, subcontractors, construction companies and AFCEC to execute upon the scope of work identified in the contract. As reported in Gilbane's Cost/Schedule Status Reports (unaudited by Crowe) project completion included, but was not limited to, construction of:

- Force Protection
- Site Access, Roads and Parking Areas
- Joint Fuel Storage
- Vehicle Refueling Point
- Ammunition Supply Point
- DFACs, Barracks and Personnel Bunkers
- Operations and Maintenance Facility
- Outdoor Assembly Area
- Water Distribution and Storage
- Sewer System
- Power System
- Communication System

The project was concluded in May of 2014, and had not been formally closed out as of May 5, 2016.

### Work Performed

Crowe Horwath LLP (Crowe) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of costs incurred by Gilbane under task order FA8903-06-D-8513-0044 and associated modifications as indicated in a Special Purpose Financial Statement (SPFS) of Gilbane's project to construct the ANP Border Patrol HQ at Lashkar Gah and construct the ANCOP Brigade HQ at Marjah.

### Objectives Defined by SIGAR

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

#### *Audit Objective 1 – Special Purpose Financial Statement*

Express an opinion on whether the SPFS for the contract task order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the contract task order and accounting principles generally accepted in

the United States of America or other comprehensive basis of accounting.

#### *Audit Objective 2 – Internal Controls*

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

#### *Audit Objective 3 – Compliance*

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

#### *Audit Objective 4 – Corrective Action on Prior Findings and Recommendations*

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

## **Scope**

The scope of the audit included the period January 10, 2011, through May 9, 2014, for the construction of the ANP Border Patrol HQ at Lashkar Gah and construction of the ANCOP Brigade HQ at Marjah. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the SPFS and evaluation of the presentation, content, and underlying records of the SPFS. The audit would have included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR, however, this could not be performed as explained in the Basis for the Disclaimer of Opinion paragraph within the *Independent Auditor's Report on the Special Purpose Financial Statements*. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Period of Availability;
- Cash Management;
- Equipment and Property Management;
- Procurement;
- Reporting; and
- Special Tests and Provisions – Key Personnel Changes

## **Methodology**

To meet the aforementioned objectives, Crowe tested compliance and considered Gilbane's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by Gilbane; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported. However, transactions could not be tested for proper reporting by Contract Line Items Number (CLIN). See Basis for the Disclaimer of Opinion paragraph within the *Independent Auditor's Report on the Special Purpose Financial Statements*.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written

format to provide Crowe with an understanding of the system of internal control established by Gilbane. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract and contract task order. Crowe identified the contract task order requirements and applicable laws and regulations through review of the contract, contract task order and subsequent modifications and the Code of Federal Regulations (CFR). Using sampling techniques based on guidance from the American Institute of Certified Public Accountants – *Government Auditing Standards and Single Audits - Audit Guide* – Chapter 11: *Audit Sampling Considerations of Circular A-133 Compliance Audits*, Crowe randomly selected samples of expenditures, vouchers submitted to AFCEC for payment, procurements, property and equipment dispositions, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess Gilbane's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with approved indirect cost rates, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both Gilbane, AFCEC and SIGAR regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We obtained and reviewed one audit report, noted within **SECTION 2**, over other contract task orders issued under contract no. FA8903-06-D-8513.

## Summary of Results

Upon completion of Crowe's procedures, Crowe issued a disclaimer of opinion on the Special Purpose Financial Statement. The basis for the disclaimer of opinion is addressed within *Crowe's Independent Auditor's Report on the Special Purpose Financial Statement*.

Through the procedures that Crowe was able to perform related to the audit, eight findings were reported because they met one or more of the following criteria: (1) significant deficiency in internal control, (2) material weakness in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (4) questioned costs resulting from identified instances of noncompliance. Other matters that did not meet the aforementioned criteria were communicated verbally to Gilbane and SIGAR.

Crowe also reported on both Gilbane's internal controls over compliance and compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract. One material weakness in internal control, seven significant deficiencies in internal control, and seven instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$6,658,399 in costs were questioned as presented in **TABLE A** contained herein. Note: \$10,180 of questioned costs were questioned within two findings, as presented in **TABLE A**. However, these questioned costs were not duplicated as noted within the cumulative questioned costs column.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to Gilbane's financial performance under the contract. Per communications with Gilbane, SIGAR and AFCEC, there was one audit issued by DCAA pertaining to other contract task orders issued under contract no. FA8903-06-D-8513. Based on a review of the audit, we noted three findings which required follow-up. Crowe determined that Gilbane has taken adequate corrective action to address two of the three prior findings. However, one of the prior audit findings was also noted in the current audit. The results of the follow-up procedures and the status of the findings are noted within **SECTION 2**.

This summary is intended to present an overview of the results of procedures completed for the purposes described herein and is not intended to be a representation of the audit's results in their entirety.

**TABLE A: Summary of Findings and Questioned Costs**

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2015-01	Costs Exceeded CLIN Budgets	\$6,245,590	\$6,245,590
2015-02	Lack of Support over Costs Incurred	\$131,741	\$6,377,331
2015-03	Improper Allocation of Costs	\$48,377	\$6,425,708
2015-04	Lack of Documentation and Controls over Equipment	\$181,720	\$6,607,428
2015-05	Unallowable Office Equipment	\$58,772	\$6,656,020*
2015-06	Costs Incurred Outside Contract Task Order Period of Performance	\$2,379	\$6,658,399
2015-07	Lack of Controls over Petty Cash Disbursements	0	\$6,658,399
2015-08	Lack of Documentation and Controls over Key Personnel Changes	0	\$6,658,399
<b>Total Questioned Costs</b>			<b>\$6,658,399</b>

\*Questioned costs of \$10,180 included in both Finding 2015-04 and 2015-05 were not reduced. However, cumulative questioned costs were not increased for the duplicate questioned costs.

### **Summary of Management Comments**

Gilbane provided responses to the audit findings in **Appendix A**, in which management disagreed with all but one of the eight findings as they felt costs were supported, allowable and allocable to the contract task order. Gilbane did not address each individual finding within their response, but structured their responses based upon the questioned costs as reported within the SPFS, or by CLIN. The auditor's rebuttal, included as **Appendix B**, was structured in the same format as the management responses and not listed by individual finding. However, a reference to each finding number was included within the header of the individual response areas as well as within **TABLE B** included in **Appendix B**.

### **References to Appendices**

The auditor's reports are supplemented by two appendices, as referenced above - **Appendix A** containing the Views of Responsible Officials, and **Appendix B** containing the Auditor's Rebuttal.

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

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

To the Board of Directors of Gilbane Company  
1655 Grant Street, Floor 12  
Concord, CA 94520

### ***Report on the Special Purpose Financial Statement***

We were engaged to audit the Special Purpose Financial Statement (the Statement) of Gilbane Company (Gilbane), and related notes to the Statement, for the period January 10, 2011 through May 9, 2014, with respect to the Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ) at Marjah funded by contract task order number FA8903-06-D-8513-0044.

### ***Management's Responsibility for the Special Purpose Financial Statement***

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in Appendix IV of Solicitation ID11140014 (the Solicitation). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

We were unable to obtain sufficient appropriate audit evidence to determine if costs incurred under the award, as reported on the Statement, were materially accurate. Management was unable to support the amounts presented on the Special Purpose Financial Statement. Specifically, Gilbane did not maintain adequate systems or records to provide expenses reported in the Statement by CLIN. Furthermore, Gilbane provided several iterations of the Statement throughout the audit that had material variations from previous versions. Based on the items noted above, we could not form an opinion that the Special Purpose Financial Statement is free from material misstatement.

### ***Disclaimer of Opinion***

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Special Purpose Financial Statement.

### ***Emphasis of Matter***

As described in Finding 2015-01 within the Schedule of Findings and Questioned Costs, we identified a material weakness in internal control and material noncompliance. Management recorded ineligible costs on the Special Purpose Financial Statement for costs billed over the contract task order authorized Contract Line Item Number (CLIN) budgets. Weaknesses in internal control were noted over Gilbane's monitoring of contract task order budgets. As a result, two CLINs were over expended as presented in the Special Purpose Financial Statement. The total amount of questioned costs with respect to this issue is \$6,245,590. As such, a qualified opinion would have been presented, had management been able to provide sufficient appropriate audit evidence to overcome the scope limitation/disclaimer as described above.

### ***Basis of Presentation***

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by Gilbane in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Solicitation and presents those expenditures as permitted under the terms of task order number FA8903-06-D-8513-0044, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the task order referred to above. Our opinion is not modified with respect to this matter.

### ***Restriction on Use***

This report is intended for the information of Gilbane, the United States Air Force, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

### ***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued reports dated May 5, 2016, on our consideration of Gilbane's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those 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 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 Gilbane's internal control over financial reporting and compliance.

  
Crowe Horwath LLP

May 5, 2016  
Washington, D.C.

**Gilbane Company**  
**Special Purpose Financial Statement**  
**FA8903-06-D-8513 Task Order 44**  
**For the Period January 10, 2011 through May 9, 2014**

	Questioned Costs				
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<i>Revenues</i>					
Task Order 0044	\$ 44,070,650	\$ 43,370,891			4
<b>Total Revenue</b>	<b>44,070,650</b>	<b>43,370,891</b>			
<i>Costs Incurred</i>					
			99,348	313,461	B, C, D, E, 5, 9
0008AA	9,029,331	8,756,555			
0008AB	139,863	138,972			
0008AC	194,254	185,372			
0008AD	7,947,105	7,930,220	6,219,306		A
0008AE	129,889	114,930			
0008AF	129,889	54			
0008AG	178,201	54			
0008AH	716,419	716,419	26,284		A
0008AJ	19,170,954	19,169,107			
0008AK	3,105,055	3,029,518			
<b>Total Costs Incurred</b>	<b>40,740,960</b>	<b>40,041,201</b>	<b>6,344,938</b>	<b>313,461</b>	6
<b>Fixed Fee</b>	3,329,690	3,329,690			
<b>Balance</b>	<b>\$ 44,070,650</b>	<b>\$ 43,370,891</b>	<b>\$ (6,344,938)</b>	<b>\$ (313,461)</b>	

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

**Gilbane Federal**  
**Notes to the Special Purpose Financial Statement**  
**FA8903-06-D-8513 Contract Task Order 0044**  
**For the Period January 10, 2011 through May 9, 2014**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Task Order 0044, Construction of Afghan National Civil Order Police Battalion Headquarters at Marjah, Afghanistan and Construction of Afghan National Police Border Patrol Headquarters at Lashkar Gah, Afghanistan, issued under Contract No. FA8903-06-D-8513 for the Air Force Civil Engineering Center (AFCEC) for the Heavy Engineering Repair and Construction (HERC) Program for the period January 10, 2011, through May 9, 2014. Because the Statement presents only a selected portion of the operations of Gilbane Federal, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Gilbane Federal. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal contract task order. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Expenditures reported on the Statement are reported in accordance with generally accepted accounting principles ("GAAP") in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Subpart 31.2 of the United States Code of Federal Regulations, wherein certain types of expenditures are not allowable or are limited as to as to reimbursement.

Questioned Costs (Ineligible / Unsupported) are the representations of Crowe Horwath. Gilbane Federal separately provided its responses to those Crowe Horwath questioned cost allegations communicated to the Company.

**Note 3. Foreign Currency Conversion Method**

For purposes of preparing the Statement, conversions from local currency to United States Dollars (USD) were not required.

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds that Gilbane Federal is entitled to receive from the Air Force Civil Engineering Center (AFCEC) in accordance with the terms and conditions of the contract and applicable task orders through May 9, 2014.

The final price of TO 0044 is pending Defense Contract Audit Agency audit and final negotiated incurred cost settlement with the cognizant Contracting Officer (CO) for Fiscal Years (FYs) 2011 – FY 2014. Gilbane Federal has \$10,000 of fixed fee earned but not paid by the Government pending the final negotiated settlement of incurred costs (see also Note 8).

**Note 5. Costs Incurred by Cost Category**

The budgeted costs by Contract Line Item Number (CLIN) contained in the Statement reflect the budgetary values approved as of Modification No. 13 dated April 13, 2013, which established the final budgetary amounts for the contract task order. The budgeted amounts reflect amounts authorized for activities throughout the period of performance for each task order CLIN. Contract task order CLINs are defined as follows:

<b>ITEM/CLIN</b>	<b>SUPPLIES OR SERVICES</b>	<b>Cost</b>	<b>Fixed Fee</b>	<b>Total</b>
0008AA	Construction of ANCOP at Marjah	9,029,331	902,933	9,932,264
0008AB	Option 1: One Enlisted Barrack at Marjah	139,863	13,986	153,849
0008AC	Option 4: One Officer Barrack at Marjah	194,254	19,425	213,679
0008AD	Construction of ANP Border Patrol HQ at Lashkar	8,004,231	800,423	8,804,654
0008AE	Option 6: One Enlisted Barrack at Lashkar Gah	129,889	12,989	142,878
0008AF	Option 7: One Enlisted Barrack at Lashkar Gah	129,889	12,989	142,878
0008AG	Option 9: One Officer Barrack at Lashkar Gah	178,201	17,820	196,021
0008AH	Option 10: Embedded Training Team Compound at Lashkar Gah	716,419	71,642	788,061
0008AJ	Funding Info Only	19,113,828	1,349,574	20,463,402
0008AK	Funding Info Only	3,105,055	127,909	3,232,964
<b>TOTAL</b>		<b>40,740,960</b>	<b>3,329,690</b>	<b>44,070,650</b>

CLINs 0008AJ and 0008AK represent incremental funding of other CLIN activities that are used to account for funding/costs by Accounting Classification Reference Number (ACRN). Funds cannot be moved between CLINs without the same ACRN and Costs are presented consistent with Government CLIN requirements.

Actual costs, as presented in the Statement, include all costs incurred and eligible for reimbursement under this contract task order. Indirect and subcontractor costs incurred are presented on the face of the Statement within the CLIN totals.

