

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 16-45 Financial Audit**

## Construction of Afghan District Headquarters Uniform Police Stations in Helmand Province: Audit of Costs Incurred by PRI/DJI, A Construction JV

**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 September 1, 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 21-month, \$8.8 million cost plus fixed fee task order to PRI/DJI, A Construction JV (PRI/DJI). The joint venture is comprised of Project Resources, Inc. and Del-Jen, Inc. The purpose of the task order was to design and construct two District Headquarters Uniform Police stations for the Afghan National Police in Marjah and Balakina in Helmand province, Afghanistan. Construction of the Balakina police station was terminated for convenience on February 23, 2012, so only the police station in Marjah was completed. Through seven modifications to the task order, the period of performance was extended to December 20, 2013, and the total award amount increased to \$14.3 million.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$14,318,329 in expenditures charged to the task order from September 1, 2011, through December 20, 2013. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in PRI/DJI'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 PRI/DJI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of PRI/DJI's Special Purpose Financial Statement. 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 Afghan District Headquarters Uniform Police Stations in Helmand Province: Audit of Costs Incurred by PRI/DJI, A Construction JV

SIGAR 16-45-FA

### WHAT THE AUDIT FOUND

Crowe identified three material weaknesses, three significant deficiencies, and two deficiencies in PRI/DJI's internal controls, and seven instances of noncompliance with the terms of the task order. Specifically, Crowe found that neither PRI/DJI nor its subcontractor, Tetra Tech EC, Inc. (TtEC) could provide sufficient documentation to support the receipt, disposition, or transfer of property acquired under the task order. Crowe noted that PRI/DJI did not properly account for \$2,184 of task order property that had been damaged or destroyed, and did not have adequate supporting documentation related to the disposition of \$65,337 in equipment. PRI/DJI and TtEC also could not provide supporting documentation for \$1,076,762 in subcontractor costs. Finally, TtEC did not provide adequate support for competitive procurement processes for six subcontractors, resulting in \$7,058 of potential overpayments for services.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$1,151,341 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the task order, applicable laws, or regulations.

Category	Unsupported	Ineligible	Total Questioned Costs
Missing/Damaged Property	\$2,184	\$0	\$2,184
Supporting Documentation for Property Disposition	\$65,337	\$0	\$65,337
Noncompetitive Procurement and Cost Reasonableness	\$7,058	\$0	\$7,058
Subcontracts and Other Direct Costs	\$1,076,762	\$0	\$1,076,762
<b>Totals</b>	<b>\$1,151,341</b>	<b>\$0</b>	<b>\$1,151,341</b>

Additionally, PRI/DJI invoiced the government for portions of the fixed fee that were not yet earned, resulting in a \$282 loss in interest to the U.S. government.

Crowe did not identify any prior audit reports or other assessments that pertained to PRI/DJI's activities under the construction project.

Crowe issued a qualified opinion on PRI/DJI's Special Purpose Financial Statement because PRI/DJI and TtEC did not maintain adequate records for property acquired during the task order. As a result, Crowe was unable to obtain sufficient appropriate evidence to conclude the value of the property presented in the statement is accurate and complete.

### 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, \$1,151,341 in questioned costs identified in the report.
2. Collect \$282 in interest from PRI/DJI.
3. Advise PRI/DJI to address the report's eight internal control findings.
4. Advise PRI/DJI to address the report's seven noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 14, 2016

The Honorable Ashton B. Carter  
Secretary of Defense

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

General John W. Nicholson, Jr.  
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 PRI/DJI, A Construction JV (PRI/DJI) 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 design and construct facilities for two Afghan District Headquarters Uniform Police stations in Marjah and Balakina, Helmand province, Afghanistan.<sup>2</sup> Crowe's audit reviewed \$14,318,329 in expenditures charged to the task order from September 1, 2011, through December 20, 2013. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$1,151,341 in questioned costs identified in the report.**
- 2. Collect \$282 in interest from PRI/DJI.**
- 3. Advise PRI/DJI to address the report's eight internal control findings.**
- 4. Advise PRI/DJI to address the report's seven noncompliance findings.**

The results of Crowe's audit are detailed in the attached report. We reviewed Crowe's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not

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<sup>1</sup> The Air Force Civil Engineer Center awarded contract no. FA8903-06-D-8506, task order 007, to PRI/DJI.

<sup>2</sup> Construction of the Balakina police station was terminated for convenience on February 23, 2012.



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express, an opinion on PRI/DJI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of PRI/DJI's internal control or compliance with the task order, 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.

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-079)



**PRI/DJI, A Construction JV**

**Special Purpose Financial Statement**

**Contract Number FA8903-06-D-8506, Task Order 007**

**For the Period September 1, 2011, through December 20, 2013**

**(With Independent Auditor's Report Thereon)**

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## Transmittal Letter

June 20, 2016

To the Executive Board and Management of PRI/DJI, A Construction JV  
6385 South Rainbow Boulevard, Suite 420  
Las Vegas, Nevada 89118-3203

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of PRI/DJI, A Construction JV's ("PRI/DJI") contract task order with the United States Department of the Air Force funding the construction of two District Headquarters Uniform Police Stations located in the Helmand Province, Afghanistan. Construction of one of the police headquarters was de-scoped during the award period such that only one headquarters was fully constructed.

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

When preparing our report, we considered comments, feedback, and interpretations of PRI/DJI, the Office of the Special Inspector General for Afghanistan Reconstruction, and the U.S. Department of the Air Force provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses have been incorporated as an appendix to this report and are followed by the auditor's rebuttal to management's comments.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of PRI/DJI's contract task order.

Sincerely,

A handwritten signature in black ink, appearing to read "Melinda J. DeCorte".

Melinda J. DeCorte, CPA, Partner  
Crowe Horwath LLP

[www.crowehorwath.com](http://www.crowehorwath.com)

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## Summary

### Background

On September 1, 2011, the United States Air Force Center for Engineering and the Environment (“AFCEE”) – reorganized in 2012 as the Air Force Civil Engineer Center (“AFCEC”) - awarded task order 0007 under indefinite delivery indefinite quantity (IDIQ) contract number FA8903-06-D-8506 to PRI/DJI, A Construction JV<sup>1</sup>. Included within the original proposal submitted to AFCEE alongside PRI/DJI was Tetra Tech EC (TtEC). TtEC was established as a teaming partner on the IDIQ contract executed by and between PRI/DJI and AFCEE effective October 24, 2008, as per modification P00007 of the IDIQ contract.

The task order was established to fund the construction of two District Headquarters Uniform Police Stations in Helmand Province, Afghanistan. The task order was issued as a cost plus fixed fee award valued at \$8,880,523 and including an initial period of performance beginning on the award date and expiring on May 31, 2013. Construction of one of the police headquarters was de-scoped during the award period such that only one headquarters was fully constructed.

Through seven subsequent modifications to the task order, the period of performance was extended to December 20, 2013, and the total award amount increased to \$14,318,329. The work was completed within the task order period of performance, and PRI/DJI reported total billings, including both costs incurred and fixed fee earnings, of \$14,318,329.

### 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 PRI/DJI’s project.

### Objectives Defined by SIGAR

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

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

Express an opinion on whether the Special Purpose Financial Statement for the award 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 award and generally accepted accounting principles or other comprehensive basis of accounting.

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

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

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<sup>1</sup> “JV” is an abbreviation for “joint venture.” “PRI” refers to “Project Resources, Inc.” and “DJI” is a reference to “Del-Jen, Inc.” The company’s legal name includes each of the abbreviations.

### *Audit Objective 3 – Compliance*

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

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

Determine and report on whether PRI/DJI 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 September 1, 2011, through December 20, 2013. The audit was limited to those matters and procedures pertinent to the contract task order that have a direct and material effect on the Special Purpose Financial Statement (“SPFS”). The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management; and
- Procurement;

## Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee’s internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, and 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 the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the award if the cost benefited multiple objectives; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures 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 PRI/DJI. Similarly, due to PRI/DJI’s having subcontracted procurement and equipment and property management functions to its teaming partner, TtEC, Crowe obtained copies of documented policies and procedures from TtEC. Where written procedures did not exist or were not applied to activities in Afghanistan, Crowe conducted interviews of TtEC and obtained written narratives regarding the procedures that were implemented in-country. 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 task order. Crowe identified – through review and evaluation of the contract task order and the IDIQ contract executed by and between AFCEE and PRI/DJI, the Federal Acquisition Regulation (“FAR”), and the Defense Federal Acquisition Regulation Supplement, the Air Force Federal Acquisition Regulation Supplement, and the Air Force Material Command Federal Acquisition Regulation Supplement – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, invoices submitted to the Government for payment, procurements, property and equipment dispositions, and subcontracts issued under the contract and corresponding costs incurred. Supporting documentation was provided by the auditee and subsequently evaluated to assess PRI/DJI's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the rates that were included within the proposal that resulted in the task order's award to PRI/DJI, review of TtEC's indirect cost rate calculation due to TtEC's not having an approved rate agreement, and reviewing adjustments to billings based on preliminary or proposed rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both PRI/DJI and the United States Department of the Air Force staff to understand whether or not there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, no prior reports were identified.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

## Summary of Results

Upon completion of Crowe's procedures, Crowe identified eight findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract task order; (4) questioned costs or interest penalties resulted from identified instances of noncompliance; and/or (5) the underlying errors pertained to matters that were considered appropriate for reporting to the funding agency. Other matters that did not meet the criteria were communicated verbally to PRI/DJI.

Crowe issued a qualified opinion on the Special Purpose Financial Statement due to the identification of a material amount of questioned costs (discussed further below) and PRI/DJI and TtEC's not having maintained adequate property records to identify the universe of equipment and property that was purchased and used for the contract. As a result, the potential impact on the SPFS could not be determined.

Crowe also reported on both PRI/DJI's internal controls over compliance and financial reporting and compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract task order. Three material weaknesses, three significant deficiencies, two deficiencies, and seven instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$1,151,341 in costs was questioned and \$567 in interest penalties were calculated. Questioned costs are presented in **TABLE A** contained herein.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to PRI/DJI's financial performance under the contract task order. No prior engagements resulting in reports for review and evaluation were located or otherwise provided and referenced by AFCEC or PRI/DJI.

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	Prompt Payment of Subcontractors	\$0	\$0
2015-02	Fixed Fee Billing	\$0	\$0
2015-03	Construction Subcontractor Selection	\$1,076,762	\$1,076,762
2015-04	Property Management	\$0	\$1,076,762
2015-05	Subcontractor Monitoring	\$0	\$1,076,762
2015-06	Noncompetitive Procurement and Cost Reasonableness	\$7,058	\$1,083,820
2015-07	Loss, Damage, Destruction, or Theft Reports	\$2,184	\$1,086,004
2015-08	Supporting Documentation for Property Disposition	\$65,337	\$1,151,341
<b>Total Questioned Costs</b>			<b>\$1,151,341</b>

### Summary of Management Comments

Management disagreed with each instance in which a finding was classified as a material weakness or significant deficiency as well as all findings that resulted in questioned costs. The general justifications for management's disagreements with findings 2015-03 through 2015-08 included, but were not limited to: 1) the project's having been implemented in a war zone and, therefore, not permitting execution of certain practices required for compliance; 2) management's not having obtained cooperation from the Government with respect to property disposition matters; 3) management's considering the sole sourcing of independent contractors to be appropriate; 4) PRI/DJI disclosed certain items to the Government and, therefore, considered the cited compliance issues to be invalid; and 5) TtEC's concluding that the procurement of one subcontractor represented adequate price competition. With respect to findings 2015-01 and 2015-02, management did not expressly agree with the finding, but did not disagree with the facts or conclusions as presented.

### References to Appendices

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

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

To the Executive Board and Management of PRI/DJI, A Construction JV  
6385 South Rainbow Boulevard, Suite 420  
Las Vegas, Nevada 89118-3203

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

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

We have audited the Special Purpose Financial Statement ("the Statement") of PRI/DJI, A Construction JV ("PRI/DJI"), and related notes to the Statement, with respect to the Construction of District Headquarters Uniform Police Stations at Marjah and Balakina in Helmand Province, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 7, for the period September 1, 2011, through December 20, 2013.

### ***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 ID11140014014 ("the Contract"). 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 our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

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

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

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(Continued)

### ***Basis for Qualified Opinion***

Due to management's not having maintained adequate documentation to support the accuracy and completeness of the property listing provided for audit, we were unable to obtain sufficient, appropriate audit evidence to conclude that the value of property charged to the contract, which is stated as \$498,000, is accurate and complete and that the items funded were received. In addition, we identified questioned costs due to the lack of supporting documentation to support the reasonableness of costs incurred, the absence of supporting documentation to indicate that certain property items were properly disposed of, and a lack of evidence to indicate that the Government relieved PRI/DJI of financial responsibility for certain lost, stolen, damaged, or destroyed items. The total questioned cost amount is \$1,151,341 and is considered to be material to the Subcontractors account presented on the Statement. As a result, due to SIGAR's requirement that allowable, reimbursable costs be presented on the Statement, the costs incurred as reported may be materially misstated.

### ***Qualified Opinion***

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

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

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by PRI/DJI in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of contract number FA8903-06-D-8506, task order 7, 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 Award referred to above. Our opinion is not modified with respect to this matter.

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

This report is intended for the information of PRI/DJI, the United States Department of the 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 February 1, 2016, on our consideration of PRI/DJI'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 PRI/DJI's internal control over financial reporting and compliance.

  
Crowe Horwath LLP

February 1, 2016  
Washington, D.C.

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**PRI/DJI, A Construction JV**  
**Special Purpose Financial Statement**  
**Contract Number FA8903-06-D-8507, Task Order 7**  
**For the Period September 1, 2011, through December 20, 2013**

			Questioned Costs		Notes
	Budget	Actual	Ineligible	Unsupported	
<b>Revenues</b>					4, A, B
AFCEC Contract FA8903-06-D-8506-0007	\$ 14,318,329	\$ 14,318,329			
<b>Total Revenue</b>	<b>\$ 14,318,329</b>	<b>\$ 14,318,329</b>			
<b>Costs Incurred</b>					5
Labor	\$ 402,368	\$ 308,349			
Subcontractors	12,063,027	12,063,027		\$ 1,151,341	C, D, E, F
Other Direct Costs:					
Travel/Subsistence	18,476	10,076			
Insurance	111,217	134,460			
Other	1,707	563			
G&A	1,067,155	1,147,475			
<b>Total Costs Incurred</b>	<b>\$ 13,663,950</b>	<b>\$ 13,663,950</b>			
<b>Fee</b>	<b>\$ 654,379</b>	<b>\$ 654,379</b>			7
<b>Balance</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ 1,151,341</b>	6

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

**PRI/DJI, A Construction JV**  
**Notes to the Special Purpose Financial Statement**  
**For the Period September 1, 2011 through December 20, 2013**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Task Order 0007 issued under Contract No. FA8903-06-D-8506 by the Air Force Civil Engineering Center ("AFCEC") for Heavy Engineering Repair and Construction ("HERC") and the Construction of District Headquarters Police Stations at Marjah and Balakina in Helmand Province, Afghanistan for the period September 1, 2011 through December 20, 2013. Because the Statement presents only a selected portion of the operations of PRI/DJI, A Construction JV ("PRI/DJI"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of PRI/DJI. 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 reimbursement.

**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 PRI/DJI is entitled to receive from AFCEC in accordance with the terms and conditions of the contract and applicable task order during the period of performance. Revenue has been recognized as incurred costs and fee are invoiced for the period including any fee amounts withheld.

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

The budgeted amounts reflect those amounts approved as of Modification No. 07 dated August 28, 2014, which established the final budgetary amounts for the task order.

**Note 6. Balance**

The balance(s) presented on the Statement represents the difference between revenues earned and actual costs incurred and fixed fee. The balance of \$0 indicates that the sum of eligible, reimbursable costs and fee earned is equal to revenues earned.

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(Continued)

**Note 7. Fixed Fee**

A fixed fee under this cost reimbursable ("CPFF") task order was earned and invoiced as work progressed through the period of performance and upon receipt of Modification 07 dated September 18, 2014. \$25,000 of the total earned fee remains payable to PRI/DJI.

Total Fixed Fee	\$	654,379
Amount Paid to Date		<u>629,840</u>
Balance Due	\$	<u>24,539</u>

**Note 8. Currency**

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

**Note 9. Program/Project Status**

All work under the task order is complete. The task order has not been closed out pending acceptance of final submitted indirect cost rates.

**Note 10. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the September 1, 2011 through December 20, 2013 period covered by the Statement. Management has performed their analysis through February 1, 2016.

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

### **Note A. Prompt Payment of Subcontractor Invoice**

Finding 2015-01 identified \$285 in interest owed as a result of PRI/DJI's not having paid one subcontractor invoice within seven days of PRI/DJI's having received reimbursement for the costs from the Government.

### **Note B. Fixed Fee Billing**

Finding 2015-02 identified \$282 in imputed interest as a result of PRI/DJI's having invoiced a greater amount of the fixed fee at certain stages of the project than was supported by the percentage of work completed.

