

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 16-42 Financial Audit**

## Construction of Facilities for the 1st Special Forces, 1st Commando Brigade, and Transient Kandak: 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 March 15, 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—awarded a 20-month, \$25,716,166 task order to Innovative Technical Solutions, Inc. (ITSI). In 2010, Gilbane Federal (Gilbane) acquired ITSI. The purpose of the task order was to support the construction of facilities for the Afghan National Army's 1st Special Forces, 1st Commando Brigade, and Transient Kandak in Gardez, Afghanistan. A kandak consists of approximately 800 soldiers and is equivalent to a U.S. Army battalion. After 18 modifications, the total cost of the task order increased to \$31,588,250, and the period of performance was extended to July 8, 2014.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$31,529,663 in expenditures charged to the task order from March 15, 2011, through July 8, 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

## Construction of Facilities for the 1st Special Forces, 1st Commando Brigade, and Transient Kandak: Audit of Costs Incurred by Gilbane Federal

SIGAR 16-42-FA

### WHAT THE AUDIT FOUND

Crowe identified one material weakness and six significant deficiencies in Gilbane's internal controls, and six instances of noncompliance with the terms and conditions of the task order. Specifically, Crowe found that Gilbane could not provide supporting documentation for subcontractor and professional service costs. Crowe noted weaknesses in Gilbane's internal controls over its procurement processes and review of allowable costs. Further, Crowe identified deficiencies and noncompliance related to the improper allocation of payroll and business taxes, a lack of control over the budgeting and billing process, and the procurement of unallowable equipment. Moreover, Gilbane did not maintain adequate documentation for multiple contract line items numbers, which encompassed, but were not limited to, equipment, subcontractor costs, labor payments, and rebilled costs.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$1,321,242 in total questioned costs, consisting of \$428,126 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations—and \$893,116 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	\$239,552	\$893,116	\$1,132,668
1st Commando Brigade Headquarters	\$12,061	\$0	\$12,061
1st Special Forces Facilities	\$176,513	\$0	\$176,513
<b>Totals</b>	<b>\$428,126</b>	<b>\$893,116</b>	<b>\$ 1,321,242</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 findings that were material to this audit's SPFS and determined that Gilbane had properly addressed one of the findings. The two other findings concerned unreasonable costs, procurement procedures, and subcontract costs. Crowe identified similar issues in this audit.

Crowe issued a disclaimer of opinion on Gilbane's SPFS because Crowe was unable to verify the data presented in the SPFS. Gilbane could not provide supporting documentation for the SPFS and provided several versions of the SPFS throughout the audit that had material differences from previous versions. Crowe also noted Gilbane's weaknesses in internal controls concerning its procurement processes and review of allowable costs.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible contracting officer at the Air Force Civil Engineer Center:

1. Determine the allowability of and recover, as appropriate, \$1,321,242 in questioned costs identified in the report.
2. Advise Gilbane to address the report's seven internal control findings.
3. Advise Gilbane to address the report's six noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 7, 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 Federal (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.<sup>1</sup> The purpose of the task order was to support the construction of facilities for the Afghan National Army’s 1st Special Forces, 1st Commando Brigade, and Transient Kandak in Gardez, Afghanistan. Crowe’s audit covered \$31,529,663 in expenditures charged to the task order from March 15, 2011, through July 8, 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 contracting officer at the Air Force Civil Engineer Center:

- 1. Determine the allowability of and recover, as appropriate, \$1,321,242 in questioned costs identified in the report.**
- 2. Advise Gilbane to address the report’s seven internal control findings.**
- 3. Advise Gilbane to address the report’s six 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 0045 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-075)



**Gilbane Company  
Special Purpose Financial Statement  
For the Construction of the 1st Special Forces Regional Training Center Kandak and 1st  
Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan**

**For the Period March 15, 2011, through July 8, 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) contract with the Air Force 772 Enterprise Sourcing Squadron, in support of the United States Air Force Civil Engineer Center (AFCEC) funding the Construction of the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, 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 the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan.

Sincerely,

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

Bert Nuehring, CPA, Partner  
Crowe Horwath LLP

## Summary

### Background

Gilbane Co. (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 March 15, 2011. The contract task order's objectives were to construct the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan. The project was funded by contract task order number FA8903-06-D-8513-0045, which incorporated an initial ceiling price of \$25,716,166, comprised of \$23,378,333 cost reimbursement and \$2,337,833 fixed fee. Eighteen modifications were subsequently issued, culminating in a period of performance of March 15, 2011 through July 8, 2014, and increased the ceiling amount to \$31,588,250 (\$29,848,272 cost reimbursement and \$1,739,978 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
- Morale, Welfare and Recreation Sports Field
- Parade Ground
- Helipads
- Barracks and Storage Compounds
- Water Distribution and Storage
- Sewer System
- Power System
- Communication System
- Joint Fuel Storage
- Training Grounds
- Observation Tower

The project was concluded in July 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 contract task order FA8903-06-D-8513-0045 and associated modifications as indicated in a Special Purpose Financial Statement (SPFS) of Gilbane's construction of the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan.

### 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 March 15, 2011, through July 8, 2014, for the construction of the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan. 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 with the *Independent Auditor's Report on the Special Purpose Financial Statement*. 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 base 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 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, seven 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 control over compliance and with the applicable laws, rules, regulations, and the terms and conditions of the contract. One material weakness in internal control, six significant deficiencies in internal control, and six 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 \$1,321,242 in costs were questioned as presented in **TABLE A** contained herein. Note: \$650 of questioned costs were questioned within two findings, as presented in **TABLE A**. However, these questioned costs were not duplicated in total as illustrated 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 of which required follow-up. Crowe determined that Gilbane has taken adequate corrective action to address one of the three prior findings. However, two of the prior audit findings were 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	Lack of Support over Costs Incurred	\$876,136	\$876,136
2015-02	Improper Allocation of Costs	\$206,585	\$1,082,721
2015-03	Costs Exceeded CLIN Budgets	\$188,574	\$1,271,295
2015-04	Unallowable Office Equipment	\$33,617	\$1,304,262*
2015-05	Lack of Documentation and Controls over Equipment	\$16,980	\$1,321,242
2015-06	Lack of Controls over Approvals	0	\$1,321,242
2015-07	Lack of Documentation and Controls over Key Personnel Changes	0	\$1,321,242
<b>Total Questioned Costs</b>			<b>\$1,321,242</b>

\*Questioned costs of \$650 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.

### **Summary of Management Comments**

Gilbane provided responses to the audit findings in **Appendix A**, in which management disagreed with all seven 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 March 15, 2011 through July 8, 2014, with respect to the Construction of the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan funded by contract task order number FA8903-06-D-8513-0045.

### ***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 a material amount of unsupported subcontractor and professional service costs on the Special Purpose Financial Statement. Weaknesses in internal control were noted over Gilbane's procurement processes and review of allowable costs. Specifically, due to the lack of documentation related to the procurement over the subcontractor payments and purchased labor payments, we were unable to determine if the costs were reasonable, allowable and allocable under the contract task order. The total amount of questioned costs with respect to this issue was \$876,136. 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 contract task order number FA8903-06-D-8513-0045, 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 contract 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*  
Crowe Horwath LLP

May 5, 2016  
Washington, D.C.

**Gilbane Federal  
Special Purpose Financial Statement  
FA8903-06-D-8513 Task Order 45  
For the Period March 15, 2011 through July 8, 2014**

	Questioned Costs				
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<b>Revenues</b>					
Task Order 0044	\$ 31,588,250	\$ 31,529,663			4
<b>Total Revenue</b>	<b>31,588,250</b>	<b>31,529,663</b>			
<b>Costs Incurred</b>					
10008AA	3,159,459	3,157,357	239,552	893,116	A, B, C, D, 5, 9
10008AB	8,560,513	8,559,773	12,061		C
10008AC	13,007,366	12,980,370			
10008AD	4,107,588	4,107,588	176,513		C
10008AE	340,354	339,794			
10008AF	672,992	644,803			
<b>Total Costs Incurred</b>	<b>29,848,272</b>	<b>29,789,685</b>	<b>428,126</b>	<b>893,116</b>	6
<b>Fixed Fee</b>	1,739,978	1,739,978			
<b>Balance</b>	<b>\$ 31,588,250</b>	<b>\$ 31,529,663</b>	<b>\$ (428,126)</b>	<b>\$ (893,116)</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 0045**  
**For the Period March 15, 2011 through July 8, 2014**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Task Order 0045, Design and Construction of 1st Commando (CDO) Brigade Headquarters and Transient Kandak at Gardez Afghanistan, issued under Contract No. FA8903-06-D-8513 for the Air Force Civil Engineering Center (AFCEC) Heavy Engineering Repair and Construction (HERC) Program for the period March 15, 2011, through September 30, 2014. Because the Statement presents only a selected portion of the operations of Gilbane Company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Gilbane Company. 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 July 8, 2014.

