

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-54 Financial Audit

Runway Renovation at Shindand Air Base: Audit of Costs Incurred by PRI/DJI, A Construction JV Results in Nearly \$5 Million in Questioned Costs

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



AUGUST
2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 26, 2010, the Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center—awarded a 21-month, \$34.2 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 renovate the runway at Shindand Air Base in Herat province, Afghanistan. After nine modifications to the task order, the total award amount increased to \$35.8 million, and the period of performance was extended to February 29, 2012.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$35,869,185 in expenditures charged to the task order from March 26, 2010, through February 29, 2012. 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 (SPFS). See Crowe's report for the precise audit objectives.

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

August 2016

Runway Renovation at Shindand Air Base: Audit of Costs Incurred by PRI/DJI, A Construction JV Results in Nearly \$5 Million in Questioned Costs

SIGAR 16-54-FA

WHAT THE AUDIT FOUND

Crowe identified five material weaknesses 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 adequate supporting documentation to support the reasonableness of two subcontractors' costs. As a result, Crowe estimates that the government was potentially overcharged \$4,361,481 for these services. In addition, TtEC did not maintain sufficient documentation to support the receipt, disposition, or transfer of property acquired under the task order. Crowe estimated that TtEC could not account for \$205,023 of missing property items. Furthermore, Crowe found that TtEC did not have adequate procedures in place to review and approve transactions with its subsidiary companies, which resulted in \$132,368 of unsupported costs.

As a result of these internal control weaknesses and instances of noncompliance, Crowe identified \$4,698,872 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/ Unaccounted Property	\$205,023	\$0	\$205,023
Noncompetitive Procurement and Cost Reasonableness	\$4,361,481	\$0	\$4,361,481
Subcontracts and Other Direct Costs	\$132,368	\$0	\$132,368
Totals	\$4,698,872	\$0	\$4,698,872

Additionally, \$3,404 in combined imputed interest and interest penalties were calculated. Of the \$3,404, \$3,004 is payable to the U.S. government and \$400 is payable to PRI/DJI's teaming partner, TtEC.

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 SPFS because PRI/DJI and TtEC did not maintain adequate records for property acquired during the task order and used for the contract, and due to the identification of a material amount of questioned costs. As a result, the potential impact on the SPFS could not be fully determined.

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, \$4,698,872 in questioned costs identified in the report.
2. Collect \$3,004 in interest from PRI/DJI.
3. Advise PRI/DJI to address the report's five 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

August 18, 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 Air Force Center for Engineering and the Environment—reorganized in 2012 as the Air Force Civil Engineer Center.¹ The purpose of the task order was to renovate the runway at Shindand Air Base in Herat province, Afghanistan. Crowe’s audit reviewed \$35,869,185 in expenditures charged to the task order from March 26, 2010, through February 29, 2012. 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, \$4,698,872 in questioned costs identified in the report.**
- 2. Collect \$3,004 in interest from PRI/DJI.**
- 3. Advise PRI/DJI to address the report’s five 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 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.

¹ The Air Force Center for Engineering and the Environment awarded contract no. FA8903-06-D-8506, task order 0004, to PRI/DJI.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

We will follow 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-076)



PRI/DJI, A Construction JV

Special Purpose Financial Statement

Contract Number FA890306-D-8506, Task Order 004

For the Period March 26, 2010, through February 29, 2012

(With Independent Auditor's Report Thereon)

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Transmittal Letter

July 6, 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 number FA890306-D-8506, task order 004, with the United States Department of the Air Force funding the renovation of Runway 18/36 at Shindand Air Base in Shindand, Afghanistan.

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 to the audit findings and the auditor's rebuttal to management's comments have been incorporated as appendices to the report.

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

Summary

Background

On March 26, 2010, the United States Air Force Center for Engineering and the Environment (“AFCEE”) awarded task order 004 under indefinite delivery indefinite quantity (IDIQ) contract number FA8903-06-D-8506 to PRI/DJI, A Construction JV¹. Included within the original proposal submitted to AFCEE alongside PRI/DJI was Tetra Tech EC, Inc. (“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. AFCEE subsequently became a part of the Air Force Civil Engineer Center (“AFCEC”), which has current oversight of the contract.

The task order was established to fund the renovation of Runway 18/36 at Shindand Air Base. Task order 004 was issued as a cost plus fixed fee award valued at \$34,249,622 and including an initial period of performance beginning on the award date and expiring on December 14, 2011. During the period, TtEC issued various purchase orders to engage subcontractors to assist in project execution.

Through nine subsequent modifications to the task order, the period of performance was extended to February 29, 2012, and the total award amount increased to \$35,887,071. The work was completed within the task order period of performance, and PRI/DJI reported total earned revenue, inclusive of reimbursement for allowable costs incurred and fixed fee earnings, of \$35,869,185.

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 construction and renovation activities under the task order.

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 task order presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the 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 task order; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

¹ “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 task order 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 March 26, 2010, through February 29, 2012. 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) material weaknesses in internal control, (2) noncompliance with rules, laws, regulations, or the terms and conditions of the contract task order; and/or (3) questioned costs resulting from identified instances of noncompliance.

Crowe issued a qualified opinion on the Special Purpose Financial Statement due to 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 and due to the identification of a material amount of questioned costs. 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. Five material weaknesses 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 \$4,698,872 in costs was questioned and \$3,404 in combined imputed interest and interest penalties were calculated. Of the \$3,404, \$3,004 is payable to the U.S. Government and \$400 is payable to PRI/DJI's teaming partner, TtEC. Questioned costs are presented in **TABLE A** contained herein.

Crowe requested copies of prior audits, reviews, and evaluations pertinent to PRI/DJI's financial performance under the contract task order. No previous engagements resulting in findings or recommendations that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives were identified by Crowe or otherwise provided and referenced by AFCEC or PRI/DJI. Therefore, no corrective actions were identified for follow-up.

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	Noncompetitive Procurements and Reasonable Costs	\$4,361,481	\$4,361,481
2015-02	Billing of Unallocable Costs	\$0	\$4,361,481
2015-03	Equipment and Property Management	\$205,023	\$4,566,504
2015-04	Subcontractor Monitoring	\$0	\$4,566,504
2015-05	Tetra Tech Related Party Transactions and Inadequate Supporting Documentation	\$132,368	\$4,698,872
2015-06	Fixed Fee Billing	\$0	\$4,698,872
2015-07	Certified Cost and Pricing Data	\$0	\$4,698,872
2015-08	Subcontractor Prompt Payment	\$0	\$4,698,872
Total Questioned Costs			\$4,698,872

Summary of Management Comments

In general, management disagreed with the classifications of findings as material weaknesses or significant deficiencies. In addition, management disagreed with findings 2015-01, 2015-03, 2015-04, 2015-05, and 2015-07. PRI/DJI management disagreed with the audit's results because management considered that:

- 1) Its disclosure of certain matters to the Government constituted reasonable justification or tacit approval of certain instances of noncompliance (e.g., sole source selection of subcontractors);
- 2) Government property items that were not appropriately tracked were of low value and should not have been classified as "material";
- 3) It was acceptable for management to document a subcontractor monitoring policy after the task order's period of performance concluded;
- 4) Price analyses conducted after-the-fact are sufficient to support an asserted exemption to the requirement for certified cost and pricing data and certificates of certified cost or pricing date;
- 5) Certain procurements to which two entities responded and one was considered adequate or appropriate for consideration of award were sufficient for determining that adequate price competition occurred;
- 6) A copy of a property transfer report containing estimated depreciation amounts for a subset of total property items acquired under the task order is sufficient support for disposition and accounting of all property acquired under the task order;
- 7) Tetra Tech Rizzo was exempt from providing certified cost or pricing data or certificates of certified cost or pricing data due to its status as an operating unit under Tetra Tech, Inc.

Management also disagreed with certain components of findings due to its assumption that the auditor did not consider or otherwise ignore certain evidence and explanations provided during the audit explaining why PRI/DJI and TtEC were noncompliant. Following completion of additional correspondence with PRI/DJI, the documentation had been received and considered but did not reflect sufficient, appropriate audit evidence to support modification of findings or otherwise removing findings.

Additional detail is provided within management's comments at **Appendix A**. Management concurred with the facts underlying findings 2015-02, 2015-06, and 2015-08.

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 Renovation of 18/36 Runway at Shindand Air Base in Shindand, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 4, for the period March 26, 2010, through February 29, 2012.

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.

Basis for Qualified Opinion

Due to management's not having performed physical inventories of property acquired during the contract's period of performance or otherwise retaining adequate property records, we were unable to obtain sufficient, appropriate audit evidence to conclude that the value of property charged to the contract, which is stated as \$642,111, 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, 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 \$4,722,510 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 of 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 4, 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 2, 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 2, 2016
Washington, D.C.

PRI/DJI, A Construction JV
Special Purpose Financial Statement
Contract Number FA8903-06-D-8507, Task Order 4
For the Period March 26, 2010, through February 29, 2012

	Questioned Costs				
	Budget	Actual	Ineligible	Unsupported	Notes
Revenues					
AFCEC Contract FA8903-06-D-8506-0004	\$ 35,887,071	\$ 35,869,186			3, B, E
Total Revenue	\$ 35,887,071	\$ 35,869,186			
Costs Incurred					
Labor	\$ 1,217,820	\$ 837,869			4, 6
Subcontractors	32,285,833	29,656,296		\$ 4,698,872	A, C, D
Other Direct Costs:					
Travel/Subsistence	42,029	37,094			
Insurance	269,481	118,307			
Other	-	3,959			
G&A	2,062,725	2,345,430			
De-obligation of Excess Funds	(2,861,048)	-			
Total Costs Incurred	\$ 33,016,840	\$ 32,998,955			
Fee	\$ 2,870,231	\$ 2,870,231			7
Balance	\$ -	\$ -		\$ 4,698,872	5

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 March 26, 2010, through February 29, 2012

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Task Order 0004 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 Repair of Shindand Runway, Shindand Air Base for the period March 26, 2010 through February 29, 2012. 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. 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 4. Costs Incurred by Cost Category

The budgeted amounts reflect those amounts approved as of Modification No. 09 dated September 30, 2015, which established the final obligated amount of Federal funds that may be used to reimburse costs incurred and fee earned within the period covered by the Statement.

Note 5. 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.

Note 6. Reconciliation to Invoiced Amounts

PRI/DJI has been paid \$35,843,821 by the Government, which is \$25,364 less than total revenues earned. The difference is comprised of a \$25,000 fixed fee withholding as per FAR 52.216-9 and \$364 in overhead costs that have not yet been billed pending final reconciliation of indirect cost rates.

(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.

Total Fixed Fee	\$ 2,870,231
Amount Paid to Date	<u>2,845,231</u>
Balance Due	<u>\$ 25,000</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 March 26, 2010 through February 29, 2012 period covered by the Statement. Management has performed their analysis through February 2, 2016.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement²

Note A. Noncompetitive Procurements and Reasonable Costs

Finding 2015-01 questioned \$4,361,481 in costs due to a lack of documentation available to adequately support the reasonableness of two subcontractors' costs.

Note B. Billing of Unallocable Costs

Finding 2015-02 identified \$3,004 in imputed interest as a result of PRI/DJI having obtained reimbursement for costs that were not appropriately allocated to the task order. The interest amount is calculated based on the amount of time the funds were held prior to PRI/DJI's returning the funds to the Federal Government.

Note C. Equipment and Property Management

Finding 2015-04 questioned \$205,023 in costs due to a lack of property records being available to support the receipt, appropriate disposition or transfer, and depreciated values of equipment and property.

Note D. Tetra Tech EC Related Party Transactions and Inadequate Supporting Documentation

Finding 2015-05 identified \$132,368 in questioned costs as a result of PRI/DJI and TtEC's inability to provide adequate supporting documentation to support the reasonableness of the costs incurred and reimbursed for a topographic survey conducted by Tetra Tech Rizzo, a related party to TtEC.

Note E. Prompt Payment to Subcontractors

Finding 2015-08 identified \$400 in interest penalties as a result of PRI/DJI's not having paid one subcontractor within seven calendar days of PRI/DJI's receiving its reimbursement from the Government.

² 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 Renovation of 18/36 Runway at Shindand Air Base in Shindand, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 4, for the period March 26, 2010, through February 29, 2012. We have issued our report thereon dated February 2, 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 March 26, 2010, through February 29, 2012, 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.

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. 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.

(Continued)

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2015-01, 2015-03, 2015-04, 2015-05, and 2015-07 that we consider to be material weaknesses.

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 2, 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 Renovation of the 18/36 Runway at Shindand Air Base in Shindand, Afghanistan, project funded by contract number FA8903-06-D-8506, task order 4, for the period March 26, 2010, through February 29, 2012. We have issued our report thereon dated February 2, 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, 2015-05, 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.

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 2, 2016
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2015-01: Noncompetitive Procurements and Reasonable Costs

Material Weakness and Noncompliance

Condition: Crowe tested a sample of 10 procurements to determine if they were reasonable and, if applicable, competitively bid. Crowe noted six procurements in question below. Purchase Order (“PO”) amounts reflect the final award values, as modified over time.