**LABOR**

**Non Imminent Danger (NID) Labor**

NID Labor	\$	██████████
NID Labor Fringe		██████████
NID Labor Overhead		██████████
Subtotal - NID Labor		755,475

**Imminent Danger (ID) Labor**

Labor ID		██████████
Labor ID Fringe		██████████
Labor ID Overhead		██████████
Subtotal - ID Labor		3,767,511

**Total Labor**

4,522,986

**NON LABOR**

Subcontractors		██████████
Travel/Meals/Mileage		██████████
Miscellaneous ODCs		██████████
<b>Total Non Labor</b>		32,184,834

G&A Markup		██████████
Total Costs Incurred		40,041,202
Fixed Fee		3,329,690
<b>Balance</b>	<b>\$</b>	<b>43,370,892</b>

**Note 6. Fixed Fee**

Contract Task Order 44 is a Cost Plus Fixed Fee agreement. The fee was earned based on percentage of completion. The fee was not separately reported within costs incurred on the statement by CLIN, as fee amounts are included within the aggregate budget and actual costs for each CLIN. The total fixed fee authorized and earned is reported below:

<b>Delivery or Task Order Number</b>	<b>Authorized Fixed Fee Amount as of May 9, 2014</b>	<b>Amount Earned as of May 9, 2014</b>	<b>Amount paid as of January 11, 2016</b>	<b>Fee Withheld Pending Contracting Officer Release</b>
0044	\$3,329,691	\$3,329,691	\$3,319,691	\$10,000
<b>TOTALS:</b>	<b>\$3,329,691</b>	<b>\$3,329,691</b>	<b>\$3,319,691</b>	<b>\$10,000</b>

**Note 7. Currency**

All amounts presented are shown in United States dollars (USD).

**Note 8. Program/Project Status**

The work under Task Order FA8903-06-D8513-0044 has been completed as of the Task Order 0044 Period of Performance end date of May 9, 2014. However, the task order has not been closed out pending finalization of incurred costs by the cognizant Contracting Officer (CO) as described in Note 4 above.

**Note 9. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the January 10, 2011, through May 9, 2014, period covered by the Statement. Management has performed their analysis through May 5, 2016.

## **Notes to the Questioned Costs Presented on the Special Purpose Financial Statement<sup>1</sup>**

### **Note A. Inadequate Budgeting over Contract Task Order Costs**

Finding 2015-01 identified \$6,245,590 in questioned costs that resulted from Gilbane exceeding the allowable budget by CLIN. Two CLINs were over expended, resulting in \$6,245,590 of ineligible costs reported on the SPFS. Though the face of the SPFS does not reflect these over payments, based on actual billings made by Gilbane to the Federal Government, CLIN 10008AD incurred costs in excess of the budget in the amount of \$6,219,306, while CLIN 10008AH incurred costs in excess of the budget in the amount of \$26,284.

### **Note B. Lack of Support over Costs Incurred**

Finding 2015-02 identified \$131,741 of unsupported costs. \$7,945 of these costs were included in the SPFS, but not included within the detailed cost data used for testing, and thus could not be tested for allowability. \$123,796 of unsupported costs resulted from Gilbane not providing documentation to support purchased labor payments incurred to the contract task order.

### **Note C. Improper Allocation of Costs**

Finding 2015-03 identified \$48,377 in ineligible costs that resulted from Gilbane improperly charging payroll costs that did not benefit the project and unallocable business receipt tax (BRT) costs to the contract task order.

### **Note D. Lack of Documentation over Equipment and Unallowable Office Equipment**

Findings 2015-04 and 2015-05 identified \$230,312 in unsupported and ineligible costs. \$181,720 of these costs were unsupported due to a lack of documentation to support equipment billed to the contract task order. \$58,772 of ineligible costs resulted from Gilbane improperly billing unallowable equipment to the contract task order. Note: \$58,772 of equipment items were considered unallowable per the base contract, FA8903-06-D-8513, however, \$10,180 were included within questioned cost amount in finding 2015-04.

### **Note E. Costs Incurred Outside of Task Order Period**

Finding 2015-06 identified \$2,379 in ineligible costs that resulted from Gilbane charging payroll costs for services performed subsequent to the contract task order period of performance.

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<sup>1</sup> Notes to the 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 Statement.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

To the Board of Directors of Gilbane Company  
1655 Grant Street, Floor 12  
Concord, CA 94520

We were engaged to 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, the Special Purpose Financial Statement (the Statement) of Gilbane Company (Gilbane), and related notes to the Statement, for the period January 10, 2011, through May 9, 2014, with respect to the Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade HQ at Marjah funded by contract task order number FA8903-06-D-8513-0044. We have issued our report thereon dated May 5, 2016, in which we disclaimed an opinion because we were unable to obtain sufficient appropriate audit evidence to determine if costs incurred under the award, as presented on the Statement, were materially accurate.

### Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period January 10, 2011, through May 9, 2014, we considered Gilbane's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of Gilbane's internal control. Accordingly, we do not express an opinion on the effectiveness of Gilbane's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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,

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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 Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Finding 2015-01 in the accompanying Schedule of Findings and Questioned Costs to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2015-02, 2015-03, 2015-04, 2015-05, 2015-06, 2015-07 and 2015-08 to be significant deficiencies.

### **Gilbane's Response to Findings**

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

### **Restriction on Use**

This report is intended for the information of Gilbane, the United States Air Force, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

  
Crowe Horwath LLP

May 5 2016  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

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

To the Board of Directors of Gilbane Company  
1655 Grant Street, Floor 12  
Concord, CA 94520

We were engaged to audit, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of Gilbane Company (Gilbane), and related notes to the Statement, for the period January 10, 2011, through May 9, 2014, with respect to the Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ) at Marjah funded by contract task order number FA8903-06-D-8513-0044. We have issued our report thereon dated May 5 2016, in which we disclaimed an opinion because we were unable to obtain sufficient appropriate audit evidence to determine if costs incurred under the award, as presented on the Statement, were materially accurate.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement is the responsibility of the management of Gilbane.

### Compliance and Other Matters

In connection with our engagement to audit the Statement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which are described in Findings 2015-01, 2015-02, 2015-03, 2015-04, 2015-05, 2015-06 and 2015-08 in the accompanying Schedule of Findings and Questioned Costs. Additionally, if the scope of our work had been sufficient to enable us to express opinions on the basic financial statements, other instances of noncompliance or other matters may have been identified and reported herein.

### Gilbane's Response to Findings

Gilbane's response to the findings were 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.

**Restriction on Use**

This report is intended for the information of Gilbane, the United States Air Force, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

*Crowe Horwath LLP*  
Crowe Horwath LLP

May 5, 2016  
Washington, D.C.

## SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Finding 2015-01: Costs Exceeded CLIN Budgets

#### Material Weakness and Material Noncompliance

**Condition:** Gilbane incurred and reported costs which exceeded CLIN budgets as identified within the contract task order and related modifications. We also identified a lack of control over the budgeting and billing process, because invoices tested did not include documentation of management approval.

Funding provided under the contract task order and related modifications was based upon the authorized CLIN categories. However, Gilbane maintained their budgets based upon internal functional expense categories. As such, cumulative amounts maintained in billing and budgeting data did not agree to cumulative amounts as submitted and reported to AFCEC and Defense Finance Account Services (DFAS). Due to the lack of budgeting controls, two CLINs were over expended from the contract task order final budgeted amounts. CLIN 10008AD incurred costs in excess of \$6,219,306, while CLIN 10008AH incurred costs in excess of \$26,284, a total of \$6,245,590. The information within the SPFS could not be audited, and a disclaimer of opinion was issued, as identified in the *Independent Auditor's Report on the Special Purpose Financial Statements*. The SPFS does not exhibit over-billings by CLIN due to unsupported changes made by Gilbane. However, the support for the finding was based upon Gilbane's billings to the Federal Government and Contract Task Order CLIN information. Amounts billed to the Federal Government based upon actual billings do not agree to amounts reported by CLIN within the SPFS. See the Auditor's Rebuttal located at **Appendix B** and **TABLE C** included in the rebuttal which displays the original SPFS.

In addition, we noted three other invoices submitted under the contract task order that were identified as overbilled by DFAS. However, these costs were rejected by DFAS, and thus not reimbursed under the contract task order representing a lack of control over billing and budgeting, therefore there were no questioned costs related to these three overbilled invoices.

Further, 2 of 12 submitted AFCEC invoices tested did not include documentation of Project Manager approval, as required by Gilbane Policy.

**Criteria:** The contract task order, FA8903-06-D-8513 0044, contains the Limitation of Cost clause (FAR 52.232-20). FAR 32.704(a)(1) states, "When a contract contains the clause at 52.232-20, Limitation of Cost; or 52.232-22, Limitation of Funds, the contracting officer, upon learning that the contractor is approaching the estimated cost of the contract or the limit of the funds allotted, shall promptly obtain funding and programming information pertinent to the contract's continuation and notify the contractor in writing that—

- (i) Additional funds have been allotted, or the estimated cost has been increased, in a specified amount;
- (ii) The contract is not to be further funded and that the contractor should submit a proposal for an adjustment of fee, if any, based on the percentage of work completed in relation to the total work called for under the contract;
- (iii) The contract is to be terminated; or
- (iv)(A) The Government is considering whether to allot additional funds or increase the estimated cost—
  - (B) The contractor is entitled by the contract terms to stop work when the funding or cost limit is reached; and
  - (C) Any work beyond the funding or cost limit will be at the contractor's risk.

According to 48 CFR 31.201-2(a), "A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.

In addition, 48 CFR 31.201-2(d) states, "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."

Further, it is a best practice to have adequate control policies in place over the billing process to determine costs billed are accurate and within the approved budget. Gilbane's "Time and Material/Cost Reimbursable Billing" policy (PR-AC-015), Section C, 1.1.1 – 1.1.10 requires invoices to be approved by the Project Manager prior to submission for reimbursement.

**Questioned (Ineligible) costs:** \$6,245,590

**Effect:** Gilbane was reimbursed for \$6,245,590 of ineligible costs. Therefore, total contract task order costs were overstated. Further, Gilbane did not maintain the proper control over the budgeting and billing process during the task order. As such, there is an increased risk that additional costs were not billed correctly.

**Cause:** Gilbane did not properly monitor costs incurred in relation to contract task order budgets, as internal budget categories were used to track costs, rather than CLINs specified by the contract task order. Further, there was a lack of policies and in place over the budgeting process of contract task order CLINs.

**Recommendation:** We recommend Gilbane provide documentation to demonstrate the eligibility of the questioned costs, or repay AFCEC for \$6,245,590 of ineligible costs. Further, we recommend Gilbane amend its billing and budget policies to require tracking of budgets by contract task order CLIN. The policy should require a reconciliation of budgeted and actual data to contract task order modifications and Gilbane records. This policy should also include procedures for overbilled costs, in the error of budget monitoring. In addition, a policy should be implemented to require billings to be thoroughly reviewed prior to submitting to AFCEC to determine amounts are not billed over the available remaining budgets and to forecast future spending. We also recommend Gilbane update their billing procedures to require written approval of the Project Manager, prior to invoice submission.

**Management Response:** See **Appendix A** for management's response and **Appendix B** for auditor's rebuttal.

## **Finding 2015-02: Lack of Support over Costs Incurred**

### Significant Deficiency and Noncompliance

**Condition:** During testing over costs incurred, we noted a lack of support to determine if costs incurred, in the amount of \$131,741, were allowable, as follows:

- Of 66 transactions tested, there was inadequate documentation provided to support 2 payments to consultants/contractors for purchased labor performed under the contract task order. Individuals were paid under an overall agreement with Aerotek, a staffing agency, and utilized for various services on the contract task order. Based upon our testing, adequate documentation could not be provided for two of two individuals selected to support the allowability and eligibility of these services in relation to the task order. The documentation provided did not identify the specific services performed and therefore, we could not assess the necessity, and allowability of the services performed. The staffing company was utilized for several individual contractors billed to the contract task order. Thus, the entire amount paid to the Agency, or \$123,796, was deemed questionable, as purchased labor payments could not be determined to be reasonable without proper supporting documentation.<sup>2</sup>
- Budgets were not properly tracked and maintained throughout the contract task order, signifying a lack of controls. The Special Purpose Financial Statement (SPFS) could not be reconciled to the detailed transaction data provided and used for allowable cost testing. Costs reported on the SPFS were \$7,945 greater than the costs included in the detailed transaction data, as maintained by Gilbane. The SPFS was prepared by Gilbane based upon records of costs incurred, based upon budgets maintained through the contract task order. Gilbane was unable to provide support or explanations for these additional costs, therefore, we questioned the amount of costs reported on the SPFS that were not included in our detail transaction listing used for testing.

Issue	# of Exceptions	Unsupported Costs
Purchased Labor Payments <sup>2</sup>	1	\$123,796
SPFS Reconciliation	N/A	\$7,945
<b>Total Questioned (Unsupported) Costs</b>		<b>\$131,741</b>

**Criteria:** According to 48 CFR 31.201-2(a), "A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.

In addition, 48 CFR 31.201-2(d) states, "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."

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<sup>2</sup> Language within the condition and criteria has been revised from draft finding, from professional services to purchased labor, based upon additional information received within the management response.

DCAA's Memorandum over Professional Services and Purchased Labor (PAC 730.3.B.01/2013-03), states "FAR does not have a specific cost principle covering purchased labor. However, the contractor should have adequate documentation to support the reasonableness of amounts paid, demonstrate the person who provided the service, and evidence that the effort represented allowable activities. If the audit team determines the payment was not reasonable for the services performed (FAR 31.201-3, Determining Reasonableness), or the contractor made payment without adequate support that the person provided the service (FAR 31.201-2d Determining Allowability), the audit team should question the costs under the appropriate provision of FAR."<sup>2</sup>

**Questioned (Unsupported) costs:** \$131,741

**Effect:** Gilbane was reimbursed by AFCEC for \$131,741 of unsupported costs that may not have benefited the contract task order.