The final price of TO 00045 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.

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

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		<u>806,653</u>

**Imminent Danger (ID) Labor**

Labor ID		██████████
Labor ID Fringe		██████████
Labor ID Overhead		██████████
Subtotal - ID Labor		<u>4,705,294</u>

**Total Labor**

5,511,947

**NON LABOR**

Subcontractors		██████████
Travel/Meals/Mileage		██████████
Miscellaneous ODCs		██████████

**Total Non Labor**

21,799,680

G&A Markup		██████████
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**Total Costs Incurred**

29,789,685

**Fixed Fee**

1,739,978

**Balance**\$ 31,529,663

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:

ITEM/CLIN	SUPPLIES OR SERVICES	Cost	Fixed Fee	Total
10008AA	1st Special Forces Regional Training Center Kandak	3,159,459	315,945	3,475,404
10008AB	1st CDO Brigade HQ	8,560,513	518,495	9,079,008
10008AC	Transient Kandak	13,007,366	848,648	13,856,014
10008AD	Design and Construction 1st Special Forces Kandak, Gardez, Afghanistan (CTC)	4,107,588	-	4,107,588
10008AE	1st CDO Brigade HQ	340,354	18,719	359,073
10008AF	Transient Kandak	672,992	38,171	711,163
<b>TOTAL</b>		<u>29,848,272</u>	<u>1,739,978</u>	<u>31,588,250</u>

CLIN 1008AE provides for additional incremental funding of CLIN 1008AB. CLIN 1008AE accounts for funds and costs under an Accounting Classification Reference Number (ACRN) different than that for CLIN 1008AB. Funds cannot be moved between CLINs without the same ACRN. Cost and Fee are presented consistent with Government CLIN requirements.

CLIN 1008AF provides for additional incremental funding of CLIN 1008AC. CLIN 1008AF accounts for funds and costs under an Accounting Classification Reference Number (ACRN) different than that for CLIN 1008AC. Funds cannot be moved between CLINs without the same ACRN. Cost and Fee are presented consistent with Government CLIN requirements

**Note 6. Fixed Fee**

Task Order 0045 is a Cost Plus Fixed Fee (CPFF) agreement. Fee was earned based on percentage of completion. The total fixed fee authorized and earned is reported below.

<b>Delivery or Task Order Number</b>	<b>Authorized Fixed Fee Amount as of July 8, 2014</b>	<b>Amount Earned as of July 8, 2014</b>	<b>Fee remaining to be Earned as of July 8, 2014</b>	<b>Fee Withheld Pending Contracting Officer Release</b>
<b>0045</b>	<b>\$1,739,978</b>	<b>\$1,739,978</b>	<b>-</b>	<b>-</b>
<b>TOTALS:</b>	<b>\$1,739,978</b>	<b>\$1,739,978</b>	<b>-</b>	<b>-</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-D8513-0045 has been completed. 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**

Gilbane Federal management has performed an analysis of the activities and transactions subsequent to the March 15, 2011 through July 8, 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. Lack of Support over Costs Incurred**

Finding 2015-01 identified \$876,136 in unsupported costs that resulted from Gilbane not providing documentation over subcontractor costs and related procurement and pricing changes over the subcontractor agreement. In addition, questioned costs also resulted from Gilbane not providing documentation to support purchased labor payments. Due to the lack of documentation, these costs could not be tested for allowability.

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

Finding 2015-02 identified \$206,585 in ineligible costs that resulted from Gilbane charging improper indirect cost rates on payroll costs based upon employee's classification, in addition to charging unallocable Business Receipt Tax (BRT) costs to the contract task order.

### **Note C. Costs Exceeded CLIN Budgets**

Finding 2015-03 identified \$188,574 in ineligible costs that resulted from Gilbane exceeding the allowable budget by CLIN. 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 \$176,173.

Further, \$12,401 of rejected costs, due to billing for costs incurred in excess of budgets, were rebilled and support could not be provided to determine the reasonableness, allowability or period of performance of the rebilled costs. The \$12,401 of rejected costs were composed of \$340 within CLIN 10008AD and \$12,061 within CLIN 10008AB.

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

Findings 2015-04 and 2015-05 identified \$49,947 in ineligible and unsupported costs. \$33,617 of ineligible costs resulted from Gilbane improperly billing unallowable equipment to the contract task order. In addition, \$16,980 of unsupported costs resulted from Gilbane not providing documentation to support equipment billed to the contract task order. Note: \$33,617 of equipment items identified in finding 2015-04 were considered unallowable per the base contract, FA8903-06-D-8513, however, \$650 of these items were included within questioned costs amounts in finding 2015-05.

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

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

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 March 15, 2011, through July 8, 2014, with respect to the Construction of the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan funded by contract task order number FA8903-06-D-8513-0045. 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 March 15, 2011, through July 8, 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, 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 deficiency 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 and 2015-07 to be significant deficiencies.

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

Gilbane's response to the findings was 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*  
Crowe Horwath LLP

May 5, 2016  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

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

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

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 March 15, 2011, through July 8, 2014, with respect to the Construction of the 1st Special Forces Regional Training Center Kandak and 1st Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan funded by task order number FA8903-06-D-8513-0045. We have issued our report thereon dated May 6, 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 and 2015-07 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 was not subjected to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed

in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

**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: Lack of Support over Costs Incurred

#### Material Weakness and Material Noncompliance

**Condition:** During testing of 70 transactions, 3 transactions were identified lacking supporting documentation to determine that the cost was allowable under the contract task order. \$876,136 of costs were questioned, as summarized below:

- Two (2) transactions for payments to a main subcontractor on the contract task order did not include documentation for changes from the original procurement/contract price to total amounts paid to the subcontractor during the task order under the contract. Procurement documentation provided, including original bids and contract documents, showed a total contract price of \$3,258,747. However, the total payments under the subcontract and billed to the task order were \$4,052,017. No documentation, such as change orders or approved contract amendments were provided. The remaining \$793,270 of costs paid in excess of the original contract provided was unsupported.<sup>3</sup>
- One (1) transaction did not include adequate documentation to support the payment to a consultant/contractor for purchased labor performed under the contract task order. The individual was 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 one 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, entire amount paid to the Agency, excluding one individual within the sample with proper supporting documentation, was deemed questionable (\$82,866), as purchased labor payments could not be determined to be reasonable without proper supporting documentation.<sup>2</sup>

See table below for further details on questioned costs related to lack of supporting documentation as described above:

Transaction Type	# of Exceptions	Unsupported Costs
Subcontractor Payments	2	\$793,270 <sup>3</sup>
Purchased Labor Payments <sup>2</sup>	1	\$82,866
<b>Total Questioned (Unsupported) Costs</b>		<b>\$876,136</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."

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: \$876,136<sup>3</sup>**

**Effect:** Gilbane was reimbursed by AFCEC for \$876,136 of unsupported costs that may not have benefited the contract task order.

**Cause:** Gilbane stated a brief analysis was completed prior to the procurement of the subcontractor to determine adequate pricing. However, Gilbane did not maintain documentation over any pricing changes from the original procurement due to the lack of internal policies and procedures in place over procurement requirements. Further, 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.

**Recommendation:** We recommend Gilbane provide missing supporting documentation or repay AFCEC for \$876,136 of unsupported costs. Gilbane should implement more detailed policies that cover procedures for pricing changes to subcontractor contracts. Further, Gilbane policies should be updated to require documentation retention over subcontractor pricing amendments, as well as purchased labor activity. This would include a requirement to maintain documentation over purchased labor services to support the reasonableness, allowability and allocability of the costs. In addition, we recommend Gilbane to implement internal training to address the necessity to maintain proper documentation for costs billed to the Federal Government.