Vendor	PO Amount	PO Number	Questioned Costs
██████████	\$17,870,282	1059465	\$1,230,963
Emrooz	\$3,130,518	1059471	\$3,130,518
██████████	\$18,000	1060343	\$0
██████████	\$2,612	1060354	\$0
██████████	\$25,590	1066724	\$0
██████████	\$33,622	1061632	\$0
Total Questioned Costs:			\$4,361,481

Modification No. 2 to ██████████ PO 1059465, which expanded the amount of services with respect to constructing the southern region of the runway, was competed with Emrooz Construction. Tetra Tech EC (“TtEC”) documented its analysis of the two bids and noted that Emrooz’s rates were unreasonable, the company used inferior equipment, and the company had a history of not completing projects on schedule. Therefore, TtEC selected ██████████ to provide the construction services. In determining the reasonableness of ██████████ rates, however, TtEC used Emrooz’s proposed rates, which had been rejected. Crowe determined this method of price comparison to be inadequate. These matters suggest that Emrooz may not have been an appropriate competitor for the procurement such that the bid is an inadequate basis for determining the fairness and reasonableness of costs. The total of Modification No. 2 was \$328,177, which is in question in the absence of adequate supporting documentation to support cost reasonableness.

Modification No. 3 of ██████████ PO 1059465, which provided funding for additional services related to Runway Concrete Placement Services, did not have adequate supporting documentation to show reasonableness of the paint costs included within the modification’s pricing. The total of the paint costs within the modification was \$842,312. TtEC’s procurement support and explanations noted that the amounts were determined to be fair and reasonable based on the Program Manager’s review of information on-site and a lack of qualified bidders. Documentation to support the Program Manager’s determination was not provided for our review.

Modification No. 6 of ██████████ PO 1059465 did not have adequate supporting documentation to determine the reasonableness of the demobilization, paint removal, saw cutting charges, and lump sum items. The modification included the provision of additional selective slabs, soil improvement, and removal and relocation of paint. The sum of the inadequately supported costs within the modification total \$60,474. TtEC’s procurement support and explanations noted that the amounts were determined to be fair and reasonable based on the Program Manager’s review of information on-site and a lack of qualified bidders. Documentation to support the Program Manager’s determination was not provided for our review.

(Continued)

PO Number 1059471 was awarded to Emrooz Construction and Engineering for demolition and site work services using sole source procedures. TtEC indicated that sole source procedures were used as a result of the project manager's determination that Emrooz was the only possible bidder to whom the solicitation should be sent. Supporting documentation was not provided to indicate or otherwise support that no other potential offerors were available, interested, or qualified to perform the requested services. To support the reasonableness of the costs proposed by Emrooz in response to the solicited work, TtEC generated an internal engineering estimate based on 1) software containing U.S. pricing and 2) a mobilization and demobilization amount calculated by multiplying a percentage factor determined by the TtEC estimators by the total estimated cost of the project. Documentation supporting a market assessment or review of Afghanistan pricing was not provided, and documentation explaining how the multipliers used to estimate mobilization and demobilization costs was not included within the procurement file provided for audit. In addition, [REDACTED] performed demolition duties on PO Number 1059465 of the same PRI/DJI Task Order, which suggests that another potential bidder existed. Due to the lack of documentation to support the use of sole source methods and the reasonableness of the price as well as the presence of at least one other potential bidder, the procurement is in question. The total cost of PO Number 1059471 was \$3,130,518, which is in question.

PO Numbers 1060343, 1060354, 1066724, and 1061632 were procurements for the hiring of Construction Engineer Technicians to work on the projects. TtEC indicated that the consultants were hired on a sole source basis due to a lack of qualified personnel in-country. Lack of qualified personnel is not identified within TtEC's procurement policy as an allowable explanation for executing a sole source procurement. Through review of the procurement documentation, consideration of the micro-purchase threshold of \$3,000, and local national compensation amounts approved on Federal awards in Afghanistan for other programs, we concluded that the reasonableness of the costs was adequately supported. The total of the consultant costs are, therefore, not in question.

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 that 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, which are summarized below:

- 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;
- Client directed. A written directive from the client that directs use of a specified source;
- Team subcontractors of competitively awarded prime contracts;
- 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.
- Government project or Overhead acquisitions awarded at \$10,000.00 or below.

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.

(Continued)

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: \$4,361,481

Effect: The Government was overcharged for the services provided. In addition, failure to follow established procurement policies and procedures increases the risk that fraud, waste, or abuse may occur and be neither detected nor corrected.

Cause: TtEC did not adequately train procurement staff to execute and oversee procurements that are subject to the requirements of the contract. PRI/DJI did not adequately monitor in-country activities and decisions made by TtEC's senior management to ensure that procurement decisions were appropriately supported and executed.

Recommendation: We recommend that PRI/DJI, as the prime contractor, reimburse the Government \$4,361,481 or otherwise provide documentation showing that the costs incurred and paid are reasonable. Further, PRI/DJI should establish a process to conduct periodic reviews of TtEC's procurement files when TtEC functions as a teaming partner or subcontractor.

Finding 2015-02: Billing of Unallocable Costs

Noncompliance

Condition: TtEC invoiced PRI/DJI \$446,660 for costs associated with the relocation of a concrete batch plant that was executed by [REDACTED]. Of the \$446,660, PRI/DJI, in turn, invoiced the U.S. Air Force ("USAF") for \$317,276 and obtained reimbursement for the amount invoiced. The amount was subsequently reversed and credited by PRI/DJI to reimburse the Government following PRI/DJI's internal review and correspondence with the USAF. The USAF had previously communicated to TtEC that the costs were not allocable to TO 004 and, therefore, should not be charged to the task order.

Due to the amount having been credited by PRI/DJI on voucher 28 submitted September 29, 2011, and therefore not being included on the Special Purpose Financial Statement, the costs are not in question. However, \$3,004 in potential interest earnings were lost by the Federal Government as a result of PRI/DJI's having been reimbursed funds for unallocable charges. The interest amount was calculated using the U.S. Department of the Treasury Bureau of the Fiscal Service's interest rates as assessed against the amount of funds retained by PRI/DJI prior to reimbursing the Government.

Criteria: In accordance with FAR 31.201-4, *Determining allocability*:

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

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

Questioned costs: None. However, \$3,004 in calculated imputed interest is recommended for payment to the Government.

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.

Cause: PRI/DJI was unaware of the communications that had previously occurred between the Air Force and TtEC.

Recommendation: We recommend that PRI/DJI remit \$3,004 in interest payment to the Government. We further recommend that PRI/DJI, going forward, require all discussions regarding scopes of work and reimbursement for activities be coordinated by PRI/DJI in lieu of permitting direct negotiation and discussion between subcontractors and the Federal Government.

Finding 2015-03: Equipment and Property Management

Material Weakness and Noncompliance

Condition: PRI/DJI delegated equipment and property management activities to Tetra Tech EC. Under the terms of TtEC's subcontract, which incorporated the FAR equipment and property management requirements contained in the prime contract, TtEC was responsible for accounting for property, tracking and reporting lost, damaged, stolen, or destroyed items, maintaining inventory control, and overall property administration. During our testing procedures and through review of written narratives provided by TtEC, we noted that TtEC was not executing the required activities. Specifically, we identified the following matters:

- TtEC did not maintain a running list of equipment and property items that were purchased with TO 004 funds, maintain a register of items that were transferred to TtEC for use on TO 004, or otherwise conduct physical inventories such that a full, auditable population of equipment and property could be provided;
- TtEC did not produce material received reports (MRR) to substantiate the receipt of equipment and property;
- TtEC did not maintain a listing of items that were lost, damaged, destroyed, or subject to theft or otherwise produce copies of lost, damaged, destroyed, or theft (LDDT) reports submitted to the Government for items that have not been accounted for;
- TtEC indicated that property was transferred to TO 004 from TO 002, but a listing or record of all items transferred in was not provided for audit;
- TtEC did not produce a schedule or property records showing the final disposition of all equipment and property items purchased under or used for TO 004;
- TtEC was able to produce a copy of the DD Form 1150 showing items that were turned over to AFCEC in November 2012. The total value of items turned over was estimated to be \$437,087;
- TtEC indicated that items sent with TtEC personnel (helmets, armored vests, etc.) were taken by the individuals to their next assignments and were not included on the transfer-in lists provided;
- A complete final accounting and disposition of property that accounts for all government property acquired for or used on the project was not provided for audit; and
- Documentation supporting the process taken to calculate final property and equipment values, inclusive of depreciation factors, was not provided by TtEC. Therefore, the \$437,087 value noted above may also be inaccurate.

TtEC developed an equipment and property listing during the audit using invoices and purchase orders from the project; the total value of equipment and property per the log was \$642,110. In the absence of receiving support and a full reconciliation of the listing to the financial records, the accuracy and completeness of the listing could not be validated.

Criteria: Sections 1.4.2, 1.4.4, 1.4.8, and 1.4.5.2 of Tetra Tech EC's property administration procedures require the following:

- Inspection of items delivered at the receiving office or field site and subsequent completion and signing of the Tetra Tech Material Received Report;
- Maintenance of adequate control records of all Government property in Tetra Tech's possession, including contractor-acquired property;

(Continued)

- Property records to be maintained in an automated system;
 - Performance of a 100% physical inventory on an annual basis, at a minimum, that includes all accountable Government property under the contract to include Tetra Tech owned property and accountable Government property in the custody of subcontractors; and
 - Provision of a Loss, Damaged, Destroyed, or Stolen property report in each instance that property is lost, damaged, destroyed, or subject to theft.

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..." The regulation continues to require the Contractor to notify the Contracting Officer upon loss or destruction of, or damage to, Government property provided under the contract.

Questioned costs: \$205,023 is questioned and is calculated as follows:

Beginning Balance:	\$ 642,110	Source: TO 0004 Afghanistan Equipment Log
Less:	<u>(437,087)</u>	Source: DD Form 1150
Unaccounted Property:	<u>\$ 205,023</u>	

In consideration of the lack of support for the depreciated values used in calculating the \$437,087 value, the \$205,023 should be considered a lower bound estimate of questioned costs.

Effect: In the absence of adequately maintained records, it is not possible to determine whether the property items invoiced to the Government were received, were appropriately used for Federal project purposes only, or if the items that were not transferred to the Government were provided to appropriate parties at the conclusion of the award's period of performance.

Cause: TtEC did not develop a transition plan to ensure that property management responsibilities were appropriately transitioned to another individual upon the initial property manager's separation from the company. 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 direct TtEC to develop a full accounting of equipment and property purchased under the task order. We further recommend that PRI/DJI modify its teaming agreement with TtEC to require that TtEC conduct a periodic review of property records and inventories to ensure that records are being maintained and inventories are being conducted. Lastly, we recommend that PRI/DJI reimburse the Government \$205,023, which represents the unaccounted value of property items, or otherwise provide documentation to the Government supporting the use, disposition, and value of each item.

Finding 2015-04: 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.

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.

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 compliance with Federal requirements and organizational policies and procedures, including matters pertaining to equipment and property management and procurement.

Finding 2015-05: Tetra Tech EC Related Party Transactions and Inadequate Supporting Documentation

Material Weakness and Noncompliance

Condition: PRI/DJI established Tetra Tech EC as a teaming partner. TtEC subsequently selected Tetra Tech Rizzo ("Rizzo") as a subcontractor. Rizzo is a subsidiary to the same parent as TtEC, thus classifying the company as a related party. During our review of supporting documentation provided by TtEC, we tested \$569,340 of Rizzo transactions. The total Rizzo Intercompany Subcontract Agreement amount was \$1,288,259. The total amount charged to the task order and reimbursed by the Government was \$1,242,671.

Selection of Rizzo to Provide Services

We identified certain matters with respect to the procurement of Rizzo. Rizzo was selected through a procurement that included only two hand-selected offerors: Rizzo and [REDACTED]. During our review of the procurement support, inclusive of the source justification document, and following discussions with PRI/DJI and TtEC, we noted the following:

1. Due to [REDACTED] not having bid on the full scope of the project, PRI/DJI and TtEC adjusted the total bid amount provided by [REDACTED] to permit a valid basis of comparison. Specifically, a \$75,000 amount for a Topographic Survey was added to the [REDACTED] bid amount. TtEC could not locate supporting documentation to demonstrate how the \$75,000 amount was calculated or otherwise provide documentation supporting the reasonableness of the amount awarded to Rizzo for the Topographic Survey (\$97,553). The final amount paid for the topographic survey was \$132,368, which is in question.
2. PRI/DJI and TtEC referenced [REDACTED] inability to deliver the full scope within 90 days as a factor in not selecting the company; however, a 90 day requirement was not incorporated within the solicitation documentation. TtEC indicated that the 90 day duration "was determined during the proposal development process based on Rizzo's previous experience performing similar work in a similar timeframe. It therefore was a known achievable duration and [REDACTED] was requested to meet this same timeframe." Use of Rizzo's standard within a procurement to which Rizzo is a party may be considered improper or anti-competitive.
3. With regard to supporting documentation for the reasonableness of Rizzo's costs, evidence of the procurement department's review of the Rizzo cost and conclusion that it was fair and reasonable was not provided.

During the audit, TtEC indicated that [REDACTED] quote for the geotechnical site investigation was used as a component of the cost reasonableness determination. [REDACTED] was a provider of geotechnical site investigation services, but was not a party to the procurement that Rizzo won. The inclusion of [REDACTED] quote for evaluation was undocumented. In addition, [REDACTED] total quote amount was \$177,986, which was \$98,405 less than Rizzo's quote, a difference of 36 percent from Rizzo's approved amount, which suggests that the amount is unreasonable. The final amount paid to Rizzo for the geotechnical site investigation services was \$117,729. Since this amount is less than [REDACTED] quote, the amount is not in question.