**Cause:** Gilbane was unaware of the necessity to maintain documentation over the services performed through purchased labor due to the lack of policies in place over purchased labor requirements. Further, Gilbane did not maintain transaction data by CLIN and therefore could not properly reconcile the SPFS data to the expenditure data. Gilbane stated the specific unreconciled amount in question was an expenditure adjustment, but could not provide documentation or explanations to support the adjustment.

**Recommendation:** We recommend Gilbane provide missing supporting documentation or repay AFCEC for \$131,741 of unsupported costs. Gilbane should also implement policies and procedures to require the retention of documentation over purchased labor services to support the reasonableness, allowability and allocability of such costs. Further, Gilbane should implement procedures that require detailed transaction data be maintained by CLIN, or the applicable authoritative budget categories. In addition, Gilbane should maintain proper documentation and an understanding of all adjustments or reconciling items that may affect reconciliations or create variances between SPFS and detailed transaction data.

**Management Response:** See **Appendix A** for management's response and **Appendix B** for auditor's rebuttal.

## **Finding 2015-03: Improper Allocation of Costs and Lack of Controls over Approvals**

### Significant Deficiency and Noncompliance

**Condition:** During testing of 66 transactions, we identified 2 transactions that were not allowable or allocable under the contract task order, as follows:

- Payroll costs, totaling \$39,290, to one (1) employee could not be determined as reasonable under the contract task order. The employee's project role/duties included daily monitoring and inspection over mechanical systems built under the contract task order. However, the employee was located within the United States, not within Afghanistan where the project was performed. Gilbane did not demonstrate how the employee could reasonably complete their assigned duties while not on-site.
- One (1) subcontractor payment included billed costs for Business Receipt Tax (BRT) without adequate support to show the BRT was paid. The amount of BRT included on the invoice was reduced from the subcontractor payment, and therefore there was no related cost. However, the BRT amount was included in the amount billed to the contract task order. Gilbane does not have a policy or practice in place to separately track BRT paid, or how BRT paid to the Afghanistan Ministry of Finance reconciles to invoices billed to the contract task order. Based upon a review of invoices to this subcontractor billed to the contract task order, it is standard procedure for Gilbane to exclude the BRT from the subcontractor payments but to bill the excluded BRT to the contract task order. Therefore, the entire amount of BRT related to this subcontractor, or \$9,087, is questioned.

*See table below for further details on questioned costs related to improper allocation to the contract task order as described above:*

Transaction Type	# of Exceptions	Ineligible Costs
Payroll Costs	1	\$39,290
Business Receipt Tax Costs	1	\$9,087
<b>Total Questioned (Ineligible) Costs</b>		<b>\$48,377</b>

**Criteria:** According to 48 CFR 31.201-2(a), "A cost is allowable only when the cost complies with all of the following requirements:

- (1) Reasonableness.
- (2) Allocability.
- (3) Standards promulgated by the CAS Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
- (4) Terms of the contract.
- (5) Any limitations set forth in this subpart.

In addition, 48 CFR 31.201-2(d) states, "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."

According to 48 CFR 31.201-4, a cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it—

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

**Questioned (Ineligible) costs:** \$48,377

**Effect:** Gilbane was reimbursed by AFCEC for \$48,377 of unallowable/unallocable costs that did not benefit the contract task order, and thus overall contract task order costs were overstated.

**Cause:** Gilbane stated the employee in question was able to perform duties within the U.S. related to the job description. However, they were unaware of the requirement to maintain documentation of the completion of such duties, as there were no policies in place over maintenance of employee work product. Further, Gilbane stated the BRT taxes were paid separately to the Afghanistan Ministry of Finance for the contract task order as a whole. However, due to the lack of policy over BRT activity, the BRT paid by Gilbane was not properly tracked or reconciled to contract task order activity.

**Recommendation:** We recommend Gilbane provide documentation to support the allowability of these costs, or repay AFCEC for \$48,377 of costs that could not be determined to be reasonable, allowable or allocable. Gilbane should implement a policy requiring a thorough review process to determine employees billed to the project are benefiting the project, and properly performing assigned duties as specified under the contract task order, as appropriate. In addition, Gilbane should implement and require procedures within the review process to determine only costs paid from the invoice itself are actually billed to the Federal Government. If these costs are paid separately from the contract task order, documentation should be maintained to trace the billed amounts to the amounts paid. This would require a reconciliation to be performed by Gilbane management from BRT amounts paid to the Afghanistan Ministry of Finance to amounts billed to the contract task order.

**Management Response:** See **Appendix A** for management's response and **Appendix B** for auditor's rebuttal.

## **Finding 2015-04: Equipment: Lack of Documentation and Controls over Equipment**

### Significant Deficiency and Noncompliance

**Condition:** Gilbane did not maintain adequate documentation over inventory/equipment. 15 of 19 items purchased throughout the task order period did not contain complete documentation over property records, including lack of invoice and/or required disposal documentation. Therefore, equipment could not be tested for compliance with applicable requirements due to the missing documentation identified below. As such, the cost of these 15 items, \$181,720, was questioned.

<b>Missing Documentation</b>	<b># of Exceptions</b>	<b>Unsupported Costs</b>	<b>Cumulative Questioned (Unsupported) Costs</b>
Invoice/Purchasing Documentation	7*	\$38,540	\$38,540
Disposition Data	11*	\$161,280	\$143,180*
<b>Total Questioned (Unsupported) Costs</b>			<b>\$181,720</b>

*\*Of the 15 equipment items in question above, three (3) items totaling \$18,100 were missing both adequate invoice/purchasing and disposal documentation. The costs of these three items were not duplicated within the cumulative questioned costs*

In addition, sufficient controls over inventory/equipment was not maintained. Based upon our testing, there was a lack of documentation to support the controls over the receipt and disposal of the 15 out of 19 equipment items tested with issues identified above, as follows:

- 4 of 19 items tested did not include appropriate receiving documentation to support controls over equipment
- 8 of 19 items tested were lacking documentation for Contracting Officer Representative (COR) approvals over disposals.
- 3 of 19 items tested did not include appropriate receiving documentation to support controls over equipment, nor did they include documentation for Contracting Officer Representation (COR) approvals over disposals.

#### **Criteria:**

FAR 52-245(f)(1) states,

“(iii) Records of Government property. The Contractor shall create and maintain records of all Government property accountable to the contract, including Government-furnished and Contractor-acquired property.

A) Property records shall enable a complete, current, auditable record of all transactions and shall, unless otherwise approved by the Property Administrator, contain the following:

- (1) The name, part number and description, National Stock Number (if needed for additional item identification tracking and/or disposition), and other data elements as necessary and required in accordance with the terms and conditions of the contract.
- (2) Quantity received (or fabricated), issued, and balance-on-hand.
- (3) Unit acquisition cost.
- (4) Unique-item identifier or equivalent (if available and necessary for individual item tracking).
- (5) Unit of measure.
- (6) Accountable contract number or equivalent code designation.
- (7) Location.
- (8) Disposition.
- (9) Posting reference and date of transaction.
- (10) Date placed in service (if required in accordance with the terms and conditions of the contract).”

Further, FAR 252.246-7000 - “Material Inspection and Receiving Report” states, “At the time of each delivery of supplies or services under this contract, the Contractor shall prepare and furnish to the

Government a material inspection and receiving report in the manner and to the extent required by Appendix F, Material Inspection and Receiving Report, of the Defense FAR Supplement.”

In addition, Gilbane’s Government Property Procedures (Procedure No PR028), Section 5.5, states Gilbane is to obtain the COR’s Approval on all transferred and disposed Government property.

**Questioned (Unsupported) Costs: \$181,720**

**Effect:** Gilbane charged AFCEC for \$181,720 in unsupported equipment costs. Further, a lack of documentation and controls over inventory records may signal lost property or undetected thefts. Incomplete inventory records throughout the course of this contract task order also signal greater potential for noncompliance with the contract and Federal requirements, such as billing for equipment purchases not used for the contract task order, equipment theft, lost or damaged equipment, etc.

**Cause:** Gilbane did not properly maintain documentation over property records as the procedures in place did not include references to specific FAR equipment/inventory requirements as identified within the criteria, but rather a general reference for procedures to be “in accordance with applicable FAR requirements.” Without specific FAR references, employees were unaware of the applicable FAR guidelines to follow.

**Recommendation:** We recommend Gilbane provide documentation for the unsupported equipment items, or repay AFCEC for \$181,720 of unsupported equipment costs. Further, Gilbane should update its policies and procedures to include reference to FAR 52.245(f)(1) related to maintaining adequate records of all Government property and to FAR 252,246-7000 related to preparing and maintaining material inspection and receiving reports over Government property.

**Management Response:** See **Appendix A** for management’s response and **Appendix B** for auditor’s rebuttal.

## **Finding 2015-05: Unallowable Office Equipment**

### Significant Deficiency and Noncompliance

**Condition:** During testing over the inventory/equipment listing provided by Gilbane, we determined the listing contained general office equipment items identified as unallowable under the base contract, FA8903-06-D-8513. 240 of 494 items, or \$58,772, included on the listing were identified as office furnishings and IT equipment. These items included desk lamps, chairs, desks, tables and televisions.

**Criteria:** According to the base contract, FA8903-06-D-8513, Section H, PKV-H010: "Notice of Non-Allowability of Direct Charges for General Purpose Office Equipment and General Purpose Automated Data Processing Equipment," general purpose office and IT equipment shall not be considered an allowable charge under the contract.

The contract states:

(a) Notwithstanding the ALLOWABLE COST AND PAYMENT CLAUSE, 52.216-7, of Section I, costs for the acquisition of General Purpose Office Equipment (GPOE) and Information Technology (IT) shall not be considered as an allowable direct charge to this contract.

(b) GPOE refers to the equipment normally found in a business office such as desks, chairs, typewriters, calculators, file cabinets, etc., that are obtainable on the open market. IT is defined in FAR 2.101.

**Questioned (Ineligible) Costs:** \$58,772 (Note: \$10,180 of questioned costs were questioned within two findings, as presented in **TABLE A**. However, these questioned costs were not duplicated as noted within the cumulative questioned costs column of the SPFS).<sup>3</sup>

**Effect:** Gilbane charged AFCEC for \$58,772 of unallowable equipment that did not benefit the contract task order. Thus, total contract task order costs were overstated.

**Cause:** Individuals purchasing equipment items were unaware of the contract requirements over office furnishings and IT equipment as these requirements were not incorporated into their internal written policies and procedures over Government property.

**Recommendation:** We recommend Gilbane provide documentation that supports the allowability of these items, or repay AFCEC for \$58,772 of unallowable costs. In addition, Gilbane should implement policies to include contract requirements over equipment as well as procedures over equipment purchases to disallow office and IT equipment to be billed to the Federal Government for task orders under this contract.

**Management Response:** See **Appendix A** for management's response and **Appendix B** for auditor's rebuttal.

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<sup>3</sup> Questioned costs were revised from draft finding, from \$57,572 to \$58,772. Subsequent to the draft report and prior to the receipt of the management response, it was determined the total cost of office/IT equipment was \$58,772, as an additional \$1,200 of office/IT equipment was identified during discussions with Gilbane management after they received the findings.

## **Finding 2015-06: Costs Incurred Outside Contract Task Order Period of Performance**

### Significant Deficiency and Noncompliance

**Condition:** During testing of 66 transactions, we identified 1 transaction that occurred outside of the contract task order period. The transaction was related to payroll for an employee working directly on the project. Based upon the timesheet data, the services were performed on May 16, 2014, subsequent to the contract task order end date of May 9, 2014. Based upon our testing of payroll transactions, we noted transaction dates included in the detailed transaction listing agreed to the dates of service on the related timesheets. As such, we identified three employees with payroll charges for services performed after May 9, 2014, extending through mid-June 2014. Payroll costs identified outside of the contract task order period totaled \$2,379.

**Criteria:** Modification no. 12 to FA8903-06-D-8513 0044, effective June 19, 2012 and signed March 28, 2013, extends the final period of performance of the contract task order to May 9, 2014 and states the contract task order is to be completed no later than this date.

**Questioned (Ineligible) Costs:** \$2,379

**Effect:** Gilbane charged AFCEC for \$2,379 of costs incurred outside the contract task order period of performance that did not benefit the project.

**Cause:** Gilbane did not perform a thorough review over payroll costs prior to billing to the contract task order as the policies in place did not include detailed procedures over contract task order period of performance requirements.

**Recommendation:** We recommend Gilbane update its policies to include detailed procedures over period of performance requirements. These procedures should require a reviewer to compare costs incurred to the applicable contract task order period requirements to determine services were incurred during the applicable period.

**Management Response:** See **Appendix A** for management's response and **Appendix B** for auditor's rebuttal.

## **Finding 2015-07: Lack of Controls over Petty Cash Disbursements**

### Significant Deficiency

**Condition:** We noted a lack of control in Gilbane's approval process for majority of a petty cash disbursements. Petty cash disbursements under \$3,000 were not approved by management, which was in accordance with Gilbane's policy, which does not require manager approval for petty cash transactions under \$3,000. However, the threshold may be too high since a majority of the 778 petty cash transactions that were processed without management approval amounted to \$287,387, or approximately 723 transactions, of the total \$593,657 petty cash disbursements billed to the contract task order. However, Gilbane was able to provide documentation to support the allowability of the costs.

**Criteria:** According to the GAO Standards for Internal Control in the Federal Government, management should establish effective internal control procedures to provide reasonable assurance that the objectives of an entity will be achieved. Specifically, adequate control procedures should be in place over disbursements made using petty cash. This would include required reviews and approvals, prior to disbursement, based upon an adequate dollar threshold.

Gilbane's Federal Procedure: Afghanistan Petty Cash policy (Document PR-AC-002 R01, Section B) currently states that "signoff of the amount on the transactions to ensure separation of duties" is required for "disbursements and receipts to or from employees, subcontractors or vendors in excess of \$3,000."

**Questioned Costs:** None

**Effect:** Gilbane maintained control over costs paid through petty cash in accordance with its policies, however, Gilbane did not review or approve a majority of the petty cash disbursements billed to the contract task order due to the high threshold. As such, there is an increased risk that unallowable or unallocable costs will be billed to the contract task order.