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

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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

<sup>3</sup> Questioned costs included in the draft finding totaled \$4,134,883. However, based upon additional information received within the management responses related to subpart 1: subcontractor costs, questioned costs have been reduced to \$793,270 for subpart 1 of the finding, and \$876,136 for total finding questioned costs.

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## **Finding 2015-02: Improper Allocation of Costs**

### Significant Deficiency and Noncompliance

**Condition:** During testing of 66 transactions, we identified 4 transactions that were not allowable or allocable under the contract task order, as identified below.

- Two (2) payroll transactions to employees were billed using the incorrect indirect cost rates based upon the employee's classification. Employees are classified as non-imminent danger (NID) or Imminent Danger (ID) based upon danger pay rates and work locations. Specific indirect cost rates were approved throughout the contract task order using these classifications. However, the rates were applied incorrectly and inconsistently with the employee's NID/ID classification for two employees tested based upon actual payroll rates and work locations. The difference in the indirect cost rate application over all transactions billed to the contract task order for the two employees tested was calculated and questioned (\$30,218).
- Two (2) subcontractor payments 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 from the subcontractor 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 to the Afghanistan Ministry of Finance, or how BRT paid reconciles to invoices billed to the contract task order. Based upon a review of invoices to these subcontractors, it is standard procedure for Gilbane to exclude the BRT from the subcontractor payments, but to bill the BRT to the contract task order. Therefore, the entire amount of BRT related to these subcontractors, or \$176,367, is questioned.

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

<b>Transaction Type</b>	<b># of Exceptions</b>	<b>Ineligible Costs</b>
Payroll Costs – NID/ID Indirect Cost Rates	2	\$30,218
Business Receipt Tax Costs	2	\$176,367
<b>Total Questioned (Ineligible) Costs</b>		<b>\$206,585</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:** \$206,585

**Effect:** Gilbane was reimbursed by AFCEC for \$206,585 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 employees changed locations during the contract task order period, and due to a lack of detailed policies over NID/ID classification, classifications and rates were not always modified timely. 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 the AFCEC for \$206,585 of costs that could not be determined to be reasonable, allowable or allocable. Gilbane should implement a policy over the classification of employees as NID or ID, as well as a policy that requires the review of this classification prior to payroll cost payments and the calculation of related indirect costs. 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 2015-03: Costs Exceeded CLIN Budgets**

### Significant Deficiency and 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, as invoices tested did not include documentation of management approval.

Funding provided under the contract task order and related modifications were 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, one CLIN was over expended from the contract task order final budgeted amounts. CLIN 10008AD incurred costs in excess of \$176,173, and these costs were questioned accordingly. 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 two invoices were found to have been partially rejected by DFAS due to over-billing from the contract task order budgeted CLINs. The rejected amounts were not paid with the corresponding invoices. However, Gilbane resubmitted the rejected costs on subsequent invoices after a modification to the contract task order was received. We could not obtain adequate documentation to determine if the resubmitted costs were incurred within the proper period (prior to the modification effective date), were qualified as pre-contract costs, or if the costs were rebilled to the proper CLIN. The amount of rejected costs rebilled subsequent to a modification, or \$12,401, was questioned. The \$12,401 was overbilled by \$340 in CLIN 10008AB and \$12,061 in CLIN 10008AD.

Further, 3 of 14 invoices submitted to the Federal Government did not include documentation of management 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.

48 CFR 1804.170(b) states, "Costs incurred before the contract effective date are unallowable unless they qualify as precontract costs and the clause prescribed at 1831.205-70 is used."

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 over Federal Government billing requires invoices to be approved by the Project Manager prior to submission for reimbursement.

**Questioned (Ineligible) Costs: \$188,574**

**Effect:** Gilbane was reimbursed for \$188,574 of ineligible and unsupported 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 contract 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 procedures in place over the budgeting process of contract task order CLINs and procedures for the treatment of overbilled costs. Therefore, detailed documentation was not maintained to support the overbilled costs.

**Recommendation:** We recommend Gilbane provide documentation to support the questioned costs, or repay AFCEC for \$188,574 of ineligible and unsupported costs. Further, we recommend Gilbane amend its billing and budget policies to require budgets tracking 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 procedures over billing 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 2015-04: 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. For 198 of 282 items tested, or \$33,617, included on the listing were identified as office furnishings and IT equipment. These items included desks, chairs, cable boxes, televisions and receivers.

**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:** \$33,617

**Effect:** Gilbane charged AFCEC for \$33,617 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 \$33,617 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 contract task orders under this contract. Further, Gilbane should also implement internal training to address contract requirements over equipment and the processes and procedures to adhere to the requirements.

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

## **Finding 2015-05: Equipment: Lack of Documentation and Controls over Equipment**

### Significant Deficiency and Noncompliance

**Condition:** Gilbane did not maintain adequate documentation over inventory/equipment. For 7 of 9 items tested Gilbane did not include complete documentation over property records, including lack of invoice and/or adequate disposal documentation. Therefore, equipment could not be tested for compliance with applicable requirements. As such, the cost of these 7 items, or \$16,980, was questioned.

Missing Documentation	# of Exceptions	Unsupported Costs	Cumulative Questioned (Unsupported) Costs
Invoice/Purchasing Documentation	3*	\$11,500	\$11,500
Disposition Data	6*	\$16,980	\$16,980*
<b>Total Questioned (Unsupported) Costs</b>			<b>\$16,980</b>

*\*Of the 7 equipment items in question, two (2) items totaling \$11,500 were missing both adequate invoice/purchasing and disposal documentation. The costs of these two 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 7 of 9 equipment items tested with issues identified above, as follows:

- 1 of 9 items tested did not include adequate receiving documentation to support controls over equipment
- 4 of 9 items were lacking documentation for Contracting Officer Representative (COR) approvals over disposals.
- 2 of 9 items did not include adequate receiving documentation to support controls over equipment, nor did they include documentation for Contracting Office Representative (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:** \$16,980 (Note: \$650 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).

**Effect:** Gilbane charged AFCEC for \$16,980 in unsupported equipment costs. Further, a lack of documentation and controls over inventory records may signal lost property or thefts that go undetected. 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 all requirements over equipment/inventory as identified by FAR

**Recommendation:** We recommend Gilbane provide documentation for the unsupported equipment items, or repay AFCEC for \$16,890 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 FAR 252,246-7000 related to preparing and maintaining material inspection and receiving reports over Government property. Procedures should include requirements to maintain documentation over equipment for the required retention period.

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

## **Finding 2015-06: Lack of Controls over Approvals**

Significant Deficiency

**Condition:** We noted a lack of control in Gilbane's approvals over disbursements, as follows:

- A majority of the petty cash transactions were not approved by management because Gilbane's policy does not require manager approval for petty cash transactions under \$3,000. This indicates that the threshold of \$3,000 may be too high, resulting in inadequate controls over the majority of the 807 petty cash transactions that were processed without management approval. That is, \$246,149, or approximately 801 transactions, of the total \$303,575 petty cash disbursements were under the \$3,000 threshold and therefore did not require approval.
- One (1) employee timesheet was not approved by the project manager, as required by Gilbane policy.

While the controls in place over disbursements were followed, they are inadequate. Gilbane was able to provide documentation to support the allowability of the above identified payroll and petty cash disbursements tested.

**Questioned Costs:** None

**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."

**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 2015-07: 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 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 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 and unallowable under the contract task order, and questioned, accordingly. Finding No. 2015-02 has been included to report a similar matter.

### **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 identified issues with procurement procedures and related subcontract costs due to a lack of documentation in procurement, such as enforcement of prices noted in the initial quotations. Gilbane could not provide initial quotations for the subcontract in question, therefore, prices paid could not be agreed to initial quotations. Further, the prices paid to the subcontractor did not agree to the memorandum of the price analysis prepared by Gilbane prior to services performed by the contractor. Finding 2015-01 has been included to report a similar matter.

### **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.

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

## Appendix A: Views of Responsible Officials



March 1, 2016

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

Subject: Crowe Horwath Draft Audit Reports on Gilbane Federal Contract for Construction of the 1st Special Forces Regional Training Center Kandak and 1<sup>st</sup> Commando Brigade Headquarters and Transient Kandak, at Gardez, Afghanistan

Mr. Nuehring,

Please find attached the March 1, 2016, response requested by your office for the Crowe Horwath LLP draft audit reports of February 16, 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 the 1st Special Forces Regional Training Center Kandak and 1<sup>st</sup> Commando Brigade Headquarters and Transient Kandak, at Gardez, 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 45 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 0045 (TO45) 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 TO45 for the construction of the 1<sup>st</sup> Special Forces Regional Training Center, Kandak and 1<sup>st</sup> Commando Brigade Headquarters and Transient Kandak at Gardez, 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.