Internal Controls over Related Party Transactions

Through our correspondence with TtEC and analysis of documentation provided by TtEC, we noted the following:

1. TtEC does not have a documented policy pertaining to the required review and approval of intercompany or related party transactions.
2. TtEC did not produce evidence of approval of each related party transaction by the appropriate member(s) of management as required by Policy AF-03, *Expenditure Approval Levels*, which does not expressly exempt intercompany invoices. Rather, the Project Services Project Controls Engineer IV and Project Services Project Controls Engineer V review and approve the invoices. However, neither individual had an approval level exceeding \$2.

3. TtEC relied upon Rizzo's internal procedures to ensure that costs incurred and invoiced by Rizzo were allowable. However, the Rizzo agreement did not incorporate allowability and billing requirements specific to the Federal contract task order under which the work was being performed and charged. TtEC conducted an administrative review of Rizzo invoices as a secondary control.

Prime Contractor Controls over Invoice Reviews

Lastly, PRI/DJI did not consistently receive supporting documentation for subcontractor charges included within the TtEC invoices - including costs associated with Tetra Tech Rizzo - prior to 2011. As such, PRI/DJI had not reviewed the supporting documentation for three Rizzo invoices included within our sample - 50361177, 50363856, and 50362391 - during the period of performance.

Criteria: 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 applies 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."

TtEC Policy AF-03, *Expenditure Approval Levels*, states, "The matrix provides the required management signature levels and authorized dollar limitations for all items requiring approvals, including check requests, vouchers, invoices, purchase requisitions, employee expense reports, etc."

Questioned costs: \$132,368, which is the total invoiced amount for the topographic survey.

Effect: In the absence of a formal, documented policy or procedure pertaining to the review and approval of related party transactions, the likelihood and risk of improper, unsupported charges being passed through to the prime contractor and the Federal Government is enhanced. Failure to obtain supporting documentation during the audit period increases the likelihood that errors on the part of a related party may not be detected.

Cause: PRI/DJI did not appropriately identify offerors who could provide the full scope of work due to the 20 day timeframe within which the company was provided by AFCEE to submit a proposal response. TtEC did not possess a related party transaction policy or procedure to provide complete guidance to members of the project team who were charged with the selection and payment of Rizzo.

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

1. Modify the existing accounts payable procedure to require the submission of detailed invoicing packets for all subcontractor related parties going forward;
2. Provide documentation to support the reasonableness of Rizzo's costs or otherwise reimburse the Government for \$132,368; and
3. Modify the contract with TtEC to require that TtEC expressly address requirements for review and approval of related party transactions to avoid future confusion regarding the applicability or non-applicability of the Expenditure Approval Levels procedure.

Finding 2015-06: Fixed Fee Billing

Noncompliance

Condition: After discussion with PRI/DJI's Chief Financial Officer, we noted that PRI/DJI did not have a process in place to ensure that fixed fee billings were completed in accordance with the task order's requirement for invoicing based on the percentage of work performed. Invoicing of the fixed fee was based on the application of a rate of approximately eight percent multiplied by the actual costs incurred during the billing period. We did not identify any instances in which the fixed fee was overbilled. Therefore, no interest on advanced funds was incurred.

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

Effect: PRI/DJI may have invoiced the Government for portions of the fixed fee in advance of it being earned, which would have resulted in an advance of Government funds within a reimbursement-based contract.

Cause: PRI/DJI did not detect the procedural 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.

(Continued)

Finding 2015-07: Certificates of Current Cost and Pricing Data

Material Weakness and Noncompliance

Condition: During our testing procedures, we identified two subcontracts that triggered the requirement for certified cost and pricing data subject to the applicability of one of the four exceptions identified in FAR Part 15.403-1. The threshold was exceeded for the two subcontracts noted below.

Procuring Organization	Subcontractor	Subcontract / PO Number	Final Subcontract Amount
Tetra Tech EC	██████████	1059465	\$17,870,282
Tetra Tech EC	Emrooz Engineering and Construction	1059471	\$3,130,518
Tetra Tech EC	Tetra Tech Rizzo	N/A	\$1,288,259

The original award for PO Number 1059465 ██████████ was competitively bid by TtEC and, therefore, was not subject to the certified cost and pricing data requirements. However, Modification 1 (\$771,060) and Modification 3 (\$1,148,050) were both above the \$700,000 threshold and were not competitively bid. Therefore, TtEC was required to obtain both a Certificate of Current Cost or Pricing Data and certified cost and pricing data for both modifications. Neither the data nor the certificates were obtained by TtEC for either of the two covered modifications.

PO Number 1059471 (Emrooz Engineering and Construction) was acquired through sole source procedures and had an initial award value of \$3,279,926. As a result, the requirement for submission of both a Certificate of Current Cost or Pricing Data and certified cost and pricing data to TtEC was applicable. Tetra Tech EC obtained neither the certificate nor the certified data for the procurement action.

TtEC obtained neither a Certificate of Current Cost or Pricing Data nor certified cost or pricing data from Tetra Tech Rizzo. Whereas (1) Rizzo is identified by TtEC as a subcontractor within the invoices submitted to PRI/DJI and the Government, (2) there is a legal agreement for the exchange of services between Tetra Tech Rizzo and TtEC, and (3) the Rizzo agreement exceeded the \$700,000, the FAR requirement appears to have been violated. In addition, none of the exceptions to the certified cost and pricing data requirement were satisfied as ██████ did not meet the solicitation requirements and the degree to which price was a factor in selection is undocumented and was not included in the solicitation document.

Lastly, we noted that TtEC's "Cost and Price Analysis" policy required TtEC to obtain certified cost and pricing data. However, the policy had not been updated since 2007 and contained the incorrect threshold which triggers the aforementioned requirements. TtEC's policy referenced amounts of \$550,000 and \$650,000, which represent the thresholds for certified cost and pricing data for awards made prior to October 2010.

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."

(Continued)

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."

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.

As noted in FAR 52.244-2, *Subcontract* means any contract, as defined in FAR Subpart 2.1, entered into by a subcontractor to furnish supplies or services for performance of the prime contract or a subcontract. It includes, but is not limited to, purchase orders, and changes and modifications to purchase orders.

FAR 2.1 defines a contract as follows: "Contract" means a mutually binding legal relationship obligating the seller to furnish the supplies or services (including construction) and the buyer to pay for them. It includes all types of commitments that obligate the Government to an expenditure of appropriated funds and that, except as otherwise authorized, are in writing. In addition to bilateral instruments, contracts include (but are not limited to) awards and notices of awards; job orders or task letters issued under basic ordering agreements; letter contracts; orders, such as purchase orders, under which the contract becomes effective by written acceptance or performance; and bilateral contract modifications. Contracts do not include grants and cooperative agreements covered by 31 U.S.C.6301, *et seq.*

Questioned costs: None.

Effect: The likelihood that subcontractors will pass unreasonable costs through to prime contractors and, ultimately, the US Government is increased. In addition, when the weighting of various factors within the evaluation process are unclear, the risk of challenge to an asserted exception to the certified cost and pricing data requirement is elevated. Lastly, failure to clearly document the basis for engineering and cost estimates may result in such estimates being considered invalid for purposes of establishing cost reasonableness.

Cause: TtEC indicated that certificates of current cost or pricing data were not included within the procurement files for any foreign consultants or subcontractors due to the companies' not being familiar with the U.S. Government's practices. TtEC further indicated that requests for certificates of current cost and pricing data were made to subcontractors; however, the requests were ignored and TtEC elected not to make further requests of the subcontractors.

With respect to Tetra Tech Rizzo, TtEC did not consider the company to be a subcontractor and, therefore, did not obtain certified cost or pricing data or a certificate of certified cost and pricing data.

Recommendation: We recommend the following:

1. That PRI/DJI incorporate, as a component of its subcontract closeout process, a review of the procurement file to ensure certificates of current cost and pricing data are present and have been retained.

(Continued)

2. That PRI/DJI require TtEC to undergo additional training regarding procurements conducted under the FAR, inclusive of price and cost analyses.
3. That TtEC revise its "Cost and Price Analysis" policy to reflect the appropriate certified cost and pricing data threshold (\$750,000 as of October 1, 2015).
4. That TtEC modify its procurement policies to require that subcontracts not be executed with parties that refuse to or otherwise do not provide documentation required by Federal regulations, including but not limited to certificates of current cost and pricing data.

(Continued)

Finding 2015-08: Subcontract Prompt Payment

Noncompliance

Condition: During our testing of subcontractor payments, we identified one subcontractor invoice that was paid more than seven days after PRI's receipt of payment from the Government. The invoice (Tetra Tech EC invoice 50402284) totaled \$4,610,980 and was paid one day late. An interest penalty of \$400 was calculated using the U.S. Department of Treasury's interest rates as per FAR 52.232-27.

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 \$400.

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

Cause: The invoice was overlooked as being due during the initial accounts payable run and was identified for payment during a review by management.

Recommendation: We recommend that PRI/DJI remit the \$400 interest penalty payment to Tetra Tech EC.

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.



June 15, 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 0004

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 0004.

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.

PRI/DJI JV received an outstanding performance rating from AFCEC on this project which was critical to the Air Force mission in Afghanistan. PRI/DJI JV completed this project 47 days ahead of schedule and more than \$2.8 million under the task order funded amount.

Again, thank you for your review and comments. It was a pleasure interacting with your staff.

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 0004
for
Construction of Runway 18/36 at Shindand Air Base,
Shindand, Afghanistan

June 15, 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 0004

June 15, 2016

Thank you for allowing PRI/DJI, a Construction JV (“PRI/DJI”) to respond to the Draft Audit Report prepared by Crowe Harwath LLP (“the auditor”) of the PRI/DJI performance of HERC Contract No. FA8903-06-D-8506, Task Order No. 0004 (“TO 0004”), with the United States Department of the Air Force funding for the Construction of Runway 18/36 at Shindand Air Base, Shindand, Afghanistan.

I.

INTRODUCTION

In summary, we do not agree that there were material weaknesses or significant deficiencies in PRI/DJI’s or Tetra Tech, EC’s (“TtEC”) execution of the project.

The Draft Audit Report states that “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.” To the extent that the audit reflects a failure to account for the unique operating conditions in an extremely remote war zone under which TO 0004 was executed is unreasonable. What is reasonable must account for material differences in working in Afghanistan, a remote war zone over 7,300 miles away. To that extent, the Draft Audit Report in its questioning of costs, appears in some cases to seek “absolute” assurance, which is contrary to the fundamental objectives of the audit.

PRI/DJI and its team subcontractor were active and prudent in their stewardship of the project. We provided AFCEC with complete visibility of material issues and concerns, reasonably monitoring subcontractors and providing timely transparent reporting throughout the project execution, much to AFCEC’s satisfaction.

This Task Order was a time critical project which required the complete demolition of an existing 9,200 LF concrete runway, the design and construction of a new concrete runway, capable of supporting the landing of heavy aircraft like the C-17. This new runway was critical to the success of the U.S. Forces mission in Afghanistan. Since the old runway could not be taken out of operation, PRI/DJI was required to keep the old runway operational while the new runway was being built at the same location. This required tremendous coordination and cooperation of all stakeholders. The previous runway had failed structurally due to a poor design and defective subbase layer. PRI/DJI was selected for this difficult project due to our past performance in Shindand and our capability to provide the design and construction needed to build a new quality runway as fast as possible. Our knowledge of the capabilities of the limited resources and subcontractors in this remote and hostile environment was also part of AFCEC’s decision to place their trust in PRI/DJI in completing this mission. This was an urgent and time critical project right from the beginning. PRI/DJI had just 20 calendar days or 14 work days to prepare our proposal for this RFP. This required us to analyze the cause of the previous runway failure, prepare an initial design analysis based on the specifications for landing heavy Air Force C-17 planes, develop a technical approach for the work, develop a CPM schedule, determine how to build the new runway while keeping the old runway operational, develop the quantities of materials and work effort required so we could solicit subcontractor and vendor pricing, and

finally develop, price and submit to AFCEC a proposal in the format required for AFCEC's review.

In selecting subcontractor resources for this project, the PRI/DJI team had to ensure the subcontractors could perform the work to the strict quality requirements of the Air Force and the fast pace required to meet the schedule. Due to the limited supply of responsible, capable resources in western Afghanistan in early 2010, the subcontractor selection was very limited. In our proposal we disclosed our rationale for subcontractor selection to AFCEC. In one case, we used a sole source contractor for the critical first stage of the project for demolition work since they had an innovative and unique piece of equipment which could demolish the existing concrete in less time than traditional methods. After submission of the proposal, AFCEC challenged some of our subcontractor selections. The PRI/DJI team flew our personnel to a meeting with AFCEC contracting at AFCEC headquarters in San Antonio on March 3, 2010 to address their concerns and discuss our proposal. In addition, AFCEC asked us to compress the schedule further and complete the work faster to meet their mission requirements. On March 8, 2010 we revised our proposal and provided additional supporting documentation as requested for our subcontractor selection for AFCEC's review and analysis. After AFCEC's review of our revised proposal, negotiations were concluded and PRI/DJI was awarded this task order.