### **Note C. Construction Subcontractor Selection**

Finding 2015-03 questioned \$1,076,762 in costs associated with the selection of one subcontractor due to a lack of documentation available to support the reasonableness of the costs and the procurement support provided by the auditee not supporting the adequacy of the competitive bidding process.

### **Note D. Noncompetitive Procedures and Cost Reasonableness**

Finding 2015-06 questioned \$7,058 due in subcontractor charges due to inadequate supporting documentation being provided to support the reasonableness of the amounts paid to the subcontractors.

### **Note E. Prompt Payment to Subcontractors**

Finding 2015-07 questioned \$2,184 in costs associated with property that was lost, damaged, destroyed, or stolen, but which was not reported as such to the Government and for which relief has not been granted to the contractor.

### **Note F. Supporting Documentation for Property Disposition**

Finding 2015-08 questioned \$65,337 due to PRI/DJI's not maintaining supporting documentation to support the disposition of certain property items.

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<sup>2</sup> Notes to the Questioned Costs are prepared by the auditor for purposes of this report. Management takes no responsibility for the notes to the questioned costs.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Executive Board and Management of PRI/DJI, A Construction JV  
6385 South Rainbow Boulevard, Suite 420  
Las Vegas, Nevada 89118-3203

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of PRI/DJI, A Construction JV ("PRI/DJI"), and related notes to the Statement, with respect to the Construction of District Headquarters Uniform Police Stations at Marjah and Balakina in Helmand Province, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 7, for the period September 1, 2011, through December 20, 2013. We have issued our report thereon dated February 1, 2016, within which we have qualified our opinion.

### Internal Control over Financial Reporting

PRI/DJI's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of 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 September 1, 2011, through December 20, 2013, we considered PRI/DJI's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of PRI/DJI's internal control. Accordingly, we do not express an opinion on the effectiveness of PRI/DJI'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 deficiencies noted in Findings 2015-03, 2015-05, and 2015-06 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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 deficiency noted in Findings 2015-04, 2015-07, and 2015-08 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We identified two deficiencies in internal control that we communicated to management as identified in the accompanying Schedule of Findings and Questioned Costs as Findings 2015-01 and 2015-02.

### **PRI/DJI, A Construction JV's Response to the Findings**

PRI/DJI'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 PRI/DJI, the United States Department of the 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

February 1, 2016  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Executive Board and Management of PRI/DJI, A Construction JV  
6385 South Rainbow Boulevard, Suite 420  
Las Vegas, Nevada 89118-3203

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of PRI/DJI, A Construction JV ("PRI/DJI"), and related notes to the Statement, with respect to the Construction of District Headquarters Uniform Police Stations at Marjah and Balakina in Helmand Province, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 7, for the period September 1, 2011, through December 20, 2013. We have issued our report thereon dated February 1, 2016, within which we have qualified our opinion.

### Management's Responsibility for Compliance

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2015-01, 2015-02, 2015-03, 2015-04, 2015-06, 2015-07, and 2015-08 in the accompanying Schedule of Findings and Questioned Costs.

### PRI/DJI, A Construction JV's Response to the Findings

PRI/DJI'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 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.

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(Continued)

**Restriction on Use**

This report is intended for the information of PRI/DJI, the United States Department of the 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

February 1, 2016  
Washington, D.C.

## SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Finding 2015-01: Prompt Payment of Subcontractor Invoice

Deficiency and Noncompliance

**Condition:** Of 25 transactions that were submitted for reimbursement and subsequently tested, we identified six transactions that were not paid within seven calendar days of PRI/DJI's receipt of payment from the Government. The table below summarizes the six transactions.\*

No.	Invoice #	Subcontractor	Amount	Date Paid	Days Late	Interest Penalty
1	50513602	Tetra Tech	\$ 28,026	12/13/2012	16	\$ 21.80
2	50580853	Tetra Tech	\$ 10,964	12/13/2012	16	\$ 8.53
3	50580853	Tetra Tech	\$ 47,593	12/13/2012	16	\$ 37.02
4	50571535	Tetra Tech	\$ 10,398	12/13/2012	16	\$ 8.09
5	29	Tetra Tech	\$ 263,310	12/13/2012	16	\$ 204.80
6	30	Tetra Tech	\$ 6,215	12/13/2012	16	\$ 4.83
<b>Total Interest Penalty</b>						<b>\$ 285.07</b>

\* Note that PRI/DJI completes separate accounting entries for each component of subcontractor invoices (e.g., other direct costs, CONUS labor, and OCONUS labor are separately entered into the general ledger), which results in multiple transactions for a single invoice being reflected in the general ledger and on vouchers for payment submitted to the Government.

**Criteria:** FAR 52.232-27 requires that PRI/DJI remit payment to its subcontractors within seven days of receiving payment from the Government.

Article 2 of PRI/DJI's subcontract with Tetra Tech EC requires payment to be made to Tetra Tech within ten days of receipt of payment from the Government.

**Questioned costs:** None. However, the interest penalty payable is \$285.

**Effect:** PRI/DJI effectively received an advance from the Government by virtue of not disbursing funds to Tetra Tech in a timely manner.

**Cause:** PRI/DJI did not identify this item as being due when the deposit was received from the Government. The item was identified during the bank account reconciliation, which occurred after the payment was due.

**Recommendation:** We recommend that PRI/DJI remit the \$285 in interest penalties to Tetra Tech EC.

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(Continued)

## **Finding 2015-02: Fixed Fee Billing**

### Deficiency and Non-Compliance

**Condition:** PRI/DJI did not have a process in place to ensure that the amount of the fixed fee billed was based on the percentage of work completed as of the end of the applicable billing period as per Section B-058 of the task order. Billing for the fee was instead based on seven percent of the costs incurred within the billing period. During our procedures, we identified three vouchers on which the fixed fee amount billed exceeded the percentage of work completed to date.

**Criteria:** Section B-058 of the contract presents the requirements applicable to invoicing the fixed fee. The contract states:

B-058 entitled Payment of Fee (CPFF) (FEB 2003):

The estimated cost and fee for this contract are shown below. The applicable fixed fee set forth below may be increased or decreased only by negotiation and modification of the contract for added or deleted work. As determined by the contracting officer, it shall be paid as it accrues, in regular installments based upon the percentage of completion of work (or the expiration of the agreed-upon period(s) for term contracts.

**Questioned costs:** None. However, we have calculated an imputed interest amount of \$282, which reflects the interest lost by the Government.

**Effect:** PRI/DJI may invoice the Government for portions of the fixed fee that have not been earned, which would result in an advance on the reimbursement-based awards.

**Cause:** PRI/DJI did not detect the mathematical error during the course of its invoice review.

**Recommendation:** We recommend that PRI/DJI revise its billing procedures to address invoicing of fixed fee amounts and document a process by which the percentage completion will be evaluated for billing purposes. We further recommend that PRI/DJI remit \$282 to the Government.

### **Finding 2015-03: Construction Subcontractor Selection**

#### Material Weakness and Non-Compliance

**Condition:** Tetra Tech EC ("TtEC"), PRI/DJI's teaming partner under the contract with responsibility for procurement activities, did not retain a copy of the solicitation that resulted in awarding the \$1,076,762 fixed amount purchase order (#1077351) to [REDACTED]. Therefore, the solicitation was not available for audit. As a result, the instructions provided to bidders, applicable contractual terms and conditions under which the procurement was to operate, technical specification requirements, submission requirements, and evaluation criteria are unclear.

TtEC indicated that five companies were solicited for bids; however, three companies did not fully understand the scope or could not supply all of the items identified on the basis of the quote. One bidder provided a lump sum quote that was outside of the competitive range. TtEC indicated [REDACTED] was the only bidder that provided a complete price to the solicitation. Due to the solicitation not having been provided, we cannot conclude whether or not the format and content of the solicitation package and the manner in which procurement process was executed may have contributed to the issues noted. Issues with the solicitation or the procurement process may unfairly restrict competition such that the results of the procurement process are insufficient to determine cost reasonableness. TtEC also indicated that issues were encountered due to language barriers which contributed to respondents' not providing accurate or complete bids. However, in response to audit inquiries, we noted that TtEC specified that local individuals who spoke both local languages used by Afghan nationals and English were not utilized such that the potential for language barriers was not appropriately mitigated.

Further, TtEC elected to expand the scope of [REDACTED] work for various reasons and increase the base award to [REDACTED] from the original bid amount of \$308,850 to \$822,030. TtEC utilized the rejected bids for price comparison purposes. Due to inadequacy of the bid estimates for consideration and their subsequent rejection by TtEC as well as a lack of detailed information regarding the specifications and order quantities that were communicated to bidders, the use of the bids is not considered appropriate for cost reasonableness analysis.

Next, the rejection of the bids results in a lack of adequate competition such that both a Certificate of Current Cost or Pricing Data and certified cost and pricing data documentation supporting the reasonableness of the cost estimate for negotiation purposes would have been required. Lastly, [REDACTED] included lump sum amounts within its estimate without details supporting the build-up to and contents of the estimate. Therefore, it is unclear whether the amounts ultimately billed to and paid by the Government reflect allowable and reasonable costs. The full amount of the subcontract was paid to [REDACTED].

**Criteria:** PRI/DJI's indefinite delivery indefinite quantity contract incorporates the requirements of FAR 52.215-12 and FAR 52.215-13, which require cost or pricing data for subcontractors. FAR 52.215-12(a) states in part that, "Before awarding any subcontract expected to exceed the threshold for submission of certified cost or pricing data at FAR 15.403-4, on the date of agreement on price or the date of award, whichever is later; or before pricing any subcontract modification involving a pricing adjustment expected to exceed the threshold for submission of certified cost or pricing data at FAR 15.403-4, the Contractor shall require the subcontractor to submit certified cost or pricing data (actually or by specific identification in writing) in accordance with FAR 15.408, Table 15-2..."

FAR 52.215-12(b) states, "The Contractor shall require the subcontractor to certify in substantially the form prescribed in FAR 15.406-2 that, to the best of its knowledge and belief, the data submitted under paragraph (a) of this clause were accurate, complete, and current as of the date of agreement on the negotiated price of the subcontract or subcontract modification."

The provisions of FAR 52.215-13 assert the requirements of FAR 52.215-12 to modifications that exceed the threshold prescribed in FAR 15.403-4, and limits the applicability of the requirement for certified cost and pricing data to those modifications.

Per FAR 15.403-4, "The threshold for obtaining certified cost or pricing data is \$700,000."

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FAR 15.403-1(b) identifies four exceptions to the certified cost or pricing data requirements, including Adequate Price Competition. The applicable portion of the exception requirement states:

(c) *Standards for exceptions from certified cost or pricing data requirements—*

(1) *Adequate price competition.* A price is based on adequate price competition if—

(i) Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's expressed requirement and if—

(A) Award will be made to the offeror whose proposal represents the best value (see 2.101) where price is a substantial factor in source selection; and

(B) There is no finding that the price of the otherwise successful offeror is unreasonable. Any finding that the price is unreasonable must be supported by a statement of the facts and approved at a level above the contracting officer.

PRI/DJI's subcontract with Tetra Tech EC incorporates each of the aforementioned FAR clauses.

Tetra Tech EC's Procurement Overview Policy PD-400, Section 3.3.1.4 states: "The solicitation package, when released, shall include instructions to bidders, the contractual terms and conditions under which the proposed procurement would operate; technical specification requirements; any pre-qualification requirements, submittals; government contract flow down clauses (if applicable), and the evaluation criteria which will be used to select the vendor."

The commercial entity cost principles provide certain restrictions and requirements addressing the allowability and reasonableness of costs. Pursuant to 48 CFR Subpart 31.2, the following requirements apply:

**31.201–2 Determining allowability.**

(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.

**31.201–3 Determining reasonableness.**

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

**Questioned costs:** \$1,076,762

**Effect:** Unreasonable costs may have been incurred as a result of the procurement process potentially inappropriately limiting competition or otherwise unclearly communicating technical specifications and proposal requirements.

**Cause:** Adequate records were not retained to clearly demonstrate the appropriate execution of the procurement process due to TtEC's not requiring solicitations issued in the field to be saved and returned to the Procurement Department in the United States. Procurement managers did not conduct effective reviews of supporting documentation provided with the procurement file at the time of award and prior to close-out.

**Recommendation:** We recommend that PRI/DJI and TtEC take the following actions:

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(Continued)

1. Locate the solicitation document or otherwise commission the development of an independent estimate of the cost to perform the work in Afghanistan and submit the estimate to AFCEC for review with any delta between the estimate and the actual costs incurred being repayable to the Government.
2. If the solicitation document and support for the reasonableness of the amounts billed to the Government cannot be located or developed, then TtEC and PRI/DJI should reimburse the Government for the full amount of incurred costs under the PO (\$1,076,762 as questioned above);
3. PRI/DJI should mandate that TtEC evaluate its existing records retention practices and develop a strategy to ensure that procurement records are retained in their entirety; and
4. PRI/DJI should require the TtEC's management undergo additional training to help ensure that future procurements are executed in accordance with Federal requirements.

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(Continued)

## **Finding 2015-04: Property Management**

### Significant Deficiency and Non-Compliance

**Condition:** PRI/DJI subcontracted with Tetra Tech EC ("TtEC") to execute property management procedures and oversight. During the course of the period of performance, TtEC did not retain evidence of property receipt, conduct physical inventories, retain reports of lost, damaged, destroyed, or stolen items, or maintain property records that were sufficient to identify the full population of equipment and property that was funded by the Federal contract task order

During our testing of 30 property items, we identified the following matters:

1. Evidence of receipt was not provided for 19 items totaling \$61,596 (95 percent of known tested value);
2. The TtEC property records did not contain acquisition dates or acquisition costs for 10 items;
3. The date of the last inventory was not included in the records; and
4. The property records were not maintained in an automated database.

**Criteria:** Tetra Tech EC's property management plan includes the following relevant requirements:

#### **Section 1.4.2.8 - Material Receiving Report**

The person receiving Government property is responsible for initiating and completing the MRR by signing for the delivery and immediately sending all documentation to the [Property Administrator].

#### **1.4.4 Records of Government Property**

The PA shall establish and maintain adequate control records of all Government property in Tetra Techs possession, including property issued to its subcontractors including Government-furnished and contractor-acquired property, regardless of value. Quarterly audits of Government Property will be conducted by the PA and forwarded to the GPA and/or Contracting Officer upon request. Property records will be maintained in an automated system. The property records will contain a system or technique to locate any item of Government property within a reasonable period of time in accordance with FAR 45.505 (g). All Government Property will be controlled in an automated system. 1.4.4.1 All Government property records shall be maintained for a period of four years as outlined in FAR 4.705-3 (b), (c), (d) or as outlined in the contract.

##### *1.4.4.1.2 Non-expendable Property*

All non-expendable Government property shall be entered into the automated database. The PA will enter the records into the automated system upon the review of the Tetra Tech Hand Receipt (DA Form 3161) or the Governments, and the receiving of the said property and shall contain the basic information below as outlined in FAR 45.505-1.

- Name and description;
- National Stock Number (NSN), if furnished by the Government;
- Quantity received, issued, and on hand;
- Unit price and unit of measure;
- Contract number or project number;
- Posting reference and date of transaction to include inventory;
- Disposition of property;
- Location of property; and
- Date of physical inventory.

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(Continued)

#### **1.4.8 Physical Inventories of Government Property**

As a minimum, a 100% physical inventory shall be performed on an annual basis and will be submitted to the GPA and/or Contracting Officer. The individual performing the inventory shall not be the same individual who maintains the property records or has custody of the property. The scope of the inventory shall be contract specific and be task specific if required by the GPA and/or Contracting Officer. The report shall be for all accountable Government property under the contract to include Tetra Tech owned, and accountable Government property in the custody of subcontractors.

FAR 52.245-5, which was incorporated within PRI/DJI's indefinite delivery indefinite quantity contract, states that "The Contractor shall be responsible and accountable for all Government property provided under the contract..."

**Questioned costs:** None.

**Effect:** In the absence of accurate and complete property records, items may be lost, stolen, or destroyed without the contractor's knowledge, the value of each respective item may be miscalculated, and/or items may be received that are inadequate for use on Government-funded projects.

**Cause:** TtEC's management did not adequately monitor in-country activities to ensure that property management activities were being executed, as intended.

**Recommendation:** We recommend that PRI/DJI require Tetra Tech EC to undertake additional property management training. Further, PRI/DJI should modify the subcontract with TtEC to require senior management to periodically review work performed in the field pertaining to property management. The review should be documented and provided to management.

### **Finding 2015-05: Subcontractor Monitoring**

#### Material Weakness

**Condition:** PRI/DJI did not conduct adequate monitoring/oversight of Tetra Tech EC to ensure that both equipment and property management and procurement activities were performed in accordance with Federal requirements and the terms and conditions of the subcontract. During the course of the audit procedures, various instances of noncompliance and deviations from Tetra Tech EC's established policies and procedures were identified as referenced in findings 2015-01, 2015-03, and 2015-05.