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 TO45 and Gilbane Federal prepared a Special Purpose Financial Statement (SPFS) for HERC TO45 in accord with those instructions provided by Crowe Horwath.

Relative to its audit of the TO45 SPFS, Crowe Horwath questioned costs as follows.

	Crowe Horwath <sup>2</sup>			Gilbane Federal	
	Budget <sup>3</sup>	Actual	Questioned	Corrected	Reference
<b>Revenue</b>					
Task Order 0045	31,588,250	31,542,076	-	-	
<b>Costs Incurred</b>					
<b>CLIN 10008 AA</b> 1st Special Forces Regional Training Center, Kandak	3,475,404	3,475,129	-	-	A
<b>CLIN 10008 AB</b> 1st CDO Brigade HQ	8,241,818	8,241,818	12,061	-	B
<b>CLIN 10008 AC</b> Transient Kandak	12,571,426	12,373,372	-	-	
<b>CLIN 10008 AD</b> Design and Construction 1 <sup>st</sup> Special Forces Kandak, Gardez Afghanistan (CTC) <sup>5</sup>	4,107,588	4,283,761	176,513	-	C
<b>CLIN 10008 AE</b> 1st CDO Brigade HQ <sup>6</sup>	1,196,263	1,192,440	-	-	
<b>CLIN 10008 AF</b> Transient Kandak <sup>7</sup>	1,995,751	1,975,556	-	-	
<b>Total Costs Incurred</b>	<b>31,588,250</b>	<b>31,542,076</b>	<b>4,579,989</b>	<b>-</b>	

Table 1 – TO45 Questioned and Corrected Amounts

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

<sup>3</sup> Modifications 01, 02, 03, 04, 05, 06, 07, 10, 11, and 16 were no cost modifications

<sup>4</sup> No CLIN identified by Crowe Horwath

<sup>5</sup> Established under Modification 09 ACRN AB

<sup>6</sup> Established under Modification 14 ACRN AC

<sup>7</sup> Established under Modification 14 ACRN AC

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, and described those audit findings in an audit pre-exit 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 16, 2016, and requested that Gilbane Federal provide a response by March 1, 2016. Our response is based upon the representations communicated by Crowe Horwath.

Our response to the Crowe Horwath draft audit reports is organized as follows:

- A No CLIN Designated by Crowe Horwath
- B CLIN 10008 AB - 1st CDO Brigade HQ
- C CLIN 10008 AD - Design and Construction 1<sup>st</sup> Special Forces Kandak, Gardez Afghanistan (CTC)
- D Lack of Controls over Approvals (*no questioned costs*)
- E Lack of Documentation and Controls over Key Personnel Changes (*no questioned costs*)
- F Prior Audit and Review Findings – Unreasonable Subcontract and Material Costs (*no questioned costs*)
- G Lack of Procurement Procedures Resulting in Unnecessary Material Costs (*no questioned costs*)
- H Lack of Adequate Procurement Procedures over Subcontracts (*no questioned costs*)

**A No CLIN Designated by Crowe Horwath**

Crowe Horwath questioned \$4,391,415 as follows:

Description	Questioned	Corrected	Reference
Lack of Support over Costs Incurred	4,134,883	-	A.1
Equipment	16,980	-	A.2
Improper Allocation of Costs	206,585	-	A.3
Unallowable Office Equipment	33,618	-	A.4
Other	(650)	-	A.5
Total	<u>4,391,416</u>	<u>-</u>	

Table 2 – No CLIN Designated by Crowe Horwath

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We organized our response as follows:

- A.1 Lack of Support over Costs Incurred
- A.2 Equipment
- A.3 Improper Allocation of Costs
- A.4 Unallowable Office Equipment
- A.5 Other

**A.1 Lack of Support over Costs Incurred**

Crowe Horwath questioned \$4,134,883 stating:

Gilbane stated a brief analysis was completed prior to the procurement of the third subcontractor for the related work. However, Gilbane did not perform a detailed analysis over the activity or maintain documentation over the additional necessary procurement procedures for this type of subcontract due to the lack of internal policies and procedures in place over terminated, insolvent and replacement subcontractors. Further, Gilbane was unaware of the necessity to maintain documentation over the professional services work products and deliverables.<sup>8</sup>

Crowe Horwath questioned \$4,134,883 as follows.

Description	Questioned	Corrected	Reference
Subcontractor Payments	4,052,017	-	A.1.1
Professional Service Payments	82,866	-	A.1.2
Total	<u>4,134,883</u>	<u>-</u>	

Table 3 – Lack of Support over Costs Incurred

We organized our response as follows.

- A.1.1 Subcontractor Payments
- A.1.2 Professional Service Payments

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<sup>8</sup> Crowe Horwath Independent Auditor's Report on the Special Purpose Financial Statement (Draft)

### A.1.1 Subcontractor Payments

Crowe Horwath questioned \$4,052,017 stating:

Two (2) transactions for payments to a main subcontractor on the contract task order did not include adequate documentation over procurement, such as original quotations and price modifications. In addition, subcontract information provided did not appear to be complete. Per Gilbane, this subcontractor was hired to replace a previous subcontractor who was terminated, and the previous terminated subcontractor was hired to replace the original subcontractor who was deemed insolvent. Without proper procurement documentation and detailed support over the status and completion of work by previous subcontractors, we could not determine if prices paid to replacement subcontractors were reasonable and if amounts billed were duplicated from previous subcontractors. Therefore, the entire amount of invoices under this subcontract, or \$4,052,017, was questioned.<sup>9</sup>

Gilbane Federal competitively awarded a subcontract to a company who was subsequently terminated for non-performance. A follow-on subcontract was awarded to another company for the remaining work who failed to timely mobilize and was terminated.

A third subcontract was awarded to a replacement subcontractor, [replacement subcontractor].

The basis for the subcontract price for the remaining work was based on the Statement of Values (SOV) used for management of the initial subcontract. The detailed SOV detailing the work/cost performed by the initial subcontractor was provided to bidders and was the basis for the pricing of the subsequent follow-on subcontract wherein the replacement subcontractor agreed to a price, as adjusted by the SOV for already completed work, was the same as that under the original, competitively awarded subcontract.

#### Schedule of Values

A Schedule of Values breaks the price down and allocates it among various components of the Work...This breakdown helps you compare progress of the Work to how much of the price has been paid to date. It's critical to architects, engineers, other consultants, and lenders who review the Work each month, compare its progress to how much money has already been paid, and how much the working side is requesting in their latest monthly application for payment. The Schedule of Values allows everyone to see whether progress of the Work is "in balance" with payment of the price...

Re: *Construction Contracts: The 10 Most Important Terms – Price*,  
ConstructionLawToday

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

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As documented in the *Price Analysis* document for Subcontract #8139-07031.3521:

This subcontract was negotiated with [replacement subcontractor] at the same unit rates that were in the above mentioned [original subcontractor] subcontract. That subcontract was awarded based on competition. The total subcontract price that was negotiated with [replacement subcontractor] was based on the remaining percentages to complete the work at the time of the [original subcontractor] termination. What this amounted to the ability to continue on with [replacement subcontractor] to complete the work at no change in costs from the previous subcontract with [original subcontractor], which an award based on competition. This justifies the [replacement subcontractor] subcontract price to be fair and reasonable.

Gilbane Federal awarded a subcontract to a responsible subcontractor who had successfully completed other work for Gilbane Federal within the same geographic area at a price consistent with the original, competitively awarded subcontract. The subcontract pricing reflected the detailed SOV cost of work performed and work remaining. Gilbane Federal has the purchase requisition with Work Breakdown Structure (WBS) detail, the detailed Statement of Values (SOV) for cost/work performed by the original subcontractor, procurement justification, price analysis and comparison of [original subcontractor] competitively awarded prices and [replacement subcontractor] prices. The acquisition is adequately supported consistent with Government regulatory requirements. Accordingly, the corrected amount is zero.

#### **A.1.2 Professional Service Payments**

Crowe Horwath questioned staffing agency labor costs as follows.