After commencing work on the runway, our team was attacked by hostile Taliban forces which destroyed critical runway paving equipment. As a result of the attack, PRI/DJI had to redesign portions of the runway paving operation and deploy a 24/7 workforce to keep this project on schedule. In spite of this setback, PRI/DJI was able to complete this project 47 days ahead of schedule and over \$2.8 million under the task order funded amount. The runway has been used continuously for the past 5 years with no warranty issues.

PRI/DJI received an Outstanding Overall Performance Evaluation from AFCEC for this task order. This fact was unambiguously reflected in comments by the Air Force "Assessing Official" who prepared the PRI/DJI Final Contractor Performance Assessment Report ("CPAR") for TO 0004, stating as follows:

"PRI/DJI completed the Shindand Airfield Runway Repair ahead of schedule, and \$2 million UNDER their proposed budget. Note, this was achieved in a difficult, remote, austere, and hostile environment."

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 2015-01: Noncompetitive Procurements and Reasonable Costs

We do not concur with Finding 2015-01 that this is a material weakness. In regards to the Emrooz Construction procurement PRI/DJI disclosed in our proposal to AFCEC our technical rationale for this sole source procurement. This approach was discussed and reviewed with AFCEC contracting in the proposal meetings that took place for the justification of subcontractor selections. Additional supporting documentation was provided and a task order was issued to PRI/DJI based on the selection of Emrooz. In the final AFCEC CPAR evaluation for this Task Order AFCEC states that PRI/DJI's innovative approach to the demolition of the runway was instrumental in the recovery of over thirty days of schedule.

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, and disputes the correctness of the Finding that the procurement process and the resulting awards of subcontracts 1059465 [REDACTED], 1059471 (Emrooz), and the 4 consultants represent a "Material Weakness" or otherwise evidences "Non-compliance." Furthermore, TtEC disagrees with the questioning of the costs incurred under this Finding of \$4,361,481.

TtEC awarded a subcontract and several modifications to [REDACTED], a Turkish 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 TtEC Was Able to Conduct a Price Comparison

Modification 2:

For the Modification 2, awarded in the amount of \$328,177, critical information retained in the subcontract files that was provided during the audit process has been inappropriately excluded or overlooked. This modification expanded the amount of services to include additional excavation and some concrete saw cutting where the value of each were \$219,321 and \$108,856 respectively (collectively totaling \$328,177).

As the procurement file documents, there was no change in the unit rate pricing quoted in Modification 2 in comparison to the unit rate pricing for excavation services that were awarded in the original subcontract that was competitively bid. The relevant pages of the subcontract's price comparison are provided here again for reference (see **Exhibit TtEC-1**). Note that page 1 of the exhibit is the pricing received from the original solicitation, and page 2 is the pricing received for Modification 2. Therefore the decision to question the full amount of \$328,177 lacks consistency with the evaluation of similar comparisons of other modifications (Mods 1, 4, & 5) and other subcontracts reviewed under this audit where past pricing that was competitively bid was used to evaluate and support fair and reasonable pricing of additional

quantities added to a subcontractor's scope. In light of this information, the \$219,321 value for excavation services should never have been included as part of this Finding.

The primary concern for the remaining \$108,856 value appears to be related specifically to the "inferior equipment" that the second bidder (Emrooz Engineering) proposed to use. A determination in questioning this amount ignores the context of the procurement process implemented where the best value bidder was selected for subcontract award.¹

For reference, Emrooz and [REDACTED] each had specialized equipment for performing different elements of the runway demolition and construction. Emrooz's demolition machine was superior to anything [REDACTED] possessed, and [REDACTED] saw cutting machinery was superior to anything Emrooz possessed. Emrooz and [REDACTED] both submitted pricing for saw cutting with unit rates of \$11 and \$44 per linear meter (LM), respectively. Both vendors were in possession of saw cutting equipment capable of performing the concrete cutting and their equipment was either already on site or nearby on one of the bidder's other projects in the area. However, even though both bidders had equipment capable of performing the work, the quality of the machinery that the two vendors were offering was vastly different and the timeframe in which each bidder could complete the work was also a significant consideration in the procurement determination of best value.

Emrooz, an Afghani firm, proposed using older, smaller, and less powerful equipment that was prone to frequent breakdowns which yielded poor or low production rates that would have ultimately extended the schedule of this project. [REDACTED] on the other hand, offered newer, bigger, more powerful equipment which yield higher production rates and shorter schedules. As both subcontractors were already performing work on this contract and had their equipment on site, TtEC's PM was able to make a visible inspection of this equipment and it was clear that [REDACTED] could complete the work in a shorter timeframe.

Therefore, the decision for award to [REDACTED] was based on site-specific observation and was in consideration of delivering a critical project to AFCEC within the shortest possible timeframe. Readers of this response should also be reminded that this project was the replacement of an airstrip in Shindand Afghanistan which was the only major airstrip in the area. AFCEC needed this airstrip upgraded so that it was large enough and strong enough to support the takeoff and landing of US military C-17 aircraft and the project was considered mission critical to US concerns in Afghanistan. AFCEC had specifically stated there was an urgent need to replace this runway (as further discussed under the Emrooz PO 1059471 below), and this compelling urgency lead to the selection of [REDACTED] as the best value provider of services required under the

¹ *Best value* means the expected outcome of an acquisition that, in the Government's estimation, provides the greatest overall benefit in response to the requirement. FAR 2.101.

An agency can obtain best value in negotiated acquisitions by using any one or a combination of source selection approaches. In different types of acquisitions, the relative importance of cost or price may vary. For example, in acquisitions where the requirement is clearly definable and the risk of unsuccessful contract performance is minimal, cost or price may play a dominant role in source selection. The less definitive the requirement, the more development work required, or the greater the performance risk, the more technical or past performance considerations may play a dominant role in source selection. FAR 15.101.

Task Order. Therefore, the ability of any subcontractor to meet the Task Order schedule was a substantial evaluation factor during this procurement decision process.

Per FAR 52.244-5, Competition in Subcontracting, and as prescribed in 44.204(c),

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.

The procurement process conducted was competitive and implemented in accordance with the applicable FAR clause above with the intent of meeting the requirements to the maximum practical extent consistent with the objectives of the contract where time was a key consideration.

Based on the consideration of technical and delivery factors, [REDACTED] unit rate of \$44 p/LM was selected over Emrooz's \$11 p/LM and determined to be appropriate, fair, and reasonable. In response to this Finding TtEC has gone back and reviewed previous pricing to support the original determination of fair and reasonable (see **Exhibit TtEC-2**). This exhibit shows pricing received from 4 subcontractors where 3 were determined to be within the competitive range. The range of these 3 bids is from \$15 – \$45 p/LM and the unit rate from [REDACTED] at \$44 p/LM is confirmed as fair and reasonable.

TtEC maintain excavation services should never have been included as part of this Finding. that they complied with appropriate and adequate best value procurement procedures and thoroughly evaluated all relevant information to yield the Government the best value subcontractor that eventually contributed to the early turnover of the project approximately 3 months ahead of schedule. It is TtEC's position that no credit, or \$0, is owed to the government with respect to this audit Finding.

[REDACTED] Modification 3:

TtEC acknowledges that the award of this modification which included the procurement and application of paint for the runway was largely based on the experience of TtEC's Program Manager's oversight of similar type projects in Iraq and the past pricing received on those Iraq projects was used for a price comparison basis for this award. TtEC also acknowledges that its use of past pricing to determine the reasonableness of [REDACTED] pricing for Modification 3 was done primarily due to the extremely limited number of qualified bidders in the Shindand area as was previously determined during the original base solicitation. TtEC included the Iraq paint pricing data that was used to determine price reasonableness in the procurement file provided for review during the audit process. TtEC acknowledges that the hardcopy files provided for audit purposes are difficult to read since they appear to be copies from copies of scans and have a degraded degree of clarity, as a result, it was difficult for the auditor to fully evaluate the price comparisons performed at the time of award for Modification 3.

It is also noted that [REDACTED] Modification 3 was a result of the 35% Design Charrette where a non-standard paint marking scheme was developed to specifically address the variety of aircraft

landing at the Shindand Air Base. This painting scheme was prepared based on the recommendations of and subsequently approved by the AFCEC COR. The significant increase in painting requirements was in response to AFCEC direction as documented in AFCEC's Modification 3 to PRI/DJI which added additional scope to the Task Order.

In response to this Finding TtEC has gone back and reviewed previous pricing to support the original determination of fair and reasonable (see **Exhibit TtEC-2**). This exhibit shows pricing received from 4 subcontractors determined to be within the competitive range. The range of these 4 bids is from \$25 – \$65 p/SM and the unit rate from [REDACTED] at \$54 p/SM is confirmed as fair and reasonable.

Based on the price analysis provided in this exhibit which reconfirms the price reasonableness initially determined during project performance, it is TtEC's position that no credit, or \$0, is owed to the government with respect to this audit Finding.

Modification 6:

TtEC acknowledges that the determination to award Modification 6, which included some minor demolition and dirt removal, saw cutting, removal of existing paint, and the disassembly of 2 batch plants was based, in significant part, on the TtEC Program Manager's experience in managing similar type projects in Iraq. The pricing from the Iraq projects was used for a price comparison that resulted in TtEC's determination that the price proposed for the modification was fair and reasonable. As discussed above, TtEC pursued this particular approach for a price reasonableness determination as a result of the extremely limited availability of other qualified bidders in the Shindand area. In this instance, the Iraq past pricing and subsequent price comparison does not appear to have been incorporated in TtEC's subcontract documentation.

In response to this Finding TtEC has gone back and reviewed previous pricing to support the original determination of fair and reasonable (see **Exhibit TtEC-2** and **Exhibit TtEC-3**). These exhibits show past pricing representing a competitive range of pricing for all items questioned under [REDACTED] Modification 6. Specifically:

- Pavement Demolition and Dirt removal – An estimate was prepared for this element using past pricing. The estimate shows the buildup of a unit rate of \$227.40 p/M3 whereas [REDACTED] unit rate was \$212.00 p/M3. The original determination of reasonableness at the time of performance is therefore reconfirmed as fair and reasonable.
- Saw Cutting - Past pricing is in the range of \$15 – \$45 p/LM and the unit rate from [REDACTED] at \$44 p/LM is confirmed as fair and reasonable.
- Removal of Existing Paint – An estimate was prepared for this element using past pricing. The estimate shows the buildup of a unit rate of \$46.53 p/M2 whereas [REDACTED] unit rate was \$32 p/M3. The original determination of reasonableness at the time of performance is therefore reconfirmed as fair and reasonable.
- Disassembly of 2 Batch Plants – Past pricing is in the range of ~\$25,370 - \$59,000 and the cumulative price from [REDACTED] was \$46,000 which is confirmed as fair and reasonable.

Based on the price analysis provided in these exhibits which reconfirms the price reasonableness initially determined during project performance, it is TtEC's position that no credit, or \$0, is owed to the government with respect to this audit Finding.

Emrooz PO Number 1059471:

TtEC confirms that sole source procedures were used in the award of the subcontract to Emrooz Construction and Engineering (Emrooz) for initial site preparation and demolition services. TtEC maintains that this sole source procurement was appropriate and that TtEC made a determination that the pricing proposed by Emrooz was fair and reasonable based upon a previous determined PRI/DJI/TtEC and AFCEC determination.

TtEC believes it necessary to put this particular sole source procurement into context. The auditor needs to have cognizance of certain facts to gain a complete understanding of the sole source decision process that was previously disclosed, reviewed, and approved by all parties involved, including the Government. Therefore the following is a brief history of events and key issues.