**Cause:** Gilbane attributed the threshold of the petty cash approval policy to staff and timing constraints in the field, as project managers aren't always readily available for approvals, and they determined items under \$3,000 to be minimal on a company-wide basis.

**Recommendation:** We recommend Gilbane increase controls over petty cash disbursements and decrease the dollar threshold of management approval, as the current policy does not require approval for a majority of petty cash transactions.

**Management Response:** See **Appendix A** for management's response and **Appendix B** for auditor's rebuttal.

## **Finding 2015-08: Lack of Documentation and Controls over Key Personnel Changes**

### Significant Deficiency and Noncompliance

**Condition:** Documentation could not be provided to support the approval of key personnel changes during the contract task order period. Five individuals were identified as key personnel within Gilbane's base contract no. FA8903-06-D-8513 with AFCEC. The contract did not provide specific guidance for key personnel's involvement in any contract task orders issued under the contract. Gilbane stated one individual listed as a key personnel changed during the period. However, Gilbane could not provide documentation of approvals for the change during the contract task order period. However, as individuals within key positions were not charged to the contract task order nor were key personnel requirements included in the contract task order itself, there are no questioned costs related to this matter.

**Criteria:** The base contract, FA8903-06-D-8513, includes requirements for key personal changes, as follows:

#### Section PKV-H015 – Key Personnel – Contract Level:

- (a) The Contractor agrees to assign under the contract those personnel whose credentials, experience and expertise meet the qualification requirements identified as Key Personnel.
- (b) The Contractor agrees that a partial basis of award of this contract will be the key personnel proposed, including those employed by subcontractors, if applicable. Accordingly, the Contractor agrees to assign under the contract those key personnel whose credentials, experience and expertise were provided with the proposal and which meet the qualification requirements, necessary to fulfill the requirements of the contract.
- (c) The HERC CO and HERC Program Manager/COR shall be notified of any proposed changes at least 10 days in advance. The Government reserves the right to reject proposed changes in key personnel. The notification should include an explanation of the circumstances necessitating the substitution, a complete resume of the proposed substitute, and any other information needed by the HERC CO and HERC Program Manager/COR to enable them to determine that the Contractor is maintaining the same quality of personnel as those included at the time of the award.

**Questioned Costs:** None

**Effect:** Without notifications and approvals over key personnel changes, AFCEC cannot properly control such changes or determine the key personnel substitutes are individuals who are properly qualified and have the suitable skill-sets necessary to perform key personnel duties.

**Cause:** Gilbane did not have procedures in place to maintain such documentation.

**Recommendation:** We recommend Gilbane implement policies and procedures to maintain documentation of the approval of key personnel changes, as required by the base contract.

**Management Response:** See **Appendix A** for management's response and **Appendix B** for auditor's rebuttal.

## **SECTION 2: Summary Schedule of Prior Audit and Review Findings**

Crowe reviewed one audit report issued by the Defense Contract Audit Agency (DCAA) related to direct costs of contract task orders 0030 and 0049, issued under base contract no. FA8903-06-D-8513 with the AFCEC. Upon review of Audit Report No. 04281-2014I10180001 issued by DCAA, three findings were noted that could have a direct and material effect on the Special Purpose Financial Statement. Accordingly, Crowe conducted follow-up procedures regarding the findings. The following summaries reflect the status of the prior audit findings:

### **Finding 1: Unreasonable Subcontract and Material Costs**

**Issue:** A portion of subcontract and material costs claimed were considered to be unreasonable and noncompliant with Federal cost principles.

**Status:** During our testing procedures, we identified costs that were considered unreasonable under the contract task order, and questioned, accordingly. Finding No. 2015-02 reports similar matters to that reported by the DCAA.

### **Finding 2: Lack of Procurement Procedures Resulting in Unnecessary Material Costs**

**Issue:** Material costs incurred were considered to be unnecessary and, therefore, were questioned. The underlying cause was noted as errors in procurement (i.e., untimely purchasing and not enforcing the prices noted in the initial quotations).

**Status:** During our testing procedures, we did not identify issues with material costs related to errors in procurement, such as untimely purchasing and enforcement of prices noted in the initial quotations. Specifically:

- During procurement testing, we agreed subcontracts to initial quotations and other procurement documentation. We noted no errors or discrepancies in the prices listed in the initial quotations and the prices listed in the subcontracts/modifications.
- During allowable cost testing, we agreed prices paid on the invoices to the price schedule included within the subcontracts. No discrepancies were noted during allowable cost testing related to errors in pricing.
- During allowable cost testing, we agreed invoice services and data to information included within the subcontract and modifications to determine if invoices were for services outside of the contract period, and noted no discrepancies.
- We reviewed Gilbane's policies and procedures in place over procurement and noted updates to the policy over subcontractor monitoring.

### **Finding 3: Lack of Adequate Procurement Procedures over Subcontracts and Related Modifications**

**Issue:** Modifications to increase the price of various subcontracts were unnecessary due to various reasons.

**Status:** During our testing procedures, we did not identify issues with unnecessary price modifications over subcontracts. Subcontracts were reviewed during testing, and modifications appeared reasonable based upon additional services or products negotiated. In addition, we reviewed Gilbane's policies and procedures in place over procurement and noted updates to the policy over subcontractor monitoring, changes to the scope of work and price adjustments.

## Appendix A: Views of Responsible Officials



March 2, 2016

Mr. Bert Nuehring  
Crowe Horwath LLP  
1325 G Street NW, Suite 500  
Washington, DC 20005-3136

Subject: Crowe Horwath Draft Report on Gilbane Federal Contract for Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ) at Marjah, Afghanistan

Mr. Nuehring,

Please find attached the March 2, 2016 response requested by your office for the Crowe Horwath LLP draft audit reports of February 17, 2016 (Independent Auditor's Report on the Special Purpose Financial Statement, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance) for Gilbane Federal Contract for Construction of Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ) at Marjah, Afghanistan.

If we can provide any additional information or assistance, please contact me at tel. 925.946.3238.

Sincerely,

A handwritten signature in blue ink, appearing to read "T T Tsukuda".

Tab T. Tsukuda  
Director, Government Contract Accounting,  
Compliance and Audits

Encl: Response to Crowe Horwath LLP HERC Task Order 44 Audit Reports  
Crowe Horwath LLP draft audit reports

cc: Special Inspector General for Afghanistan Reconstruction (SIGAR)  
Air Force Civil Engineer Center (AFCEC)

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Task Order 44 (TO44) is a cost-plus-fixed-fee (CPFF) task order awarded under the Heavy Engineering, Repair, and Construction (HERC) Indefinite Delivery Indefinite Quantity (IDIQ) contract (FA8903-06-D-8513).

The cognizant government contracting agency, AFCEE,<sup>1</sup> used a two-tiered approach to select contractors for its construction projects. First, under its Heavy Engineering, Repair and Construction (HERC) business model, AFCEE solicited bids, selected contractors, and awarded multiple indefinite delivery/indefinite quantity (IDIQ) contracts in accordance with the Federal Acquisition Regulation (FAR), to provide heavy construction and engineering activities worldwide. Second, AFCEE headquarters requested proposals covering potential heavy construction and engineering projects exclusively from HERC prime contractors. Contractors interested in competing for the work provided proposals. The AFCEE contracting officer (CO) located in San Antonio, Texas, made a determination as to which contractor would provide the best value and the selected contractor was awarded the task order.

AFCEE engaged engineering contractors to provide quality assurance for its construction projects, but the AFCEE CO had final responsibility for monitoring contractor performance and holding the contractor accountable for its actions. The quality assurance contractors performed onsite supervision, inspection, and oversight for construction throughout Afghanistan to ensure that construction contractors meet quality control and construction standards. Duties included, but were not limited to, onsite technical surveillance and project assessment; review and comment on the contractor's submittals; and preparation and posting of daily quality assurance reports that document project details, actions taken, and items inspected, etc. The quality assurance contractor provided documentation of these actions to the contracting officer representative (COR), who was responsible for evaluating the quality assurance contractor's performance and for using the information provided to interact with and advise the CO. The AFCEE CORs, located in Afghanistan and San Antonio, Texas, also administered the contracts.

The AFCEE approach recognized that contingency contracting in Afghanistan had its own unique challenges and AFCEE correspondingly had forward deployed technical personnel providing management oversight within their area of responsibility. Gilbane Federal Weekly Title II meetings were conducted with the Contracting Officer Representative (COR).

Gilbane Federal was awarded FA8903-06-D-8513 Task Order 44 (TO44) for the construction of the Afghan National Police (ANP) Border Patrol Headquarters (HQ) at Lashkar Gah and Construction of Afghan National Civil Order Police (ANCOP) Brigade Headquarters (HQ) at Marjah, Afghanistan under the HERC IDIQ contract.

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<sup>1</sup> Air Force Civil Engineer Center (AFCEC) consolidated several legacy organizations—the Air Force Center for Engineering and the Environment (AFCEE), Air Force Civil Engineer Support Agency (AFCESA), and the Air Force Real Property Agency (AFRPA) — under one organization in October 2012.

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The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) retained Crowe Horwath LLP (Crowe Horwath) to conduct a financial audit of costs incurred by Gilbane Federal on the subject HERC task order (TO44) and Gilbane Federal prepared a Special Purpose Financial Statement (SPFS) for HERC TO44 in accord with those instructions provided by Crowe Horwath LLP.

Crowe Horwath audit engagement letter dated September 1, 2015, confirmed arrangements for its audit of Task Order 44 issued under Contract FA890306-D-8513.

Consistent with Generally Accepted Government Auditing Standards (GAGAS), Gilbane Federal requested the Crowe Horwath preliminary audit findings on December 13, 2015. Crowe Horwath provided its preliminary audit findings on December 16, 2015. Crowe Horwath further described its preliminary audit findings in a pre-audit exit conference meeting on December 17, 2015 and a subsequent audit exit conference on December 18, 2015, attended by SIGAR and AFCEC representatives. Given the short time provided to review the Crowe Horwath preliminary audit findings, Gilbane Federal stated in the audit exit conference that its response to matters discussed would be provided after receipt of the draft audit reports. Crowe Horwath provided Gilbane Federal its draft audit reports on February 17, 2016, requesting that Gilbane Federal provide its response by March 2, 2016. The draft audit report included questioned costs of \$6,219,306 not previously discussed in the Crowe Horwath preliminary audit findings nor the audit exit conference. Our response is based upon the representations communicated by Crowe Horwath.

Crowe Horwath questioned costs as follows.

	Crowe Horwath <sup>2</sup>			Corrected	Reference
	Budget	Actual	Questioned		
<b>Revenue</b>					
Task Order 0044	44,070,650	43,743,730	-	-	
<b>Costs Incurred</b>					
			408,909	2,379	A
<b>CLIN 0008 AA</b>	9,932,264	9,826,375	-	-	
Construction of ANCOP at Marjah					
<b>CLIN 0008 AB</b>	153,849	153,013	-	-	
Option 1: One Enlisted Barrack at Marjah					
<b>CLIN 0008 AC</b>	213,679	204,871	-	-	
Option 4: One Officer Barrack at Marjah					
<b>CLIN 0008 AD</b>	8,804,654	15,023,960	6,219,306	-	B
Construction of ANP Border Patrol HQ at Lashkar Gah					
<b>CLIN 0008 AE</b>	142,876	142,929	-	-	
Option 6: One Enlisted Barrack at Lashkar Gah					
<b>CLIN 0008 AF</b>	142,878	127,107	-	-	
Option 7: One Enlisted Barrack at Lashkar Gah					
<b>CLIN 0008 AG</b>	196,021	184,240	-	-	
Option 9: One Officer Barrack at Lashkar Gah					
<b>CLIN 0008 AH</b>	788,061	814,345	26,284	-	C
Option 10: Embedded Training Team Compound at Lashkar Gah					
<b>CLIN 0008 AJ</b>	20,463,402	14,225,397	-	-	
Funding Info Only					
<b>CLIN 0008 AK</b>	3,232,984	3,041,493	-	-	
Funding Info Only					
Total Costs Incurred	<u>31,588,250</u>	<u>31,542,076</u>	<u>6,654,499</u>	<u>2,379</u>	

Table 1 – TO44 Questioned and Corrected Amounts

<sup>2</sup> Crowe Horwath Independent Auditor's Report on the Special Purpose Financial Statement (Draft)

We organized our response to the Crowe Horwath questioned cost allegations as follows.

- A No CLIN Designated by Crowe Horwath
- B CLIN 0008 AD - ANP Border Patrol HQ at Lashkar Gah
- C CLIN 0008 AH - Embedded Training Team Compound at Lashkar Gah

Crowe Horwath also alleged control issues with no questioned costs. We organized our response as follows.

- D Lack of Controls over Petty Cash Disbursements
- E Lack of Documentation and Controls over Key Personnel Changes
- F Prior Audit and Review Findings – Unreasonable Subcontract and Material Costs
- G Prior Audit and Review Findings – Lack of Procurement Procedures Resulting in Unnecessary Material Costs
- H Prior Audit and Review Findings – Lack of Adequate Procurement Procedures over Subcontracts

**A No CLIN Designated by Crowe Horwath**

Crowe Horwath questioned \$408,909 as follows.

Description	Questioned	Corrected	Reference
Lack of Support over Costs Incurred	131,741	-	A.1
Improper Allocation of Costs	48,377	-	A.2
Equipment	181,720	-	A.3
Office Equipment	57,572	-	A.4
Outside Period of Performance	2,379	2,379	A.5
Other	(12,880)	-	A.6
<b>Total</b>	<b>408,909</b>	<b>2,379</b>	

Table 2 – No CLIN Designated by Crowe Horwath

We organized our response as follows.