**Criteria:** Section PKV-H011 of the indefinite delivery indefinite quantity contract states, "The prime Contractor is held fully responsible for contract performance, regardless of any team arrangement between the prime Contractor and its subcontractors."

**Questioned costs:** None.

**Effect:** PRI/DJI's subcontractors may improperly administer procurement processes or inadequately manage Government Property without PRI/DJI's knowledge thus increasing the likelihood of noncompliance and/or questioned costs. In addition, failure to detect deviations from established policies and procedures or noncompliance with Federal regulations increase the likelihood that instances of fraud, waste, or abuse may occur and go undetected.

**Cause:** PRI did not consider monitoring to be necessary due to TtEC's past experience and expertise.

**Recommendation:** We recommend that PRI/DJI expand upon its "Managing Cost Reimbursable Procurements" policy (PR33), which was adopted subsequent to the audit period, to include periodic reviews of subcontractors for noncompliance with Federal requirements and organizational policies and procedures, including matters pertaining to equipment and property management and procurement.

## **Finding 2015-06: Noncompetitive Procurement and Cost Reasonableness**

### Material Weakness and Non-Compliance

**Condition:** During our testing of fifteen procurements, we identified six instances in which noncompetitive procedures were utilized for vendor/subcontractor selection without adequately supported justifications. Tetra Tech EC's procurement support, including the sole source justification and award decision memoranda, indicates that the use of noncompetitive procedures was due to 1) the contractor being the only person capable of performing the work task; 2) the individual was a continuation of the Iraq program and had expert IT consulting services stateside; 3) unusual or compelling urgency; or 4) there were limited providers of helicopter services.

The procurements in question are summarized below:

- PO 1053199 - ██████████ – ██████████ was selected to provide construction management support services. Per review of the Award Decision Memorandum and Sole Source Justification and Approval forms, ██████████ was selected using noncompetitive procedures due to his being a qualified individual to fill the position and due to the role's consisting of follow-on work from the Iraq program. The sole source justification form was submitted for approval to the Vice President of Foreign Programs; however, the Vice President did not sign and approve the form due to his preference to "keep [the form] for subcontractors that are performing services other than direct labor to us." This approach is inconsistent with the TtEC procurement policy and authorized justifications for sole source procedures. Due to the presence of documentation sufficient to support the reasonableness of the actual costs incurred, the consultant's costs are not in question.
- PO 1070638 - ██████████ - The subcontractor provided Construction Superintendent services and was paid \$22,000 per month. The compensation level appeared to be unreasonable and the procurement file did not include supporting documentation to support its reasonableness. TtEC was able to provide salary bracket information for the construction superintendent position as provided by TtEC's human resources department. The salary brackets are developed based upon available national and regional compensation survey data obtained by Tetra Tech EC as part of its standard human resources and compensation activities. Per review of this information, the compensation amounts for the construction superintendent position were considered to be reasonable.
- PO 1072501 - ██████████ - The subcontractor provided Master Electrician services and was paid \$22,000 per month. The reasonableness of the monthly compensation is in question as documentation included within the procurement file did not support its reasonableness and additional support provided by TtEC did not specifically address the master electrician position. Per the United States Bureau of Labor Statistics (BLS), using 2014 data, the electrician average salary (at the 90 percentile level to reflect enhanced skills and experience for a master electrician) is \$85,590. We have questioned the difference between the actual compensation paid to the consultant filling the master electrician position and what would be considered reasonable per our review of BLS information. The total costs in question are \$7,058.
- PO 1053947 - ██████████ – The award was issued using the single source approach due to ██████████ having worked on the Iraq Program on purchase order 1051315. The miscellaneous project support services provided by ██████████ (e.g., information technology in the United States) did not appear to be of a type only available from one offeror. Accordingly, the use of single source procedures was not considered to be appropriate. The underlying costs for his services are not, however, in question due to the presence of alternative documentation to support the reasonableness of the actual costs incurred.
- PO 1079332 - ██████████ - As noted by TtEC, there were "limited resources who provide helicopter services." Due to there being other available sources, the use of sole source procedures to select ██████████ was inappropriate. Adequate support was provided to support the reasonableness of the costs.

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(Continued)

- PO 1056129 - [REDACTED] – The subcontractor provided engineering support services. Due to the presence of other parties capable of providing engineering support services, the use of sole source procedures does not appear to be appropriate or consistent with TtEC's procurement policy. The underlying costs for his services are not, however, in question due to the presence of alternative documentation to support the reasonableness of the actual costs incurred.

**Criteria:** FAR 52.244-05, as incorporated within PRI/DJI's basic contract with the U.S. Government and included in TtEC's subcontract, states:

**COMPETITION IN SUBCONTRACTING (DEC 1996)**

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

Section 5.7 of TtEC's Acquisition Planning procedure identifies the permitted reasons for utilizing sole source procedures:

- Only one firm is capable of performing the identified work;
- Unusual and compelling urgency. (However, lack of advance planning does not justify sole-source utilization);
- Authorized or required by statute. For example, this provides the Company the authority to cite a sole-source award under the 8(a) program. Other examples of other statutes include, Federal Prison Industries, qualified nonprofit agencies for the blind or severely handicapped, Government Printing and Binding, etc.;
- Client directed. A written directive from the client that directs use of a specified source. (The written directive from the client must be included as documentation when writing a justification for non-competitive acquisitions.) Verbal or teleconference documentation does not satisfy this requirement; or
- Team subcontractors of competitively awarded prime contracts. (Refer to FAR, Subpart 6.302:1-7 for further guidance.) (Note that the subcontracts awarded to team subcontractors is coded competitive (not sole source) when the prime contract was awarded to the Company competitively. In this instance, the competition was done at the prime contract award stage and should be flowed to each team subcontract.)
- Client-approved subcontracting plans containing particular companies based on their socioeconomic category such as a HUBZone small business, small business, small disadvantaged business, small women-owned businesses, historically black college or university/minority institution, veteran owned small business (all categories), etc. (see PD-400-2, Small Business Program). In these instances competition is considered achieved by approval of the subcontracting plan. The subcontract file should clearly indicate this client approved subcontracting plan (if an approved plan is used to justify sole source or restricted procurements, a copy of that page of the plan must be attached to the justification); no further justification is required.
- Government project or Overhead acquisitions awarded at \$10,000.00 or below.

The Federal cost principles applicable to commercial entities contained in 48 CFR Subpart 31.2 state:

**31.201–2 Determining allowability.**

(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.

**31.201–3 Determining reasonableness.**

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

**Questioned costs:** \$7,058

**Effect:** The Government was charged an amount for consulting services that is considered to be unreasonable. With respect to sole source procurements, the use of sole source procurements that are inadequately supported enhances the risk that costs will be incurred that exceed those a reasonable person would pay.

**Cause:** TtEC elected to hire independent contractors in lieu of employees and relied upon referrals from others to identify the potential pool of applicants. TtEC also assumed that individuals in-country would not be [REDACTED] and did not possess the necessary construction knowledge to serve in the applicable positions. In addition, TtEC and PRI interpreted AFCEE statements regarding the need for qualified electricians to support the exclusion of local electricians. As a result, TtEC selected individuals using sole source procedures.

TtEC also considered the Government's acceptance of a proposal or modification that disclosed monthly pay rates to be an approval of reasonableness. TtEC did not reach out to the U.S. Embassy because TtEC did not consider the Embassy's rates to be a good measure or basis for comparison. PRI did not conduct monitoring over oversight of TtEC's procurement files to detect and correct these matters.

**Recommendation:** We recommend that TtEC document a procedure for the recruitment of professionals working on international projects and include, as a component of the procedure, a process for the setting of compensation levels. We further recommend that TtEC issue an instruction to procurement staff with reminders regarding when it is and is not appropriate to conduct sole source procurements and what support is required to support/justify those decisions such that TtEC adheres to Federal procurement regulations. Lastly, we recommend that TtEC either produce documentation to support the reasonableness of the master electrician compensation or otherwise reimburse the Government \$7,058.

**Finding 2015-07: Loss, Damage, Destruction, or Theft of Government Property (LDDT) Reports**

Significant Deficiency and Non-Compliance

**Condition:** During our testing of 30 property items, we identified nine items that were damaged or destroyed, but for which neither loss, damage, destruction, or theft reports, nor evidence of AFCEC relieving PRI/DJI of responsibility for the cost of the items was provided. In addition, we identified four other items within the equipment listing that were noted as "cannot locate" or broken. LDDT reports were also unavailable for these items. PRI/DJI and TtEC indicated that certain items were missing following an ordered demobilization. However, copies of the physical inventories conducted prior to the demobilization and immediately following the return were not provided in order to demonstrate which items were physically present prior to the demobilization and which were present subsequent thereto.

EC Number	Manufacturer	Model	Serial Number	Description	Amount
EC4286	████	██████████	910072508	Microwave	\$ 139.17
EC4361	████	████	51180778	Metal Detector	\$ 220.00
EC4232	████	none	none	Tool Boxes	\$ 40.00
EC4346	████	████	C278250	Concrete Vibrator	\$ 562.50
EC4372	██████████	████	none	Concrete Drill	\$ 550.00
EC4383	████	████	686564	Jigsaw	Unknown
EC4387	████	████	none	Flaring Kit	Unknown
EC4338	████	████	998518	Cordless Circular Saw	Unknown
EC4374	████	████	26501E	Right Angle Drill	Unknown
-	████	████	Unknown	Cordless Hammer Drill	\$ 408.00
-	Unknown	Unknown	Unknown	Binoculars	\$ 75.00
-	████	████	33,524.00	Circular Saw	\$ 149.00
-	████	Unknown	Unknown	Toolboxes	\$ 40.00
<b>TOTAL</b>					<b>\$ 2,183.67</b>

(Continued)

**Criteria:** TtEC, INC. Property Management Plan (February 10, 2008) states:

**1.4.5.2 Loss, Damage, Destruction, or Theft Reports**

It is the policy of the Air Force Center of Environmental Excellence (AFCEE) to promptly report and investigate cases of Lost, Damaged, Destroyed or Theft of Government Property to the GPA and/or Contracting Officer. With the assistance of the Contracting Officer, Tetra Tech EC, Inc. shall take all reasonable action to protect the Government Property from further damage, separate the damaged and undamaged Government Property, put all the affected Government Property in the best possible order, and furnish to the Contracting Officer a report for the Loss, Damaged, Destroyed, or Stolen property (Attachment 9-6). In each occurrence, an Accident/Incident Statement (AIS) (Attachment 9-7) will be prepared to set forth the facts concerning the loss, damage or destruction and it will be attached to the LDDT Report as supporting documentation.

Pursuant to FAR 52.245-5:

(5) Upon loss or destruction of, or damage to, Government property provided under this contract, the Contractor shall so notify the Contracting Officer and shall communicate with the loss and salvage organization, if any, designated by the Contracting Officer. With the assistance of any such organization, the Contractor shall take all reasonable action to protect the Government property from further damage, separate the damaged and undamaged Government property, put all the affected Government property in the best possible order, and furnish to the Contracting Officer a statement of— (i) The lost, destroyed, or damaged Government property; (ii) The time and origin of the loss, destruction, or damage; (iii) All known interests in commingled property of which the Government property is a part; and (iv) The insurance, if any, covering any part of or interest in such commingled property.

**Questioned costs:** \$2,184

**Effect:** The Government may have funded the purchase of items that did not provide the expected benefit due to their having been lost or damaged.

**Cause:** The contractor's management team failed to enforce the requirement that LDDT reports be submitted to the Government upon identification of missing items.

**Recommendation:** We recommend that PRI/DJI reimburse the Government for the \$2,184 in known questioned costs plus the cost associated with the four items of unknown value. We further recommend that PRI/DJI design and implement an equipment and property management monitoring program to identify instances in which required actions are not being taken and to correct them in a timely manner.

## **Finding 2015-08: Supporting Documentation for Property Disposition**

### Significant Deficiency and Non-Compliance

**Condition:** PRI/DJI and Tetra Tech EC indicated that all equipment and property items purchased or acquired under the task order had been disposed of. We tested a sample of 30 items from the property records to determine if the items were properly disposed. During our procedures, we identified 13 items that were disposed and did not have adequate supporting documentation to support the disposition. The thirteen items (acquisition costs in parentheses) were comprised of:

- One two-way radio (\$150) and one television (\$444) that were included on forms FF 1149, but for which the DD 1149 was not signed showing receipt by the Government;
- One laptop computer (\$1,500) reportedly transferred to other staff but that did not have disposition support;
- One generator (\$22,550) that was identified on the list of items to be transferred, but for which evidence of the completed transfer was not provided;
- One freezer (\$375), one battery charger (\$570), one washing machine (\$753), one 40 foot connex (\$19,000), and one 20 foot connex (\$16,000) that were not identified on transfer documents;
- Two laptop computers, one air conditioner, and one radio of unknown values and costs.

Of the thirteen items, four were identified on a DD 1149 identifying items for transfer to the USG. However, the DD 1149 was not signed by a government official indicating that the items were received by the U.S. Government. The total value of the items in the unsigned DD 1149, per review of TtEC's Equipment Report, was \$4,589.

Tetra Tech also transferred three items to staff for use on other Federal projects; however, documentation identifying who received the items and for which projects they were used was unavailable.

**Criteria:** TtEC's Property Management Plan (February 10, 2008) includes the following requirements:

**1.4.4 Records of Government Property:** "The PA shall establish and maintain adequate control records of all Government property in Tetra Tech's possession, including property issued to its subcontractors including Government furnished and contractor-acquired property, regardless of value."

Section 1.4.13.2 states, "At no time will any Government property be disposed of or cannibalized until receipt of the Contracting Officer's approval."

FAR 52.245-5 includes the following instruction with respect to property disposition:

(i) Final accounting and disposition of Government property. Upon completing this contract, or at such earlier dates as may be fixed by the Contracting Officer, the Contractor shall submit, in a form acceptable to the Contracting Officer, inventory schedules covering all items of Government property not consumed in performing this contract or delivered to the Government. The Contractor shall prepare for shipment, deliver f.o.b. origin, or dispose of the Government property as may be directed or authorized by the Contracting Officer. The net proceeds of any such disposal shall be credited to the cost of the work covered by this contract or paid to the Government as directed by the Contracting Officer.

**Questioned costs:** \$61,342 from sample plus \$4,589.44 from the unsigned DD 1149 less \$594.44 already questioned in sample = \$65,337 in total questioned costs.

**Effect:** The government may have been overbilled for equipment and property that are not fully accounted for. In addition, items may have been utilized for non-Federal purposes.

**Cause:** PRI/DJI indicated that the company encountered certain challenges when attempting to obtain signatures on property transfer documents. Missing documentation was the result of inadequate oversight by senior management of the property management efforts occurring in country.

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(Continued)

**Recommendation:** We recommend that PRI/DJI 1) locate supporting documentation to identify the acquisition cost of the four items that did not have reported values; 2) reimburse the Government \$65,337 plus the total cost of the four items referenced in recommendation 1; and 3) require that TtEC implement a monitoring process for its international programs.

## **SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS**

Per discussion with PRI/DJI and representatives of the U.S. Air Force, no prior audits, reviews, or assessments were conducted over the contract task order under audit. Accordingly, there were no corrective actions required for follow-up by Crowe Horwath.

## **APPENDIX A: VIEWS OF RESPONSIBLE OFFICIALS**

Management's responses to the audit findings have been incorporated on the following pages. Exhibits referenced in the response have been provided directly to the Office of the Special Inspector General for Afghanistan Reconstruction, but have not been included within the appendix.



May 31, 2016

Crowe Horwath LLP  
10 West Broad Street, Suite 1700  
Columbus, OH 43215

Attn: Ms. Melinda J. DeCorte

Subject: PRI/DJI, a Construction JV Response to SIGAR Draft Audit Report  
Reference: Contract No. FA8903-06-D-8506, Task Order 0007

Dear Ms. DeCorte,

Enclosed is the PRI/DJI JV response to SIGAR audit findings of the costs billed to the Government for AFCEC HERC Contract FA8903-06-D-8506, Task Order 0007.

Thank you for allowing PRI/DJI JV the opportunity to comment on the draft report and to provide additional support for our positions regarding the findings contained in the draft audit report. As you requested, we have included our detailed supporting documentation in the PRI/DJI JV Management Response as a basis for our positions concerning the findings.

In summary, we do not agree that there were any material weaknesses or significant deficiencies in PRI/DJI's or Tetra Tech EC's execution of this task order. We acknowledge that certain suggestions about improvements to procedures are worthy of comment and we are grateful to have an independent review so that we may continue to improve our systems on future contracts.

Overall while we do not agree with many of the points raised, PRI/DJI JV is open to further discussion with AFCEC to resolve any outstanding matters.

Sincerely,

PRI/DJI, a Construction JV

A handwritten signature in blue ink that reads "William T. Campbell".