1. On February 23, 2010, PRI/DJI submitted a bid for a sole source award of this Task Order to AFCEC in response to AFCEC's February 3, 2010 Request For Proposal (RFP).
2. On March 1, 2010, AFCEC Contract Specialist [REDACTED] sent PRI/DJI a request for a "fact finding" meeting along with a list of items for discussion (see **Exhibit TtEC-4**). Two key items of this meeting were:
 - a. AFCEC stated that PRI/DJI/TtEC's initial schedule duration was too long and needed to be accelerated.
 - b. AFCEC questioned the sole source procurement of the "Site Prep, Demolition, & Material Processing" vendor (Emrooz).
3. On March 3, 2010 the PRI/DJI/TtEC project team flew to San Antonio, Texas to meet with AFCEC in person and to discuss all issues identified in the March 1st email.
 - a. It was explained that the sole source procurement of Emrooz was a necessary component of meeting the urgent need for an accelerated schedule due to Emrooz's sole possession of critical demolition equipment (the Antigo machine) that no other contractor in Afghanistan possessed.
 - b. Emrooz was already established on Shindand Air Base and the Antigo machine was located near the TO 0004 project site.
 - c. Emrooz was the best value vendor for this scope of work as the Antigo machine was 10x faster than some of the more traditional runway demolition and rubbleization methods such as hoe rams and jack hammers. Selection of another vendor using alternate and slower demolition methods would have ultimately delayed the schedule and therefore increased project costs.
 - i. Antigo Machine – The Antigo company is a worldwide leader in rubbleization and economic concrete breaking and are known for quick demolition of runways using their specialized machinery. The Antigo machines are optimized for the breaking and removal of extremely thick airfield pavements using a group of very heavy drop hammers timed using a specialized sequence to yield the maximum level of rubbleization in a

- single pass. The Antigo machine used on this task order was 9 feet wide and could rubblize an entire lane of runway in 1 to 3 days which is extremely fast compared to other methods.
- ii. Use of the Antigo machine has been shown to be “*a technique that many pavement engineers have determined as the most cost-effective method (ref. <http://www.antigoconstruction.com/>)*” of concrete slab demolition due to the significant reduction in time needed to perform demolition. This therefore leads to reductions in labor and other direct costs as well as a variety of other benefits that stem from the rubblization process.
 - iii. With the runway quickly rubblized, excavation of the concrete debris can begin immediately and the entire runway can be removed in an extremely short period which was necessary due to AFCEC’s need to continue using half of the runway for smaller aircraft while PRI/DJI/TtEC demolished and rebuilt the opposing half.
4. On March 8, 2010, after the verbal clarifications discussed on March 3, PRI/DJI/TtEC submitted a written response to the original set of questions along with some additional information which specifically included:
 - a. An accelerated schedule that was 3 months shorter than previously proposed.
 - b. An estimate for the “Site Prep, Demolition, & Material Processing” scope identified to be sole sourced to Emrooz. This estimate was developed using the estimating industry standard RS Means pricing data and the associated software CostWorks to show that Emrooz’s pricing was fair and reasonable. This estimate is the same estimate that was reviewed during this audit.
 5. On March 25, 2010, AFCEC notified PRI/DJI via email (see **Exhibit TtEC-5**) that a negotiated price had been determined, and they asked for PRI/DJI to submit their Confirmation of Negotiation Letter and a Certificate of Current Cost and Pricing Data which PRI/DJI provided. This offer by AFCEC for \$34.2M in the exceptionally short solicitation period of just 50 days from RFP to award, confirms AFCEC’s urgent need for the quick construction of the TO 0004 runway and further demonstrates that the Government also found the TtEC estimate appropriate to support the fair and reasonable price eventually awarded to Emrooz Engineering and Construction as a sole source procurement.

In summary, a consistent theme quickly surfaced at the initial stages of this project, and that was that there was an urgent and compelling reason to complete this project as quickly as possible. The Shindand Air Base runway was one of the only strips in the area capably of landing US C-17 aircraft, and they could only afford to have the runway out of operation for the least amount of time possible. PRI/DJI/TtEC created several overlapping and intertwined solutions to achieve this goal, and one of those innovative solutions involved Emrooz in the demolition of the old runway because of their possession of critical schedule saving demolition equipment and their sole access to that equipment. Ultimately, the compounded time saving measures implemented by PRI/DJI/TtEC, including the sole source use of Emrooz, eventually led to a successful project completion that was almost 2 months ahead of schedule.

Per section 5.7 of TtEC's Acquisition Planning procedure and in accordance FAR 52.244-05 requirements, the following points are identified which permit the utilizing of sole source procurements:

- **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;
- **Client directed.** A written directive from the client that directs use of a specified source;
- Team subcontractors of competitively awarded prime contracts;
- 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.
- Government project or Overhead acquisitions awarded at \$10,000.00 or below.

Of the permitted reasons for making a sole source award, 2 are clearly applicable (**Only one firm is capable**, and **Unusual and compelling urgency**) and the third reason of "**Client Directed**" is inferred by the Government's original questioning of the sole source procurement and the subsequent Government review of the TtEC estimate that was provided during the solicitation process that eventually led to the Government's concurrence and acceptance of Emrooz's pricing as fair and reasonable which led AFCEC to offer a written award for TO 0004 to PRI/DJI, thereby confirming AFCEC'S acceptance of PRI/DJI/TtEC proposed use of Emrooz as a sole source procurement.

TtEC acknowledges that not all of this early procurement history, that supports TtEC's sole source award of a subcontract to Emrooz, was part of the procurement file. However, given AFCEC's negotiation and approval of this sole source subcontract, TtEC strongly disagrees that any costs of the performance of this subcontract should be questioned. Had TtEC included all of this background information with respect to discussions and communications with AFCEC and the unique benefits of the Antigo machine as support for sole source justification, TtEC suspects the sole source subcontract award to Emrooz would not have been a Finding in the draft audit report.

In future procurements, TtEC will ensure that all procurement related information is recorded specifically in the procurement file. TtEC acknowledges that the draft Finding on the sole source subcontract award to Emrooz could have been avoided had all documentation been included for review.

Additionally, in the draft Finding, costs related to the mobilization and demobilization were specifically identified. In response to those two specific points, please reference **Exhibit TtEC-2** that shows past pricing for these activities.

- Mobilization - Past pricing is in the range of \$82,350 - \$410,000 and the cumulative price from Emrooz was \$230,000 which is confirmed as fair and reasonable.
- Demobilization - Past pricing is in the range of \$17,950 - \$180,000 and the cumulative price from Emrooz was \$50,000 which is confirmed as fair and reasonable.

In consideration of all facts presented above and the transparent nature of the sole source procurement of Emrooz from the proposal stages of this project and the Government’s involvement in that process to determine the best value for this element of scope, it is TtEC’s position that no credit, or \$0, is owed to the government with respect to this audit Finding.

For the independent contractor POs 1060343, 1060354, 1066724, and 1061632 TtEC maintains that all procurement efforts for labor resources were appropriate and reiterates that there was a lack of qualified resources. The inference that the hiring methods used in these instances were a deviation from TtEC procurement policy because the policy doesn’t specifically address the procedures when there is a lack of qualified personnel unduly simplifies the substantial efforts and hardships TtEC went through to locate the individuals that were hired. Furthermore, as the Finding states, these individuals were paid fair and reasonable compensation.

Request that Audit Finding be Adjusted

Based on the foregoing discussions with respect to all subjects contained in this Finding, TtEC disagrees with the Finding of “Material Weakness and Non-Compliance” and requests that the Finding in its entirety be changed to “No Finding.”

2. Response to Finding 2015-01: Noncompetitive Procurements and Reasonable Costs 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	PRI/DJI, as the prime contractor, reimburse the Government \$4,361,481 or otherwise provide documentation showing that the costs incurred and paid are reasonable.	TtEC has provided data as part of this management response that the costs paid were fair and reasonable. It is our position that no reimbursement, or \$0, is owed to the Government with respect to this audit Finding.
2	PRI/DJI should establish a process to conduct periodic reviews of TtEC’s procurement files when TtEC functions as a teaming partner or subcontractor.	In any future teaming agreements between PRI/DJI and TtEC, PRI/DJI will conduct periodic reviews of TtEC’s procurement files. PRI/DJI will continue to review its procedures and make further revisions as needed.

B. Finding 2015-02: Billing of Unallocable Costs

PRI/DJI’s subcontractor monitoring and oversight identified the potential issue, communicated with TtEC and the AFCEC contracting officer for an appropriate resolution. Field discussions did occur between PRI/DJI, team subcontractor TtEC and CORs and were elevated to PRI/DJI senior management for resolution with the Contracting Officer.

In response to the computation of interest due the government, please consider the following additional matter.

In October 2011, PRI/DJI received a notice requesting a refund of \$3,824.57 for overpayment of on vouchers 01 through 04 in 2010 as listed below. The original contract indicated DFAS - Millington. After voucher rejection, discussions with AFCEC indicated that the correct location was DFAS - Limestone for which a modification was issued on 5/11/10 to change the payment office. Invoices were then re-submitted and again rejected by DFAS - Limestone indicating that the payment office should be DFAS - Columbus. Finally, a re-submission of the vouchers on 6/9/10 to DFAS - Limestone resulted in a 7/7/10 payment.

Invoice 01	4/15/10	\$82,622.64	Interest paid of \$104.43
Invoice 02	4/29/10	\$928,033.64	Interest paid of \$1,172.93
Invoice 03	5/13/10	\$692,022.38	Interest paid of \$874.64
Invoice 04	5/28/10	\$1,323,348.57	Interest paid of \$1,672.57

Under the circumstances, interest was due PRI/DJI for late payments by DFAS. DFAS rejected this explanation and PRI/DJI remitted a refund to DFAS on November 17, 2011.

1. Response to Finding 2015-02: Billing of Unallocable Costs Recommendations

No.	Recommendation	PRI/DJI or TtEC Response
1	PRI/DJI remit \$3,004 in interest payment to the Government.	Request interest due of \$3,824.57 to PRI/DJI for late payment of invoices be offset against this recommended payment.
2	PRI/DJI, going forward, require all discussions regarding scopes of work and reimbursement for activities be coordinated by PRI/DJI in lieu of permitting direct negotiation and discussion between subcontractors and the Federal Government.	As described above, PRI/DJI conducted all discussions and negotiations regarding work scope with the Contracting Officer.

C. Finding 2015-03: Equipment and Property Management

We do not concur with Finding 2015-03 that this is a material weakness. 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 the Finding that the execution of Property Management procedures under this Task Order represents a “Material Weakness” or otherwise evidences “Non-compliance.” Furthermore, TtEC disagrees with the questioned costs in the amount of \$228,661.

This Finding would not exist if the TtEC PM had used the acquisition cost on the signed DD 1150 turnover forms rather than his estimated depreciated cost. Regardless of the price used in the audit evaluation or by the TtEC PM, all items were accounted for and the difference in costs used by various individuals has contributed to the development of this Finding.

TtEC acknowledges that there is always room for improvement in monitoring Government Property. However, our management of Government Property under the circumstances of the project and the conditions prevailing at the project site fundamentally protected the Government from economic loss. The main intent of FAR Part 45, Government Property, and the FAR contract clauses incorporated into Contract Number FA890306-D-8506 (the Prime Contract) is to ensure the Government maintains title and therefore, derives economic benefit from Government Furnished Equipment (GFE) or Contractor Acquired Property (CAP). TtEC acquired CAP was used specifically in support of the Life Support Area (LSA) by PRI/DJI, TtEC, and AFCEC (note, the Contracting Officer’s Representative (COR) lived in the TtEC LSA). The CAP identified during the audit process was predominately (i) left in place when TtEC demobilized; or (ii) consumed.

In addition and in compliance with the clause noted below, TtEC did a walk-through with the resident COR and documented the LSA items at the end of the Task Order as they were all left in place at the site when TtEC demobilized. The COR and TtEC PM Signed DD1150 turnover documents are provided as **Exhibit TtEC-6**.

TO 0004 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 acknowledges that it did not contemporaneously maintain an equipment log during the performance of this Task Order. However, during the audit process of the Task Order TtEC developed a comprehensive equipment log that identifies two distinct categories of items - CAP and consumables. All CAP was turned over to AFCEC as documented in **Exhibit TtEC-6**. Additionally, and in retrospect, it is TtEC's position that to avoid confusion, all items typically considered to be consumables or material, as defined below, should have been left off the equipment log.

Many of the items listed on the equipment log meet FAR clause's definition of "material" and TtEC properly could have not itemized these types of items on the equipment list. "*Material*" means property that may be consumed or expended during the performance of a contract, component parts of a higher assembly, or items that lose their individual identity through incorporation into an end item. Material does not include equipment, special tooling, special test equipment or real property. FAR 52.245-1(a) and FAR 45.101.

Under the specific conditions prevailing at this project site, TtEC considers all of the following items to be consumables: laptop computers, disposable phones, radios, miscellaneous computer equipment, armored vests, helmets, a small satellite dish, and a projector. The dollar value for each of these items was typically \$1,000 or less and in many cases less than a few hundred dollars each (see blue highlights in **Exhibit TtEC-7**).

All of these consumables are commonly replaced or destroyed during the course of project execution such as that under TO 0004 in an environment like Afghanistan where harsh working conditions tended to contribute to short consumable life cycles. High temperature ranges, dusty desert climates, construction work zones, and heavy usage were frequent reasons for typical wear and tear of these consumable items. TtEC also acknowledges that the consumables identified in the summary list above that still retained some functional capacity at the completion of TO 0004 were subsequently transferred to other Government projects elsewhere in Afghanistan. As these items are identified as consumables, they did not need to be specifically tracked to their later destinations.

The following are specific responses to each of the bulleted items in this Finding.

- Equipment logs not maintained during project execution – TtEC acknowledges this Finding. Equipment logs were concurrently not populated during the performance of this contract. However, all CAP purchased for or transferred to this Task Order was specifically LSA related and all CAP was turned over to the Government at project completion. The lack of concurrent maintenance of an equipment log during the performance period in and off itself did not adversely financially affect the Government.
- Material Received Reports (MRRs) were not produced – TtEC acknowledges this Finding. However, all CAP was purchased either via a purchase order with a material vendor or with petty cash. While MRRs were not specifically produced, a general record exists of "what and when" for all CAP delivered to the site.