- A.1 Lack of Support over Costs Incurred
- A.2 Improper Allocation of Costs
- A.3 Equipment
- A.4 Office Equipment
- A.5 Outside Period of Performance
- A.6 Other

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## A.1 Lack of Support over Costs Incurred

Crowe Horwath questioned \$131,741 stating:

During testing over costs incurred, we noted a lack of support to determine if costs incurred, in the amount of \$131,741, were allowable, as follows:

- Of 66 transactions tested, there was inadequate documentation provided to support 2 payments to consultants/contractors for professional services (engineers) performed under the contract task order. Individuals were paid under an overall agreement with [vendor name omitted], a professional staffing agency, and utilized for professional services. Based upon our testing, adequate documentation could not be provided for two of two individuals selected to support the work that was performed. Therefore, we could not determine the work product from the contractors to assess the necessity, and allowability of the services performed, and if the contractor fulfilled their contracted responsibilities and duties for fees paid/billed to the contract task order. The professional staffing company was utilized for several individual contractors billed to the contract task order. Thus, the entire amount paid to the Agency, or \$123,796, was deemed questionable, as professional service payments could not be determined to be reasonable without proper supporting documentation.
- Budgets were not properly tracked and maintained throughout the contract task order, signifying a lack of controls. The Special Purpose Financial Statement (SPFS) could not be reconciled to the detailed transaction data provided and used for allowable cost testing. Costs reported on the SPFS were \$7,945 greater than the costs included in the detailed transaction data, as maintained by Gilbane. The SPFS was prepared by Gilbane based upon records of costs incurred, based upon budgets maintained through the contract task order. Gilbane was unable to provide support or explanations for these additional costs, therefore, we questioned the amount of costs reported on the SPFS that were not included in our detail transaction listing used for testing.<sup>3</sup>

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<sup>3</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

Crowe Horwath questioned \$131,741 as follows.

Description	Questioned	Corrected	Reference
Professional Service Payments	123,796	-	A.1.1
SPFS Reconciliation	7,945	-	A.1.2
<b>Total</b>	<b>131,741</b>	<b>-</b>	

Table 3 – Lack of Support over Costs Incurred

We organized our response as follows.

- A.1.1 Professional Service Payments
- A.1.2 SPFS Reconciliation

**A.1.1 Professional Service Payments**

Crowe Horwath questioned staffing agency labor (purchased labor) costs as follows.

Name	Title	Questioned	Corrected
[Employee A]	Structural Engineer	41,961.36	-
[Employee B]	Drafter	26,653.49	-
[Employee C]	Civil Engineer	13,620.31	-
[Employee D]	Architectural Engineer	30,785.34	-
[Employee E]	Drafter	10,775.32	-
<b>Total</b>		<b>123,795.82</b>	<b>-</b>

Table 4 – Professional Service Payments

Crowe Horwath questioned \$123,796 stating:

Of 66 transactions tested, there was inadequate documentation provided to support 2 payments to consultants/contractors for professional services (engineers) performed under the contract task order. Individuals were paid under an overall agreement with [vendor name omitted], a professional staffing agency, and utilized for professional services. Based upon our testing, adequate documentation could not be provided for two of two individuals selected to support the work that was performed. Therefore, we could not determine the work product from the contractors to assess the necessity, and allowability of the services performed, and if the contractor fulfilled their contracted responsibilities and duties for fees paid/billed to the contract task order. The professional staffing company was utilized

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for several individual contractors billed to the contract task order. Thus, the entire amount paid to the Agency, or \$123,796, was deemed questionable, as professional service payments could not be determined to be reasonable without proper supporting documentation.<sup>4</sup>

Crowe Horwath further stated:

Gilbane was unaware of the necessity to maintain documentation to support the work completed by professional service consultants, such as architectural designs or project status memos and reports.<sup>4</sup>

The Crowe Horwath statement is false.

Crowe Horwath, in discussions of its preliminary audit findings,<sup>5</sup> stated that its questioned cost determination was based on FAR 31.205-33, *Professional and Consultant Service Costs*. Specifically, Crowe Horwath stated that the purchased labor job titles (e.g., Architect, Proposal Manager) were for professionals and therefore FAR 31.205-33 supporting documentation requirements (i.e., work product) were applied.

Gilbane Federal acquired purchased labor through [staffing agency], a “professional staffing agency.” [Staffing agency] is “...engaged in the supplemental staffing services business providing contract personnel to customers with staffing needs...As used herein, the term “Contract Employee” means an [staffing agency] employee temporarily placed with the Client pursuant to this Agreement.”<sup>6</sup>

The [staffing agency] contract employees worked under the supervision and management of Gilbane Federal.

It shall be the Client’s responsibility to control, manage, and supervise the work of the Contract Employees assigned to Client pursuant to this Agreement.

While an individual may be a member of a “particular profession” as inferred from the job title, that criterion alone does not render the associated labor costs subject to the provisions of FAR 31.205-33.

Question 1: A contractor uses a temporary accounting service to perform bookkeeping activities. The accounting service provided several individuals to input

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<sup>4</sup> Crowe Horwath Independent Auditor’s Report on Compliance (Draft)

<sup>5</sup> Crowe Horwath TO 44 Preliminary Audit Findings Discussion Notes (December 15, 2015)

<sup>6</sup> [Staffing agency] agreement

vendor invoices into the contractor's accounts payable system after the buyers approved them for payment. Are these costs professional and consultant services?  
Answer: No. Accounting, by any reasonable interpretation, is a profession under the FAR 31.205-33(a) definition. However, the type and nature of the work performed in this example represents clerical effort that is not a professional and consultant service. Accordingly, it would not be appropriate to evaluate these costs using FAR 31.205-33 criteria...<sup>7</sup>

The contract employees provided by [staffing agency] performed work on TO44. In this capacity, the individuals worked directly with Gilbane Federal employees and performed that work under the supervision and management of Gilbane Federal.

Defense Contract Audit Agency (DCAA) guidance further states:

The Defense Contract Audit Agency (DCAA) provides audit and financial advisory services to Department of Defense (DoD) and other federal entities responsible for acquisition and contract administration. DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer.

Question 2: The contractor enters into an agreement with an individual to perform program management activities for one of its contracts. In this capacity, the individual worked directly with contractor employees and contractor management to track and monitor progress on contract performance. Is this a consultant and should the audit team require documentation consistent with the FAR 31.205-33(f) criteria?

Answer: No. In this circumstance, the individual is equivalent to a contractor employee. The contractor integrated the individual as an inherent part of operations and no single work product exists to demonstrate the effort expended. The individual's contribution was to the overall management of contract performance. Accordingly, it would not be appropriate to evaluate these costs using FAR 31.205-33 criteria. Since these costs represent purchased labor, the audit team should consider the guidance relating to purchased labor discussed above.<sup>7</sup>

Purchased labor is not professional and consultant services as defined at FAR 33.205-33. There is no regulatory requirement for "work product" documentation as a condition of cost allowability for purchased labor (e.g., Architect, Proposal Manager) nor, similarly, is

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<sup>7</sup> DCAA, MRD 13-PAC-026(R), Subject: *Audit Alert on Professional and Consultant Service Costs (FAR 31.205-33) and Purchased Labor*, dated December 19, 2013

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there such a requirement for a contractor's employee labor (e.g., Architect, Proposal Manager). DCAA guidance notes:

The audit team's assessment of the underlying nature of the claimed costs determines whether FAR 31.205-33 is applicable and not the contractor's accounting classification. For instance, contractors may record expenses for purchased labor (e.g., janitorial, clerical, security) in a "Consultant" or "Professional Services" account; this does not make these costs subject to the requirements of FAR 31.205-33. Likewise, costs recorded in other accounts may be professional and consultant service costs and the auditor should evaluate the costs using the criteria of FAR 31.205-33.<sup>8</sup>

DCAA guidance further states:

FAR does not have a specific cost principle covering purchased labor. However, the contractor should have adequate documentation to support the reasonableness of amounts paid, demonstrate the person who provided the service, and evidence that the effort represented allowable activities. If the audit team determines the payment was not reasonable for the services performed (FAR 31.201-3, Determining Reasonableness), or the contractor made payment without adequate support that the person provided the service (FAR 31.201-2d Determining Allowability), the audit team should question the costs under the appropriate provision of FAR.<sup>8</sup>

Crowe Horwath has established a cost allowability requirement (work product documentation) not supported by law or regulation due to its improper application of FAR 31.205-33(f) to purchased labor costs.

Use of nomenclature (job title) is not sufficient audit testing as contemplated under Generally Accepted Government Auditing Standards (GAGAS) and the questioned cost allegation is unsupported (i.e., lack of evidentiary matter).

[Staffing agency] contract employees performed work allocable to TO44. These employees worked under the supervision and management of Gilbane Federal consistent with the terms of the [staffing agency] agreement. Supporting documentation including timesheets and [staffing agency] vendor invoices as well as the [staffing agency] agreement are available in support of claimed TO44 costs and Gilbane Federal also has proof of payment to [staffing agency]. The costs are adequately

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<sup>8</sup> DCAA, MRD 13-PAC-026(R), Subject: *Audit Alert on Professional and Consultant Service Costs (FAR 31.205-33) and Purchased Labor*, dated December 19, 2013

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supported consistent with Government regulatory requirements. Accordingly, the corrected amount is zero.

### **A.1.2 SPFS Reconciliation**

Crowe Horwath questioned \$7,945 stating:

Budgets were not properly tracked and maintained throughout the contract task order, signifying a lack of controls. The Special Purpose Financial Statement (SPFS) could not be reconciled to the detailed transaction data provided and used for allowable cost testing. Costs reported on the SPFS were \$7,945 greater than the costs included in the detailed transaction data, as maintained by Gilbane. The SPFS was prepared by Gilbane based upon records of costs incurred, based upon budgets maintained through the contract task order. Gilbane was unable to provide support or explanations for these additional costs, therefore, we questioned the amount of costs reported on the SPFS that were not included in our detail transaction listing used for testing.<sup>9</sup>

The Crowe Horwath statements are false. Gilbane Federal tracked and maintained budgets throughout the contract task order consistent with the original task order award and subsequent modifications. These costs were provisional billing rate adjustments showing on Standard Form 1035, Public Voucher for Services Other than Personal, not claimed due to then available funding.

The Special Purpose Financial Statement (SPFS) was prepared by Gilbane Federal under Crowe Horwath direction. SPFS amounts reconcile to the detailed transaction data provided to Crowe Horwath. The corrected amount is zero.

### **A.2 Improper Allocation of Costs**

Crowe Horwath questioned \$48,377 stating:

During testing of 66 transactions, we identified 2 transactions that were not allowable or allocable under the contract task order, as follows:

- Payroll costs, totaling \$39,290, to one (1) employee could not be determined as reasonable under the contract task order. The employee's project role/duties included daily monitoring and inspection over mechanical systems built under the contract task order. However, the employee was

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<sup>9</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

located within the United States, not within Afghanistan where the project was performed. Gilbane did not demonstrate how the employee could reasonably complete their assigned duties while not on-site.

- One (1) subcontractor payment included billed costs for Business Receipt Tax (BRT) without adequate support to show the BRT was paid. The amount of BRT included on the invoice was reduced from the subcontractor payment, and therefore there was no related cost. However, the BRT amount was included in the amount billed to the contract task order. Gilbane does not have a policy or practice in place to separately track BRT paid, or how BRT paid to the Afghanistan Ministry of Finance reconciles to invoices billed to the contract task order. Based upon a review of invoices to this subcontractor billed to the contract task order, it is standard procedure for Gilbane to exclude the BRT from the subcontractor payments but to bill the excluded BRT to the contract task order.

Therefore, the entire amount of BRT related to this subcontractor, or \$9,087, is questioned.<sup>10</sup>

Crowe Horwath questioned \$48,377 as follows.

Description	Questioned	Corrected	Reference
Payroll Costs	39,290	-	A.2.1
Business Receipt Tax Costs	9,087	-	A.2.2
Detailed Analysis	48,377	-	

Table 5 – Improper Allocation of Costs

We organized our response as follows.

- A.2.1 Payroll Costs
- A.2.2 Business Receipt Tax Costs

<sup>10</sup> Crowe Horwath Independent Auditor’s Report on Compliance (Draft)

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### A.2.1 Payroll Costs

Crowe Horwath questioned \$39,290 stating:

Payroll costs, totaling \$39,290, to one (1) employee could not be determined as reasonable under the contract task order. The employee's project role/duties included daily monitoring and inspection over mechanical systems built under the contract task order. However, the employee was located within the United States, not within Afghanistan where the project was performed. Gilbane did not demonstrate how the employee could reasonably complete their assigned duties while not on-site.<sup>11</sup>

The Crowe Horwath statements are false. Crowe Horwath, in discussions of its preliminary audit findings, stated that its questioned cost determination was based on the *company job description*, not the *project role/duties*, of an employee. Crowe Horwath did not perform a physical observation/interview of an employee nor perform alternate procedures to test allocability sufficient to support its questioned cost allegation.

Alternate procedures to test for allocability may include:

- Review contract requirements (i.e., key employee, job title, or labor category).
- Review statement of work and work orders/authorizations to ensure labor type (i.e., scientist) is required to perform the work.
- Determine if Contracting Officer has other evidence corroborating employee's labor is allocable to the contract.<sup>12</sup>

Crowe Horwath did not perform sufficient audit procedures confirming the work performed by the employee as contemplated under Generally Accepted Government Auditing Standards (GAGAS). Crowe Horwath election to perform limited audit procedures is not a basis for a questioned cost allegation.

Gilbane Federal interviewed [employee] who stated, relative to the Crowe Horwath questioned labor costs, that TO44 engineering design tasks were accomplished by him and civil engineers in the Gilbane Federal Walnut Creek, CA office.

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<sup>11</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

<sup>12</sup> DCAA MRD 13-PPd-012(R), SUBJECT: Audit Alert — Alternate Procedures for Labor When Real-Time Testing of Labor not Performed (MAAR 6) dated July 18, 2013

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Gilbane Federal employs internal controls over labor charges. Timekeeping procedures require supervisor approval of employee timecards with attention to employee labor charges. Further, project managers are provided cost reports showing employee labor charges on their project(s). Gilbane Federal has payroll/labor distribution records and proof of payment. The costs are adequately supported and comply with Government regulatory requirements. Accordingly, the corrected amount is zero.