William T. Campbell  
CFO, Project Resources, Inc.  
Managing Partner

OFFICE OF THE SPECIAL INSPECTOR GENERAL  
FOR AFGHANISTAN RECONSTRUCTION  
ARLINGTON, VIRGINIA

Melinda J. DeCorte, CPA, Partner  
Crowe Horwath LLP

***PRI/DJI, a Construction JV Management Response***

Special Purpose Financial Statement  
Contract Number FA8903-06-D-8506, Task Order 0007  
*for*  
Construction of Two District Headquarters Uniform Police Stations,  
Helmand Province, Afghanistan

May 31, 2016



William T. Campbell  
CFO, Project Resources, Inc.  
Managing Partner  
PRI/DJI, a Construction JV

*Management Response*

Contract Number FA8903-06-D-8506, Task Order 0007

May 31, 2016

Thank you for allowing PRI/DJI, a Construction JV (“PRI/DJI”) to respond to the Draft Audit Report prepared by Crowe Harwath LLP (“Crowe”) of the PRI/DJI performance of HERC Contract No. FA8903-06-D-8506, Task Order No. 0007 (“TO 0007”), with the United States Department of the Air Force funding the construction of the headquarters for the Construction of Two District Headquarters Uniform Police Stations, Helmand Province, Afghanistan.

**I.**

**INTRODUCTION**

We respectfully submit Management’s Responses to the Findings in the Draft Audit Report for HERC Contract, Task Order 0007 and submit that no material weakness or significant deficiencies should be assessed with respect to the Findings.

**II.**

**FACTUAL BACKGROUND**

**A. The PRI/DJI Team**

**1. PRI/DJI, a Construction JV – Prime Contractor**

PRI/DJI had already successfully completed several projects with Tetra Tech at Wright-Patterson AFB beginning in 2006. In 2008, PRI/DJI had meetings with Tetra Tech EC, Inc. (TtEC) to discuss their capabilities and previous experience working with AFCEC in Iraq. Based on the results of these meetings PRI/DJI met with AFCEC on September 16, 2008, to discuss the possibility of adding TtEC as a team subcontractor and to vet their past experience directly with AFCEC.

Based upon the feedback received from AFCEC regarding TtEC’s outstanding performance in Iraq, on September 23, 2008 PRI/DJI submitted a written request that AFCEC add them to our team as outlined below:

- 1). TtEC had a successful relationship with AFCEC in working for AFCEC in Iraq. This working relationship with AFCEC in the mid east in a remote, hostile, environment would be of assistance to PRI/DJI.
- 2). TtEC has experience with the execution of work in the mid east. This has provided them access to subcontractors and the labor force which would be of benefit to PRI/DJI in successfully executing our work. They also have special knowledge which would ensure that proper quality control measures are used to ensure that a quality project is built.
- 3). TtEC has had unique experience in the required logistics and security measures required in the mid east war zone. This would assist us in successful operations for AFCEC in Afghanistan and other mid east operational areas.

4). TtEC has had success with AFCEC in preparing technical management plans and proposals for work in Iraq. This would assist PRI/DJI in the preparation of our proposals to AFCEC.

As a result, AFCEC issued HERC Contract Modification P00007, dated October 24, 2007, wherein the AFCEC Contracting Officer specifically accepted TtEC as PRI/DJI’s Teaming Partner for the HERC contract.

**2. TtEC – Team Subcontractor**

Headquartered in Pasadena, California, Tetra Tech is a leading provider of consulting, engineering, geotechnical investigations, design, and construction services worldwide. It is a diverse company, including individuals with expertise in science, research, engineering, and construction. With 16,000 employees at 400 locations worldwide, Tetra Tech had revenues of \$2.3 billion in Fiscal Year 2015. TtEC had an established relationship working with AFCEC in Iraq, on projects located in a remote, hostile and austere environment.

In an agreement signed between PRI/DJI and TtEC on October 31, 2008, the parties entered into a prime/sub relationship through PRI/DJI Subcontract No. 11602.01-003 (TtEC Subcontract”) under the PRI/DJI HERC Contract No. FA8903-06-D-8506. The TtEC subcontract expired under its terms on September 30, 2013. Work under the TtEC subcontract in Afghanistan was issued through subcontract work orders for task orders awarded to PRI/DJI under the HERC contract.

**III.  
MANAGEMENT RESPONSE**

**A. Finding No. 2015-01: Prompt Payment of Subcontractors**

In this Finding, the Draft Audit Report indicates that one subcontractor payment of the 49 invoices received and paid was processed beyond the seven day FAR requirement. PRI/DJI processed payments on a weekly scheduled basis in order to meet the seven day pay when paid requirement. Specific reasons which may have caused the payment to be delayed at the time to the following week were not found in the file. Below is our response to the Recommendations.

**1. Response to Finding 2015-01: Prompt Payment of Subcontractors  
Recommendations**

No.	Recommendation	PRI/DJI Response
1	PRI remit the \$285 in interest penalties to TtEC.	Payment will be remitted to TtEC or offset against any amounts due from TtEC to PRI/DJI. In addition, PRI/DJI will revise its payment process

No.	Recommendation	PRI/DJI Response
		by logging daily all contract payments received requiring seven day payment terms and noting if an expedited payment is required in advance of the next scheduled weekly processing. In situations where not all required information has been provided by the vendor, file notes will be maintained in the payment folder.

**B. Finding 2015-02: Fixed Fee Billing**

Although PRI/DJI agrees that Clause B-058 specifies the billing of fee on the basis of the percentage of completion of work rather than on costs incurred, there are several points to consider in assessing the severity of the noncompliance. First, Draft Audit Report does not state that billing on the strict contractual basis would have had a material financial impact, as evidenced by the minimal amount of dollars associated with this Finding. Moreover, each month our invoices made clear the basis on which the fee was billed, and this was accepted by DCAA and AFCEC and payments timely made, indicating constructive acceptance of the practice. Finally, in the end, PRI/DJI earned its entire fee and completed the project to everyone’s satisfaction. These factors all mitigate the severity of the issue.

**1. Response to Finding 2015-02: Fixed Fee Billing Recommendations**

No.	Recommendation	PRI/DJI Response
1	PRI/DJI revise its billing procedures to address invoicing of fixed fee amounts and document a process by which the percentage completion will be evaluated for billing purposes.	In the future, PRI/DJI will examine the applicable payment provision in each new contract and where the percentage of completion of the work can be readily determined, a methodology acceptable to the Contracting Officer will be developed and submitted for Contracting Officer’s approval.
2	PRI/DJI remit \$282 to the Government.	Payment will be remitted to the Government or offset against outstanding fees due as determined by AFCEC.

**C. Finding 2015-03: Construction Subcontractor Selection**

We do not concur with Finding 2015-03 that this is a material weakness. We have requested TtEC respond to Finding 2015-03, and concur with the position that no credit, or \$0, is owed to the government with respect to this audit finding.

## 1. TtEC Response

TtEC disagrees with, and disputes the correctness of, Crowe’s audit finding that the procurement process and the resulting award of subcontract 1077351 (the Subcontract) is a “Material Weakness” or otherwise evidences “Non-compliance.” Furthermore, TtEC disagrees with Crowe’s questioning of the costs incurred under the subcontract of \$1,076,762.

TtEC awarded the subcontract to [REDACTED] an Afghan owned and operated company, as the result of a competitive, best value-based procurement. As adequate competition provides an exception to the requirement to obtain a certificate of current cost or pricing, TtEC did not have to obtain this certificate for the original subcontract award or any of the subsequent modifications.

### *1. Applicable FAR*

FAR 15.403-1(b)(1) and (c)(1) provide an exemption for the requirement for certified cost and pricing data where adequate competition exists. FAR 15.403-1(c)(1) sets the parameters for “adequate” competition as follows:

- (i) Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's expressed requirement and if—
  - (A) Award will be made to the offeror whose proposal represents the best value (see [2.101](#)) where price is a substantial factor in source selection; and
  - (B) There is no finding that the price of the otherwise successful offeror is unreasonable. Any finding that the price is unreasonable must be supported by a statement of the facts and approved at a level above the contracting officer;
- (ii) There was a reasonable expectation, based on market research or other assessment, that two or more responsible offerors, competing independently, would submit priced offers in response to the solicitation's expressed requirement, even though only one offer is received from a responsible offeror and if—
  - (A) Based on the offer received, the contracting officer can reasonably conclude that the offer was submitted with the expectation of competition, *e.g.*, circumstances indicate that—
    - (1) The offeror believed that at least one other offeror was capable of submitting a meaningful offer; and
    - (2) The offeror had no reason to believe that other potential offerors did not intend to submit an offer; and
  - (B) The determination that the proposed price is based on adequate price competition and is reasonable has been approved at a level above the contracting officer; or

(iii) Price analysis clearly demonstrates that the proposal price is reasonable in comparison with current or recent prices for the same or similar items, adjusted to reflect changes in market conditions, economic conditions, quantities, or terms and conditions under contracts that resulted from adequate price competition

**2. Adequate Competition Existed for the Subcontract and Tetra Tech was able to Conduct a Price Comparison**

Contrary to Crowe’s finding, the competition for, and ultimate award of, the Subcontract conformed with law and regulation. In accordance with FAR 15.403-1(c)(1)(ii), TtEC reasonably expected that two or more responsible offerors, competing independently, would submit priced offers in response to the solicitation's expressed requirement. Tetra Tech sent the RFQ to 5 independent and responsible offerors TtEC expected could perform in the Marjah area.<sup>1</sup> Each of the 5 bidders submitted bids in response to the RFQ.

Vendor	% of Total Scope Bid (By \$ Value)	Responsive	Selected - Best Value	Comment
██████	100%	Yes	√	
██████	100%	Yes		Out of competitive range
██████	84%	Yes		
██████████	90%	Yes		
██████	NA	No		Did not bid correct quantity, did not provide transportation cost

██████ and ██████ bid on all line items included in the RFQ table while the other three bidders did not complete all of the line items in the table – this was not uncommon for Afghan vendors.<sup>2</sup> Although ██████ bid the entire scope, they provided their pricing in 12 lump sum categories that did not completely align with the RFQ table. More importantly, ██████ bid was outside of the competitive range. ██████ and ██████████ responded with enough line items that TtEC considered these bidder’s proposals responsive. The line items these two bidders bid on represented 84% and 90% of the total value of the scope. ██████ bid was considered non-responsive as they did not bid correct quantities and did not include transportation cost. Therefore, we did not use ██████ bid as part of our price comparison. As all 5 offerors provided bids and 3 of the offerors provided unit rates for the various line items, TtEC had sufficient information to perform a line by line price analysis, as contemplated by FAR 15.403-1(c)(1)(iii), to determine fair and reasonable pricing for the all of the line items. See Exhibit TtEC-1 that provides a summary level comparison of the bids received.

<sup>1</sup> TtEC admits that it is unable to locate copies of the solicitation provided to the 5 offerors. TtEC disagrees with Crowe’s finding that TtEC’s inability to locate and produce copies of the email solicitation sent to the 5 offerors should automatically negate all of the other competitive procurement steps that were performed and documented to determine cost reasonableness.

<sup>2</sup> In Afghanistan, the fact that a vendor did not complete all items in a bid table did not, by itself, typically make a bid non-responsive.

As an example of the price analysis performed, Exhibit TtEC-1 reveals the following:

- 3 of the 5 firms solicited provided similar unit rate pricing for the requested 40'x8'x8' Wet Living Units (Connex Box).
  - The unit rate proposed by these three firms were \$20,700, \$22,000, and \$23,400.
  - [REDACTED] proposed the unit rate value of \$22,000 per unit for the 40'x8'x8' Connex Box.
- Based on the content of the proposals received and the evidence of adequate competition as required by FAR 15.403-1(c)(1), TtEC was able to determine that the prices proposed by [REDACTED] were fair and reasonable for all line items contained on the solicitation bid form except the septic tank and fencing items where the only quotes received were from [REDACTED] and [REDACTED]. As stated earlier, [REDACTED] was determined to be outside of the competitive range and therefore, their bid was not used in the pricing analysis.
- For the septic tank and fencing, and in accordance with FAR 15.403-1(c)(iii), TtEC performed a price analysis by comparing [REDACTED] unit rates to past pricing previously used in the original PRI/DJI bid to AFCEC for this Task Order. As shown on page 2 of Exhibit TtEC-2 (which is further discussed below), the unit rates for the septic tank and fencing items were found to be fair and reasonable.

TtEC reiterates that Crowe's audit was incorrect to question any of the Subcontract's cost in its finding, as TtEC demonstrated that it determined the costs to be fair and reasonable as the result of (i) a competitive bidding process; or (ii) a price analysis that used past pricing obtained through competition.

The audit also states "Lastly, [REDACTED] included lump sum amounts within its estimate without detail supporting the build-up to and contents of the estimate." This statement is not correct. On the TtEC's bid comparison sheet, TtEC summarized the "Chain Link Fence w\Fabric" as a Lump Sum (LS) item for simplicity purposes. A further breakdown was not necessary for comparing this line item on the bid summary sheet. However, TtEC's bid form, provided in the solicitation, and the bid received back from [REDACTED] included several fence related items including a fence, sniper screen, a vehicle gate, and a personnel gate that were collectively grouped together as a single line item on the bid comparison sheet, but for which specific quantities and sizing were specified in the solicitation. Therefore, to be clear, neither the bid form nor [REDACTED] proposal contained a Lump Sum value for any of the line items (see also Exhibit TtEC-2 discussed further below).

In conclusion, and as discussed in more detail below, as a result of adequate competition, TtEC awarded the Subcontract to the offeror whose proposal represented the best value consistent with the objectives and requirements of TO 0007, FAR 15.403-1(c)(1) and FAR 15.302. TtEC followed its procurement process to document the prices proposed by [REDACTED] were fair and reasonable thus mitigating the possibility of unreasonable costs being passed through to, and ultimately paid for by, the Government.

### ***3. TtEC's Solicitation Process and the Impact of Conducting Business in a Contingency Area***

As discussed above, TtEC issued a solicitation that resulted in adequate competition—five bidders submitting completed (or, in three cases, partially completed) bid forms. TtEC evaluated the bids, as well as pricing received from other competitive procurements, and determined that [REDACTED] bid represented the best value. As a result of this determination, TtEC awarded the Subcontract to [REDACTED].<sup>3</sup> Given the existence of adequate competition, as contemplated by FAR 15.403-1, TtEC was prohibited from requesting cost or pricing data or a certificate of current cost or pricing data from [REDACTED].

It is important to put this procurement in context as it relates to the history of this project which ultimately led to the award of the Subcontract to [REDACTED]. The following section summarizes how the conditions TtEC encountered during its performance of TO 0007 were substantially different from TtEC's assumptions that formed the basis of the original TO 0007 proposal to AFCEC. The section also highlights the proactive steps TtEC took to ensure a quality product was turned over to the Government at a fair and reasonable price.

#### ***a. Background of TtEC's Performance in Afghanistan***

##### **1. The Establishment of a Project Management Office**

In order to execute TtEC's many Afghanistan projects in a timely and efficient basis, TtEC established a Project Management Office (PMO) in Kabul, Afghanistan to provide (i) managerial oversight in the same time zone as TtEC's projects, (ii) improved access to local vendors and subcontractors, (iii) improved recruitment of local (with multi-lingual capabilities) and in-country personnel, and (iv) numerous other benefits. The PMO was run by TtEC's In-Country Program Manager (PgM) who oversaw the daily operations of the PMO and the progress and requirements of this project. Several Afghani's (Local Nationals or LNs) were employed as administrative staff in the PMO office and for procurement efforts the PgM would often delegate procurement RFQ (solicitation) distribution to a LN who spoke both Afghani and English. Solicitations for the Subcontract were issued by one of these LNs and once responses were received that LN would have forwarded the received bids to the PgM for evaluation. After the PgM's evaluation, all bid information was sent back to the US procurement department for further documentation, evaluation, and issuance of the Subcontract. In this instance, a copy of the original solicitation was unintentionally omitted when the procurement documentation was sent back to the US office.

##### **2. Pashto, Dari and the Dialects – the Communication Hurdle**

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<sup>3</sup> Crowe hypothesizes, in the audit report, that a flaw in either the solicitation or the procurement process may have unfairly restricted competition. Yet, that is not the test for "adequate competition" under FAR 15.403-1(c)(1) or whether [REDACTED] was exempt, based upon the existence of "adequate competition", from providing certified cost or pricing data under FAR 15.403-1(b)(1). Crowe's conclusion that somehow [REDACTED] should have proved a certificate of current cost or pricing data with its initial proposal is contrary to the plain requirements of FAR 15.403-1.