- LDDT reports were not submitted – TtEC acknowledges this Finding. However, as all Government Property procured on this project was CAP, and all CAP was left in the LSA when TtEC demobilized, it is TtEC’s position that no LDDT reports were necessary as there was no lost, damaged, destroyed, or stolen (theft) items.
- No property transfer list from TO 0002 – TtEC acknowledges this Finding. Although property management lists were not concurrently maintained, documentation of transfer of GFE from one of AFCEC’s earlier adjacent projects at Shindand does demonstrate, to an extent, that TtEC had the Government’s best interest at heart, and in general was responsible in transferring and maintaining GFE on subsequent projects in an effort to pass on economic benefit from project to project to the Government.
- TtEC did not produce property records showing final disposition – TtEC disagrees with this statement entirely. During the audit review process, TtEC and Government signed, “turn over” DD 1150 forms were provided for audit review (**Exhibit TtEC-6**). These signed forms were then cross-referenced with the Equipment Log (**Exhibit TtEC-7**) that was produced during the audit and both were reviewed by the auditor in detail. The Finding is inaccurate.
- TtEC submitted Government signed DD Forms 1150 totaling \$413,449 – TtEC disagrees with this Finding primarily because of the audit report mathematical summation of the values listed on the DD Forms 1150 in the amount of \$413,449 is incorrect. The correct value is \$437,087 as summarized in **Exhibit TtEC-8** (see also additional explanation below under the “Depreciation Calculation” bullet). Additionally, it is important to note that the DD 1150 forms list the TtEC PM’s estimated depreciated value for all items shown on the list whereas the auditor has determined the questioned cost of this Finding to be the purchase price of all original material less the depreciated value as estimated by the TtEC PM which is an unfair apples to oranges comparison.

The fact that the audit unreasonably elected to use purchase cost versus depreciated cost explains the majority of the dollar value questioned in the Finding. Had the TtEC PM used purchase prices on the DD 1150 forms rather than his estimated depreciated value, there would be little or no difference to question. TtEC has previously explained this to the auditor, and it is inappropriate to suggest that PRI/DJI/TtEC be monetarily penalized in the amount of \$228,661 for an anomaly that is easily explained.

- Helmets, Vests, etc. were taken to other Afghan Government projects – TtEC acknowledges this Finding. As previously discussed, these items were considered consumables and were allocated to TtEC staff at the completion of this project to be used on other TtEC Government projects where these items were ultimately consumed (no useful life left). *Furthermore, to be clear, no non-consumable items were transferred to any other project and all CAP purchased under this Task Order was turned over to the Government.*

- A final accounting and disposition of property was not provided for audit – TtEC disagrees with this Finding. TtEC has already acknowledged that property records were not concurrently maintained during performance. Yet, during the audit process an equipment list was generated by reviewing all contemporaneous documentation such as petty cash expenditures and purchase orders that were used to procure CAP. These were the only two methods for procuring CAP. The Finding and recommended future action on this issue appears to suggest that the original culling of information should be repeated when the initial generation process was fairly straightforward. If this log were to be “created” a second time, the result would be that that log would exclude all consumable items and would subsequently be shorter than the log provided during the audit.

This in turn would lessen, or contribute to there being \$0 difference between the Equipment Logs and the DD 1150 turnover forms. However, at AFCEC’s direction, TtEC will repeat this exercise to substantiate that TtEC’s actions complied with regulation and contract terms.

- Documentation of calculations for depreciated values – TtEC concurs with this Finding in that there is no documentation outlining the TtEC PM’s approach in calculating depreciation. However, as previously stated, the depreciation costs listed on the DD 1150 turnover forms is a red herring. Had TtEC used purchase prices on the turnover documentation, this failure to provide documentation on how the PM calculated the depreciation values becomes irrelevant.

During the audit process, **Exhibit TtEC-7** was provided in an attempt to explain the differences between original purchase costs and listed depreciated costs in conjunction with the attempt to further identifying items considered to be consumables. The reasonable explanations provided by TtEC during the audit period appear to have been ignored in their entirety.

To aid in the review of **Exhibit TtEC-7**, please note the following:

- Column I – The original purchase price of each item on TO 0004.
- Column M – The original purchase price of each item at time of turnover.
- Column N – Two items that were turned over but accidentally excluded from the turnover documents.
- Column O – Items identified during the audit process as consumable.
- Column Q – The irrelevant estimated depreciation values shown on the DD 1150 turnover forms.
- Column X – A NEW COLUMN that was NOT previously provided during their review period. This column has been added in response to this Finding to identify additional consumable items that were not previously designated as such for consideration in their earlier review.

It is also noted that the audit report appears to have a mathematical error in the calculations. The Finding references \$413,449 in depreciation costs (“Source: DD Form 1150”), however, a correct summation of **Exhibit TtEC-6** Column Q (highlighted in orange) would result in the actual value listed as \$437,087 as summarized in **Exhibit TtEC-8**. This total of \$437,087 matches what was originally provided during the audit review of the earlier version of **Exhibit TtEC-7** where the only change from the earlier version and the version provided in this response is the additional identification of consumables referenced in Column X.

With the foregoing clarifications, and ignoring the estimated depreciation costs that were used at the time of turnover and replacing those values with the actual purchase prices then there would be no difference in values determined by the auditor with the values contained in the DD Form 1150, and therefore no Finding.

So Column M (correct turnover price) + Column N (items that were accidentally excluded from the DD 1150 forms) + Columns O & X (consumables) = \$642,110 or:

$$\$507,660 + \$71,650 + \$56,036 + \$6,764.06 = \$642,110$$

With respect to Column N, there were two items that were accidentally excluded from the turnover documents, the [REDACTED] Barriers and the Retroreflectometer.

- [REDACTED] Barriers - The entire LSA area was surrounded by a wall of [REDACTED] barriers. These barriers were not removed and taken elsewhere when the LSA was turned over as this would leave the LSA unprotected and the COR continued to live in this LSA after PRI/DJI/TtEC’s demobilization. The failure to include the barriers on the turnover documents was the result of an oversight.
- Retroreflectometer – This was turned over to the AFM (Air Field Manager) at the end of TO 0004 when the project was completed in late 2010 and the TtEC PM left the site. However no turnover documented was completed at the time and the meter was simply handed to the AFM. The TO 0004 LSA remained in operation after project completion to support the nearby TO 0005 which was also located within the Shindand Air Base perimeter. When TO 0005 was completed almost 2 years later, this is when both the TO 0004 and TO 0005 LSAs were turned over and the inclusion of the Retroreflectometer on the turnover documents was overlooked since its possession by AFCEC had occurred nearly 2 years earlier.

TtEC acknowledges that all property management procedures could have been administered more effectively, and had more comprehensive documentation been maintained, the audit would have been much more straightforward and there would have been substantially less confusion in the review.

TtEC maintains that all CAP acquired for or transported to TO 0004 was ultimately left in place at demobilization and became the property of the Government. Even though property lists were not contemporaneously maintained during the performance period, TtEC did provide good

stewardship of all Government property despite the fact that TtEC’s property management plan was not strictly followed. Again, the AFCEC COR lived in TtEC’s LSA for the 2 years after the completion of TO 0004 while PRI/DJI/TtEC executed the scope under the adjacent project, TO 0005, and in that time the COR was witness to the daily care and physical oversight of all CAP in the LSA.

While the fact that the COR was resident within TtEC’s LSA did not relieve TtEC of the responsibility to provide property management in accordance with TtEC’s property management plan, it is relevant that the Government COR observed the daily operation and care of this LSA for an extended period of time and no accusations of misuse or abuse were ever made by the COR.

Ultimately, regardless of the comprehensiveness of the property management administered on this project and in acknowledgement that greater diligence could have been performed in the tracking of Government property, in the end, no adverse effects were imposed on the Government and the Government retained full economic value of all items left in the LSA. As a result, it is TtEC’s position that no credit, or \$0, is owed to the Government with respect to this audit finding.

Action Items:

- In future teaming agreements between PRI/DJI, TtEC will conduct refresher training on the policies and procedures outlined in our property management plan with our field staff and senior management. TtEC will also collaboratively work with PRI/DJI to perform periodic reviews of all property records and inventories.
- At AFCEC’s direction, TtEC will repeat the property inventory to validate that the original list developed during the audit process is comprehensive.
- It is TtEC’s position that no credit, or \$0, is owed to the Government with respect to this audit Finding.

2. Response to Finding 2015-03: Equipment and Property Management Recommendations

No.	Recommendation	PRI/DJI or TtEC Response
1	That PRI/DJI collaborate with TtEC to develop a full accounting of equipment and property purchased under the task order.	If further directed by AFCEC, PRI/DJI will collaborate with TtEC to repeat the property inventory to validate that the original list developed during the audit process is comprehensive.
2	That PRI/DJI modify its teaming agreement with TtEC to require that TtEC conduct a periodic review of property records and inventories to ensure that records	In future teaming agreements, PRI/DJI will require TtEC to work with PRI/DJI to perform periodic reviews of all property records and inventories. In addition, TtEC will conduct refresher training on its policies and procedures outlined in their

	are being maintained and inventories are being conducted.	property management plan with field staff and senior management.
3	That PRI/DJI reimburse the Government \$228,661, which represents the unaccounted value of property items, or otherwise provide documentation to the Government supporting the use, disposition, and value of each item.	Do not concur based on the documentation provided and the TtEC responses to the audit Finding.

D. Finding 2015-04: 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 0004 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 0004, and appreciated their efforts and the value they added.

PRI/DJI acted reasonably in its monitoring of TtEC, and the results amply vindicate 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 0004 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 TtEC 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 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 an OUTSTANDING rating for *Professional Conduct*, and an OUTSTANDING rating for *Coordination and Control of Subcontractors*.

1. Response to Finding 2015-04: Subcontractor Monitoring Recommendation

No.	Recommendation	PRI/DJI Response
1	PRI/DJI develop and document a subcontract administration process that includes periodic reviews for compliance with equipment and property management and procurement requirements.	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.

E. Finding 2015-05: TtEC Related Party Transactions and Inadequate Supporting Documentation

PRI/DJI does not concur with this Finding. The selection of Tetra Tech Rizzo (Rizzo) was based on the lowest priced bid, the shortest duration for the design, and the best design capability for this task order. The runway that we were replacing had failed due to the improperly designed and constructed geotechnical subbase layer. Rizzo was the only bidder that provided our team with the complete geotechnical bid and expertise required to successfully execute this task order. The performance of Rizzo was a significant factor in our ability to complete this critical project under the task order funding limit and ahead of schedule. 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, and disputes the correctness of the Finding that the selection process and the resulting partitioning of TtEC funding to another Tetra Tech Operating Unit (OU) is a “Material Weakness” or otherwise evidences “Non-compliance.” Furthermore, TtEC disagrees with the questioning of costs in the amount of \$132,368.

For clarity, Tetra Tech Rizzo (Rizzo) and Tetra Tech, EC (TtEC) are two separate OUs within the parent company Tetra Tech. There are many OUs in Tetra Tech that each specialize in certain types of work and when executing a project each OU has the benefit of drawing from in-house resources to provide clients with a more comprehensive set of services from a single provider, Tetra Tech. The many OUs within Tetra Tech have their own indirect rate structure which necessitates that OU’s are treated as a subcontractor for accounting purposes; however, each OU is a wholly owned subsidiary of Tetra Tech and do not represent an arms-length transaction. All financial information from every OU is collectively assimilated into a single corporate entity, Tetra Tech.

The draft audit Finding is predicated on the inference that each Tetra Tech OU is separate and distinct, and that the financial information of each OU stands alone. This is not true. At any time, each OU can access Oracle and review the financial progress of any other OU because we are all one Tetra Tech.

With respect to this project, TO 0004, the two Tetra Tech offices involved each provided services in their respective areas of strength in order to provide the client with the best value approach to execute the AFCEC scope. Rizzo provided the project with design services and TtEC provided construction management services.

The depth of services available, spanning many industries, allows Tetra Tech to competitively pursue many types of work and this business model of capitalizing on in-house skills and experience gives clients a one stop shop for awarding work. The diverse functionality of Tetra Tech and the many services we offer puts into context why both Rizzo and TtEC were involved. The Finding suggests that Rizzo was awarded a subcontract from TtEC typical of a standard procurement process, but that is not the case. For all internal arrangements and sharing of

revenue, Tetra Tech uses Inter Company Agreements (ICAs), to allocate scope, funding, and expectations between the different OUs. Again, regardless of how much revenue is allocated to one unit or the other, in the end, all revenue is reported to the public market at a single corporate Tetra Tech level.

Therefore, Tetra Tech disagrees with the determination that this was a procurement process. Rather, it was merely different Tetra Tech offices providing a set of services. Additionally, Tetra Tech is aware that given our advanced skills and expertise, Tetra Tech is not always the lowest cost option available. To this end, for the offer that PRI/DJI/TtEC prepared for AFCEC in response to their original solicitation, the PRI/DJI/TtEC proposal team sought additional options to see if there were any lower cost providers for the design work in order to provide the Government with lower cost best value proposal.

██████████ was the other option that was considered, but ultimately they were unwilling to provide all elements of scope that were requested and the PRI/DJI/TtEC proposal team determined that the design work should be kept in house (Tetra Tech). This decision would provide the Government with the best value option as using Rizzo offered several benefits including that they were capable of providing all scope, they were internal to Tetra Tech which facilitated transparency in design progress, and no additional G&A or fee was included in their pricing due to Tetra Tech's OU internal structuring and profit sharing. It should also be noted that the solicitation process for this task order was extremely short and from solicitation to bid, only 20 calendar days elapsed, and 6 of those days were weekends. Thus, the timeframe to identify other bidders willing and capable of doing work for a project in Afghanistan was challenging. PRI/DJI/TtEC conducted the extra effort to research alternate cost options to provide the government with the best value approach for successfully constructing this critical runway and TtEC maintains that all decisions made were responsible and appropriate.

The rest of this response addresses the specific bulleted items in the Finding.

1. Support for the initial topographic scope in the amount of \$75,000 – TtEC concurs with the statement that the original documentation on how the \$75,000 was generated could not be located. However in response to this Finding, TtEC has developed an estimate that documents that cumulative amount of \$132,268 paid for topographic work was fair and reasonable (see **Exhibit TtEC-9**).