### **A.2.2 BRT Taxes**

Crowe Horwath questioned \$9,087 stating:

One (1) subcontractor payment included billed costs for Business Receipt Tax (BRT) without adequate support to show the BRT was paid. The amount of BRT included on the invoice was reduced from the subcontractor payment, and therefore there was no related cost. However, the BRT amount was included in the amount billed to the contract task order. Gilbane does not have a policy or practice in place to separately track BRT paid, or how BRT paid to the Afghanistan Ministry of Finance reconciles to invoices billed to the contract task order. Based upon a review of invoices to this subcontractor billed to the contract task order, it is standard procedure for Gilbane to exclude the BRT from the subcontractor payments but to bill the excluded BRT to the contract task order. Therefore, the entire amount of BRT related to this subcontractor, or \$9,087, is questioned.<sup>13</sup>

The Crowe Horwath statement is false. Gilbane Federal has a policy for Afghan taxes (including Business Receipts Tax (BRT)) and that document was provided to Crowe Horwath.<sup>14</sup>

Business Receipts Tax (BRT) is an Afghan tax levied on revenues received by a Company. Afghanistan tax law places the burden of tax liability determination, collection, and remittance on the employing company (i.e., Gilbane Federal) wherein the employing company is liable even if the company itself is tax-exempt. Absent a showing that its subcontractor had paid BRT to the Afghanistan Ministry of Finance (MoF), Gilbane Federal withheld BRT from its payments to these subcontractors for submission of the funds directly to the MoF on behalf of the contractor.

Under Afghan tax law, Gilbane Federal was liable for the BRT due for [subcontractor] work on TO44 and absent a subcontractor showing that the BRT due was paid to the

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<sup>13</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

<sup>14</sup> Gilbane Federal Corporate Policy, Afghanistan Annual Corporate Income Tax, Business Receipts Tax (BRT) and Contractor Withholding Taxes for DoD Contracts, Document #PO-AC-001

Afghan MoF, Gilbane Federal withheld the BRT from [subcontractor] payments as Afghan tax law places liability on the employing company.

Vendor Invoice		Crowe Horwath		
Identifier	Amount	G&A Expense	Questioned Cost	Corrected
058-Q	191,392.50	██████████	4,185.37	-
066-IN	194,088.05	██████████	4,244.32	-
098-IN	25,631.88	██████████	560.52	-
066-INA	3,882.00	██████████	84.89	-
098-INA	512.00	██████████	11.20	-
WF5266	15.00	██████████	0.33	-
WF7419	15.00	██████████	0.33	-
Total			9,086.95	-

Table 6 – BRT Taxes

Crowe Horwath questioned costs (\$9,087) were incorrectly computed wherein Gilbane Federal General & Administrative ((G&A) expenses were used to compute the questioned cost amount (BRT Taxes). Afghanistan Business Receipts Tax is applied to the gross receipts amount of the subcontractor and is not applied to purchasing company (Gilbane Federal) costs.<sup>15</sup>

Under Afghan tax law, Gilbane Federal incurred a financial liability (i.e., expense) for [subcontractor] work on TO44 and accordingly charged the BRT to TO44 for the financial liability incurred based on the subcontractor invoice amounts (gross receipts). There is no basis for the Crowe Horwath questioned cost. Accordingly, the corrected amount is zero.

<sup>15</sup> A 2% business receipts tax is imposed on gross receipts of all types of income of corporations and limited liability companies and individuals whose income is more than 750,000 afghanis per quarter, except for certain types of income described below where the BRT rate is 5% or 10%. (re: Tax Overview for Businesses, Investors and Individuals, Chapter 10, Ministry of Finance, Afghanistan Revenue Department)

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### A.3 Equipment

Crowe Horwath questioned \$181,720 as follows:<sup>16</sup>

<u>Missing Documentation</u>	<u># of Exceptions</u>	<u>Questioned Costs</u>
Invoice/Purchasing Documentation	7*	38,540
Disposition Data	11*	143,180*
Total Questioned (Unsupported) Costs		<u>181,720</u>

*\*Of the 15 equipment items in question, three (3) items totaling \$18,100 were missing both adequate invoice/purchasing and disposal documentation. The costs of these three items were not duplicated within the cumulative questioned costs*

Crowe Horwath questioned \$181,720 stating:

Gilbane did not maintain adequate documentation over inventory/equipment. 15 of 19 items purchased throughout the task order period did not contain complete documentation over property records, including lack of invoice and/or required disposal documentation. Therefore, equipment could not be tested for compliance with applicable requirements due to the missing documentation identified below. As such, the cost of these 15 items, \$181,720, was questioned.<sup>17</sup>

Crowe Horwath further stated:

In addition, sufficient controls over inventory/equipment was not maintained. Based upon our testing, there was a lack of documentation to support the controls over the receipt and disposal of the 15 out of 19 equipment items tested with issues identified above, as follows:

- 7 of 19 items tested did not include appropriate receiving documentation to support controls over equipment
- 11 of 19 items tested were lacking documentation for Contracting Officer Representative (COR) approvals over disposals.<sup>17</sup>

Crowe Horwath also stated:

Gilbane did not properly maintain documentation over property records...<sup>17</sup>

The Crowe Horwath statements are false.

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<sup>16</sup> Based on information in Crowe Horwath Independent Auditor's Report on Compliance (Draft) and subsequent conversations with Crowe Horwath

<sup>17</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

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Description/Tag	Questioned	Corrected	Receiving Documents	Disposition Documents
Refrigerator/13752	600	-	Yes	DD 1149
Shipping Container/21117	9,000	-	Yes	DD 1149
Internet Antenna/Temp-128A	4,000	-	Yes	DD 1354
Generator/13724	62,500	-	Yes	DD 1354
Clothes Washing Mach/ 21086	1,500	-	Yes	DD 1354
Wooden Closet include Mirror/Temp-314A	920	-	Yes	DD 1149
Washing Machine Freestanding/Temp-356A	1,560	-	Yes	DD 1354
Generator/20309	63,100	-	Yes	DD 1354
Subtotal	143,180	-		
Treadmill/13683	3,500	-	Yes	DD 1149
18000 BTU AC Unit/21171	500	-	Yes	DD 1149
Generators 13KVA/21158	7,900	-	Yes	DD 1354
20 Feet Container/13771	10,340	-	Yes	DD 1149
Container 20 feet/13741	12,600	-	Yes	DD 1149
Commercial Deep Fryer, gas/Temp-352-A	2,200	-	Yes	DD 1354
Dryer/Temp-357A	1,500	-	Yes	DD 1354
Subtotal	38,540	-		
Total	181,720	-		

Table 7 - Equipment

Gilbane Federal personnel acknowledged receipt of property (Receiving Documents) when approving vendor invoices. Gilbane Federal did not pay vendors, if materials/equipment were not received.

For each item of equipment questioned by Crowe Horwath, Gilbane Federal had submitted Government disposition documents, DD Form 1354, *Transfer and Acceptance of DoD Real Property* or DD Form 1149, *Requisition and Invoice/Shipping Document*, as appropriate.

Gilbane Federal provided the required equipment documentation (i.e., receiving documents and disposition documents). Accordingly, the corrected amount is zero.

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#### A.4 Office Equipment

Crowe Horwath questioned \$57,572 stating:

During testing over the inventory/equipment listing provided by Gilbane, we determined the listing contained general office equipment items identified as unallowable under the base contract, FA8903-06-D-8513. 239 of 494 items, or \$57,572, included on the listing were identified as office furnishings and IT equipment. These items included desk lamps, chairs, desks, tables and televisions.<sup>18</sup>

The HERC IDIQ contract, FA8903-06-D-8513, Section H, PKV-H010: "Notice of Non-Allowability of Direct Charges for General Purpose Office Equipment and General Purpose Automated Data Processing Equipment," states:

- (a) Notwithstanding the ALLOWABLE COST AND PAYMENT CLAUSE, 52.216-7, of Section I, costs for the acquisition of General Purpose Office Equipment (GPOE) and Information Technology (IT) shall not be considered as an allowable direct charge to this contract.
- (b) GPOE refers to the equipment normally found in a business office such as desks, chairs, typewriters, calculators, file cabinets, etc., that are obtainable on the open market. IT is defined in FAR 2.101.

HERC TO44 required construction in a war zone of Afghanistan. Consistent with its security plan for TO44 and task order requirements, Gilbane Federal established secure living areas using Containerized Housing Units (CHU). Due to the remote location and danger of the sites, Gilbane Federal did not procure these items for general use. They were used for the secure living area that included Title II personnel (Government employees) for project-specific use.

Gilbane Federal at the conclusion of TO44 returned all Government furnished equipment consistent with the requirements of Federal Acquisition Regulation (FAR) Part 45, Government Property.

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<sup>18</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

Description	Quantity	Price Each	Questioned	Corrected	Notes
6kg Electrolux Dryer	3	1,500.00	4,500.00	-	
Cabinet	2	115.00	230.00	-	1
Cabinet	1	80.00	80.00	-	
Cabinet	1	130.00	130.00	-	
Commercial Deep Fryer s	1	2,200.00	2,200.00	-	
Desk lamp	20	40.00	800.00	-	
Dining Plastic Table	6	140.00	840.00	-	
Dining Plastic Chairs	24	45.00	1,080.00	-	
Filling Cabinet	2	80.00	160.00	-	1
High cabinet	1	700.00	700.00	-	
Internet Antenna	1	4,000.00	4,000.00	-	
Internet server cabinet	1	500.00	500.00	-	
King Size Bed Sheets	6	100.00	600.00	-	
Steel Water Boiler	1	230.00	230.00	-	
Washing Machine	3	1,560.00	4,680.00	-	
Countertop Microwave	1	200.00	200.00	-	
Freestanding Gas Range	1	830.00	830.00	-	
Mesh Revolving Chair	13	340.00	4,420.00	-	
Mesh Revolving Chair	2	380.00	760.00	-	1
Mesh Revolving Chair	1	50.00	50.00	-	1
Office Chair	1	50.00	50.00	-	
Office Chairs	20	45.00	900.00	-	
Office Chairs / headrest	7	420.00	2,940.00	-	1
Office Desk	17	50.00	850.00	-	
Office Desk	1	67.41	67.41	-	
Office Desk	1	-	-	-	
Office Desk	5	70.00	350.00	-	1
Office Table	2	70.00	140.00	-	
Office wooden Desk	6	210.00	1,260.00	-	
Plastic folding chair	8	40.00	320.00	-	
Plotter 42 inch	1	4,200.00	4,200.00	-	
Printer	6	321.00	1,926.00	-	
Printer	1	324.00	324.00	-	1
Printer Table	1	-	-	-	
Refrigerator	3	-	-	-	1
Revolving chair	3	50.00	150.00	-	
Revolving Chair	6	-	-	-	
LCD HDTV	16	425.00	6,800.00	-	
32" LCD HDTV	1	470.00	470.00	-	
52-Inch LCD HDTV	1	1,200.00	1,200.00	-	
Sliced Bread Toaster	2	120.00	240.00	-	
Shredder	2	60.00	120.00	-	
Single Bed	1	50.00	50.00	-	

Description	Quantity	Price Each	Questioned	Corrected	Notes
Wardrobe	1	-	-	-	
Top-Freezer Refrigerator	3	800.00	2,400.00	-	
Wooden Cabinet	2	-	-	-	
Wooden Cabinet	13	115.00	1,495.00	-	
Wooden chair	3	50.00	150.00	-	
Wooden Closet / Mirror	4	920.00	3,680.00	-	1
Wooden Table	10	50.00	500.00	-	
			<u>57,572.41<sup>19</sup></u>	<u>-</u>	

Note 1 – Title II (Government employee) living quarters

Table 8 – Unallowable Office Equipment

Gilbane Federal living quarter furnishings were charged to TO44 consistent with contract requirements. Gilbane Federal did not charge to TO44 business office equipment as contemplated by HERC IDIQ contract, FA8903-06-D-8513, Section H, PKV-H010: “Notice of Non-Allowability of Direct Charges for General Purpose Office Equipment and General Purpose Automated Data Processing Equipment.” Accordingly, the corrected amount is zero.

#### A.5 Outside Period of Performance

Crowe Horwath questioned \$2,379 stating:

During testing of 66 transactions, we identified 1 transaction that occurred outside of the contract task order period. The transaction was related to payroll for an employee working directly on the project. Based upon the timesheet data, the services were performed on May 16, 2014, subsequent to the contract task order end date of May 9, 2014. Based upon our testing of payroll transactions, we noted transaction dates included in the detailed transaction listing agreed to the dates of service on the related timesheets. As such, we identified three employees with payroll charges for services performed after May 9, 2014, extending through mid-June 2014. Payroll costs identified outside of the contract task order period totaled \$2,379.<sup>20</sup>

<sup>19</sup> Subsequent to the issuance of its draft audit reports, Crowe Horwath communicated that adjustments to the questioned equipment/office equipment amounts would be made. Gilbane Federal withholds comment on these adjustments pending Crowe Horwath publication of the revised audit finding(s).

<sup>20</sup> Crowe Horwath Independent Auditor’s Report on Compliance (Draft)

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The questioned cost amounts (\$2,379) were billed in accordance with direction from the TO44 Project Director who communicated that the CLIN Period of Performance (PoP) had been extended in error.

The bill was then approved by the same Project Director and submitted for payment. The Project Director is no longer employed by Gilbane Federal.

Irrespective of the Project Director communication, we found that a TO44 modification had not been received extending the PoP for the questioned labor costs. Accordingly, Gilbane Federal will submit an invoice in its next billing cycle to correct the \$2,379 labor billing error and has counseled the biller as to the appropriate identification of CLIN PoP by reference to contract documentation (versus anticipated receipt of a task order modification). Gilbane Federal discussed this billing error with its billing team and will conduct follow-on training with the billing team to further assure that such errors do not recur. Gilbane Federal concurs with the Crowe Horwath \$2,379 questioned cost finding.

**A.6 Other**

Crowe Horwath questioned \$(12,880) which represented costs duplicated amongst its audit findings. Gilbane Federal has no comment on the duplicative questioned costs.