<u>Name</u>	<u>Title</u>	<u>Questioned</u>	<u>Corrected</u>
[Employee A]	Architect	\$29,108.27	-
[Employee B]	Drafter	13,929.97	-
[Employee C]	Structural Engineer	30,836.26	-
[Employee D]	Proposal Manager	8,941.52	-
[Employee E]	Buyer	50.04	-
Total		<u>\$82,866.06</u>	<u>-</u>

Table 4 – Professional Service Payments

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Crowe Horwath questioned \$82,866 stating:

One (1) transaction did not include adequate documentation to support the payment to a consultant/contractor for professional services (proposal manager) performed under the contract task order. The individual was paid under an overall agreement with [staffing agency name omitted], a professional staffing agency, and utilized for professional services. Based upon our testing, adequate documentation could not be provided for one 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, entire amount paid to the Agency, excluding one individual within the sample with proper supporting documentation, was deemed questionable (\$82,866), as professional service payments could not be determined to be reasonable without proper supporting documentation.<sup>10</sup>

Crowe Horwath further stated:

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."

FAR 31.205-33 contains guidance for allowability and support over professional service costs. Specifically, section (f) states, "Fees for services rendered are allowable only when supported by evidence of the nature and scope of the service." "...Evidence necessary to determine that work performed is proper and does not violate law or regulation shall include— "... (3) Consultants' work products and related documents, such as trip reports indicating persons visited and subjects discussed, minutes of meetings, and collateral memoranda and reports."

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

Correspondingly, Crowe Horwath, in discussions of its preliminary audit findings,<sup>11</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>12</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.<sup>11</sup>

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.

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 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

<sup>11</sup> Crowe Horwath TO 45 Preliminary Audit Findings Discussion Notes (December 17, 2015)

<sup>12</sup> Staffing agency agreement

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31.205-33 criteria. Since these costs represent purchased labor, the audit team should consider the guidance relating to purchased labor discussed above.<sup>13</sup>

The contract employees provided by [staffing agency] performed work on TO45. In this capacity, the individuals worked directly with Gilbane Federal employees and performed that work under the supervision and management of Gilbane Federal.

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>14</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 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.

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<sup>13</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

<sup>14</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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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.

Crowe Horwath had further stated: "Further, Gilbane was unaware of the necessity to maintain documentation over the professional services work products and deliverables." The Crowe Horwath statement is false and is reflective of those errors in their application of FAR 31.205-33.<sup>15</sup>

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. [Staffing agency] contract employees performed work allocable to TO45. 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 TO45 costs and Gilbane Federal also has proof of payment to [staffing agency]. The costs are adequately supported and consistent with Government regulatory requirements. Accordingly, the corrected amount is zero.

## **A.2 Equipment**

Crowe Horwath questioned \$16,980 stating:

Gilbane did not maintain adequate documentation over inventory/equipment. 7 of 9 items tested did not have adequate property records, including lack of invoice and/or disposal documentation, therefore, equipment could not be tested for compliance with applicable requirements. As such, the cost of these 7 equipment items were questioned (\$16,980).<sup>16</sup>

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<sup>15</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

<sup>16</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

Crowe Horwath further stated:

In addition, adequate controls over inventory/equipment were not maintained. There was a lack of documentation to support controls over the receipt and disposal over the Task Order equipment items as 3 of 9 items tested did not include adequate receiving documentation, and 6 of 9 items were lacking adequate approvals over disposals.<sup>17</sup>

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

For each item of the received 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.

Description/Tag	Questioned	Claimed	Receiving Documents	Disposition	Notes
HVAC/15353	600	600	Yes	DD1354	
Living Container/15361	10,900	10,900	Yes	DD1354	
Geepas Heater/13891	N/A		Yes	DD1354	
Port Switch/Temp-B114	650	650	Yes	DD1354	
Generator/20105	3,500	3,500	Yes	DD1354	
Washer/13791	-	-	Yes	DD1149	1
Dryer/13788	-	-	Yes	DD1149	1
Washer/13947	650	-	Yes	DD1149	1
Washer/13964	680	-	Yes	DD1354	1
Total	<u>16,980</u>	<u>15,650</u>			

Note 1 – Gilbane Federal equipment provided to the Government at no cost.

Table 5 – Equipment

Differences between Crowe Horwath questioned costs versus amounts claimed on TO45 reflect that Gilbane Federal equipment provided to the Government at no cost at the conclusion of TO45.

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

Crowe Horwath further stated: "Gilbane did not properly maintain documentation over property records as the procedures in place did not include all requirements over equipment/inventory as identified by FAR"<sup>18</sup> The Crowe Horwath statement is false. Gilbane Federal property records were maintained consistent with the requirements of Federal Acquisition Regulation (FAR) Part 45.

Gilbane Federal has documentation showing the receipt of property and Government acknowledgement of the receipt of that equipment on the Government-prescribed forms. Accordingly, the corrected amount is zero.

### A.3 Improper Allocation of Costs

Crowe Horwath questioned \$206,585 stating:

Finding 2015-02 identified \$206,585 in ineligible costs that resulted from Gilbane charging improper indirect cost rates on payroll costs based upon employee's classification, in addition to charging unallocable Business Receipt Tax (BRT) costs to the contract task order.<sup>19</sup>

Crowe Horwath questioned \$206,585 as follows:

Description	Questioned	Corrected	Reference
NID/ID Classification	30,218	-	A.3.1
BRT Taxes	176,367	-	A.3.2
Detailed Analysis	206,585	-	

Table 6 – Improper Allocation of Costs

We organized our response as follows.

- A.3.1 NID/ID Classification
- A.3.2 BRT Taxes

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

<sup>19</sup> Crowe Horwath Independent Auditor's Report on the Special Purpose Financial Statement (Draft)

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### A.3.1 NID/ID Classification

Crowe Horwath questioned \$30,218 stating:

Two (2) payroll transactions to employees were billed using the incorrect indirect cost rates based upon the employee's classification. Employees are classified as non-imminent danger (NID) or Imminent Danger (ID) based upon danger pay rates and work locations. Specific indirect cost rates were approved throughout the contract task order using these classifications. However, the rates were applied incorrectly and inconsistently with the employee's NID/ID classification for two employees tested based upon actual payroll rates and work locations. The difference in the indirect cost rate application over all transactions billed to the contract task order for the two employees tested was calculated and questioned (\$30,218).<sup>20</sup>

Employee work hours and work location are recorded on employee timesheets. Employees are paid at Non-imminent Danger (NID) or Imminent Danger (ID) [REDACTED] with Gilbane Federal disclosed and established cost accounting practices.

#### Method of Charging Direct Labor

##### Definitions

- Non-Imminent Danger (NID) [REDACTED]
- Imminent Danger (ID) [REDACTED]

Direct Labor for salaried personnel in Non-Imminent Danger (NID) locations is charged to Federal contracts at the actual salary costs of each individual employee who performs work under contract. If an Exempt salaried employee works more than forty hours in a workweek, his/her salary cost for the week will be divided by the total number of hours worked to derive the effective hourly rate for the hours recorded in that workweek. This rate dilution approach ensures that each cost objective bears only the appropriate pro rata share of the individual's salary costs for the workweek.

Direct Labor for salaried personnel in Imminent Danger (ID) locations is charged to Federal contracts at the actual salary costs of each individual employee who performs work under the contract. In addition to base salary costs, ID personnel

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

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receive uplifts to base salary costs [REDACTED]. Hours in excess of 40 hours per week are paid and charged at the base rate [REDACTED]

Gilbane Federal cost accounting practices were previously deemed adequately described and in compliance with Cost Accounting Standards (CAS) by the Government.

When salaried employees work [REDACTED] and that labor is classified as ID labor consistent with Gilbane Federal disclosed and established government contract accounting practices. [REDACTED]

Gilbane Federal labor charges were made consistent with its established and disclosed cost accounting practices. The Gilbane Federal labor charging practices were audited by the Government and deemed adequately disclosed and compliant with Government CAS. 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.3.2 BRT Taxes

Crowe Horwath questioned \$176,367 stating:

Two (2) subcontractor payments 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 from the subcontractor 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 to the Afghanistan Ministry of Finance, or how BRT paid reconciles to invoices billed to the contract task order. Based upon a review of invoices to these subcontractors, it is standard procedure for Gilbane to exclude the BRT from the subcontractor payments, but to bill the BRT to

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<sup>21</sup> Gilbane Federal CASB Disclosure Statement

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the contract task order. Therefore, the entire amount of BRT related to these subcontractors, or \$176,367, is questioned.<sup>22</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 employing 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 and remitted the funds to the MoF on behalf of the contractor.