As all solicitation documents, bidding instructions, and correspondences with vendors/subcontractors were conducted in English, language barriers were often a significant issue when soliciting Afghan firms for work under the program. Approximately 55 percent of the Afghan population speaks Pashto, and about 27 percent speaks Dari. Within each language there are some differences in dialect which can further lead to confusion when translating to and from English. Exact language compatibility between our interpreters and prospective vendors was sometimes not possible as the vendors rarely spoke English well and some prospective subcontractors spoke only Pashto while others spoke only Dari. TtEC made every effort to mitigate language barriers by hiring LNs fluent in both English and the local language and dialects. However, given the number of languages and dialects spoken in Afghanistan, language barriers could not always be successfully overcome. Crowe's audit finding unreasonably simplifies the ability of any contractor, let alone TtEC, to locate and hire reasonably qualified LNs who had the ability to interpret and translate technical construction requirements and contract terminology from English into Pashto and Dari including all of the related dialects within these languages. TtEC took all reasonable and appropriate steps to mitigate the language barriers. Yet, given the complexity of the technical and contractual requirements of a U.S. government subcontract, TtEC experienced understandable issues when dealing with Afghan firms. Notwithstanding TtEC's solicitation instructions which advised firms to complete the bid form, the bid form itself was often returned in formats other than the bid form TtEC sent out. Furthermore, firms frequently provided pricing for the product and/or service that particular firm was able to offer that was similar to, but not identical, to the solicitation's requirements. Even using the skilled interpreters TtEC was able to hire, it remained difficult to get Afghan vendors to conform to TtEC's procurement process and understand written documents, particularly contract type documents and RFP's which used more complicated language. TtEC used the best available information and resources available to TtEC at the time it issued the solicitation to secure the best value pricing for the Subcontract.

***b. Changes in Life Support Area Approach***

**1. Originally Proposed Construction Subcontractor Refuses to Perform Due to Safety Concerns**

When TtEC submitted its proposal for TO 0007 (as bid to AFCEC for the base award of this project), one of the underlying assumptions of the proposal was that TtEC would use a single subcontractor to execute all facets of construction (including the Life Support Area (LSA)). At the start of the project PRI/DJI/TtEC reasonably assumed that only a small LSA was required on site to oversee the work of the primary construction subcontract. As a result, the original solicitation issued by TtEC to the 5 bidders was only for 13 containers and a few other ancillary items. The bids submitted, therefore, came back in an initial range of \$300,000 as disclosed during the audit process.

During the time that TtEC solicited and received the quotes for this smaller LSA, the construction subcontractor that had been proposed in the original PRI/DJI/TtEC offer to AFCEC for TO 0007 refused to accept a subcontract. The reason given for this subcontractor's refusal to enter into the subcontract primarily related to security concerns in and around the project area.

As PRI/DJI/TtEC suddenly found themselves without a construction subcontractor, the PRI/DJI/TtEC project management made the decision to self-perform the project and AFCEC was informed of this approach. PRI/DJI assigned TtEC as the lead in this effort and the project was executed using a team of laborers and several smaller subcontractors all under the direction of TtEC leadership. This post-award, unanticipated change resulted in PRI/DJI/TtEC having to build not only the management LSA, but also a construction staff LSA at both the Marjah and Balakina project work sites. These two construction staff LSAs would have been originally constructed by the originally proposed construction subcontractor.

As TtEC had received competitive quotes from the first solicitation process for the smaller LSA construction contract, TtEC sought a revised quote from [REDACTED] with changed and/or increased the quantities from the original RFQ. The revised RFQ added several new items including multiple 20' Connex boxes, some unassembled portable toilets, some water tanks, and the piping to connect the tanks to the wet Connex boxes. All additional line items were intended to establish fully functioning LSAs at both the Marjah and Balakina project sites. After the revised approach in PRI/DJI/TtEC's execution strategy by self-performing the construction, TtEC awarded [REDACTED] the Subcontract in the amount of \$882K for the expanded LSA scope.

## 2. Marines in Marjah Suddenly Decrease Marine Perimeter as AFCEC Increases Scope of TO 0007

During performance under TO 0007, the Marines at Marjah decreased their perimeter. This Government decision resulted in TtEC's LSA being outside of Marine protection. At the same time, AFCEC increased the Task Order scope to upgrade the Marjah facilities. As a result of these two concurrent events, TtEC found it necessary to award several modifications to [REDACTED]. Ultimately, the value of the Subcontract awarded to [REDACTED] increased to \$1.076M after 6 modifications were awarded (inclusive of a de-scope). All of the modifications were necessary and required to ensure TtEC's work staff had adequate security and that the LSA was capable of supporting up to 130 site personnel.

All new line items added to the Subcontract were subjected to a price comparison using past pricing TtEC had received from other projects in Afghanistan to determine whether the pricing proposed by [REDACTED] was fair and reasonable. TtEC acknowledges that the pricing analysis performed in Afghanistan was not sufficiently documented in the procurement files in the United States. However, all past pricing is available in the TtEC's US offices and this information has been provided along with this response as further discussed below in Exhibit TtEC-2.

## ***4. Conclusion: The Award of the Subcontract and Subsequent Modifications Conformed with Applicable Law and Regulation***

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<sup>4</sup> After receipt of [REDACTED] initial proposal of \$309K, TtEC added these items: (14) fourteen 20' open bay connex boxes, (5) five 20' latrine connex boxes, 40 unassembled portable toilets, (1) one 20,000L water tank, (2) two 10,000L water tanks, associated piping to connect septic and water tanks to the wet connex boxes, 514 Mil7B [REDACTED] Barriers, short term rental of a crane, dump truck, excavator, and a car, and 4 personnel to support the increased LSA footprint.

The award of the Subcontract was in conformance with FAR 15.403-1(b)(1) and (c)(1) as adequate price competition existed and/or TtEC had sufficient current or recent pricing for the same or similar items and, as a result, was able to perform a price analysis to determine that the prices proposed were fair and reasonable. Similarly, TtEC had the ability to perform a price analysis for all subsequent modifications as the prices proposed for the materials acquired under the modifications were comparable to the original unit rate pricing. Based on the price analysis performed, TtEC made the determination that the pricing submitted for all modifications were fair and reasonable in accordance with FAR 15.403-1(c)(iii). In instances where new materials were provided like [REDACTED] barriers, TtEC again performed a price analysis and compared [REDACTED] unit rates to previous pricing for the same or similar materials acquired for other projects in Afghanistan to determine that [REDACTED] prices for these materials were fair and reasonable. Due to the aggressive schedules imposed by the AFCEC, TtEC did not have any time, let alone adequate time, to re-solicit proposals from other subcontractors or to risk working with unproven subcontractors in the Marjah area.

Finally, even locating potential firms that were willing to go to TO 0007's extremely dangerous and remote project site was difficult. From February 2010 to December 2010, Coalition and Afghan Forces combined in the largest joint operation in Afghanistan up to that point with the goal to remove the Taliban from Marjah and eliminate the last Taliban stronghold in central Helmand Province. While the battle, known as the Battle of Marjah, was declared "essentially over" by December 2010, fighting with the Taliban continued in this region during the entire performance of TO 0007 and has continued through today. Helmand province is repeatedly described as the most dangerous province of the 34 provinces in Afghanistan. Most people, including the US military, did not want to travel to Marjah for any reason due to the presence of the Taliban in the area. [https://en.wikipedia.org/wiki/Operation\\_Moshtarak](https://en.wikipedia.org/wiki/Operation_Moshtarak).

In order to provide the best value to the government, the project team considered all relevant information during the bid and execution process to minimize overall costs and schedule. [REDACTED] met all procurement criterion that was required by TtEC including: 1) [REDACTED] was willing and able to provide services at TO 0007's remote and dangerous location, 2) [REDACTED] provided competitive pricing in accordance with FAR 15.403-1, and 3) [REDACTED] met TO 0007's express requirements.

AFCEC eventually also cancelled the Balakina site because of a land ownership issue which resulted in standby charges for [REDACTED] and the containers we had delivered to Balakina had to be moved to Marjah.

As the Subcontract, and subsequent modifications, met FAR 15.403-1(b) and (c)'s "adequate competition" exemption from the requirement for certified cost or pricing data, the audit finding is in error as, by regulation, no certificate of current cost or pricing data was required from [REDACTED].

The costs associated with the Subcontract and the subsequent modifications to the Subcontract were also disclosed to AFCEC in the PRI/DJI proposals for modifications to TO 0007 which were subsequently reviewed, approved, and awarded by the government as additional scope and budget to the project. As stated in the proposals under the "Air Force Proposal Adequacy

Checklist for Sole Source Actions above TINA Threshold,” item 12.1 in both our June 20, 2012 Task Order 0007 Modification 3 proposal and the December 2, 2013 TO 0007 Modification 7 proposal (see Exhibit TtEC-3), Certificates of Pricing were not obtained for modifications as the “Price/Cost Analysis was performed on original proposal. Costs for project completion for additional services, materials, and equipment are based on actual costs for similar services, materials, and equipment and quotes from vendors.”

### ***5. Summary of Impediments that Resulted in the Subcontract’s Total Value***

All impediments that subsequently increased the final [REDACTED] Subcontract value to \$1,076,762 are briefly itemized below:

- Construction subcontractor refused to execute subcontract due to security concerns. PRI/DJI/TtEC forced to self-perform and increase size of LSAs.
- Self-performance approach required two LSAs, one for each of the project sites (Marjah & Balakina) which increased the quantities and scope of the [REDACTED] subcontract.
- Balakina project site was eventually cancelled by AFCEC after equipment had been delivered. Marjah LSA perimeter then had to be expanded to encompass the Balakina equipment which was transferred to Marjah.
- Marines decreased their perimeter, necessitating improvements to the TtEC LSA to provide adequate safety for personnel.
- AFCEC upgraded the Marjah facilities which required additional LSA support.

In response to this preliminary audit finding, Tetra Tech has prepared an internal estimate to support the cost reasonableness that was originally determined and ultimately paid to [REDACTED]. This estimate reconfirms that all amounts paid to [REDACTED] under this task order are fair and reasonable. See Exhibit TtEC-2. To aid in the review of this exhibit, note that the first page includes a summary of all original [REDACTED] quotes, all actual values paid to [REDACTED], and TtEC’s internal estimate. Page 2 of this exhibit is an extract of the original cost estimate for Task Order 0007 that was submitted to AFCEC in the PRI/DJI offer. This 2<sup>nd</sup> page is also the past pricing that was used to determine fair and reasonable for the septic tank and fencing awarded in the initial subcontract to [REDACTED]. All subsequent pages of Exhibit TtEC-2 provide support for cost reasonableness for all items, inclusive of all adjustments added to the Subcontract through modifications.

### ***6. Request that Audit Finding be Adjusted***

TtEC understands the requirement for subcontractor certification of cost or pricing data and the underlying requirement to provide a fair and reasonable price evaluation to protect the government from unreasonable and/or unallowable costs. Based on the foregoing discussion and the bullet points below, TtEC disagrees with Crowe’s audit finding of “Material Weakness and Non-Compliance” and request that the finding be changed to “No Finding.”

- TtEC followed an effective and established procurement process to obtain adequate competition for the construction of the LSA at the Marjah project site.

- TtEC understands TINA Certification requirements and procurement staff are regularly trained on those requirements. That said, the Subcontract and subsequent modifications were exempt from TINA Certification.
- TtEC concurs that procurement documentation could have been more complete on this procurement effort, but we disagree that any costs should be questioned. Adequate competition was performed in accordance with FAR 15.403-1(b) and 1(c), a price reasonableness determination for the proposed prices was made, the government was made aware of the work being performed and the prices for the work, and the government received the best value available for this element of work.
- As a result of this finding, TtEC has prepared an internal estimate using comparable previous pricing from competitively bid projects elsewhere in Afghanistan in addition to support from CostWorks/RS Means and internet quotes. This estimate further documents that all pricing awarded to [REDACTED] was fair and reasonable and that no cost should be questioned under this audit finding.

In light of the narrative, facts, and support provided in this response, it is TtEC’s position that no credit, or \$0, is owed to the government with respect to this audit finding.

**1. Response to Finding 2015-03: Construction Subcontractor Selection Recommendations**

No.	Recommendation	PRI/DJI or TtEC Response
1	Locate the solicitation document or otherwise commission the development of an independent estimate of the cost to perform the work in Afghanistan and submit the estimate to AFCEC for review with any delta between the estimate and the actual costs incurred being repayable to the Government.	Original solicitation documentation could not be located. An internal estimate was developed as suggested in the audit finding. Further discussions with AFCEC related to this estimate will be conducted as needed.
2	If the solicitation document and support for the reasonableness of the amounts billed to the Government cannot be located or developed, then TtEC and PRI/DJI should reimburse the Government for the full amount of incurred costs under the PO (\$1,076, 762 as questioned above).	PRI/DJI has provided data as part of this management response, that the cost paid to [REDACTED] was fair and reasonable. It is our position that no reimbursement, or \$0, is owed to the Government with respect to this audit Finding.

No.	Recommendation	PRI/DJI or TtEC Response
3	PRI/DJI should mandate that TtEC evaluate its existing records retention practices and develop a strategy to ensure that procurement records are retained in their entirety.	TtEC will continue to provide additional training to project leadership and procurement staff to ensure copies of all procurement documentation (including copies of original solicitations) originating in foreign nations are sent back to a central TtEC repository in the United States on all future projects.
4	PRI/DJI should require the TtEC’s management undergo training to help ensure that future procurements are executed in accordance with Federal requirements.	TtEC will provide PRI/DJI evidence of staff training regarding procurements conducted under its Federal procurement procedures and the related prime contract FAR requirements.

**D. Finding 2015-04: Property Management**

We do not concur with Finding 2015-04 that this is a significant deficiency. We have requested TtEC respond to the Finding, and concur with the comments and rebuttal that they have provided, as stated below and in responses to Findings 2015-07 and 2015-08.

**1. TtEC Response**

TtEC disagrees with Crowe’s audit finding that the execution of Property Management procedures under this Task Order represents a “Significant Deficiency” or otherwise evidences “Non-compliance.”

TtEC acknowledges that there is always room for improvement in monitoring Government Property. However, our management of Government Property was reasonable and appropriate under the circumstances of the project and the conditions prevailing at the project site. To be clear, records were kept and there is evidence to support property receipt, physical inventories, and documentation of lost, damaged, destroyed, or stolen (theft) items (LDDT reports). TtEC interprets Crowe’s finding on this issue to be that they are primarily concerned with the comprehensiveness of the records that were kept and not that TtEC had no evidence to support property management tracking.

TtEC concurs that our property management logs could have included additional information such a dates of receipt, more regular inventories, submittals of LDDT reports, and a variety of other tracking details, but TtEC disagrees that the processes performed under this Task Order for this finding represents a “Significant Deficiency” or otherwise evidences “Non-compliance.”

To clarify, the items identified in the draft audit finding were not Government-Furnished Equipment (GFE) transferred to TtEC to monitor, maintain, and turn back over to the Government after completion of TO 0007. Rather, the items identified in the draft audit finding as Government Property were Contractor Acquired Property (CAP), which was used by the TtEC in the Life Support Area (“LSA”). The CAP identified was predominately (i) consumed; (ii) installed during the construction; or (iii) left in place when TtEC demobilized.

With respect to the 30 CAP items identified in the audit finding:

1. For TO 0007, a significant amount of property shown on the turnover documents came from a separate project in the nearby province of Uruzgan. The master equipment log does reference that the material was acquired and subsequently “Transferred from [the] Uruzgan” project to TO 0007. Most, if not all, of the items identified in the audit where “evidence of receipt was not provided” came from this other project.
2. TtEC concurs that dates of receipt or acquisition costs for some items were not recorded on the master log for TO 0007. As discussed above in the previous paragraph, most, if not all, of these instances are a result of transferred property from another project where such property was originally acquired and the master equipment log for TO 0007 references the transfer of the property from that project to TO 0007.
3. TtEC maintained an Excel file for property management that was updated on a rolling basis. As new property was acquired or transferred to TO 0007, it was added to the Excel file. Therefore the master Excel file for TO 0007 represents the summation of all CAP transferred or acquired at the conclusion of the project. TtEC concurs that the master log does not reference a specific date corresponding to a final inventory.
4. TtEC acknowledges that the property records were not maintained in an automated database. Due to the technological deficiencies in Afghanistan and the unreliability of internet connectivity and bandwidth limitations, TtEC chose to track all property management in Excel due to it being the most reliable software under the circumstances. Proficiency of staff in database management systems was also a consideration in the selection of Excel as our tracking tool where TtEC PA’s were typically Afghani who served in other capacities and were not solely Property Administrators hired specifically only to track property. Excel files were also much easier to transmit when internet connectivity permitted.

TtEC maintains a robust and detailed property management plan that was available for guidance on this project. TtEC employees did maintain records and provided good stewardship of all government property even though TtEC’s property management plan was not strictly followed. As discussed in detail in PRI/DJI/TtEC’s response to Audit Finding 2015-08, the Government effectively waived its right to acquire all CAP at project completion and all CAP acquired for or transported to TO 0007 was ultimately left in place at demobilization and became the property of the end user, the Afghan Forces.

While this does not relieve TtEC of the responsibility to provide property management in accordance with TtEC’s property management plan, it is relevant that the Government refused to

take possession of all property procured or transferred to this project and therefore regardless of the comprehensiveness of the property management administered on this project, no adverse effects were imposed on the Government or the end user.