**B CLIN 0008 AD – ANP Border Patrol HQ at Lashkar Gah**

Crowe Horwath questioned \$6,219,306<sup>21</sup> stating:

Gilbane incurred and reported costs which exceeded CLIN budgets as identified within the contract task order and related modifications. We also identified a lack of control over the budgeting and billing process, because invoices tested did not include documentation of management approval.

Funding provided under the contract task order and related modifications was based upon the authorized CLIN categories. However, Gilbane maintained their budgets based upon internal functional expense categories. As such, cumulative amounts maintained in billing and budgeting data did not agree to cumulative amounts as submitted and reported to AFCEC and Defense Finance Account Services (DFAS). Due to the lack of budgeting controls, two CLINs were over expended from the contract task order final budgeted amounts. CLIN 10008AD incurred costs in excess of

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<sup>21</sup> These questioned costs were communicated in the Crowe Horwath draft audit report – this finding was not included in the preliminary audit findings nor discussed in the audit exit conference.

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\$6,219,306, while CLIN 10008AH incurred costs in excess of \$26,284, a total of \$6,245,590. In addition, we noted three other invoices submitted under the contract task order that were identified as overbilled by DFAS. However, these costs were rejected by DFAS, and thus not reimbursed under the contract task order representing a lack of control over billing and budgeting, therefore there were no questioned costs related to these three overbilled invoices.

Further, 2 of 12 submitted AFCEC invoices tested did not include documentation of Project Manager approval, as required by Gilbane Policy.<sup>22</sup>

TO44 is a completion type cost-reimbursement contract. Cost-reimbursement types of contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer.

A cost-plus-fixed-fee contract may take one of two basic forms—completion or term. The completion form describes the scope of work by stating a definite goal or target and specifying an end product. This form of contract normally requires the contractor to complete and deliver the specified end product (e.g., a final report of research accomplishing the goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee. However, in the event the work cannot be completed within the estimated cost, the Government may require more effort without increase in fee, provided the Government increases the estimated cost.

Gilbane Federal has completed and delivered the specified end products and is accordingly due payment of the TO44 fixed fee. Gilbane Federal has not billed amounts in excess of the TO44 contract obligated funds.

Gilbane Federal was not able to locate Project Manager approval for two invoices (billings) as required by Company policy. The Gilbane Federal biller for TO44 has stated that bills were never sent without Project Manager approval consistent with Company policy. And all bills were reviewed by the billing supervisor prior to submission in the U.S. Government Wide Area Work Flow (WAWF) for payment processing.

Gilbane Federal ascribed costs by CLIN consistent with the TO44 award and modifications. Differences in the amounts by CLIN between AFCEC and the Defense Finance and Accounting Service (DFAS) resulted in short pays to Gilbane Federal. The

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<sup>22</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

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Company has worked with AFCEC to resolve the short pay instances as the amounts billed represent allocable and allowable costs on TO44. The corrected amount is zero.

**C CLIN 0008 AH – Embedded Training Team Compound at Lashkar Gah**

Crowe Horwath questioned \$26,284 stating:

Gilbane incurred and reported costs which exceeded CLIN budgets as identified within the contract task order and related modifications. We also identified a lack of control over the budgeting and billing process, because invoices tested did not include documentation of management approval.

Funding provided under the contract task order and related modifications was based upon the authorized CLIN categories. However, Gilbane maintained their budgets based upon internal functional expense categories. As such, cumulative amounts maintained in billing and budgeting data did not agree to cumulative amounts as submitted and reported to AFCEC and Defense Finance Account Services (DFAS). Due to the lack of budgeting controls, two CLINs were over expended from the contract task order final budgeted amounts. CLIN 10008AD incurred costs in excess of \$6,219,306, while CLIN 10008AH incurred costs in excess of \$26,284, a total of \$6,245,590. In addition, we noted three other invoices submitted under the contract task order that were identified as overbilled by DFAS. However, these costs were rejected by DFAS, and thus not reimbursed under the contract task order representing a lack of control over billing and budgeting, therefore there were no questioned costs related to these three overbilled invoices.

Further, 2 of 12 submitted AFCEC invoices tested did not include documentation of Project Manager approval, as required by Gilbane Policy.<sup>23</sup>

TO44 is a completion type cost-reimbursement contract. Cost-reimbursement types of contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer.

A cost-plus-fixed-fee contract may take one of two basic forms—completion or term. The completion form describes the scope of work by stating a definite goal or target and specifying an end product. This form of contract normally requires the contractor to complete and deliver the specified end product (e.g., a final report of research

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<sup>23</sup> Crowe Horwath Independent Auditor’s Report on Compliance (Draft)

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accomplishing the goal or target) within the estimated cost, if possible, as a condition for payment of the entire fixed fee. However, in the event the work cannot be completed within the estimated cost, the Government may require more effort without increase in fee, provided the Government increases the estimated cost.

Gilbane Federal has completed and delivered the specified end products and is accordingly due payment of the TO44 fixed fee. Gilbane Federal has not billed amounts in excess of the TO44 contract obligated funds.

Gilbane Federal was not able to locate Project Manager approval for two invoices (billings) as required by Company policy. The Gilbane Federal biller for TO44 has stated that bills were never sent without Project Manager approval consistent with Company policy.

Gilbane Federal ascribed costs by CLIN consistent with the TO44 award and modifications. Differences in the amounts by CLIN between AFCEC and the Defense Finance and Accounting Service (DFAS) resulted in short pays to Gilbane Federal. The Company has worked with AFCEC to resolve the short pay instances as the amounts billed represent allocable and allowable costs on TO44. The corrected amount is zero.

#### **D Lack of Controls over Petty Cash Disbursements**

Crowe Horwath did not question costs for the following control deficiency allegation stating:

We noted a lack of control in Gilbane's approval process over petty cash disbursements. Petty cash disbursements under \$3,000 were not approved by management. Gilbane's policy does not require manager approval for petty cash transactions under \$3,000. As such, the controls in place over petty cash are inadequate, as the majority of the 778 petty cash transactions were processed without management approval. \$287,387, or approximately 723 transactions, of the total \$593,657 petty cash disbursements billed to the contract task order were under the \$3,000 threshold and therefore did not require approval. However, while the controls in place over petty cash disbursements are inadequate, Gilbane was able to provide documentation to support the allowability of the costs.<sup>24</sup>

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<sup>24</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

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Like U.S. Government contingency operations contracting, Gilbane Federal contingency contracting necessarily involved the use of multiple procurement methods to achieve its mission requirements.

The Gilbane Federal simplified acquisition processes in support of contingency operations included provisions for on-the-spot purchases of supplies and services. The on-the-spot method was used when no other acquisition process was considered more economical or efficient and did not generally involve written terms and conditions.

The Gilbane Federal conditions for use of the on-the-spot purchases of supplies and services generally involved:

- supplies and services immediately available,
- one delivery and one payment, and
- attempts to obtain multiple bids when appropriate

**Standard Form 44, Purchase Order-Invoice-Voucher**

The processes and practices adopted by Gilbane Federal for contingency operations were often based on U.S. military practices. The Gilbane Federal simplified acquisition procedure closely mimics U.S. Government use of Standard Form (SF) 44, Purchase Order-Invoice-Voucher. The SF 44 is a pocket size multi-purpose purchase order form designed primarily for on the spot, over-the-counter purchases of supplies and non-personal services. Gilbane Federal applied the same \$3,000 threshold as that used by the Government for SF 44 and purchasing card purchases.

The Gilbane Federal petty cash process employed the same dollar threshold as that applied by the U.S. Government for its micro-purchases and there is no requirement for project manager approvals. The Crowe Horwath internal control requirement is not supported by law or regulation and inconsistent with Government practices. And Crowe Horwath writings fail to show that additional Gilbane Federal petty cash controls (e.g., project manager review of project charges) were not adequate. Absent a relevant basis for its internal control finding supported by evidentiary matter as contemplated under Generally Accepted Government Auditing Standards (GAGAS), the Crowe Horwath internal control significant deficiency is unsupported.

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**E Lack of Documentation and Controls over Key Personnel Changes**

Crowe Horwath did not question costs for the following control deficiency allegation stating:

Documentation could not be provided to support the approval of key personnel changes during the contract task order period. Five individuals were identified as key personnel within Gilbane's base contract no. FA8903-06-D-8513 with AFCEC. The contract did not provide specific guidance for key personnel's involvement in any contract task orders issued under the contract. Gilbane stated one individual listed as a key personnel changed during the period. However, Gilbane could not provide documentation of approvals for the change during the contract task order period. However, as individuals within key positions were not charged to the contract task order nor were key personnel requirements included in the contract task order itself, there are no questioned costs related to this matter.<sup>25</sup>

HERC key personnel included a Program Health and Safety Manager who was replaced. The circumstances of the change in this key person position did not provide for a ten day advance notification and Gilbane Federal was not able to locate the change notification to the HERCO CO and HERC Program Manager/COR. Subsequent communications do show the change in the key person named and the Government did not reject the change in key personnel.

**F Prior Audit and Review Findings – Unreasonable Subcontract and Material Costs**

Crowe Horwath stated:

During our testing procedures, we identified costs that were considered unreasonable under the contract task order, and questioned, accordingly. Finding No. 2015-02 reports similar matters to that reported by the DCAA.<sup>26</sup>

As previously discussed at A.1 *Lack of Support over Costs Incurred*, the acquisitions were adequately supported consistent with Government regulatory requirements. There is no basis for the Crowe Horwath finding.

As to the DCAA audit report referenced, Gilbane Federal showed that the DCAA allegations were without substance in its response provided to the Government.<sup>26</sup>

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<sup>25</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

<sup>26</sup> Gilbane Federal, Response to DCAA Audit Report dated June 15, 2015

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**G Prior Audit and Review Findings – Lack of Procurement Procedures Resulting in Unnecessary Material Costs**

Crowe Horwath stated:

Material costs incurred were considered to be unnecessary and, therefore, were questioned. The underlying cause was noted as errors in procurement (i.e., untimely purchasing and not enforcing the prices noted in the initial quotations).<sup>27</sup>

Crowe Horwath contradictorily stated:

During our testing procedures, we did not identify issues with material costs related to errors in procurement, such as untimely purchasing and enforcement of prices noted in the initial quotations.<sup>27</sup>

Gilbane Federal has a Government approved purchasing system and Crowe Horwath has not presented a basis (i.e., evidentiary matter as contemplated under GAGAS) for its assertion “Lack of Adequate Procurement Procedures over Subcontracts.” That is, there is no basis for the Crowe Horwath assertion.

As to the DCAA audit report referenced, Gilbane Federal showed that the DCAA allegations were without substance in its response provided to the Government.<sup>28</sup>

**H Prior Audit and Review Findings – Lack of Adequate Procurement Procedures over Subcontracts**

Crowe Horwath stated:

Modifications to increase the price of various subcontracts were unnecessary due to various reasons.<sup>27</sup>

Crowe Horwath contradictorily stated:

During our testing procedures, we did not identify issues with unnecessary price modifications over subcontracts. Subcontracts were reviewed during testing, and modifications appeared reasonable based upon additional services or products negotiated. In addition, we reviewed Gilbane’s policies and procedures in place over

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<sup>27</sup> Crowe Horwath Independent Auditor’s Report on Compliance (Draft)

<sup>28</sup> Gilbane Federal, Response to DCAA Audit Report dated June 15, 2015

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procurement and noted updates to the policy over subcontractor monitoring, changes to the scope of work and price adjustments.<sup>29</sup>

Gilbane Federal has a Government approved purchasing system and Crowe Horwath has not presented a basis (i.e., evidentiary matter as contemplated under GAGAS) for its assertion “Lack of Adequate Procurement Procedures over Subcontracts.” That is, there is no basis for the Crowe Horwath assertion.

As to the DCAA audit report referenced, Gilbane Federal showed that the DCAA allegations were without substance in its response provided to the Government.<sup>30</sup>

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<sup>29</sup> Crowe Horwath Independent Auditor’s Report on Compliance (Draft)

<sup>30</sup> Gilbane Federal, Response to DCAA Audit Report dated June 15, 2015

## Appendix B: Auditor's Rebuttal

Crowe Horwath LLP, in consideration of the views presented by the management of Gilbane Company, (Gilbane) presents the following rebuttal to the Management Response (Response) found in Appendix A of this report. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report.

The SPFS presented within the report was provided by Gilbane subsequent to the audit fieldwork, draft report and management responses. We were unable to obtain sufficient appropriate audit evidence to determine if the SPFS was prepared, in all material respects, in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in Appendix IV of Solicitation ID11140014 (the Solicitation). The SPFS included within this report was the third iteration of the SPFS provided by Gilbane. The first iteration of the SPFS has been presented as a **TABLE C** at the end of this rebuttal. The third revised SPFS provided by Gilbane revised total costs incurred/revenue earned by a reduction of \$372,839 from the first SPFS. Additionally, the costs incurred by CLIN were materially revised. Gilbane's presentation reallocated costs by CLIN and did not illustrate any overbillings under the contract task order. However, as identified in Finding 2015-01 and rebuttals B and C, both CLIN 0008AD and CLIN 0008AH were overbilled by a total of \$6,245,590. The overbilling amounts were based upon Gilbane's billings to the Federal Government, which also agreed to the original SPFS, as presented as **TABLE C**.

In addition to the above, during the audit process, we faced difficulties obtaining the requested information to allow completion of our audit testing procedures. A significant amount of requested documentation was not received, or was substantially delayed in receipt from the initial request date. Further, multiple requests had to be made for the same documentation throughout the audit process. In addition, when information was received, it was not always complete and/or clearly explained as to what the documentation was and how it fulfilled our request. Follow up attempts to obtain this information were rarely successful due to lack of responsiveness. For several items, Gilbane did not provide the necessary support or responses until the findings were provided for management response.

Gilbane did not address each finding individually within their response. Their responses were structured based upon the questioned costs as reported within the Special Purpose Financial Statement, or by CLIN. Therefore, the responses below are structured in the same format as the Management responses, and not listed by individual finding. This was done in order to determine all management responses corresponded to a finding, accordingly, and to allow readers to correlate this rebuttal with the management responses. However, a reference to each finding number was included within the header of the individual response areas. See total questioned costs and finding determination included in **TABLE B** below.