For [subcontractor], Gilbane Federal paid, in part, those BRT liabilities of [subcontractor] for its work on TO45. As such, the BRT is allocable to TO45 as a directly associated cost.<sup>23</sup> The remaining BRT due to the Afghanistan MoF for [subcontractor] work on TO45 were paid by [subcontractor] to the Afghanistan MoF consistent with agreed upon terms wherein [subcontractor] subsequently agreed:

[Subcontractor] shall also pay in full any and all taxes due to the Government of Afghanistan or any other taxing authority (including any Business Receipts Tax (“BRT”) and/or income withholding taxes), in respect of any Project work performed by [subcontractor] or its affiliates and/or sub-subcontractors or suppliers, or otherwise in connection with the POs and Subcontract.

Consistent with Afghan tax law, the BRT costs billed the Government for [subcontractor] are based on that portion of the BRT liability assumed by Gilbane Federal for [subcontractor] work on TO45. Accordingly, the corrected amount is zero.

#### **A.4 Unallowable Office Equipment**

Crowe Horwath questioned \$33,617 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. For 198 of 282 items tested, or \$33,617, included on the listing were identified as office furnishings and IT equipment. These items included desks, chairs, cable boxes, televisions and receivers.<sup>22</sup>

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

<sup>23</sup> Directly associated cost” means any cost which is generated solely as a result of the incurrence of another cost, and which would not have been incurred had the other cost not been incurred. (FAR 31.001, Definitions)

<u>Description</u>	<u>Quantity</u>	<u>Price Each</u>	<u>Questioned</u>	<u>Claimed</u>	<u>Notes</u>
Folding Chairs	10	30.00	300.00	300.00	
Folding Table (10 ft.)	1	160.00	160.00	160.00	
22 Unit Rack with Fan	1	520.00	520.00	520.00	
32" LCD TV	19	450.00	8,550.00	8,550.00	
32" LCD TV	1	450.00	450.00	450.00	1
48 Port Switch	1	650.00	650.00	650.00	
Book Shelf	6	N/A	N/A	N/A	
Chair	1	70.00	70.00	70.00	
Cisco Satellite Receiver (AFN) (with remote)	9	369.00	3,321.00	3,321.00	
Desk Chair	19	50.00	950.00	950.00	
Dish – TV Cable Box (with remote)	2	100.00	200.00	200.00	1
Dish – TV Cable Box (with remote)	18	100.00	1,800.00	1,800.00	
Folding Conference Table	1	300.00	300.00	300.00	
Office Chair	3	40.00	120.00	120.00	
Office Chair	7	40.00	280.00	-	2
Refrigerator (Samsung)			120.00	120.00	1
Refrigerator (Samsung)	2	120.00	240.00	240.00	1
Refrigerator (Samsung)	17	120.00	2,040.00	2,040.00	
Revolving Chair	4	330.00	1,320.00	1,320.00	
Revolving Desk Chair-Small-Leather	2	80.89	161.78	161.78	
Safe	1	189.00	189.00	189.00	
Shelves	12	250.00	3,000.00	3,000.00	
Single Bed (Metal Frame) W/Mattress	20	100.00	2,000.00	2,000.00	
UPS/APC 1000 Watt	1	350.00	350.00	350.00	
VSAT Equipment, KU Band, X3 evolution modem	1	3,200.00	3,200.00	3,200.00	
Wall locker (Lockable)	2	115.00	230.00	230.00	1
Wall locker (Lockable)	15	115.00	1,725.00	1,725.00	
Work Desk (3 Drawers)	2	67.41	134.82	134.82	
Work Desk (3 Drawers)	19	65.00	1,235.00	1,235.00	
Total			<u>33,616.60</u>	<u>33,336.60</u>	

Note 1 – Title II (Government employee) living quarters

Note 2 – Item(s) provided to the Government at no cost by Gilbane Federal

Table 7 – Unallowable Office Equipment

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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.

Gilbane Federal at the conclusion of TO45 returned all Government furnished equipment consistent with the requirements of Federal Acquisition Regulation (FAR) Part 45, Government Property. Differences between Crowe Horwath questioned costs versus amounts claimed on TO45 reflect those Gilbane Federal furnishings provided to the Government at no cost at the conclusion of TO45.

HERC TO45 required construction in an Afghanistan war zone. Consistent with its security plan for TO45 and task order requirements, Gilbane Federal established secure living areas using Containerized Housing Units (CHU). Due to the remote location and site dangers, Gilbane Federal did not procure the questioned items for general use. They were used for the secure living area that included Title II personnel (Government employees) for project-specific use.

Crowe Horwath further stated: "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." The Crowe Horwath statement is false. Consistent with industry practice, cost charging is defined at time of requisitioning and is not a standard procurement function. Cost charging for a specific contract is not typically incorporated into company-wide policies for Government property (i.e., exceptions are handled at the project, not company level) and individuals assigned responsibilities for TO45 charges appropriately assigned the costs of living area furnishings.

Gilbane Federal living quarter furnishings were charged to TO45 consistent with contract requirements. Accordingly, the corrected amount is zero.

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**A.5 Other**

Crowe Horwath questioned \$(650) which represented costs duplicated amongst audit findings. Gilbane Federal has no comment on the duplicative questioned costs.

**B CLIN 10008 AB - 1st CDO Brigade HQ**

Crowe Horwath questioned \$12,061 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, as invoices tested did not include documentation of management approval.<sup>24</sup>

Crowe Horwath further stated:

... In addition, we noted two invoices were found to have been partially rejected by DFAS due to over-billing from the contract task order budgeted CLINs. The rejected amounts were not paid with the corresponding invoices. However, Gilbane resubmitted the rejected costs on subsequent invoices after a modification to the contract task order was received. We could not obtain adequate documentation to determine if the resubmitted costs were incurred within the proper period (prior to the modification effective date), were qualified as pre-contract costs, or if the costs were rebilled to the proper CLIN. The amount of rejected costs rebilled subsequent to a modification, or \$12,401, was questioned. The \$12,401 was overbilled by \$340 in CLIN 10008AB and \$12,061 in CLIN 10008AD.<sup>24</sup>

TO45 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.

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

INVOICE	ACRN AA	ACRN AA	ACRN AA	ACRN AB	ACRN AC	ACRN AC	TOTAL INVOICE
	CLIN 1008AA	CLIN 1008AB	CLIN 1008AC	CLIN 1008AD	CLIN 1008AE	CLIN 1008AF	
4501	13,127.51	11,320.94	19,448.88	-	-	-	43,897.33
4502	61,404.46	56,315.65	91,055.32	-	-	-	208,775.43
4503	898,305.49	241,829.83	385,087.53	-	-	-	1,525,222.85
4504	166,617.45	111,218.81	176,836.56	-	-	-	454,672.82
4505	216,863.23	150,091.16	220,387.13	-	-	-	587,341.52
4506	560,234.67	149,876.86	304,091.75	-	-	-	1,014,203.28
4507	152,274.31	96,256.37	117,209.52	-	-	-	365,740.20
4508	116,690.90	265,833.30	277,807.75	-	-	-	660,331.95
4509	-	268,859.51	339,972.57	-	-	-	608,832.08
4510	-	760,033.41	533,447.29	-	-	-	1,293,480.70
4511	-	330,683.30	661,108.69	-	-	-	991,791.99
4512	-	174,198.69	649,229.96	-	-	-	823,428.65
4513	-	338,221.61	600,408.72	-	-	-	938,630.33
4514	464,283.85	533,698.25	767,587.62	-	-	-	1,765,569.72
4515	-	212,940.98	310,173.56	-	-	-	523,114.54
4516	-	141,861.66	979,403.61	-	-	-	1,121,265.27
4517	-	329,516.72	403,445.83	-	-	-	732,962.55
4518	-	55,219.61	92,461.16	-	-	-	147,680.77
4519	-	491,456.93	1,004,403.99	-	-	-	1,495,860.92
4520	-	-	139,654.86	-	-	-	139,654.86
4521	-	-	240,237.65	-	-	-	240,237.65
4522	524,427.29	2,635,967.37	3,714,159.65	1,250,751.63	-	-	8,125,305.94
4523	99.41	127,127.46	76,231.41	59,829.52	-	-	263,287.80
4524	-	36,635.04	-	36,004.07	-	-	72,639.11
4525	15,627.90	62,475.90	-	77,200.95	-	-	155,304.75
4526	26,705.53	105,176.28	-	692,625.23	-	-	824,507.04
4527	(439.56)	121,837.11	-	130,207.32	-	-	251,604.87
4528R	-	115,920.00	114,080.00	1,440,211.45	-	-	1,670,211.45