In summary, TtEC does acknowledge that greater diligence could have been administered on the monitoring and tracking of Government Property during the execution of TO 0007, but we reiterate that no adverse effects were imposed on the Government or the end user.

**1. Response to Finding 2015-04: Property Management Recommendations**

No.	Recommendation	PRI/DJI or TtEC Response
1	PRI/DJI require TtEC undertake additional property management training.	TtEC will conduct refresher training on the policies and procedures outlined in our property management plan with our field staff and senior management.
2	PRI/DJI modify the subcontract with TtEC to require senior management to periodically review work performed in the field pertaining to property management. The review should be documented and provided to management.	No action required as the TtEC subcontract has expired. In any future teaming agreements between PRI/DJI and TtEC, PRI/DJI will require TtEC to conduct a periodic review of property records and inventories to ensure that records are being maintained and inventories are being conducted. Such information is to be documented and provided to senior management.

**E. Finding 2015-05: Subcontractor Monitoring**

PRI/DJI does not concur with this Finding. We disagree with the assertion that PRI/DJI “did not conduct monitoring/oversight” of TtEC to ensure that equipment and property management and procurement activities were performed in accordance with Federal requirements and terms and conditions of the subcontract. This Finding in many respects is derived from other Findings in the audit of TO 0007 which we dispute, as stated in our response. The conclusions stated in the audit Findings should be more consistent with the facts and be based on reasonable, and not absolute standards as have been applied. PRI/DJI monitored TtEC in an entirely reasonable manner.

Further it is not accurate to state that “PRI did not consider monitoring to be necessary due to TtEC's past experience and expertise.” Rather, PRI/DJI actively monitored TtEC’s performance at every stage of the work, with our PRI/DJI onsite personnel and stateside. PRI/DJI management was directly involved in subcontractor oversight and management, particularly when issues arose which raised material problems and thus warranted greater attention. Where necessary, corrective action was decisively and clearly taken, with full knowledge of our AFCEC

partners, who approved of TtEC's selection for this subcontract role for TO 0007, and appreciated their efforts and the value they added.

PRI/DJI acted reasonably in its monitoring of TtEC, and the results amply vindicate the results of our judgment and faith in TtEC's capabilities. We therefore disagree that PRI/DJI should develop a new "subcontract administration process." The joint venture's existing processes were adequate to the task and, while we are always ready to update our processes to reflect changing conditions and lessons learned, TO 0007 does not present any such circumstances.

PRI/DJI further disputes the item noted in the Draft Audit Report that "PRI/DJI did not conduct adequate monitoring/oversight of Tetra Tech EC to ensure that both equipment and property management and procurement activities were performed in accordance with Federal requirements and the terms and conditions of the subcontract." Prior to adding TtEC as a subcontractor to our PRI/DJI JV HERC team for work in Afghanistan, PRI/DJI traveled to San Antonio and met with the AFCEC Contracting Officer and Program Operations personnel who were familiar with TtEC on similar work performed to vet TtEC's past performance.

PRI/DJI wrote a letter on September 23, 2008 to the Contracting Officer asking for her approval to add TtEC to our team citing the following: "TtEC has successfully prepared and submitted technical management plans and proposals for work in Iraq to AFCEC. With TtEC as a resource during proposal preparation, PRI/DJI will provide improved deliverables to AFCEC. The PRI/DJI and TtEC team will provide AFCEC with increased capability to successfully complete projects in support of AFCEC critical mission requirements in Afghanistan, and other Middle Eastern operational areas." As noted above, through HERC Contract modification P00007, the Contracting Officer formally accepted TtEC onto the team.

During the period of the work on the HERC task orders, PRI/DJI held daily briefings with TtEC, as well as weekly program status review meetings with TtEC US and Afghanistan staff addressing all issues including staffing, cost, schedule and any performance or quality issues. PRI initiated periodic executive meetings with senior executives of TtEC and PRI/DJI to review overall contract performance. PRI/DJI required TtEC to make changes in staff and procedures when necessary. We would also have regular Performance Management Reviews with AFCEC in the AOR to review each of our task orders with AFCEC Program personnel. PRI/DJI also stressed the importance of ethical conduct and required TtEC to sign our code of ethical conduct and we stressed the importance of ethical conduct during the period of the work.

Prior to, and upon award of, the first TO, PRI/DJI met with TtEC several times to discuss their business processes. PRI/DJI was informed that TtEC had the approved Government systems required for the HERC contract. PRI/DJI reviewed the selection of significant vendors used to perform work under TtEC. The review was done primarily at the proposal level, but also during performance of the work. Consideration was given to selections based on qualifications, experience and cost. PRI/DJI provided oversight of work performed in the field with our Operations Manager, Construction Superintendents, On-Site QC Manager and safety personnel.

In PRI/DJI's Final AFCEC CPAR Performance Rating, the Assessing Official gave PRI/DJI Management a VERY GOOD rating.

**1. Response to Finding 2015-05: Subcontractor Monitoring Recommendation**

No.	Recommendation	PRI/DJI Response
1	PRI/DJI develop and document a subcontract administration process that includes periodic reviews for compliance.	PRI/DJI formalized its subcontractor review process in Procurement Procedures and Procedures Manual update dated March 2014 by adding Policy PR33 addressing “Managing Cost Reimbursable Procurements”. PRI/DJI will continue to review its procedures and make further revisions as needed.

**F. Finding 2015-06: Noncompetitive Procurement and Cost Reasonableness**

PRI/DJI does not concur with this audit Finding and agrees with the TtEC position stated below and that no credit, or \$0, is owed to the government with respect to this audit Finding.

**1. TtEC Response**

TtEC disagrees with Crowe’s audit finding that the procurement process and the resulting awards for the various subcontracts under this finding represent a “Material Weakness” or otherwise evidences “Non-compliance.” Furthermore, TtEC disagrees with the Crowe’s questioning of the costs incurred under the Subcontract awarded to [REDACTED], for Master Electrician Services, in the amount of \$7,058.

The audit asserts that TtEC utilized noncompetitive procedures without adequate justification when TtEC hired consultants as part of our field management staff. The audit further asserts that TtEC did not adequately support the reasonableness of the compensation paid to some of TtEC’s consultants and recommended that TtEC reach out to the U.S. Embassy for available compensation data to obtain market data. The audit also cites U.S. Bureau of Labor Statistics data in support of the auditor’s basis for the questioned costs. TtEC disagrees with the audit findings and questioned costs for the following reasons:

1. TtEC sought qualified candidates in a manner analogous to FAR Part 36’s procedures in that TtEC first sought out individuals that met (i) TO 0007’s stated requirements for construction personnel assigned to work on the project; and (ii) TtEC’s requirements. AFCEC repeatedly stressed the importance of ex-pat oversight (“Less ex-pat oversight, risk increases”(Exhibit TtEC-7)) and they strongly recommended the use of ex-pat supervision to provide the expertise needed to supervise Afghan firms for electrical work. These requirements are discussed in greater detail below. Once TtEC identified qualified candidates, TtEC then proceeded to negotiate appropriate compensation given the harsh and dangerous conditions in which such individuals would be working.



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

4. When interviewing Afghani's for Tetra Tech positions, Tetra Tech also considered several key criteria during the selection process including: 1) The applicant's ability to communicate in English and translate English into Pashto, Dari or one of the dialects to non-English speaking subcontractor personnel, 2) The applicant's willingness to work in a hazardous war zone for a U.S. based company (An Afghan that was identified and captured by the Taliban and accused of working for a U.S. company was typically murdered and their families often became targets as well.), and 3) The applicant's technical knowledge and ability to communicate technical instructions to non-English speaking staff.
  
5. TO 0007 was competitively bid and went through various modifications that disclosed detailed cost build ups that used the monthly compensation rates that are now being questioned by the auditor. AFCEC ultimately reviewed and approved every instance where the \$22,000 monthly rate was used.

The cumulative set of Task Order specifications and circumstances of Task Order performance (including the location of performance) required high U.S. constructions standards that put Afghanis at a disadvantage. TtEC actively approached the execution of this project in consideration of the lessons learned from our competitors in order to provide a high quality product while reducing overall project costs by minimizing the schedule and limiting rework and warranty items.

In conclusion, TtEC sought qualified candidates in a manner analogous to FAR Part 36's procedures in that TtEC first sought out individuals that met (i) TO 0007's stated requirements for construction personnel assigned to work on the project; and (ii) TtEC's requirements. In addition, PRI/DJI/TtEC followed AFCEC direction provided to HERC contractors regarding the importance of high quality ex-pat oversight, especially for electrical scopes of work. Once TtEC

identified qualified candidates, TtEC then proceeded to negotiate appropriate compensation given the harsh and dangerous conditions in which such individuals would be working.

**Specific responses by procurement item are addressed as follows:**

- **PO 1053199** - [REDACTED] – [REDACTED] began working for TtEC in the mid 2000’s under our Iraq program. Prior to the performance period of this Task Order, [REDACTED] had already proven his skills, knowledge, and abilities to TtEC by successfully supporting the completion of numerous other TtEC projects over many years. As this project was confronted by several significant challenges and the execution strategy was changed to self-performance rather than use of a primary subcontractor (further discussed in Finding 2015-03) and given the lack of proven qualified individuals capable of performing, and willing to perform, in difficult and remote locations, TtEC made the decision at the time to seek and engage the most qualified individual for the role of Construction Manager (CM) that would contribute to the successful construction of the Marjah Police Station. TtEC maintains that the selection of [REDACTED] to fill the role of Construction Manager was for the best interest of the Government and given that his compensation was shown to be reasonable during the audit process we believe the methodology used in his hiring was appropriate.
- **PO 1070638** - [REDACTED] – TtEC acknowledges that [REDACTED] subcontract did not include the documentation to support his monthly compensation, but the selection of his compensation was considered against actual market rates at the time of his engagement to determine whether his compensation was fair and reasonable. As the audit notes, compensation comparisons were provided to Crowe during the audit process and [REDACTED] compensation was determined reasonable by Crowe’s assessment.
- **PO 1072501** - [REDACTED] - TO 0007’s Statement of Requirements (SOR) Section 1.0 included a directive that, “The work within this contract shall meet and be constructed in accordance with current U.S. design and standards to include, but not be limited to the following:
  - IBC, International Building Codes 2009
  - NFPA 101, Life Safety Codes
  - NEC, National Electric Code
  - UFC 4-010-01, DoD Minimum Anti-Terrorism Standards for Buildings
  - DoD CJ-ENG Memorandum for Record, Design Standards, 16 August 2009

The U.S. construction standards specified by TO 0007 were very different from – and much higher than – the typical standards of construction otherwise common place in Afghanistan. Given TO 0007’s stated construction requirements for personnel assigned to work on the project, Tetra Tech was unable to identify any Afghani’s that had the appropriate level of knowledge of the IBC, the NEC, or TO 0007’s other construction requirements.

**Questioned Costs for [REDACTED]**

TtEC disagrees that the compensation paid to [REDACTED], a qualified U.S. Master Electrician, was unreasonable or that the government was overcharged for the services provided.

Tetra Tech is unclear how the auditor developed the \$19,737 monthly salary (which lead to the \$7,058 cumulative “overcharge” finding) as an estimated reasonable monthly compensation for a U.S. Master Electrician working in Afghanistan, but it appears that that the auditor’s calculation is based on a 40-hour work week which would be an inappropriate determination given that the actual work week at the Marjah site in Afghanistan was 72 hours per week (6 days x 12hrs/d). Furthermore, the auditor’s analysis is based on the United States Bureau of Labor Statistics (BLS) title of an Electrician at the 90th percentile which is not the same as a Master Electrician. Though a Master Electrician and an Electrician at the 90<sup>th</sup> percentile of the BLS are similar, the salary ranges for these two labor categories can differ significantly and using a range from one labor category to compare against another resulted in a less than accurate comparison and inaccurate conclusion.

As the auditor referenced in the finding, per BLS using 2014 data, the average annual salary for an electrician (at the 90 percentile level to reflect enhanced skills and experience for a master electrician) is \$85,590. It appears this salary is based on 2080 hours per year which equates to a 40-hour work week.

TtEC employees and consultants working on site at Marjah worked 72 hours per week (12 hours a day for 6 days per week) and their monthly salary was reflective of the additional 32 hours of work performed. TtEC paid our Master Electricians \$22,000 per month and the auditors have determined that \$19,737 is the “Estimated Reasonable...Monthly Compensation” for a Master. The difference between the auditor’s assumed monthly salary and the compensation actually paid by TtEC is only \$2,263 per month.

If the auditors were to have included the additional 32 hours per week in the auditor’s calculation, the result of that calculation would actually yield a monthly salary that exceeds the compensation TtEC paid to [REDACTED]. \$76.00/hour for [REDACTED] versus \$123.36/hour for the electrician in the BLS’s 90<sup>th</sup> percentile.

	<b>Monthly Salary</b>	<b>Avg hours per month on 72 hr/wk, 4 wk/m</b>	<b>Avg hours per month on 40 hr/wk, 4 wk/m</b>	<b>Hourly Rate</b>
TtEC	\$22,000.00	288	-	\$76.39
Auditor	\$19,737.00	-	160	\$123.36

Any estimated monthly salary comparison should be done on a 1:1 for basis where all variables in the calculation are the same. Using a 40-hour work week as a variable in a calculation where the actually work week was based on 72 hours per week yields results that are irrelevant and unrelatable to the actual circumstances and compensation paid.

TtEC’s monthly payment of \$22,000 compensated our independent contractors for the additional hours worked beyond the traditional 40 hours that the BLS values are based on. We maintain that the salary paid to [REDACTED] was appropriate, fair, and reasonable. It is TtEC’s position that no credit, or \$0, is owed to the government with respect to this audit finding.

- **PO 1053947** - [REDACTED] – [REDACTED] began working for TtEC as an independent contractor in the mid 2000’s under our Iraq program. Prior to the performance period of this TO 0007, [REDACTED] had already proven his skills, knowledge, and abilities to TtEC by successfully supporting the completion of numerous other TtEC projects over many years. Because of his exceptional performance in Iraq, TtEC supported [REDACTED] efforts to escape the dangers of his home country of Iraq and we assisted him and his family in this endeavor by providing him employment at our offices in Colorado. His hiring was done analogous to many other US hires where he was temporarily hired as a contract worker with the potential to be hired as a full time employee after the trial contact period was completed. [REDACTED] provided a variety of services over many programs and projects including Task Order 0007 during his contract tenure and he was eventually hired in January 2014 as a full-time employee in our Colorado office.

Given the context of [REDACTED] hiring, the location of his employment in the US office, and the nature of his support across multiple projects at once, Tetra Tech EC strongly disagrees with Crowe’s assessment that his hiring is considered to be inappropriate.

- **PO 1079332** - [REDACTED] – During the audit, TtEC provided Crowe with documentation of the competitive bid process used to select [REDACTED] for a purchase order. The competitive bid process was conducted under a separate PO ([REDACTED] 1054036) on a different task order under the same IDIQ and the subsequent competition and price analysis is referenced in the [REDACTED] subcontract. Crowe previously determined that the earlier competitive process, and TtEC’s price analysis to be proper and the price paid fair and reasonable. As a result of that competitive process, TtEC continued to use [REDACTED]. As a result of TtEC’s continued use of [REDACTED] services over several years, TtEC was able to negotiate lower pricing as time went on, despite there being a lack of competition for helicopter services in Afghanistan. TO 0007 received the benefit of some of the lowest helicopter rates that TtEC ever incurred in Afghanistan.

Proper procurement procedures were most certainly performed and documented in the files for this subcontract and TtEC is unclear why this specific item is even referenced in Crowe’s draft report and recommends the exclusion of this item in the final report.

- **PO 1056129** - [REDACTED] – [REDACTED] began working for TtEC on FA8903-06-D-8506 0003 (TO 0003, entitled the “Construction of 3/4/205th Corps Forward Operating Base Kandak at Uruzgan, Afghanistan”) under the same IDIQ as TO 0007. The PRI/DJI/TtEC TO 0003 project ended around the time that TO 0007 was beginning and [REDACTED], a local Afghani, had already demonstrated his exceptional leadership skills on TO 0003. Due to the change in execution strategy as described in TtEC’s response to audit Finding 2015-03 where TtEC describes why it became necessary to self-perform construction, [REDACTED] was a key position that lead to the successful construction and

completion of this project. In order to self-perform construction, TtEC used a local Afghan labor broker to employ over a 100 Afghanis. [REDACTED], with his combination of engineering knowledge, multi-lingual abilities, and proven leadership skills made him instrumental in providing duties similar to a Foreman where he organized and led the daily Afghan labor construction operations.

[REDACTED] continued contract employment and transfer to TO 0007 was done in a manner analogous to FAR Part 36's procedures in that TtEC first sought out individuals that met (i) TO 0007's stated requirements for construction personnel assigned to work on the project; and (ii) TtEC's requirements.

In all of TtEC's Afghanistan projects, both CPFF and FFP, we encountered no other Afghani equal to the caliber of [REDACTED] and we strongly disagree with Crowe's assessment that the sole source procurement process was inappropriate.