Using previous pricing, the estimate shows a cumulative price of \$136,563 which includes Site Work, Home Office support, Survey Equipment Rental, Travel costs to Afghanistan, and fee. This comparison confirms that the actual costs paid for the topographic work was fair and reasonable.

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.

2. ██████████ 90 day requirement – TtEC disagrees with the determination of this issue. In the original solicitation, TtEC agrees that the 90 day requirement was not included in that communication with ██████████. However, as the proposal development progressed, and

PRI/DJI/TtEC prepared their bid to AFCEC, the PRI/DJI/TtEC proposal team came to the conclusion that Tetra Tech could self-perform the design work within 90 days based on the actual experience of another Tetra Tech operating unit. The auditor reviewed documentation where the TtEC proposal team went back to █████ and asked them to revise their quote to meet the 90 day design timeframe (see **Exhibit TtEC-10**). █████ responded that they were unable to meet this requirement and that they were unwilling to bid all on required elements of scope. Approaching █████ went above and beyond what is necessary for PRI/DJI/TtEC to submit a competitive price for this task order, and involving █████ during the proposal process when Tetra Tech could self-perform the work is proof that the PRI/DJI/TtEC team sought the best value for the Government. TtEC takes strong issue with the use of the terms “improper” and “anti-competitive” to describe TtEC’s efforts to obtain comparative pricing from █████. TtEC was under no obligation to compete the work that could be performed within the OUs. The proposal team which included Tetra Tech, actively pursued a 2nd party to determine if such a 2nd party had the ability to provide a better value for the services required. The results of this effort demonstrated that Tetra Tech had the ability to provide a better value solution within the OUs.

In accordance with FAR 52.244-5, Competition in Subcontracting, and as prescribed in 44.204(c),

COMPETITION IN SUBCONTRACTING (DEC 1996)

(b) 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.

Given that the Government awarded a sole source project to PRI/DJI and the solicitation period for PRI/DJI’s bid was only 20 calendar days, the FAR requirements were followed.

3. Reasonableness of Rizzo’s costs – As discussed in item #1 above, an estimate has been provided which demonstrates Rizzo’s questioned costs are in fact fair and reasonable.

With respect to “Internal Controls over Related Party Transactions,” the following responses are provided:

1. TtEC policy on review and approval of intercompany transactions – TtEC generally acknowledges that there is not a documented policy specifically outlining the procedures in reviewing intercompany transactions. But as was communicated during the audit process, a system of procedures was in place and performed during the performance period of this contract. As discussed above, all Tetra Tech OUs use the same Oracle accounting (and billing) system where approval chains for transactions exists within each Tetra Tech office. Rizzo’s management chain had to approve all of their transactions according to standard Tetra Tech practices and TtEC’s management did the same all of whom are subject to periodic DCAA audits. Additionally, after Rizzo’s transactions had already been Tetra Tech reviewed once, TtEC reviewed the Rizzo transactions again

since the Rizzo transactions were included on TtEC invoicing to PRI/DJI and ultimately AFCEC. If TtEC found any items in Rizzo's transactions that needed correction or revision, the issue was communicated to the Rizzo office and after re-review by both offices, the cost was invoiced to PRI/DJI.

To be clear, all Rizzo transactions went through two Tetra Tech reviews and were not invoiced to PRI/DJI until both management chains had provided their approval. Despite a suggestion to the contrary, due to Tetra Tech being a publicly traded company subject to the requirements of Sarbanes Oxley, heavy internal controls were in place, as shown during the audit, but TtEC concurs there is not a written document for this effort. Internal controls are part of the everyday routine and the Oracle software provides a lot of the automated controls itself.

2. Evidence of approval of intercompany transactions – TtEC disagrees with the determination made on this issue. During the audit process, TtEC demonstrated the step by step process for reviewing intercompany transactions, Oracle screenshots of authority, emails of transaction approvals, and signed invoicing documents containing all previously reviewed transactions. Multiple levels of authority were involved in the review process, but ultimately the Program Manager with an approval authority of \$25M provided the final approval in every instance. The Finding appears to have ignored or overlooked all of this information and the conclusion on this issue is erroneous.

TtEC further acknowledges the Policy AF-03 for Expenditure Approval Levels, that were reviewed, is an old document that references technology that is no longer used. However, the internal controls provided by the Oracle accounting and billing system offers an improved methodology of internal controls that exceeds what is outlined in the AF-03 document. As a matter of record, TtEC is currently in the process of updating this particular policy to represent the actual methods in place that were communicated during the audit.

3. TtEC relied upon Rizzo's internal procedures to ensure that costs incurred and invoiced by Rizzo were allowable – The statement on this issue neglects to encompass the complete context of this issue, and therefore TtEC disagrees with this statement. As stated previously, Tetra Tech provided multiple reviews of transactions, both by Rizzo and by TtEC. TtEC further reviewed Rizzo's transactions a second time. All Tetra Tech units are expected to maintain appropriate financial practices and each OU generally follows the same guidelines (where minor deviations exists due to the types of work or client an OU is involved with). Transactions cannot be entered into Oracle without going through some degree of managerial review and this is an inherent feature of Tetra Tech processes that have been designed and implemented in Oracle. So in the instances of Rizzo transactions, they were reviewed at least twice. TtEC accepted that Rizzo provided their own review of their transactions and TtEC subsequently provided a second review. TtEC did not solely rely on Rizzo's own review of their transactions as has been suggested and this was communicated as such during the audit process.

In summary, many of the issues identified in this Finding are easily addressed and were addressed during the audit, but the auditor has chosen to exclude reasonable explanations, documentation, and support that was provided during the audit. Alternatively, TtEC acknowledges that several of our policies are out of date and need to be updated, however, having policies that are out of date when newer improved practices were implemented for the purposes of transaction control during the period of performance should not outweigh the diligence that was actually performed. The Finding inappropriately alludes to a lack of internal control which is incorrect. Tetra Tech’s accounting system within Oracle provides much of the control the auditor appears to have been seeking, but this fact appears to have been overlooked during the audit.

The estimate has also provided support that all costs paid to Rizzo and reimbursed by the Government are fair and reasonable.

Based on the foregoing discussions with respect to all subjects contained in this Finding, TtEC disagrees with this Finding of “Material Weakness and Non-Compliance” and it is TtEC’s position that no credit, or \$0, is owed to the government with respect to this audit Finding.

2. Response to Finding 2015-05: TtEC Related Party Transactions and Inadequate Supporting Documentation Recommendations

No.	Recommendation	PRI/DJI or TtEC Response
1	Modify the existing accounts payable procedure to require the submission of detailed invoicing packets for all subcontractor related parties going forward.	The procedure to be modified to include the recommendation.
2	Provide documentation to support the reasonableness of Rizzo’s costs or otherwise reimburse the Government for \$132,368.	Provided above and attached. Rizzo’s costs were reasonable as it covered more scope of work in less time for less money.
3	Modify the contract with TtEC to require that TtEC expressly address requirements for review and approval of related party transactions to avoid future confusion regarding the applicability or nonapplicability of the Expenditure Approval Levels procedure.	No action required as the TtEC subcontract has expired.

F. Finding 2015-06: 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 “zero” 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 2015-06: 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.

G. Finding No. 2015-07: Certificates of Current Cost and Pricing Data

1. PRI/DJI Response

We have requested TtEC respond to Finding 2015-07 and concur with the response that they provided below.

2. TtEC Response

This Finding that all procurement processes identified in this Finding required Certificates of Current Cost and Pricing Data and that all of the resulting awards represent “Material Weaknesses” or otherwise evidences “Non-compliance” is not entirely accurate or correct. To the degree that this audit Finding is inaccurate and incorrect, TtEC disputes the Finding.

For example, there are instances as discussed below where certificates of current cost or pricing were not required and then there are other instances where TtEC attempted to, and yet was ultimately unable to, obtain the certificates of current cost or pricing from foreign subcontractors as to the cost or pricing data contained in the proposals submitted by the subcontractors.

Modification 1:

TtEC based its award of Modification 1 to [REDACTED] on a comparison of the pricing proposed for Modification 1 with the past pricing from the original solicitation that was

competitively bid. Both the original solicitation and Modification 1 had a similar scope of work. Modification 1 added additional quantities for “Excavation,” “Aggregate for Subbase Course,” and “Concrete Installation, Joint Prep, and Sealing” at the same 3 unit rates that were determined fair and reasonable during the competitive procurement process of [REDACTED] original subcontract award. As adequate competition provides an exception to the requirement to obtain a certificate of current cost or pricing, TtEC did not have to obtain a certificate for the original subcontract award or any subsequent modification where TtEC had the ability to compare unit rate pricing to that proposed in response to the original solicitation.

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 Modification and Tetra Tech Was Able to Conduct a Price Comparison

Contrary to this Finding, the competition for, and ultimate award of, Modification 1 conformed to FAR 15.403-1(c)(1)(iii). TtEC disagrees with the audit Finding of “Material Weakness and Non-Compliance” for this specific modification and requests that the Finding be changed to exclude this particular procurement.

██████████ Modification 3:

TtEC acknowledges that TtEC was unable to obtain a Certificate of Current Cost and Pricing Data from ██████████ for Modification 3.

To put Modification 3 in context, of the \$1,148,050 that was awarded under Modification 3, \$305,738 of that total (for Base Course and Concrete Installation) was compared to unit rate pricing that had already been shown to be competitive, fair, and reasonable during the competitive procurement process for ██████████ original subcontract award.

The remaining value of Modification 3 (or \$842,311) was for paint installation. This was a new item of scope. The TtEC Program Manager had worked on projects in Iraq for the US Government that had had similar requirements and the PM was very familiar with the pricing for those projects. Based upon the PM’s knowledge he determined ██████████ pricing for the paint installation was comparable to the prices he had seen for similar work in Iraq. As a result, it was determined that FAR 15.403-1(c)(1)(iii) applied. As the auditor is aware, when TtEC obtained copies of the documentation for the paint installation in Iraq, the documentation was unreadable. TtEC continues to search for the original documents and maintains that the exemption to requiring cost or pricing data applied. Furthermore, TtEC has demonstrated that the cost of paint installation was fair and reasonable as discussed in detail in TtEC’s response to Finding 2015-01 above.

Emrooz PO Number 1059471:

TtEC acknowledges that a Certificate of Current Cost or Pricing Data was not obtained for this sole source procurement.

During TtEC’s tenure in Afghanistan, TtEC attempted to get a number of Certificates from foreign subcontractors and our requests were often ignored. As a result, a certificate was not obtained for this sole source award of the subcontract to Emrooz.

Additionally, TtEC has demonstrated that the cost of this subcontract was fair and reasonable as discussed in detail in TtEC’s response to Finding 2015-01 above, and in light of this analysis, despite not obtaining a certificate from Emrooz, in the end, the Government was not adversely affected.

Tetra Tech Rizzo:

TtEC disagrees that a Certificate of Current Cost and Pricing Data was necessary for an intercompany agreement within Tetra Tech. As discussed in detail in TtEC’s response to Finding

2015-05, Tetra Tech Rizzo was not a subcontractor but rather another Operating Unit (OU) within Tetra Tech.

TtEC provided a Certificate of Current Cost and Pricing Data at the award of this project from AFCEC that included the funding that was proportioned to the other Tetra Tech OU, Tetra Tech Rizzo (See **Exhibit TtEC-11**). As the original certificate was inclusive of all Tetra Tech funds, a second certificate specific to Tetra Tech Rizzo’s work was not necessary.

TtEC disagrees with the Finding of “Material Weakness and Non-Compliance” for this specific issue and requests that the Finding be changed to exclude this particular item.

With respect to the age of various Tetra Tech policies, TtEC acknowledges that several have not been updated in quite some time. As a matter of reference though, TtEC is in the process of updating all of these policies throughout the 2016 year.

In summary, TtEC acknowledges that there was an instance where Certificate of Current Cost or Pricing Data should have been obtained but was not as the foreign firm involved in this sole source procurement ignored requests to provide the certificates. TtEC further acknowledges that it could have been more aggressive in its efforts to obtain the certificate by suspending award until the certificate was received. However, this approach was feasible due to the critical timeline for construction of the TO 0004 Shindand Runway.

TtEC understands the requirement for subcontractor certification of cost or pricing data and the underlying requirement to conduct price evaluations to determine fair and reasonable pricing to protect the government from unreasonable and/or unallowable costs. Ultimately, cost and pricing pertaining to all questioned awards or modification under this Finding have been shown to be fair and reasonable via estimates as documented in TtEC’s responses for Findings 2015-01 and 2015-05. The Government therefore was not adversely affected in any instance.

3. Response to Finding 2015-07: Certificates of Current Cost and Pricing Data Recommendations

Based on the foregoing, these are our responses to the Recommendations included in Finding No. 2015-07.