INVOICE	ACRN AA	ACRN AA	ACRN AA	ACRN AB	ACRN AC	ACRN AC	TOTAL INVOICE
	CLIN 1008AA	CLIN 1008AB	CLIN 1008AC	CLIN 1008AD	CLIN 1008AE	CLIN 1008AF	
4529	4,378.93	-	-	217,985.88	-	-	222,364.81
4530	-	236,305.30	363,049.21	-	-	-	599,354.51
4531R1	116,180.76	(6,916.07)	(140,518.70)	22,126.99	412,450.09	1,009,454.16	1,412,777.23
4532R1	-	-	48,271.33	-	38,754.37	43,547.09	130,572.79
4533	-	-	14,594.78	-	420,871.91	298,311.57	733,778.26
4534	-	-	-	-	176,960.25	362,287.85	539,248.10
4535	-	-	-	-	31,865.58	59,502.60	91,368.18
4536	-	-	-	-	2,614.45	19,474.04	22,088.49
4537	36,393.36	74,334.97	(4,329.52)	19,843.01	1,363.55	154.15	127,759.52
4538	110.34	(18,580.88)	15,731.38	19,529.65	9,875.84	6,901.94	33,568.27
4539	16.07	44,163.23	451.18	136,800.00	55,936.01	29,865.70	267,232.19
4540	-	-	-	-	-	120,738.97	120,738.97
4541	100,000.00	-	32,329.18	-	41,120.75	24,279.46	197,729.39
<b>TOTAL</b>	<b>3,473,301.90</b>	<b>8,253,879.30</b>	<b>12,547,509.85</b>	<b>4,103,115.70</b>	<b>1,191,812.80</b>	<b>1,974,517.53</b>	<b>31,544,137.08</b>
<b>Obligated</b>	3,475,404.00	8,241,818.00	12,571,426.00	4,107,588.00	1,196,263.00	1,995,751.00	31,588,250.00
<b>Paid</b>	3,473,301.90	8,241,818.00	12,547,509.85	4,103,115.70	1,191,812.80	1,974,517.53	31,532,075.78
<b>Remaining</b>	2,102.10	-	23,916.15	4,472.30	4,450.20	21,233.47	56,174.22

Table 8 – TO45 Invoices

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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 TO45 fixed fee. Gilbane Federal has not billed amounts in excess of the TO45 contract obligated funds.

TO45 modifications (MOD) 14 and MOD 17 ascription of costs by CLIN differed between AFCEC and the Defense Finance and Accounting Service (DFAS) who paid Gilbane Federal TO45 invoices. Gilbane Federal tracked costs consistent with the AFCEC award and modification amounts by CLIN. DFAS assigned funding using different CLINs. Specifically, the Gilbane Federal ascription of MOD 14 and MOD 17 funds was based on direction in the TO45 modifications, which directed the funding by CLIN.

DFAS ascribed the funds differently than the direction contained in the modification which the Company understands will require a task order modification to align the costs and DFAS CLIN funding to address the short paid Gilbane Federal invoice. There was a difference in the assignment of funds by CLIN wherein DFAS assigned funding differently than the task order modifications. There was no overbilling. The corrected amount is zero.

**C CLIN 10008 AD - Design and Construction 1st Special Forces Kandak, Gardez Afghanistan (CTC)**

Crowe Horwath questioned \$176,513 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, as invoices tested did not include documentation of management approval.<sup>25</sup>

Funding provided under the contract task order and related modifications were based upon the authorized CLIN categories. However, Gilbane maintained their

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

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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, one CLIN was over expended from the contract task order final budgeted amounts. CLIN 10008AD incurred costs in excess of \$176,173, and these costs were questioned accordingly.<sup>26</sup>

TO45 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 TO45 fixed fee. Gilbane Federal has not billed amounts in excess of the TO45 contract obligated funds.

Crowe Horwath had further stated: "... 3 of 14 invoices submitted to the Federal Government did not include documentation of management approval, as required by Gilbane policy." The TO45 biller stated that bills, consistent with Company policy, are never submitted without management approval. <WAWF> Gilbane Federal was not able to locate project management approval documentation for three of the subject invoices.

Differences in CLIN amounts were identified between AFCEC and DFAS who paid Gilbane Federal TO45 invoices. After discussions with AFCEC, Gilbane Federal submitted revised invoices reflecting the AFCEC and DFAS agreed funding amounts by CLIN. There was no overbilling. The corrected amount is zero.

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<sup>26</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

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**D Lack of Controls over Approvals**

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

We noted a lack of control in Gilbane's approvals over disbursements, as follows:

- Petty cash transactions 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 807 petty cash transactions were processed without management approval. \$246,149, or approximately 801 transactions, of the total \$303,575 petty cash disbursements were under the \$3,000 threshold and therefore did not require approval.
- One (1) employee timesheet was not approved by the project manager, as required by Gilbane policy.

While the controls in place over disbursements are inadequate, Gilbane was able to provide documentation to support the allowability of the above identified payroll and petty cash disbursements tested.<sup>27</sup>

We organized our response as follows:

- D.1 Petty Cash Dollar Threshold
- D.2 One Employee Timesheet Not Approved by Project Manager

**D.1 Petty Cash Threshold**

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

Gilbane did not maintain the proper control over costs paid through petty cash during the contract task order. As such, there is an increased risk that unallowable or unallocable costs will be billed to the contract task order.<sup>27</sup>

Crowe Horwath further stated:

Petty cash transactions under \$3,000 were not approved by management. Gilbane's policy does not require manager approval for petty cash transactions under \$3,000.

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

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As such, the controls in place over petty cash are inadequate, as the majority of the 807 petty cash transactions were processed without management approval. \$246,149, or approximately 801 transactions, of the total \$303,575 petty cash disbursements were under the \$3,000 threshold and therefore did not require approval.<sup>28</sup>

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 micro-purchase 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 and accounting office reviews) were not adequate compensating controls. The internal control finding is not supported by

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<sup>28</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

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evidentiary matter as contemplated under Generally Accepted Government Auditing Standards (GAGAS); the stated Crowe Horwath internal control significant deficiency is unsupported by law, regulation or established industry practice.

**D.2 One Employee Timesheet Not Approved by Project Manager**

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

One (1) employee timesheet was not approved by the project manager, as required by Gilbane policy.<sup>29</sup>

Gilbane Federal employed an electronic timekeeping application that required manager/supervisor approval of timesheets. The timekeeping policy and procedures states:

Supervisors or alternate timesheet approvers are required to review the timesheets of their direct report employees for accuracy and to formally approve the timesheet by signature or electronic approval. In the event a timesheet approver detects an error on the timesheet he/she will return the timesheet to the employee for correction by the employee and subsequent re-approval.

Consistent with timekeeping policy and procedures, the electronic timesheet had been approved.

The Crowe Horwath statement is incorrect. Gilbane Federal timekeeping policies and procedures provide for supervisor approval; while the project manager did not approve the timesheet, it was not required that the “project manager” approve the timesheet. The stated Crowe Horwath control deficiency is not supported.

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

Crowe Horwath did not question costs its 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 contract task orders issued under the contract. Gilbane stated one individual listed

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

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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>30</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 and unallowable under the contract task order, and questioned, accordingly. Finding No. 2015-02 has been included to report a similar matter.<sup>30</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>31</sup>

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

Crowe Horwath stated:

During our testing procedures, we identified issues with procurement procedures and related subcontract costs due to a lack of documentation in procurement, such as enforcement of prices noted in the initial quotations. Gilbane could not provide initial quotations for the subcontract in question, therefore, prices paid could not be agreed to initial quotations. Further, the prices paid to the subcontractor did not

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<sup>30</sup> Crowe Horwath Independent Auditor's Report on Compliance (Draft)

<sup>31</sup> Gilbane Federal, Response to DCAA Audit Report dated June 15, 2015

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agree to the memorandum of the price analysis prepared by Gilbane prior to services performed by the contractor. Finding 2015-01 has been included to report a similar matter.<sup>32</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.