In summary, TtEC maintains that all procurement processes, subcontracts, and compensation questioned under this audit finding were actually appropriate, the compensation fair and reasonable, and provided the best value to the Government and that all of the decisions made with respect to these procurements led to the successful completion of TO 0007. It is TtEC's position that no credit, or \$0, is owed to the government with respect to this audit finding.

**1. Response to Finding 2015-06: Noncompetitive Procurement and Cost Reasonableness Recommendations**

Based on the all of these considerations and TtEC's rebuttal, our responses to the Recommendations are as follows:

No.	Recommendation	PRI/DJI or TtEC Response
1	TtEC document a procedure for the recruitment of professionals working on international projects and include, as a component of the procedure, a process for the setting of compensation levels.	TtEC will document a procedure for the recruitment of professionals working on international projects and include, as a component of the procedure, a process for the setting of compensation levels and documenting a market assessment to determine the reasonableness of compensation levels.
2	TtEC should issue a written instruction to procurement staff with reminders regarding when it is and is not appropriate to conduct sole source procurements and what support is required to support/justify	TtEC's selection and hiring of contract employees was done in a manner analogous to FAR Part 36's procedures in that TtEC first sought out individuals that met (i) TO 0007's stated requirements for construction personnel assigned to work on the project; and (ii) TtEC's requirements. Once TtEC identified qualified

No.	Recommendation	PRI/DJI or TtEC Response
	those decisions such that TtEC adheres to Federal procurement regulations.	candidates, TtEC then proceeded to negotiate appropriate compensation given the harsh and dangerous conditions in which such individuals would be working. Based on the above discussions, we disagree that any procurement efforts were conducted inappropriately. While all compensation levels are reasonable, TtEC acknowledges that the subcontract files could have included additional documentation regarding the reasonableness of the compensation. Regardless, TtEC will ensure that the conclusions reference by Crowe under this finding are communicated to all of our procurement staff so that similar situations are not repeated on future projects.
3	TtEC either produce documentation to support the reasonableness of the master electrician compensation or otherwise reimburse the Government \$7,058.	TtEC has provided data as part of this management response, that the cost paid to the Master Electrician was fair and reasonable. It is our position that no credit, or \$0, is owed to the Government with respect to this audit Finding.

**G. Finding 2015-07: Loss, Damage, Destruction, or Theft of Government Property (LDDT) Reports**

We do not concur with Finding 2015-07 that this is a significant deficiency. We have requested TtEC respond to the Finding, and concur with the comments and rebuttal that they have provided below.

**1. TtEC Response**

TtEC disagrees with Crowe’s audit finding that the non-submission of LDDT reports under this Task Order represents a “Significant Deficiency” or otherwise evidences “Non-compliance.” Furthermore, TtEC disagrees with the Crowe’s questioning of the costs related to LDDT in the amount of \$2,184.

TtEC acknowledges that LDDT reports could have been submitted to the Government during the execution of TO 0007. However, to be clear, records were kept as was disclosed during the audit process and there is evidence to support that LDDT documentation was maintained. TtEC further acknowledges that this LDDT list could have been more comprehensive and included a listing of items that were suspected stolen or pilfered [REDACTED] during the AFCEC directed Stop Work notice where TtEC temporarily demobilized from the site during mid construction.

Although TtEC may not have strictly complied with TtEC’s Property Management Plan, TtEC maintains that the intent of this plan was upheld in the administration of LDDT items. TtEC maintained a log of equipment that was damaged or destroyed during project execution. TtEC provided this log to the auditor during the audit process. The log demonstrates that TtEC took a reasonable level of care in documenting LDDT property. Given the extreme conditions at Marjah, TtEC concurs TtEC could not, and that the log does not, account for each piece of property that may have been lost, stolen, or damaged. However the log demonstrates that a significant amount of tools and equipment were damaged or consumed during the construction of the Marjah Police Station and the associated facilities. Furthermore, the *de minimis* value of the LDDT in contrast with the total value of CAP for TO 0007, demonstrates that TtEC’s efforts were effective and reasonable in light of the conditions at Marjah.

While TtEC does not disagree that, if it were performing the project under different and safer conditions, a higher level of LDDT documentation would be feasible, TtEC adamantly disagrees that PRI/DJI/TtEC should be held financially liable for any dollar value of CAP given the Government’s non-participation with TtEC in the disposition of such CAP and the fact that all CAP was left in place in Marjah at project completion, with the full knowledge and approval of AFCEC and was turned over to Afghan forces, regardless of whether it was functional or defined as LDDT.

At the time of TtEC’s demobilization, Afghan forces took possession of all CAP left at Marjah as the Afghan forces were the intended end user of the Marjah Police Station. While this fact may not relieve PRI/DJI/TtEC of the responsibility to submit LDDT forms, it is relevant that the Government actually refused to take possession of all property procured or transferred to this project (as discussed in detail in TtEC’s response to “Finding 2015-08”) and therefore the Government waived TtEC’s obligation and by such waiver demonstrated that the Government did not sustain any economic loss with respect to the CAP that the Government refused to accept and/or take possession of once the Task Order was complete. The Government’s decision not to take possession of all property should further be interpreted as official waiver that the contractor was relieved of financial responsibility of all items discussed under this finding.

In summary, TtEC does acknowledge that greater diligence could have been undertaken to submit LDDT forms during the execution of TO 0007, but we reiterate that no economic loss was incurred by the Government, as the Government waived its rights to the CAP by declining to take responsibility for it. Therefore, it is TtEC’s position that no credit, or \$0, is owed to the Government with respect to this finding.

**1. Response to Finding 2015-07: Loss, Damage, Destruction, or Theft of Government Property (LDDT) Reports Recommendations**

No.	Recommendation	PRI/DJI or TtEC Response
1	PRI/DJI reimburse the Government for the \$2,184 in known questioned costs plus the	Do not concur based on the responses to the audit Finding.

No.	Recommendation	PRI/DJI or TtEC Response
	cost associated with the four items of unknown value.	
2	PRI/DJI design and implement an equipment and property management monitoring program to identify instances in which required actions are not being taken and to correct them in a timely manner.	PRI/DJI formalized its subcontractor review process in Procurement Procedures and Procedures Manual update dated March 2014 by adding Policy PR33 addressing “Managing Cost Reimbursable Procurements”. PRI/DJI will continue to review its procedures and make further revisions as needed. In future teaming agreements between PRI/DJI, In addition, TtEC will conduct refresher training on the policies and procedures outlined in our property management plan (which includes the population and submittal of LDDT forms) with our field staff and senior management.

**H. Finding No. 2015-08: Supporting Documentation for Property Disposition**

We do not concur with Finding 2015-08 that this is a significant deficiency. We have requested TtEC respond to the Finding, which is provided below. We agree with the TtEC position stated below and that no credit, or \$0, is owed to the government with respect to this audit Finding.

**1. TtEC Response**

TtEC disagrees with Crowe’s finding of a significant deficiency and disagrees with the questioned cost of \$65,337.

TtEC acknowledges that it could always do better in monitoring Government Property on any project including TO 0007. However, what is appropriate in each instance will vary depending on the totality of circumstances which dictate what is reasonably possible. To be clear, records were kept and there is evidence to support property receipt, physical inventories, and documentation of lost, damaged, destroyed, or stolen (theft) items (LDDT reports). TtEC interprets Crowe’s finding on this issue to be that they are primarily concerned with the comprehensiveness of the disposition records that were kept and not that TtEC had no evidence to support property management tracking. Items identified in the draft audit finding as Government Property were Contractor Acquired Property (CAP), which was used by the TtEC in the Life Support Area (“LSA”). The CAP identified was predominately (i) consumed; (ii) installed during the construction; or (iii) left in place when TtEC demobilized. As discussed in this response, TtEC made multiple attempts to get signed documentation for the turnover of the CAP. These attempts were unsuccessful, and at the conclusion of TO 0007, AFCEC was notified that all LSA property was being left in place for Afghan use when TtEC demobilized from the site. The Government’s inability to assist TtEC with the disposition of the CAP at the

end of performance under TO 0007 amounts to the Government's constructive waiver of TtEC's financial responsibility for the CAP items in question.

It is relevant to point out that AFCEC involved the US Marine Corps (USMC) Provincial Reconstruction Team (PRT) unit which was located adjacent to the project site in Marjah with the coordination of turnover of the completed project. At the time of turnover, the US Marines were beginning their drawdown of forces in the region, and the contingent of Marines at Marjah decreased from approximately 120 to fewer than 15. At project closeout, there were approximately a dozen Marines still in Marjah and helicopter travel was the only safe method of travel to and from the TO 0007 project site and daily flights had decreased to 1 flight per week. As a result, it was difficult for AFCEC personnel to visit the project site. TtEC tried numerous times to get the DD1149 forms signed either by AFCEC [REDACTED] or someone from the PRT. [REDACTED] was not located at the Marjah site and eventually the PRT demobilized so that there were no US officials to whom to turn the LSA property over too.

At the end of performance under TO 0007, and with no US officials remaining in Marjah, TtEC turned over all LSA property (Connex Boxes, Furniture, Washers, Dryers, Refrigerators, Small Tools, etc.) to Afghan forces (Afghan National Army & Afghan Police). AFCEC was notified that all LSA property was being left in place for Afghan use when TtEC demobilized from the site.

TtEC's Security Manager spent several weeks at Camp Bastion in an attempt to obtain AFCEC signatures on the turnover documents. TtEC's Security Manager was unsuccessful in these efforts as he was informed by AFCEC [REDACTED] throughout February and March of 2013 that AFCEC did not want the CAP that had been transported to Camp Bastion nor would AFCEC personnel sign the turnover documents for CAP left at the project site as they could not verify the CAP on site since all US personnel had vacated the area and the Afghan forces had already taken possession. It was further communicated to TtEC that they had no use for the CAP transported to Camp Bastion as their own program was coming to a close and there were no other contractors or projects to transfer the property to. Eventually [REDACTED] took a few things and the rest was split between the base command and USACE per AFCEC direction. DD1149 forms were prepared for all items turned over, however AFCEC refused to provide the signatures requested.

TO 0007 Statement of Work - 3.0 GOVERNMENT-FURNISHED INFORMATION, EQUIPMENT, AND PROPERTY (GFI, GFE, GFP) contained the following requirement:

The Contractor shall provide accountability of all AFCEC provided Government-owned, furnished equipment, material, or property (GFE/GFM/GFP) in possession of AFCEC Contractors performing work in support of the Afghanistan Reconstruction Program, to include all items purchased by the Contractor for which the Contractor has been reimbursed by the Government. The Contractor is required to strictly adhere to the procedures for handling, transfer, disposition, disposal, and turn in are outlined in the Government-Furnished Property & Contractor Acquired Property Accountability Procedures provided by AFCEC.

TtEC made several attempts to schedule a formal disposition at both the project site and Camp Bastion at the end of this project. Completed DD 1149 forms were also sent to the PRT and requested confirmation and signature, but no response was ever received. Due to AFCEC delegation of authority to the USMC PRT and their subsequent demobilization and unwillingness to return signed DD 1149 forms, TtEC should not be penalized for its inability to obtain signed DD 1149. The Government's actions in the disposition of the CAP at the end of performance under TO 0007 amounts to the Government's constructive waiver of TtEC's financial responsibility for all items listed on the DD 1149.

Below is a detailed response to each line item questioned in the draft Audit Report.

- One two-way radio (\$150) and one television (\$444) – TtEC made every effort to turn over these two items to the Government. Both are listed on the transfer documents that were turned over/disposed at Camp Bastion. See highlighted rows in Exhibit TtEC-8 (Note that the values shown in the exhibit are our PM's estimated depreciated costs at the time of turnover, whereas the auditor's values represent the actual acquisition costs). TtEC should not be penalized for the Government's actions during the turnover process. It is TtEC's position that no credit, or \$0, is owed to the Government with respect to these items as TtEC's inability to turn these items over to the Government was a direct result of the Government's actions..
- One laptop computer (\$1,500) – TtEC concurs that this item was transferred to one of TtEC's other USACE Afghanistan projects at the conclusion of this task order. TtEC also considers computers to be a consumable, and to avoid confusion, TtEC should have left this off the equipment turnover list. See further discussion on consumables below. It is TtEC's position that no credit, or \$0, is owed to the Government with respect to this item.
- One generator (\$22,550) - TtEC made every effort to turn over the generator to the Government. This generator is listed on the transfer documents that were completed at the site. See Exhibit TtEC-9 and Exhibit TtEC-10 (Note that the value shown in the exhibit is TtEC's PM's estimated depreciated cost at the time of turnover, whereas the auditor's value represents the actual acquisition cost). The generator was the first item listed in Exhibit TtEC-10 which has been highlighted for reference. TtEC should not be penalized as a result of the Government actions during the turnover process. It is TtEC's position that no credit, or \$0, is owed to the Government with respect to this item.
- One freezer (\$375), one battery charger (\$570), one washing machine (\$753) – TtEC made every effort to turn over these items to the Government. The freezer and washing machine are both listed on the transfer document that was completed at the site. See highlights in Exhibit TtEC-10 (Note that the values shown in the exhibit are our PM's estimated depreciated costs at the time of turnover, whereas the auditor's values represents the actual acquisition costs). The battery charger was not specifically identified on any of the turnover documents. However this charger was for charging lead-acid batteries typically used in motor vehicles or All Terrain Vehicles (ATVs). All ATVs

purchased for this project, as disclosed during the audit process, were documented on TtEC's "GFE Broken Tools List" as being damaged or destroyed and left on site. The [REDACTED] charger in question was also left on site and turned over to the Afghan forces when TtEC demobilized. TtEC should not be penalized as a result of the Government's actions during the turnover process. It is TtEC's position that no credit, or \$0, is owed to the Government with respect to this item.

- One 40 foot Connex (\$19,000), and one 20 foot Connex (\$16,000) - TtEC made every effort to turn over the Connex boxes to the Government. TtEC purchased 27 Connex boxes under TO 0007. However, 39 Connex boxes were listed on the turnover documents. The difference between the number of boxes purchased and the number turned over, or 12 additional boxes, is because PRI/DJI/TtEC completed another project, TO 0003 under the HERC program, in the Uruzgan province which was reasonably close in proximity to the Marjah project site. At the completion of the TO 0003 AFCEC project, all GFE/CAP was transported to TO 0007 which was subsequently turned over with all equipment purchased under TO 0007. TtEC acknowledges that it could always do better in monitoring Government Property, however given the extreme circumstances of TO 0007, TtEC made all reasonable efforts during the execution of TO 0007 and all Connex boxes listed on the turnover documents should have shown additional information such as serial numbers. Furthermore, the fact that more Connex boxes were turned over at the project site than were purchased under this TO demonstrates that TtEC was actively involved in the oversight and care of GFE/CAP. When TtEC demobilized from the project site, all equipment was left in place as TtEC had no further AFCEC projects or any other projects in the nearby vicinity. As previously stated, the remoteness of this project site made travel and shipping to and from the site extremely unsecure and dangerous. When TtEC eventually demobilized from TO 0007, US military had stopped supporting transportation to this site and all staff had to travel over 50 kilometers over local dirt roads to the town of Lashkar Gah to catch a commercial flight out of the area. Removing any equipment, especially items the size and weight of a Connex box would have been severely cost prohibitive. Ultimately all GFE/CAP was left on site and transferred to the Afghans. TtEC should not be penalized due to the Government's decision not to send personnel to the site to complete the turnover process, and the Government resulting waiver of these requirements. As a result of the Government's actions (waiver) with respect to the CAP, the property was given to Afghans as no Government official stepped forward to indicate whether the Government wanted the Connex boxes. It is TtEC's position that no credit, or \$0, is owed to the Government with respect to this item.
- TtEC considers the two laptop computers to be consumables, the one air conditioner to be nonseverable, and the one radio as destroyed. To avoid confusion, all consumables (computers) should have been left off the equipment turnover list. Computers that were still functioning at project completion were transferred to USACE projects elsewhere in

Afghanistan. It should also be noted that one of these computers was transferred from a separate AFCEC project, FA8903-06-D-8506, TO 0003, for use on this project.

- TtEC's interpretation is that all computers should be considered a consumable as their economic life did not extend beyond the duration of the Task Order or their deteriorated functional capacity, given the harsh environment, was negligible.
- Performance of TO 0007 took place at an isolated location in a region of Afghanistan that had high levels of terrorist activities at the time of TO 0007's execution. Due to the harsh weather conditions of this contingency operation, including the extreme temperatures and sand/dust present in the air, the computers had no economic value at the end of TO 0007 and therefore, should be considered a material that was consumed during the course of performance as the useful life of the computers did not exceed the duration of the Task Order.
- It is TtEC's position that all computers should be considered a material or consumable and, as a result, TtEC met the requirements and the intent of FAR 45, FAR clause FAR 52.245-05 Government Property (Cost Reimbursement, Time-and-Material, or Labor-Hour Contracts) (DEVIATION) (MAY 2004) and Task Order 5 clause 1.2.14 952.225-0016(a)(5) – CONTRACTOR MOBILIZATION (NOV 2010).