No.	Recommendation	PRI/DJI or TtEC Response
1	That PRI/DJI incorporate, as a component of its subcontract closeout process, a review of the procurement file to ensure certificates of current cost and pricing data are present and have been retained.	PRI/DJI revised its procurement procedures in March 2014 adding Policy PR33 addressing “Managing Cost Reimbursable Procurements”. PRI/DJI will review its subcontract closeout process and, if opportunities for improvement are observed, changes will be made. Given the US Government’s current preference for Afghan contractors, in the future both PRI/DJI and TtEC

No.	Recommendation	PRI/DJI or TtEC Response
	.	will seek guidance from the Contracting Officer where subcontractors refuse to complete a certification of current cost or pricing and seek a general waiver under 15.403(c)(4).
2	That PRI/DJI require TtEC to undergo additional training regarding procurements conducted under the FAR, inclusive of price and cost analyses.	TtEC will also provide PRI/DJI evidence of staff training regarding procurement conducted under its Federal procurement procedures and the related prime contract FAR requirements, inclusive of price and cost analysis. In the interim, TtEC will issue an internal memorandum highlighting this audit Finding to reiterate the importance of these certificates in future procurements.
3	That TtEC revise its “Cost and Price Analysis” policy to reflect the appropriate certified costs and pricing data threshold (\$750,000 as of October 1, 2015).	TtEC has begun the process of updating a number of older policies throughout the 2016 year and the issue regarding certificates of current cost and pricing data will be addressed in these updates.
4	That TtEC modify its procurement policies to require that subcontracts not be executed with parties that refuse to or otherwise do not provide documentation required by Federal regulations, including but not limited to certificates of current cost and pricing data.	TtEC has begun the process of updating a number of older policies throughout the 2016 year and the issue regarding certificates of current cost and pricing data will be addressed in these updates.

H. Finding No. 2015-08: Prompt Payment of Subcontractors

In this Finding, the Draft Audit Report indicates that one subcontractor payment of the 50 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 2015-08: Prompt Payment of Subcontractors
Recommendations**

No.	Recommendation	PRI/DJI Response
1	PRI remit the \$400 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 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.

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 findings 2015-03 and 2015-04. 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.

(Continued)

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 2015-01

Management disagreed with the finding due to its belief that adequate competition was exercised and because TtEC was able to perform price analyses to support the reasonableness of costs. Upon review of management's response, there were no changes to the audit finding or questioned cost amounts due to errors contained in management's response and/or lack of adequate documentation to demonstrate compliance.

Requirement for certificates of current cost or pricing data

Pursuant to FAR 52.215-13, *Subcontractor Cost or Pricing Data—Modifications (Oct 1997)*, as incorporated in PRI/DJI's prime contract and as flowed down to the subcontract with TtEC requires certificates of current cost or pricing data and certified cost or pricing data for modifications to subcontracts exceeding \$700,000. Each of the modifications in question exceeded the threshold and was not competitively bid.

With respect to the price analysis exemption, the proposal price must be reasonable in comparison to current or recent prices adjusted for changing circumstances or terms and conditions that resulted from adequate price competition. Within the procurements in question, we note the following:

1. [REDACTED] Modification 2 – Application of the price analysis exemption is predicated upon satisfaction of the adequate competition requirement. Competition is not considered to have been adequate due to TtEC's having excluded Emrooz due to matters that would result in Emrooz's being considered an irresponsible vendor (e.g., past performance history of not completing projects on-schedule, unreasonable rates, and inferior equipment). TtEC also calculated a new competitive range of \$15 - \$45 p/LM such that [REDACTED] \$44 p/LM would be considered fair and reasonable, in TtEC's view. However, a competitive range spanning 200 percent would not be considered reasonable or competitive such that the costs remain in question.
2. [REDACTED] Modifications 3 and 6 – We have evaluated the information provided by TtEC, inclusive of pricing data provided during fieldwork and with the management response. We note that TtEC references costs incurred in Iraq as the foundation for the reasonableness determination made by management. Support for the Iraq costs was not provided. Moreover, reliance on prices and costs for Iraq would not inherently be considered adequate due to the environmental, market, and technical differences that may exist between Afghanistan's Shindand Runway project and projects in Iraq, assuming the scope and technical specifications were the same or similar.

With regard to the information provided by TtEC within Exhibits TtEC-2 and TtEC-3, it is unclear from the information provided that the scope of work for the "Construction of North Ramp, Aircraft, Parking Extension, and Airfield Improvements Phase 111 at Shindand Air Base, Herat Province" is the same or similar to that undergone for TO 0004. The scope referenced and the pricing build-ups included in TtEC-2 suggest that the scope was neither the same nor similar such that an apples to apples comparison would not be appropriate. Neither the source of the information in TtEC-3 nor the scope of work and solicited services are clear. Further, the newly calculated competitive ranges that TtEC presented include ranges that exceed 100 percent of the lower bound. Doubling the cost estimate would not be considered competitive or reasonable. Therefore, the costs remain in question.

3. Emrooz PO Number 1059471 – We have reviewed the contextual information provided during fieldwork as well as the additional information provided in management's response. While the explanation provides useful context, it does not provide sufficient, appropriate audit evidence to modify the finding. We note the following:

(Continued)

- a. The Government may have negotiated a price with PRI/DJI. However, evidence indicating that the Government approved the use of a sole source selection without PRI/DJI's having sought to identify other service providers such as ██████ – who provided the same or similar services on other Afghanistan projects for PRI/DJI – was not produced. In addition, written documentation showing that an authorized Government official concluded that the actual costs incurred and billed under the purchase order were allowable, allocable, and reasonable was not provided.
- b. The three justifications for sole source presented by management include only one firm being capable of performing the work; unusual or compelling urgency with the policy noting that lack of advance planning does not justify sole-source utilization, and client directed procurements. As has been noted previously, ██████ is a vendor who provided the same or similar services such that more than one firm is capable of performing the work. Further, the assumption that other firms cannot provide the work or that other firms did not have "critical schedule saving demolition equipment" (i.e., the Antigo machine) is unsupported by a market analysis or other such support indicating that the Antigo machine or a similar machine is only available from Emrooz. Secondly, the decision to procure Emrooz's services was made prior to the meeting in which there was discussion regarding the Antigo machine or an accelerated schedule. Therefore, the circumstances cited do not support the February decision to sole source. Lastly, documentation showing that the AFCEC expressly required PRI/DJI to procure the services from Emrooz prior to PRI/DJI's election not to use competitive procedures was not provided.
- c. Use of cost estimates in RS Means, which includes cost estimates for projects executed in the United States and excludes those for Afghanistan as per discussion with TtEC, is inappropriate for purposes of estimating the cost to execute the project in Afghanistan due to differences in market and environmental conditions.
- d. TtEC provided two newly calculated competitive ranges – one spanning \$82,350 - \$410,000 (a span representing a 397% difference between the upper and lower bounds) and another spanning \$17,950 - \$180,000 (representing a 903% difference between the upper and lower bounds). Similar to the ██████ modification matters noted above, such ranges are not considered to be reasonable or competitive. The questioned costs have not been revised in response to these ranges.

Lastly, TtEC considered the procurement efforts taken for labor resources to be appropriate under the circumstances and reiterated its position that there was a lack of qualified resources. In the absence of documentation to support the assertion that there was a lack of qualified resources, and in light of the use of sole source procedures representing a deviation from TtEC's established procurement policies, the element of the finding pertaining to the improper procurement of labor resources is unchanged.

Finding 2015-03

Upon review of management's response, we have reduced the questioned costs in the finding to \$205,023 following re-review of the DD1150. No other revisions were necessary. The following table summarizes our response to specific elements of factual disagreement:

Nature of Management's Disagreement and Additional Comments of Note	Auditor's Response
The finding would not exist if the TtEC PM had used the acquisition cost on the signed DD 1150 turnover forms.	This statement is incorrect. The volume and quantity of errors, incomplete nature of property records, and lack of supporting documentation to support receipt of the various property items and the depreciation calculations would have resulted in the finding, inclusive of the material weakness and noncompliance categorizations.

(Continued)

TtEC's position is that all items typically considered to be consumables or material should have been left off the equipment log.

Exclusion of items that TtEC has referenced as "consumables or material" would be improper as government property includes these matters. Exclusion of such items, therefore, would not alleviate the errors noted in the finding or otherwise prompt a revision to the finding.

TtEC disagreed with the statement that property records showing final disposition were not produced due to the presence of a signed DD 1150 that was cross-referenced to the equipment log.

The equipment log contains 7,400 items in terms of quantity (based on those items for which a quantity was noted) while the DD 1150 includes 461 items. The disposition of a minimum of 6,939 items was not included within the property records provided. The statement noted within the condition is, therefore, correct and has not been modified.

We have, however, modified the finding to clarify that the records provided were incomplete.

TtEC disagreed with the calculation of \$413,449 from the DD 1150 form and management recalculated \$437,087. Management also stressed that the DD 1150 form represents the TtEC PM's estimated depreciated value. TtEC also considered the use of purchase cost versus depreciated cost to be "unreasonable" and a monetary penalty for an "anomaly that is easily explained" to be inappropriate.

Crowe concurs with the recalculation of \$437,087.

Crowe also understands that an estimated depreciation value was used for the DD 1150 values. Due to the inadequacy of the property records and lack of support for the depreciated values, the use of unsupported estimates indicates that the questioned cost amount in the finding should be considered a lower bound as the actual unsupported amount may be higher. This is not apparent within the finding. Therefore, the finding has been updated to clearly communicate that the questioned cost amount, which is a function of the \$437,087 value, is considered to be a lower bound estimate.

With respect to the use of purchase cost versus depreciated cost, the use of the purchase cost is appropriate in consideration of management's inability to produce documentation showing that the items in question were received (not TtEC's concurrence regarding material receiving reports). In the absence of receiving support, which would be necessary to calculate depreciation values, use of depreciated values would be inappropriate. An explanation provided by management to explain the difference is helpful, but does not alleviate the errors noted or the presence of the control deficiency and noncompliance.

Finding 04

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. Other findings within the report provide examples of the errors that support the need for an adequate subcontractor monitoring plan.

(Continued)

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 2015-05

We have reviewed management's response and noted that the additional commentary provided did not modify the facts underlying the finding. While we appreciate TtEC providing the narrative and explanations that TtEC and PRI/DJI consider to be reasonable, such explanations are not a substitute for the development and implementation of sound internal controls over related party transactions and compliance. TtEC and PRI/DJI included an assertion that "the auditor has chosen to exclude reasonable explanations, documentation, and support that was provided during the audit." Such a statement is untrue as the information, commentary, and support was reviewed and reflects the facts that resulted in the audit findings, inclusive of both material weaknesses and instances of noncompliance. Therefore, the finding remains unchanged. The following table provides the auditors response to specific matters noted as disagreements by management, to the extent that a response is warranted:

Nature of Management's Disagreement and Additional Comments of Note	Auditor's Response
TtEC disagrees that the procurement process used to select and engage Rizzo was a procurement process.	Rizzo responded to an Invitation to Bid along with one other hand-selected respondent [REDACTED]. The responses were then evaluated and a Subcontractor Selection Justification form was completed. Per review of the documentation, Rizzo was clearly selected from a procurement process and identified as a subcontractor.
TtEC stated that the draft audit finding is predicated on the inference that each Tetra Tech operating unit is separate and distinct, and that the financial information of each OU stands alone.	The finding is predicated upon the fact that Tetra Tech Rizzo ("Rizzo") is a subcontractor and the agreement with Rizzo meets the definition of a subcontract. Therefore, the finding is valid as written, inclusive of the criteria asserted within the finding and to which TtEC did not comply.
TtEC considers the costs incurred for the topographic survey to be reasonable and provided an estimate to support the position.	The specific scope of work to which the "previous pricing" provided relates, the required levels of effort, and source of the information provided is unclear such that the documentation provided is unreliable for purposes of comparison or modification of the finding.
TtEC disagreed that there was evidence of intercompany approval of transactions.	We reviewed the program manager approval noted by TtEC. Such approval was not at a transaction level such that the basis of the finding is valid and documentation referenced by TtEC was received and considered. The facts that resulted in the finding remain unchanged.

(Continued)

Finding 2015-07

Management disagreed with the finding due to its position that certificates of current cost and pricing data were not required and due to instances in which TtEC attempted to, but was unable to, obtain certificates. Due to the lack of adequate price competition for the purchase order modifications referenced in the finding, failure to fully support the price analysis exemption requirements, there not being an exemption under FAR 52.215-13 that allows organizations to forego the current cost and pricing data requirements because a subcontractor is nonresponsive, and Tetra Tech Rizzo's meeting the definition of a subcontractor and exceeding the \$700,000 threshold that results in FAR 52.215-13 being applicable, the justifications provided by management were considered inaccurate. The finding, therefore, remains unchanged.

Management included detailed responses pertaining to [REDACTED] Modification 1, [REDACTED] Modification 3, Emrooz PO Number 1059471, and Tetra Tech Rizzo. The auditor's rebuttal to management's response to finding 2015-01 identifies and summarizes why certificates of current cost or pricing data as well as the current cost or pricing data itself were required for [REDACTED] Modifications 1 and 3 and Emrooz PO Number 1059471. The facts underlying the finding were not impacted as a result of the additional commentary provided by TtEC within the finding 2015-07 response.

With regard to Tetra Tech Rizzo, the Certificate of Current Cost or Pricing Data provided is denoted as pertaining to "Tetra Tech EC, Inc.," a legally enforceable agreement was executed by and between TtEC and Rizzo, the procurement of Rizzo did not meet the definition of adequate competition, and the value of the subcontract exceeded \$700,000, Rizzo was required to provide a certificate. Such a certificate was not provided. Therefore, the finding is unmodified with respect to this matter.

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