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 presentation of evidentiary matter supporting 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>31</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>32</sup>

Crowe Horwath further 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 procurement and noted updates to the policy over subcontractor monitoring, changes to the scope of work and price adjustments.<sup>32</sup>

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

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

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<sup>32</sup> Crowe Horwath Independent Auditor’s Report on Compliance (Draft)

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assertion “Lack of Adequate Procurement Procedures over Subcontracts.” That is, there is no presentation of evidentiary matter supporting 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>33</sup>

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<sup>33</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 \$12,413 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 2015-03 and rebuttals B and C, both CLIN 0008AB and CLIN 0008AD were overbilled by a total of \$188,574. 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 individual finding 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: Subcontractor Payments (Finding 2015-01):**

Gilbane disagreed with the original finding and related questioned costs. Gilbane stated the subcontract price and procurement over the subcontract was properly supported and the subcontract was awarded competitively and in accordance with regulatory requirements. The information included within Gilbane's finding response, specifically the reference and explanation over the Statement of Values (SOV) used to determine subcontractor pricing, was not provided previously. Based upon this newly provided information and review of the supporting documentation in conjunction with their response, the original contract amount of \$3,258,747 is now supported. Our finding has been revised to remove \$3,258,747 of questioned costs. However, the total payments under the subcontract and billed to the task order were \$4,052,017. No documentation, such as change orders or approved contract amendments were provided. The remaining \$793,270 of costs paid in excess of the original contract provided was unsupported, and thus will remain questioned.

Due to the lack of supporting documentation to support the reasonableness and allowability of \$793,270 of subcontractor costs, \$793,270 of the original \$4,052,017 of questioned costs will remain questioned, and the finding has been revised, accordingly. See also **TABLE B**.

### **A.1.2 – Lack of Support over Costs Incurred: Professional Service Payments (Finding 2015-01):**

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 \$82,866 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.2 – Equipment (Finding 2015-05):**

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 \$16,980 of costs will remain questioned.

Gilbane noted various equipment items in question within the management response that were not billed to the task order and thus were at no cost to the Government. However, these items were included on the task order equipment listing received as part of the audit. If Gilbane is now stating that these items were never claimed under the task order, documentation should have been provided to support this claim. No documentation was provided to support the equipment items were not claimed, and therefore, the \$1,330 of items identified by Gilbane within their response will remain questioned.

Gilbane also stated the cause included in the finding, related to the lack of FAR requirements included with their procedures, was incorrect. Gilbane stated, "Gilbane Federal property records were maintained consistent with the requirements of Federal Acquisition Regulation (FAR) Part 45." 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.3.1 – Improper Allocation of Costs: NID/ID Classification (Finding 2015-02):**

Gilbane disagreed with the finding and questioned costs and stated the charges were made consistent with its established and disclosed cost accounting practices. Gilbane further stated, "Gilbane Federal has payroll/labor distribution records and proof of payment. The costs are adequately supported and comply with Government regulatory requirements." However, our finding was not based upon the lack of support, but the improper rates applied to the employees within our testing sample.

As noted in the original finding, we identified payroll payments to two employees within our sample that were charged the incorrect indirect cost rate [REDACTED]

Without documentation provided by Gilbane to support that these employees incurred time in an ID area, we could not support the related application of the ID indirect cost rates used on the employee's payroll. Thus, based upon the errors noted in testing over the sampled employees, the entire indirect cost rates applied to these employee salaries, totaling \$30,218 will remain in question.

**A.3.2 – Improper Allocation of Costs: BRT Taxes (Finding 2015-02):**

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, and thus, the \$176,367 of costs will remain in question.

**A.4 – Unallowable Office Equipment (Finding 2015-04):**

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. Therefore, the \$33,617 of costs will remain in question.

**B – CLIN 10008 AB – 1<sup>st</sup> CDO Brigade HQ and**

**C – CLIN 10008 AD – Design and Construction 1<sup>st</sup> Special Forces Kandak, Gardez Afghanistan (CTC) (Finding 2015-03):**

Gilbane disagreed with both subparts of this finding and the related questioned costs, and cited differences in CLIN assignments by DFAS. However, the basis for the finding was the approved budgeted amounts per the task order (FA8903-06-D-8513-0045) and related modifications (01-18). 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 show DFAS's differing CLIN assignments, as stated in Gilbane's response, was provided.

Further, as previously noted, the billed costs per WAWF exceeded the budgeted/approved costs per the task order and modifications, for CLINs 10008 AB and 10008 AD. 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. Due to the lack of documentation, the overbilled costs, totaling \$188,574, will remain in question. See **TABLE C** which supports the original SPFS figures which agree to Gilbane's billings to the Federal Government.

**D.1 – 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, \$246,149 (801 transactions) of the total \$303,575 petty cash disbursements (807 transactions) were under the \$3,000 threshold. This means 81% of the total amount of petty cash disbursements were under the threshold and not required for approval. If 81% 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.

**D.2 – Lack of Controls over Approvals: One Employee Timesheet not approved by Project Manager (Finding 2015-06):**

Gilbane disagreed with the finding and stated the timesheet was approved by a supervisor, and project manager approval was not required per policy. However, this statement was not supported, as there was no supervisor approval provided for the referenced timesheet within the documentation received – within the audit or within the management response. If Gilbane had documentation of a supervisor approval, the support should have been provided as requested multiple times. This finding will remain a significant control deficiency, in conjunction with subpart "D.1" above.

**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.

**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	A.1.1.	\$4,052,017	\$ 793,270	Questioned costs have been revised based upon new information provided within response.
	A.1.2.	\$82,866	\$ 82,866	Language within the finding has been revised based upon new information provided within the response. No change to questioned costs.
<b>Total Finding 2015-01 Questioned Costs</b>			<b>\$ 876,136</b>	
Finding 2015-02	A3.1	\$30,218	\$ 30,218	No changes to finding or questioned costs.
	A3.2	\$176,367	\$ 176,367	
<b>Total Finding 2015-02 Questioned Costs</b>			<b>\$ 206,585</b>	
Finding 2015-03	B	\$12,061	\$ 12,061	No changes to finding or questioned costs.
	C	\$176,513	\$ 176,513	
<b>Total Finding 2015-03 Questioned Costs</b>			<b>\$ 188,574</b>	
Finding 2015-04	A.4	\$33,617	\$ 33,617	No changes to finding or questioned costs.
<b>Total Finding 2015-04 Questioned Costs</b>			<b>\$ 33,617</b>	
Finding 2015-05	A.2	\$16,980	\$ 16,980	No changes to finding or questioned costs.
<b>Total Finding 2015-05 Questioned Costs</b>			<b>\$ 16,980</b>	
Finding 2015-06	D.1 - D.2	\$0	\$ -	No changes to finding or questioned costs.
<b>Total Finding 2015-06 Questioned Costs</b>			<b>\$ -</b>	
Finding 2015-07	E	\$0	\$ -	No changes to finding or questioned costs.
<b>Total Finding 2015-07 Questioned Costs</b>			<b>\$ -</b>	
<b>Cumulative Questioned Costs**</b>			<b>\$ 1,321,242</b>	

\*\*As noted within the report, questioned costs of \$650 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 45  
For the Period March 15, 2011 through July 8, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<b>Questioned Costs</b>					
<i>Revenues</i>					
Task Order 0045	\$ 31,588,250	\$ 31,542,076			4
<b>Total Revenue</b>	<b>31,588,250</b>	<b>31,542,076</b>			
<i>Costs Incurred</i>					
10008 AA	3,475,404	3,475,129	239,552	893,116	A, B, D, 5, 9
10008 AB	8,241,818	8,241,818	12,061		C
10008 AC	12,571,426	12,373,372			
10008 AD	4,107,588	4,283,761	176,513		C
10008 AE	1,196,263	1,192,440			
10008 AF	1,995,751	1,975,556			
<b>Total Costs Incurred</b>	<b>31,588,250</b>	<b>31,542,076</b>	<b>428,126</b>	<b>893,116</b>	6
<b>Balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (428,126)</b>	<b>\$ (893,116)</b>	

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