With respect to the air conditioner, it should be noted that this unit was installed on one of the Connex boxes and during the course of a little more than 2 years of project execution, and the fact that on average 70-130 staff supported this project, this unit received heavy use and would have had little to no value at the time of turnover relative to the cost to remove and ship it to another location. As it was installed on a Connex box TtEC considers the air conditioner to be nonseverable from the site. "Nonseverable" means property that cannot be removed after construction or installation without substantial loss of value or damage to the installed property or to the premises where installed. FAR 52.245-1(a) and FAR 45.101.

The radio referenced under this portion of the finding came from a different Task Order, TO 0003, and was transferred to TO 0007 along with the Connex boxes described above. Additionally, during project execution, several of the radios were broken. These units were sent to our Kabul PMO office where they were subsequently disposed of or destroyed, although they were not specifically reported as such. All items discussed above were used for the execution of the project and any items not consumed during the project were left in place for the end user (Afghanis). It is TtEC's position that no credit, or \$0, is owed to the Government with respect to these items.

The audit also references \$4,589 in costs from 4 items that are on the unsigned DD1149 turnover documents. TtEC is unclear how this particular value was tabulated, but the finding is irrelevant as the auditors assertion is that credits are owed to the Government solely because the DD1149 documents were unsigned. As explained above, TtEC should not be penalized as a result of the

Government's actions, and waiver of this requirement, during the turnover process and therefore TtEC should not be held financial responsible for the amounts referenced in the audit.

In summary, TtEC's mission under TO 0007 was to deliver a critical project to the Government under a contingency operation in harsh and dangerous conditions on an accelerated timeline. A high quality product was delivered to the Government and all GFE/CAP was left in place or transferred to Camp Bastion. TtEC attempted to perform a proper turnover with the Government over the course of at least 6 weeks, if not longer, but was unable to do so. TtEC met the intent of FAR requirements for GFE/CAP and provided good stewardship of all items that TtEC attempted to turn over to the Government. TtEC should not be held financial responsible for the Government's role in refusing to sign turnover documents.

TtEC disagrees with the conclusion that this is a Significant Deficiency and Noncompliance based on the circumstances described above. All items discussed above were used for the execution of the project and any items not consumed during the project were left in place for the end user (Afghan Police) or transport to Camp Bastion. It is TtEC's position that TtEC should not be financial liable for respect to any of the items discussed under this specific audit finding.

**1. Response to Finding 2015-08: Supporting Documentation for Property Disposition Recommendations**

No.	Recommendation	PRI/DJI Response
1	PRI/DJI locate supporting documentation to identify the acquisition cost of the four items that did not have reported values.	As described above, the four items in question (2 computers, 1 A/C, and 1 radio) were either consumable or nonseverable items and that were turned over at completion or consumed during task order performance. Therefore the value of the actual acquisition cost of these items is irrelevant. However, if directed by AFCEC, TtEC will further review its documentation to determine actual acquisition costs.
2	PRI/DJI reimburse the Government \$65,337 plus the total cost of the four items referenced in recommendation 1.	Do not concur based on the responses to the audit Finding.
3	PRI/DJI require that TtEC implement a monitoring process for its international programs.	In future teaming agreements, PRI/DJI will require TtEC to conduct a periodic review of property records and inventories to ensure that records are being maintained and inventories are being conducted.

## APPENDIX B: AUDITOR'S REBUTTAL

Crowe Horwath LLP ("Crowe" or "we" or "us") has reviewed the letter dated May 31, 2016, containing PRI/DJI, A Construction JV's ("PRI/DJI" or "the auditee") responses to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. 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. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. In response to management's comments, we modified finding 2015-05. We did not consider modifications to the other audit findings to be necessary.

### **General Items**

We understand that PRI/DJI does not agree that material weaknesses or significant deficiencies exist with respect to execution of the task order. However, it is important to note that the determination of a material weakness or a significant deficiency in internal control is reflective of both quantitative and qualitative matters, inclusive of the frequency of errors, potential risk to which the Government may be exposed as a result of errors, improperly designed internal control structures, certain dollar thresholds, likelihood of error when accounting for costs charged to the task order, and circumvention of established control structures which may increase the risk of fraud, waste, abuse, and/or noncompliance. We took management's comments under consideration and re-evaluated the classifications; however, we have concluded that the classifications are appropriate as presented.

We also note that PRI/DJI expressed its position that due to the questioned costs, the audit sought to obtain absolute assurance from the internal control system as opposed to reasonable assurance that assets were safeguarded against loss from unauthorized use or disposition. With respect to this matter, we would offer clarification in that costs are questioned as a result of instances of noncompliance, not as a result of internal control deficiencies. Further, management was correct in that the system of internal control should provide reasonable assurance that assets are safeguarded and both misstatements and instances of noncompliance are detected and corrected in timely manner. However, as noted within the audit report, the instances of noncompliance were not detected and corrected by management and, although certain control procedures were appropriately designed, they were not executed in a manner consistent with the documented control procedures.

Management also referenced the work conditions (i.e., a remote war zone) as factoring into what should be considered as reasonable assurance. We understand that these matters present unique challenges, however these challenges do not relieve a contractor from contractual performance. However, the issues noted (e.g., failure to conduct and retain inventories, obtain certified cost and pricing data, or to retain evidence of property and equipment receipt) were not specific to the environment, albeit challenging; rather, the matters noted resulted from a failure to implement policies and procedures as designed or to adequately monitor the compliance activities of the teaming partner, Tetra Tech EC ("TtEC"). The accounting issues questioned in our findings indicate that the internal controls noted were not executed in a manner that provides a reasonable level of assurance that the Federal funds were appropriately administered.

Next, PRI/DJI and TtEC periodically referenced disclosures that were made to AFCEC regarding certain matters identified within the audit findings. While communication with the funding agency is appropriate, it does not – in and of itself – modify, waive, or otherwise authorize changes to the contract or to the Federal Acquisition Regulation ("FAR"), certain provisions of which have been incorporated into PRI/DJI's contract. Therefore, in the absence of written guidance and direction from the Contracting Officer indicating that the requirements of a specific FAR provision has been waived or otherwise modified, our findings have not been changed.

We also understand – based on management's responses and verbal discussions with management during the audit – that TtEC and PRI/DJI may have encountered issues with obtaining cooperation from the Government. However, documentation was not provided to show that PRI/DJI and TtEC escalated these issues through the appropriate channels and received a waiver of responsibility for the various property items. In the absence of relief being granted or the Government taking responsibility for the items, the contractor remains the responsible party for the property.

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Lastly, we note that management highlighted its technical project performance under the contract and the ratings provided within the Contractor Performance Assessment Report. PRI/DJI's technical performance has not been questioned within the report and is to be commended. The performance – inclusive of communicating with the Government regarding certain issues – does not, however, negate or otherwise waive the noncompliance and internal control matters noted in the report. Absent a written waiver, deviation, or modification to the contract arrangements, the compliance requirements referenced in the report remain unchanged.

**Finding 2015-03**

We have reviewed management's comments about this finding and summarize them as follows:

- 1) The procurements in question were exempt from requirements for certified cost and pricing data due to their having been adequate price competition and a price analysis having been performed;
- 2) Additional services were needed, which were unknown at the time of the initial procurement;
- 3) ██████ did not include lump sum amounts within its estimate without supporting information for the build-ups to the lump sum amounts; and
- 4) Tetra Tech EC prepared an internal estimate as a result of the finding to support its request for costs not to be questioned.

In response to management's concerns, we reviewed the documentation provided during the audit as well as that information provided within the text of management's responses and the supporting exhibits. Underlying management's objection is its assertion that exemptions to certified cost and pricing data apply to the ██████ selection. We have included, below, a table that briefly summarizes why the adequate price competition exception has not been satisfied.

Summarized Applicable Requirement	Auditor Comments
Two or more responsible offerors, competing independently, submit priced offers that satisfy the Government's expressed requirement and the proposal represents best value where price is a substantial factor in source selection.	PRI/DJI and TtEC were unable to locate the solicitation or other documentation necessary to demonstrate that price was a substantial factor in source selection and/or what the specific, express requirements were within the solicitation. Further, TtEC discussed the exclusion of respondents due, at least in part, failure to submit complete responses. Based on the lack of documentation provided by PRI/DJI and TtEC, the assertion that the exception applies is inadequately supported.
Price analysis demonstrates that the proposed price is reasonable in comparison with current or recent prices for the same or similar items, adjusted to reflect changes in market conditions, economic conditions, quantities, or terms and conditions under contracts that resulted from adequate price competition.	<p>The adequacy of price competition requirement, upon which the price analysis exception is predicated, has not been satisfied, as noted above. Therefore, the price analysis exception is inherently unavailable.</p> <p>Assuming that the adequate price competition price analysis exception may be considered satisfied, a market assessment was not conducted. Further, the ██████ award was increased through sole source procedures and the scope was expanded. Increases in scope are not identified as matters for which adjustments may be made.</p> <p>Next, management considers the review of the bids provided to be the foundation of the assessment performed. Whereas the unsuccessful bidders' responses were identified as being out of the competitive range or otherwise including scheduling and other matters that resulted in their being excluded or unsuccessful, the baseline</p>

(Continued)

	<p>formed by the bids is inadequate to support reasonableness. This is due to the proposed prices being a function of proposed schedules, pricing requirements, and other matters. Errors in the factors contributing to the development of the bidders' estimates, which were considered to be inadequate or insufficient for consideration, indicate that the resultant pricing proposals are insufficient for establishing a baseline for comparison.</p> <p>Therefore, the exception is not satisfied.</p>
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Next, management indicated that ██████ did not include lump sums without detailed information showing the cost components that result in the lump sum amount calculations. However, as shown within TtEC's exhibit 2 included within management's response, numerous lump sum amounts were included within ██████ final expanded quotes and the specific prices and items that resulted in the lump sums. Further, due to the solicitation not having been provided, it is unclear what the specific requested items were that should have been incorporated within each lump sum amount. Accordingly, the lump sum amounts remain in question.

Lastly, the independent estimate was generated – as noted by management – through CostWorks/RS Means and internet quotes. These tools provide insight into the cost of executing the scope of work in the United States in 2016, but is inadequate for purposes of supporting the historical pricing.

As a result of our review, we have concluded that the finding is correct as originally presented, the costs questioned continue to be inadequately supported and therefore should remain in question, and the finding's classification as a material weakness is appropriate.

**Finding 2015-04**

PRI/DJI and TtEC disagreed with the audit finding primarily due to management's belief that its property management efforts were reasonable and appropriate based on the circumstances and conditions at the project site. Management also provided certain comments that were offered as clarification. These comments included a statement 1) noting that items in question did not constitute government furnished equipment (GFE) that was provided to TtEC and 2) asserting that "the Government refused to take possession of all property procured or transferred to [the TO 0007] project" and the contractor acquired property (CAP) was left in Afghanistan following demobilization.

Per review of the requirements incorporated within PRI/DJI's contractual agreements with the U.S. Government, these matters do not waive the requirements with which TtEC and PRI/DJI did not comply nor do they remove the need to question the underlying costs. The contractor is required – both by regulation and TtEC's internal procedures and policies – to retain evidence of receipt of government property. Further, the consumption, installation, and/or abandonment of items does not relieve the responsibility to administer a sound property management system in accordance with the requirements of FAR 52.245-5, as referenced in the contract. The regulatory requirements applicable to property management as noted within the PRI/DJI prime contract include both government furnished equipment and contractor acquired property within the definition of "Government Property." Accordingly, regardless of classification as GFE or CAP, PRI/DJI was required to manage the property in accordance with FAR 52.245-5.

In consideration of the nature, frequency, and potential impact of property management issues on Afghanistan-related projects as well as the facts underlying the finding, the finding remains unchanged, inclusive of its classification as a significant deficiency.

**Finding 2015-05**

We have reviewed management's comments. We understand PRI/DJI's comments and perspective with respect to its use of TtEC as a teaming partner and the Government's approval of TtEC as a teaming partner. The selection of TtEC, however, is neither in question nor within the scope of our audit. Rather, the matter in question and the nature of the finding pertains to PRI/DJI's monitoring of TtEC's activities.

Based upon our review of management's response, we concur that the occurrence of frequent telephone calls, invoice reviews, and other steps taken by PRI/DJI may constitute monitoring. However, we do not concur that this monitoring was adequate as it failed to detect and correct the instances of noncompliance identified within the report. Management is correct in that the finding is partially derived from other elements of the report. However, the finding stands alone as an expected element of a sound system of internal control. Audit findings 2015-03, 2015-04, 2015-06, 2015-07, and 2015-08 provide examples of the errors that support the need for an adequate subcontractor monitoring plan.

With respect to PRI/DJI Policy PR33, we concur that the policy, which was developed subsequent to the period covered by our audit, partially addresses monitoring. It does not, however, address the review and evaluation of procurements and equipment and property management functions during the award. In response to these items, we have modified the finding's condition to specify that "adequate" monitoring/oversight was not conducted and revised the recommendation to specifically address the need for an expanded monitoring procedure within PR33.

Regarding the cause, the language incorporated was based upon the verbal responses provided by management. Therefore, the cause has remained unchanged.

**Finding 2015-06**

We have reviewed management's responses. We note that management included comments to support whether or not the selection of certain individuals was "appropriate." It is important to note that the appropriateness of the personnel from a technical standpoint is not in question within this audit. Rather, the finding questions TtEC's procedures that resulted in the selections. Specifically, TtEC did not comply with its internal sole source procedures and did not maintain adequate supporting documentation to support the reasonableness of the costs resulting from the sole sourced subcontracts. Management's assertions and opinions are inadequately supported by documentation maintained in the procurement files and as provided within the responses. The documentation does not justify the circumvention of procurement policies or the stringing of procurements to continue using preferred individuals from previous/other task orders without going out to bid.

Further, while we understand that AFCEC highlighted certain concerns and challenges and indicated that there was generally a low number of skilled workers existing in Afghanistan, the Government did not expressly authorize PRI/DJI to not comply with the contractual requirement for competition to occur to the maximum extent practicable. The information provided also does not indicate or support TtEC's executing non-competitive procedures for reasons contrary to its adopted corporate policies. Rather, the AFCEC briefs provided further support the existence of the finding in that it is evident that there are individuals who may provide the services that were sole sourced. We reviewed management's comments with respect to the questioned costs. Management did not provide additional documentation to support its assertion that the salary costs used by TtEC were reasonable. Due to management's having excluded local electricians from general consideration and vetting (AFCEC's presentation indicates that there was a market for electricians), not having performed a documented market analysis at the time of award to determine price, and the benefit and hazard loaders/differentials having already been considered in calculating a reasonable salary, the costs remain in question.

In consideration of these items, the questioned costs and the content of the finding have not been modified.

**Finding 2015-07**

PRI/DJI and TtEC disagreed with the audit finding due to management's belief that records were kept and there is evidence to support that LDDT documentation was maintained to demonstrate that reasonable care was taken in its management of contractor acquired property. During our review of management's responses, we noted that PRI/DJI and TtEC did not provide additional documentation to demonstrate that the companies complied with the applicable contractual and regulatory requirements. To alleviate financial responsibility for the property purchased in whole or in part with Federal funds, reports of lost, stolen, destroyed, or damaged items are required to be submitted to the Government and relief of responsibility granted by the applicable Government representative. In the absence of such relief, the corresponding costs are questioned. We understand that the incomplete nature of TtEC's property records results in certain challenges in terms of validating the amounts used by TtEC within its equipment listing. However, the questioned costs were calculated based on information provided by TtEC and, therefore, we are unsure of the reasoning behind management's objection to the value included within the audit finding.

Next, while we understand that the Government may have issued a stop work order, such an order does not preclude a contractor from having to comply with contractual requirements. We requested a copy of the physical inventory performed immediately prior to the work order and that was performed upon TtEC's return to the work site. TtEC did not produce either inventory. In the absence of such documentation, we cannot substantiate TtEC's claim that certain items were stolen during the period in which TtEC was away from the work site. Accordingly, the value of the missing items is in question.

Based on these assertions in conjunction with prior comments pertaining to management's issues obtaining cooperation from the Government, the finding remains unchanged.

**Finding 2015-08**

TtEC and PRI/DJI did not provide additional documentation to show that the items questioned within the audit finding were appropriately disposed. In the absence of adequate support (including inventories) having been provided, management's assertions regarding the appropriate disposition of government property remain unsubstantiated.

Further, the items for which adequate supporting documentation has not been provided and for which the location remains unknown due to the lack of disposition support constitute government property. The contractor is, therefore, responsible for until granted relief of that responsibility. We understand that TtEC may now consider certain items (e.g., laptop computers) to be consumable, but the TtEC classification appears to lack a basis in applicable regulation. TtEC and, by extension, PRI/DJI remained responsible for the items.

Based on these assertions in conjunction with prior comments pertaining to management's issues obtaining cooperation from the Government, the finding remains unchanged.

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