### **A.1.1 – Lack of Support over Costs Incurred: Professional Service Payments (Finding 2015-02):**

Gilbane disagreed with the finding and related questioned costs stating the costs were not professional service costs, but purchased labor. Based on the information provided in Gilbane's response, we agree that the costs are for purchased/contracted labor and not for professional services. However, support is still required to show the allowability and reasonableness of the costs. The documentation provided for costs paid to the contracted labor does not describe what services were performed, so the allowability and eligibility of these services in relation to the task order could not be determined. As the supporting documentation provided did not identify the specific services performed, and as noted within Gilbane's response in reference to DCAA guidance, "While an individual may be a member of a "particular profession" as inferred from the job title, that criterion alone does not render the associated labor costs subject to the provisions of FAR 31.205-33." Similarly, specific job duties, responsibilities and services performed cannot be determined strictly on the job title alone.

Gilbane also stated that the cause included in the original finding, regarding Gilbane being "unaware of the necessity to maintain documentation over the professional services work products and deliverables" was incorrect. This cause was based upon the original finding pertaining to professional services, prior to the receipt of new information within the management response, and was obtained during informal discussions with Gilbane. We have since revised the cause based upon the revisions to the finding and management responses.

As stated in DCAA's Memorandum over Professional Services and Purchased Labor (PAC 730.3.B.01/2013-03), "FAR does not have a specific cost principle covering purchased labor. However, the contractor should have adequate documentation to support the reasonableness of amounts paid, demonstrate the person who provided the service, and evidence that the effort represented allowable activities. If the audit team determines the payment was not reasonable for the services performed (FAR 31.201-3, Determining Reasonableness), or the contractor made payment without adequate support that the person provided the service (FAR 31.201-2d Determining Allowability), the audit team should question the costs under the appropriate provision of FAR."

In addition to the above, Gilbane also stated that "Crowe Horwath failed to perform adequate audit procedures as contemplated under GAGAS and thereby erred in its application of FAR 31.205-33 to purchased labor costs." Our finding was based upon information received and available at the time. Based upon information and lack of documentation received by Gilbane prior to management responses, we determined the costs related to professional services and used the related FAR (Far 31.205-33) as a basis for the finding. Audit procedures performed over the audit were performed in accordance with Generally Accepted Government Auditing Standards (GAGAS) but testing was limited to documentation and information made available to us by Gilbane. As noted within the summary above our responses, communication and information was extremely difficult to obtain from Gilbane. As with the other findings, Crowe followed up on the issue multiple times in order to attempt to maintain information, explanations and supporting documentation. However, documentation was not provided and the information included in management response was not explained or detailed previously.

Therefore, based upon the lack of documentation to support the reasonableness and allowability of the services performed by the contractors, the \$123,796 of costs will remain questioned. The finding has been revised to reflect the new information and document the issue over the lack of documentation of purchased labor.

#### **A.1.2 – Lack of Support over Costs Incurred: SPFS Reconciliation (Finding 2015-02):**

Gilbane disagreed with the finding and related questioned costs as they stated costs were tracked and maintained throughout the task order and reconciled to the SPFS appropriately. However, as noted within the finding, the detailed expenditure data provided by Gilbane could not and was not reconciled to the SPFS. The \$7,945 of costs in question were included in the SPFS costs, but not within the detailed expenditure data. No support was provided by Gilbane as to what the \$7,945 of costs were and why they were not included in the detail expenditure data. The "reconciliation" provided by Gilbane, showed the amount as a reconciling item, but did not provide any type of support or documentation as to what the reconciling item related to. The identification of the variance as provisional rate adjustments on Standard Form 1035 is new information, and no documentation was provided to support the adjustment within Gilbane's response. Therefore, the unsupported and unreconciled costs of \$7,945 will remain in question.

Further, the \$7,945 difference could not be further broken down by CLIN due to the lack of CLIN identifiers within the expenditure detail data. This issue stems on the lack of controls identified over Gilbane's improper budget tracking and maintenance with contract task order requirements.

#### **A.2.1 – Improper Allocation of Costs: Payroll Costs (Finding 2015-03):**

Gilbane disagreed with the findings and questioned costs and stated the employee in question accomplished TO 44 design tasks within the Walnut Creek, CA office. During the discussion of the preliminary audit findings, we stated the determination of this finding was based upon the project role/duties for this employee and the lack of support to reasonably perform these duties if not located in Afghanistan. The reference included in the response by Gilbane to the "company job description" was in reference to an unrelated finding over an entirely separate task order, in which project role/duties were not provided. As previously noted, the basis for this finding was *the lack of documentation to support* the reasonableness and allowability of the employee's assignments based upon his location. Multiple questions and discussions were posed to Gilbane management during the audit based upon this specific employee, but no supporting documentation or explanations were provided.

While the management response references alternate procedures that could have been performed, none of these procedures were suggested by Gilbane, nor was adequate support provided in order for the procedures to be performed. Without adequate documentation to support the reasonableness of the payroll costs, the \$39,290 of costs will remain in question.

#### **A.2.2 – Improper Allocation of Costs: BRT Taxes (Finding 2015-03):**

Gilbane disagreed with the finding and questioned costs stating the Business Receipt Taxes (BRT) billed to the Government were paid to the Afghanistan Ministry of Finance (MoF). However, the basis for the finding was the lack of sufficient documentation to directly support the BRT taxes tested and claimed were paid to the Afghanistan MoF. No direct reconciliation or tie-in to support amounts paid to the Afghanistan MoF to amounts claimed on the invoices tested billed to the task order were provided. Therefore, we could not specifically identify that the amounts claimed and tested were paid.

The calculation of questioned costs was correctly computed based upon the sample invoice tested, as there was insufficient documentation provided by Gilbane to support the actual BRT taxes billed to the task order in total. Based upon the expenditure data and sample invoice reviewed, the BRT was calculated at 2% of the total invoice amount. The vendor was then paid the invoice amount less the 2% BRT tax. However, the *total* invoice amount, prior to reduction for the 2% BRT tax, was included in the “cost” billed to the Government. The indirect cost rates were then applied to the total invoice cost, to arrive at the total billed task order amount. As the invoice amount used to calculate the indirect cost rate was not reduced for the 2% BRT, the indirect costs were inherently calculated on the BRT tax as well. Therefore, Crowe’s calculation of the 2% BRT on the billed amount was correct, as Gilbane billed the government for G&A costs on the 2% of BRT on the invoices. The \$9,087 of costs will remain in question.

#### **A.3 – Equipment (Finding 2015-04):**

Gilbane disagreed with the finding and questioned costs. Within the management response, Gilbane stated “personnel acknowledged receipt of property when approving vendor invoices (Receiving Documents).” Documentation to support this claim was not provided during the audit. Therefore, our control finding will remain.

Further, Gilbane stated, “Gilbane Federal did not pay vendors, if materials/equipment were not received.” However, as originally stated within the finding, the documentation over approved and completed receiving and disposition forms was not provided to us, and as such the \$181,720 of costs will remain questioned.

Gilbane also stated the cause included in the finding, related to improperly maintaining documentation over property records due to a lack of FAR requirements included with their procedures, was incorrect. With a lack of supporting documentation provided over property records, we could not determine that property records were maintained with FAR requirements. Further, our cause included in the finding references the lack of all FAR requirements over equipment/property within Gilbane’s internal procedural manuals. Accordingly, the finding cause will remain as is.

#### **A.4 – Unallowable Office Equipment (Finding 2015-05):**

Gilbane disagreed with the finding and related questioned costs. However, as noted in the original finding, office and IT equipment was purchased under this task order and was specifically identified within the contract as not allowable. The use of this equipment was undeterminable as Gilbane did not provide documentation to support how the office and IT equipment was used under the task order. In addition, for the items sampled, a lack of documentation was received to support the disposition of the assets. As such, we could not determine the final disposition of the office and IT equipment.

Further, prior to receipt of the management response, it was determined the total cost of office/IT equipment was \$58,772, as an additional \$1,200 of office/IT equipment was identified during discussions with Gilbane management over the findings. The revised questioned costs of \$58,772 will be reported within this finding, accordingly.

#### **B – CLIN 0008 AD – ANP Border Patrol HQ at Lashkar Gah and**

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**C – CLIN 0008 AH – Embedded Training Team Compound at Lashkar Gah (Finding 2015-01):**

Gilbane disagreed with both subparts of this finding and the related questioned costs, and stated all billed costs were allocable and allowable. However, the basis for the finding was the approved budgeted amounts per the task order (FA8903-06-D-8513-0044) and related modifications (01-13). The billed costs were based upon actual invoices submitted to the Government and Wide Area Workflow (WAWF) system data. WAWF is the electronic system used to submit invoices to the Federal Government. No supporting documentation to Government approved amendments to budgets by CLIN, other than the modifications referenced.

Further, as previously noted, the billed costs per WAWF exceeded the budgeted/approved costs per the task order and modifications, for CLINs 0008 AD and 0008 AH. No supporting documentation was provided to show Government approved amendments to budgets by CLIN, other than the modifications referenced, or revised submission of invoices with reallocations by CLIN to support the allowability of these costs. In addition, no supporting documentation to show rejection by DFAS or short-pay of overbilled invoices for the overbilled items in question were provided. Due to the lack of documentation, the overbilled costs, totaling \$6,245,590, will remain in question. See **TABLE C** which supports the original SPFS figures which agree to Gilbane's billings to the Federal Government.

**D – Lack of Controls over Approvals: Petty Cash Threshold (Finding 2015-06):**

Gilbane disagreed with the finding and stated the petty cash approval policy and threshold was consistent with U.S. Military practices. However, policies and procedures should be based upon the specific organization, and should be adjusted based upon organization activity. Because a policy may be the same as another entity's, it does not make the policy practical. As identified in the finding, \$287,387 (723 transactions) of the total \$593,657 petty cash disbursements (778 transactions) were under the \$3,000 threshold. This means 48% of the total amount of petty cash disbursements were under the threshold and not required for approval. If 48% of the activity is under the threshold for approvals, Gilbane should consider revising their policies to better reflect their activity, not according to another entity's policies and activity, so they can maintain proper control and approvals over purchases. Based upon the significance of the activity without required controls and approvals, the finding will remain a significant control deficiency.

**E – Lack of Documentation and Controls over Key personnel Changes (Finding 2015-07)**

Gilbane stated in their response, "Gilbane Federal was not able to locate the change notification to the HERCO CO and HERC Program Manager/COR." Therefore, this finding will remain a significant control deficiency.

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**TABLE B: Summary of Revised Findings and Questioned Costs**

Report Finding #	Management Response Reference	Original Questioned Costs	Revised Questioned Costs	Description of Changes from Original Finding
Finding 2015-01	B	\$6,219,306	\$ 6,219,306	No changes to finding or questioned costs.
	C	\$26,284	\$ 26,284	
<b>Total Finding 2015-01 Questioned Costs</b>			<b>\$ 6,245,590</b>	
Finding 2015-02	A.1.1.	\$123,796	\$ 123,796	Language within the finding has been revised based upon new information provided within the response. No change to questioned costs.
	A.1.2.	\$7,945	\$ 7,945	No changes to finding or questioned costs.
<b>Total Finding 2015-02 Questioned Costs</b>			<b>\$ 131,741</b>	
Finding 2015-03	A2.1.	\$39,290	\$ 39,290	No changes to finding or questioned costs.
	A2.2.	\$9,087	\$ 9,087	
<b>Total Finding 2015-03 Questioned Costs</b>			<b>\$ 48,377</b>	
Finding 2015-04	A.3	\$181,720	\$ 181,720	No changes to finding or questioned costs.
<b>Total Finding 2015-04 Questioned Costs</b>			<b>\$ 181,720</b>	
Finding 2015-05	A.4	\$57,572	\$ 58,772	Questioned costs have been revised. Subsequent to the draft report and prior to the receipt of the management response, it was determined the total cost of office/IT equipment was \$58,772, as an additional \$1,200 of office/IT equipment was identified during discussions with Gilbane management over the findings.
<b>Total Finding 2015-05 Questioned Costs</b>			<b>\$ 58,772</b>	
Finding 2015-06	A.5	\$2,379	\$ 2,379	
<b>Total Finding 2015-06 Questioned Costs</b>			<b>\$ 2,379</b>	
Finding 2015-07	D			No changes to finding or questioned costs.
<b>Total Finding 2015-07 Questioned Costs</b>			<b>\$ -</b>	
Finding 2015-08	E			No changes to finding or questioned costs.
<b>Total Finding 2015-08 Questioned Costs</b>			<b>\$ -</b>	
<b>Cumulative Questioned Costs**</b>			<b>\$ 6,658,399</b>	

*\*\*As noted within the report, questioned costs of \$10,180 included in both Finding 2015-04 and 2015-05 were not reduced. However, cumulative questioned costs were not increased for the duplicate of questioned costs.*

**TABLE C: Original Special Purpose Financial Statement**

**Gilbane Company  
Special Purpose Financial Statement  
FA8903-06-D-8513 Task Order 44  
For the Period January 10, 2011 through May 9, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
<b><i>Revenues</i></b>					
Task Order 0044	\$ 44,070,650	\$ 43,743,730			4
<b>Total Revenue</b>	<b>44,070,650</b>	<b>43,743,730</b>			
<b><i>Costs Incurred</i></b>					
10008 AA	9,932,264	9,826,375	99,348	313,461	B, C, D, E, 5, 9
10008 AB	153,849	153,013			
10008 AC	213,679	204,871			
10008 AD	8,804,654	15,023,960	6,219,306		A
10008 AE	142,878	142,929			
10008 AF	142,878	127,107			
10008 AG	196,021	184,240			
10008 AH	788,061	814,345	26,284		A
10008 AJ	20,463,402	14,225,397			
10008 AK	3,232,964	3,041,493			
<b>Total Costs Incurred</b>	<b>44,070,650</b>	<b>43,743,730</b>	<b>6,344,938</b>	<b>313,461</b>	6
<b>Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (6,344,938)</b>	<b>\$ (313,461)</b>	

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

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